Individual and Consolidated Financial Statements

EMS S.A.

December 31, 2020
with Independent Auditor's Report

EMS S.A.

Individual and consolidated financial statements

December 31, 2020

Contents

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

Independent auditor's report on financial statements

The Shareholders, Board of Directors and Officers
EMS S.A.

Opinion

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

In our opinion, the accompanying individual and consolidated financial statements present fairly, in all material respects, the Company's financial position as at December 31, 2020, and its 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 individual and consolidated financial statements section of our report. We are independent of the Company in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

Audit of corresponding figures

The Company's individual and consolidated financial statements for the year ended December 31, 2019, presented for comparative purposes, were audited by another independent auditor who expressed an unmodified opinion on those individual and consolidated financial statements on May 29, 2020.

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

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

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

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

Auditor's responsibilities for the audit of the individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated 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 individual and consolidated 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 individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent 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 procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

Campinas, May 10, 2021.

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

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

EMS S.A.

Statements of financial position
December 31, 2020 and 2019
(In thousands of reais, unless otherwise stated)

		Individual		Consolidated	
	Note	**2020**	**2019**	**2020**	**2019**
Assets					
Current assets					
Cash and cash equivalents	10	**49,087**	71,529	**114,476**	149,240
Trade accounts receivable	12	**602,333**	575,785	**832,953**	749,005
Receivables from related parties	30.e	**193,301**	268,570	**91,593**	232,323
Inventories	13	**677,765**	591,547	**743,871**	652,998
Taxes recoverable	14	**178,301**	170,996	**254,009**	321,258
Dividends receivable	30.f	**8,970**	119,770	**-**	-
Other receivables	15	**112,628**	53,852	**74,412**	63,466
Total current assets		**1,822,385**	1,852,049	**2,111,314**	2,168,290
Noncurrent assets					
Judicial deposits	21.a	**34,544**	34,798	**38,021**	37,801
Taxes recoverable	14	**122,759**	6,703	**228,669**	6,703
Other receivables	15	**4,996**	4,996	**4,996**	5,870
Short-term investments earmarked for loans	11	**4,526**	4,124	**4,526**	4,124
Intercompany loans receivable	30.g	**-**	316,093	**-**	316,093
Deferred income and social contribution taxes	22.a	**73,302**	49,780	**87,511**	59,682
Investments	16	**432,948**	302,889	**70,966**	71,870
Right-of-use assets	18	**115,989**	89,870	**123,782**	98,016
Property, plant and equipment	17	**805,055**	677,291	**807,324**	679,071
Intangible assets		**10,232**	10,453	**10,293**	10,509
Total noncurrent assets		**1,604,351**	1,496,997	**1,376,088**	1,289,739
Total assets		**3,426,736**	3,349,046	**3,487,402**	3,458,029

	Note	Individual 2020	Individual 2019	Consolidated 2020	Consolidated 2019
Liabilities and equity					
Current liabilities					
Trade accounts payable	19	**310,774**	172,317	**321,966**	180,857
Trade payables to related parties	30.e	**1,053,128**	1,136,468	**1,064,974**	1,142,291
Loans and financing	20	**47,850**	50,207	**47,850**	50,207
Lease liabilities		**35,317**	34,505	**39,274**	37,982
Payroll and related charges		**99,188**	86,913	**108,974**	93,452
Taxes payable		**21,933**	19,964	**24,457**	24,394
Income and social contribution taxes payable	22.c	**15,387**	-	**27,336**	33,141
Taxes in installments		**15,881**	15,775	**16,069**	15,958
Dividends payable	24.d	**35,821**	117,160	**40,950**	122,289
Other accounts payable	23	**87,726**	105,065	**98,733**	119,328
Total current liabilities		**1,723,005**	1,738,374	**1,790,583**	1,819,899
Noncurrent liabilities					
Loans and financing	20	**344,070**	224,677	**344,070**	224,731
Lease liabilities	18	**87,737**	60,634	**91,798**	65,623
Taxes in installments		**26,720**	37,989	**27,247**	38,692
Provision for losses on legal proceedings	21.a	**101,918**	93,839	**124,325**	113,490
Deferred revenue - government grants		**3,497**	19,032	**3,497**	19,032
Provision for losses in subsidiaries	16	**31,121**	-	**-**	
Other accounts payable	23	**15,928**	17,395	**15,928**	17,395
Total noncurrent liabilities		**610,991**	453,566	**606,865**	478,963
Total liabilities		**2,333,996**	2,191,940	**2,397,448**	2,298,862
Equity	24				
Capital		**221,708**	221,708	**221,708**	221,708
Capital reserves		**164,019**	164,019	**164,019**	164,019
Legal reserve		**44,342**	44,342	**44,342**	44,342
Tax incentive reserve		**206,242**	159,420	**206,242**	159,420
Equity adjustment		**19,542**	7,023	**19,542**	7,023
Income reserves		**436,887**	560,594	**436,887**	560,594
Equity attributable to controlling interests		**1,092,740**	1,157,106	**1,092,740**	1,157,106
Noncontrolling interests		**-**	-	**(2,786)**	2,061
Total equity		**1,092,740**	1,157,106	**1,089,954**	1,159,167
Total liabilities and equity		**3,426,736**	3,349,046	**3,487,402**	3,458,029

See accompanying notes.

EMS S.A.

Statements of profit and loss
Years ended December 31, 2020 and 2019
(In thousands of reais, unless otherwise stated)

		Individual		Consolidated	
	Note	2020	2019	2020	2019
Net operating revenue	25	**3,951,216**	3,530,925	**4,355,396**	3,917,157
Cost of sales	26	**(2,542,462)**	(2,018,640)	**(2,652,763)**	(2,126,729)
Gross profit		**1,408,754**	1,512,285	**1,702,633**	1,790,428
Selling expenses	26	**(347,019)**	(330,948)	**(374,640)**	(374,262)
Administrative expenses	26	**(918,908)**	(879,678)	**(1,044,413)**	(973,910)
Other operating income (expenses), net	27	**46,098**	126,945	**41,671**	88,228
Equity pickup	16	**60,468**	61,735	**(20,041)**	32,179
Income before net finance income (costs) and taxes		**249,393**	490,339	**305,210**	562,663
Finance income	28	**51,379**	133,309	**55,941**	141,573
Finance costs	28	**(134,344)**	(65,670)	**(140,344)**	(70,040)
Finance income (costs), net		**(82,965)**	67,639	**(84,403)**	71,533
Income before income and social contribution taxes		**166,428**	557,978	**220,807**	634,196
Current and deferred income and social contribution taxes	22.b	**(52,844)**	(140,862)	**(111,798)**	(216,058)
Net income for the year		**113,584**	417,116	**109,009**	418,138
Net income attributable to controlling interests				**113,584**	417,116
Net income attributable to noncontrolling interests				**(4,575)**	1,022
Net income for the year				**109,009**	418,138
Earnings per share for the year attributable to equity holders of the parent (per share amounts in R$)	29	**5.68**	20.86		

See accompanying notes.

EMS S.A.

Statements of comprehensive income
Years ended December 31, 2020 and 2019
(In thousands of reais, unless otherwise stated)

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Net income for the year	**113,584**	417,116	**109,009**	418,138
Other comprehensive income				
Foreign transactions and translation differences	**12,519**	4,980	**12,519**	4,980
Total comprehensive income	**126,103**	422,096	**121,528**	423,118
Comprehensive income attributable to:				
Controlling interests			**126,103**	422,096
Noncontrolling interests			**(4,575)**	1,022
Total comprehensive income			**121,528**	423,118

See accompanying notes.

EMS S.A.

Statements of changes in equity
Years ended December 31, 2020 and 2019
(In thousands of reais, unless otherwise stated)

		Controlling interests									
					Income reserves						
	Note	Capital	Capital reserve	Equity adjustment	Tax incentive reserve	Legal reserve	Reserve for distributable profits	Retained earnings	Total equity	Noncontrolling interests	Total equity
January 1, 2019		221,708	164,019	2,043	125,206	44,342	295,432	-	852,750	(676)	852,074
Net income for the year		-	-	-	-	-	-	417,116	417,116	1,022	418,138
Cumulative translation adjustment	16	-	-	4,980	-	-	-	-	4,980	-	4,980
Allocation of net income for the year											
Recognition of reserve		-	-	-	34,214	-	-	(34,214)	-	-	-
Additional dividends from previous period, as approved in meeting	24.d	-	-	-	-	-	(22,014)	-	(22,014)	-	(22,014)
Proposed dividends	24.d	-	-	-	-	-	-	(95,726)	(95,726)	-	(95,726)
Other noncontrolling transactions		-	-	-	-	-	-	-	-	1,715	1,715
Recognition of income reserve		-	-	-	-	-	287,176	(287,176)	-	-	-
December 31, 2019		221,708	164,019	7,023	159,420	44,342	560,594	-	1,157,106	2,061	1,159,167
Net income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**113,584**	**113,584**	**(4,575)**	**109,009**
Cumulative translation adjustment	16	**-**	**-**	**12,519**	**-**	**-**	**-**		**12,519**	**-**	**12,519**
Allocation of net income for the year:											
Recognition of tax incentive reserve	24d	**-**	**-**		**46,822**	**-**	**-**	**(46,822)**	**-**	**-**	**--**
Additional dividends from previous period, as approved in meeting	24.d	**-**	**-**	**-**		**-**	**(173,778)**	**-**	**(173,778)**	**-**	**(173,778)**
Proposed dividends	24.d	**-**	**-**	**-**		**-**	**-**	**(16,691)**	**(16,691)**	**-**	**(16,691)**
Other noncontrolling transactions		**-**	**-**	**-**		**-**	**-**	**-**		**(272)**	**(272)**
Recognition of income reserve		**-**	**-**	**-**		**-**	**50,071**	**(50,071)**			
December 31, 2020		**221,708**	**164,019**	**19,542**	**206,242**	**44,342**	**436,887**	**-**	**1,092,740**	**(2,786)**	**1,089,954**

See accompanying notes.

EMS S.A.

Statements of cash flows
Years ended December 31, 2020 and 2019
(In thousands of reais, unless otherwise stated)

		Individual		Consolidated	
	Note	2020	2019	2020	2019
Cash flows from operating activities					
Income before income and social contribution taxes		**166,428**	557,978	**220,807**	634,196
Adjustments for:					
Depreciation and amortization		**71,599**	50,882	**76,884**	55,393
Right-of-use assets written off		**(2,811)**	-	**(3,401)**	
Loss on disposal of property, plant and equipment and intangible assets	17	**8,764**	11,195	**7,191**	10,889
(Reversal of) Provision for impairment losses on receivables	12	**5,799**	(803)	**(13,639)**	(6,019)
(Reversal of) Provision for inventory obsolescence	13	**2,227**	14,188	**2,782**	15,013
Provision for losses on legal proceedings and judicial deposits	21	**9,976**	(5,049)	**11,910**	(3,262)
Provision for interest		**73,358**	21,933	**74,079**	22,946
Provision for interest on intercompany loans	30g	**-**	(94,528)	**-**	(94,528)
Equity pickup	16	**(60,468)**	(61,735)	**20,041**	(32,179)
Unrealized exchange gains (losses) on financing activities		**(7,434)**	10,842	**(6,340)**	11,189
Insurance claim written off - fire	27	**-**	(48,438)	**-**	(48,438)
Right to insurance claim refund - fire	27	**-**	(86,853)	**-**	(86,853)
Changes in assets and liabilities			-		-
Trade accounts receivable		**(31,617)**	(192,087)	**(69,522)**	(223,101)
Receivables from related parties		**75,269**	(150,042)	**140,730**	(81,812)
Inventories		**(80,798)**	(219,565)	**(86,050)**	(232,769)
Taxes recoverable		**(178,178)**	(102,012)	**(241,119)**	(174,216)
Other accounts receivable		**(58,776)**	198,156	**(10,072)**	196,947
Judicial deposits		**254**	(523)	**(220)**	(212)
Trade and other payables		**120,527**	2,352	**122,702**	30,419
Taxes payable		**11,751**	(5,558)	**9,847**	(1,049)
Trade payables to related parties		**(83,340)**	235,098	**(77,317)**	239,553
Payments for legal proceedings and judicial deposits		**(9,027)**	(33,069)	**(9,340)**	(35,127)
Taxes in installments		**(11,164)**	27,347	**(11,335)**	27,196
Cash generated from operating activities		**22,339**	129,709	**158,618**	224,176
Interest paid	20	**(5,116)**	(8,085)	**(5,116)**	(8,085)
Income and social contribution taxes paid	22c	**(6,161)**	(19,310)	**(59,030)**	(62,349)
Net cash from operating activities		**11,062**	102,314	**94,472**	153,742
Cash flows from investing activities					
Capital expenditures	17	**(168,289)**	(71,675)	**(168,894)**	(72,554)
Increase in equity interests in a subsidiary	16	**(25,951)**	(44,512)	**(6,400)**	-
Acquisition of intangible assets		**(2,314)**	(679)	**(2,341)**	(320)
Intercompany loans received	30g	**306,310**	2,000	**306,310**	2,000
Dividends received from subsidiaries	30f	**110,800**	137,343	**-**	-
Cash from (used in) investing activities		**220,556**	22,477	**128,675**	(70,874)
Cash flows from financing activities					
Short-term investments (withdrawals) earmarked for loans		**(402)**	(489)	**(402)**	(489)
Loans raised	20	**107,917**	-	**107,917**	-
Lease payments	18	**(42,851)**	(36,240)	**(46,702)**	(40,217)
Payment of principal of loans	20	**(46,916)**	(54,468)	**(46,916)**	(54,518)
Dividends paid to Company shareholders	30f	**(271,808)**	(90,750)	**(271,808)**	(90,750)
Net cash used in financing activities		**(254,060)**	(181,947)	**(257,911)**	(185,974)
Net decrease in cash and cash equivalents		**(22,442)**	(57,156)	**(34,764)**	(103,106)
Cash and cash equivalents at beginning of year		**71,529**	128,685	**149,240**	252,346
Cash and cash equivalents at end of year		**49,087**	71,529	**114,476**	149,240

See accompanying notes.

(In thousands of reais, unless otherwise stated)

1. Operations

EMS S.A. ("Company," "Parent Company," or "Individual") was incorporated in 1964 as an unlisted company, and, together with its subsidiaries ("Consolidated"), is engaged in manufacturing, trading, importing and exporting their own and third parties' products, pharmaceuticals, allopathic drugs, dieting foods, pharmaceutical inputs and drugs.

The Company's registered office is located in the city of Hortolândia, state of São Paulo.

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

The Company is part of the NC Group (the "Group") and uses its administrative, operational, financial, and technological resources. A substantial part of the transactions is carried out with related parties. These financial statements should be read in this context.

2. Subsidiaries

The Company holds direct interests in the following entities:

Subsidiaries	Legal structure	Country	Equity interests	
			2020	**2019**
CPM Concessionária Paulista de Medicamentos S/A	S.A. (corporation)	Brazil	**99.38%**	99.38%
EMS Sigma Pharma Ltda.	Ltda. (limited liability)	Brazil	**99.00%**	99.00%
Legrand Pharma Indústria Farmacêutica Ltda.	Ltda. (limited liability)	Brazil	**99.00%**	99.00%
Luxbiotech Farmacêutica Ltda.	Ltda. (limited liability)	Brazil	**99.79%**	99.65%
Monteresearch SRL	Ltda. (limited liability)	Italy	**100%**	100%
Rio Bio Pharmaceuticals, LLC	LLC	USA	**100%**	100%

Please find below the Group's business structure:

2. **Subsidiaries** (Continued)

- CPM (Concessionária Paulista de Medicamentos S/A) - Located in Américo Brasiliense/SP, it manages and maintains Indústria Farmacêutica de Américo Brasiliense (IFAB) owned by Fundação para o Remédio Popular ("FURP"), reporting to the São Paulo State Secretariat ("SESSP"), under a concession. The objective was to expand the Government's output capacity for generic drugs. The concession period is 15 years and production began on August 1, 2015. The Concession Agreement has been partially suspended since January 1, 2020, with the activities thereunder being limited to the services that are necessary for property security and monitoring, cleaning and maintenance. During the partial standstill, CPM's costs have been compensated in the form of reimbursement of expenses while the terms for contract termination are being discussed. These terms will consider the payment of amounts already billed, totaling R$74,451 as at December 31, 2020, relating to medicines supplied to SESSP, and the final decommissioning activities. The payment of amounts due is insured in a Pledge Agreement entered into by CPM, FURP and Companhia Paulista de Parcerias (CPP, a state-owned company responsible for monitoring the Public Private Partnerships entered into in the State of São Paulo), and operated by Banco do Brasil SA, consisting in the pledge of shares of Fundo BB CPP Projetos for a total equivalent to six (6) monthly installments of the consideration defined in the Concession Agreement.
- EMS Sigma Pharma Ltda. - 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. - Located in Hortolândia/SP, it operates in the manufacture and trade of ordinary generic drugs nationwide. It currently has only one production line, and the other products sold are purchased from the parent company for resale.
- • Luxbiotech Farmacêutica Ltda. - Located in Hortolândia/SP, it operates in the manufacture and trade of cutting-edge dermo cosmetics nationwide.
- Monteresearch SRL - Located in Milan, Italy, it is a pharmaceutical research laboratory, specializing in the development of drug delivery systems, i.e., engineered technologies that enable the development of new formulations for the targeted delivery and controlled release of a drug in the body, as required by doctors and patients, and even in safer concentrations. The company also has a 25% interest in Luxembourg-based Globe Pharma S.A.R.L., whose corporate purpose is to hold investments in other entities.

2. Subsidiaries (Continued)

- Rio Bio Pharmaceuticals, LLC - Located in the United States, its corporate purpose is the development of pharmaceutical activities, which may include, among others, the manufacture, 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.

3. Basis of preparation and statement of compliance

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

The financial statements were approved for disclosure by the Group's Board of Directors on May 10, 2021.

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

4. Functional and presentation currency

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

5. 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.

5. Use of estimates and judgments (Continued)

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

- Note 16(b) - Equity in investees: determining whether the Group has significant influence over an investee;
- Note 12 - measurement of expected credit loss on accounts receivable: key assumptions in determining the weighted average loss rate;
- Note 13 - recognition and measurement of provisions for inventories: key assumptions in determining losses on slow-moving or expired inventory items;
- Note 22.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.
- Note 14 - ICMS tax benefits: The Company 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 Company 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 Company's financial statements.

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);

5. Use of estimates and judgments (Continued)

i) Fair value measurement (Continued)

- 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.

6. Basis of measurement

The individual and consolidated financial statements were prepared on a historical cost basis, unless otherwise stated.

For further information on the measurement of these assets and liabilities, please refer to Note 7 - Significant accounting policies.

7. Significant accounting policies

The accounting practices detailed below have been consistently applied by the Company and its subsidiaries to all years presented in these financial statements, unless otherwise stated.

a) Individual financial statements

In the individual financial statements, investments in subsidiaries are recorded using the equity method.

b) Basis of consolidation

The accounting policies described below are applied in the preparation of the consolidated financial statements.

i) *Subsidiaries*

The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A subsidiary's financial statements are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

7. Significant accounting policies (Continued)

b) <u>Basis of consolidation</u> (Continued)

i) *Subsidiaries* (Continued)

In the Company's individual financial statements, the financial information of subsidiaries is accounted for using the equity method.

ii) *Noncontrolling interests*

The Group elected to initially measure any noncontrolling interests at the proportionate share of the acquiree's identifiable net assets on the date of acquisition.

A change in the Group's ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

iii) *Loss of control*

If the Group loses control over a subsidiary, it derecognizes the related assets, liabilities, noncontrolling interests and other components of equity. Any resultant gain or loss from the loss of control is recognized in profit or loss. Upon loss of control over the subsidiary, the Group measures and recognizes any retained investment at its fair value.

iv) *Investments in equity-accounted investees*

The Group's investments in equity-accounted investees comprise its interests in associates and joint ventures.

- An associate is an entity over which the Group directly or indirectly has significant influence, but not control or joint control, over the financial and operating policies.

The investment in an associate is initially recognized at cost, which includes transaction costs. After initial recognition, the financial statements include the Group's share of the investee's net profit or loss for the year and other comprehensive income until the date significant influence or joint control ceases to exist. In the parent company's individual financial statements, investments in subsidiaries are also accounted for using this method.

7. Significant accounting policies (Continued)

b) Basis of consolidation (Continued)

v) *Transactions eliminated on consolidation*

All intra-group balances, transactions, and unrealized gains relating to transactions between members of the Group are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment loss of the asset transferred. The accounting policies of subsidiaries are changed, as applicable, to ensure consistency with those adopted by the Group.

c) Foreign currency

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.

Foreign operations

Assets and liabilities derived from foreign operations, including goodwill and fair value adjustments arising from the acquisition, if applicable, are translated into Reais using the exchange rate at the reporting date. Income and expenses from foreign operations are translated into Reais using the exchange rates on the transaction dates.

7. Significant accounting policies (Continued)

c) Foreign currency (Continued)

Foreign operations (Continued)

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

d) Revenue from contracts with customers

The Company initially adopted CPC 47 - Revenue from Contracts with Customers in 2018 using the retrospective method and establishes a comprehensive framework to determine if and when revenue is recognized, and how revenue is measured. It replaced CPC 30 – Revenue, and CPC 17 - Construction Contracts, and related interpretations.

Under CPC 47, revenue should be recognized when (or as) the Company satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset, which can be at a specific point in time or over time – this requires judgment.

e) Employee benefits

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 Company 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.

7. Significant accounting policies (Continued)

e) Employee benefits (Continued)

Profit sharing

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

f) 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 expenses include interest payable on loans, exchange differences, discounts granted and other finance costs.

g) Government grants

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

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

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

7. Significant accounting policies (Continued)

g) Government grants (Continued)

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

h) Current and deferred income and social contribution taxes

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

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

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 State Government of São Paulo*

As mentioned in note 7g, because of its activities in the pharmaceutical industry in the State of São Paulo, the Company is exempt from ICMS on the sale of certain products.

7. Significant accounting policies (Continued)

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

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

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

Thus, the amounts recorded by the Company in 2020 and 2019 in connection with government grants should not impact the IRPJ and CSLL tax bases, which is why they were excluded therefrom.

iii) *Deferred income and social contribution tax expenses*

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

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

7. Significant accounting policies (Continued)

i) 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 7.n.

j) Property, plant and equipment

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

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

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

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

The residual values and useful lives of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

7. Significant accounting policies (Continued)

j) Property, plant and equipment (Continued)

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

k) Intangible assets

i) *Software*

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

Software maintenance costs are recognized as expenses, when incurred.

l) Financial instruments

i) *Initial recognition and measurement*

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

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

7. Significant accounting policies (Continued)

l) Financial instruments (Continued)

ii) *Subsequent classification and measurement*

Financial assets

Financial assets are classified, at initial recognition, as measured at amortized cost; fair value through other comprehensive income (OCI); or fair value through profit or loss. Financial assets are not reclassified after initial recognition unless the Company changes its business model to one that manages financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in business model.

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

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

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

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- All financial assets not classified as measured at amortized cost or fair value through other comprehensive income, as described above, are measured at fair value through profit or loss.

Financial assets - business model assessment

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

7. Significant accounting policies (Continued)

l) Financial instruments (Continued)

ii) *Subsequent classification and measurement* (Continued)

Financial assets - business model assessment (Continued)

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

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

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

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

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

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

7. Significant accounting policies (Continued)

l) Financial instruments (Continued)

ii) *Subsequent classification and measurement* (Continued)

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

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

Financial assets - subsequent measurement and gains and losses

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

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

7. Significant accounting policies (Continued)

l) Financial instruments (Continued)

iii) *Derecognition*

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or the Company transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

Financial liabilities

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

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

iv) *Offsetting*

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

7. Significant accounting policies (Continued)

l) Financial instruments (Continued)

v) *Impairment*

Derivative financial assets

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

Non-derivative financial assets

The Group recognizes allowances for expected credit losses on financial assets measured at amortized cost. The Group measures loss allowances at an amount equal to lifetime expected credit losses, except for the items described below, for which loss allowances are measured as 12-month ECLs.

- Debt securities that are assessed to have a low credit risk at the reporting date, and
- Other debt securities and bank balances on which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since their initial recognition.

Loss allowances for trade receivables and contract assets are measured at an amount equal to lifetime expected credit losses.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and credit assessment, including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 120 days past due.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- The financial asset is more than 120 days past due.

7. Significant accounting policies (Continued)

l) Financial instruments (Continued)

v) *Impairment* (Continued)

Non-derivative financial assets (Continued)

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

12-month expected credit losses are the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The Company has defined its maximum period in estimating expected credit losses to be the maximum period to which the Company is exposed to the credit risk.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired.

A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract such as a 120-day default or past due event;
- The restructuring of a loan payable to the Company on terms that the Company would not consider otherwise;

7. Significant accounting policies (Continued)

l) Financial instruments (Continued)

v) *Impairment* (Continued)

Credit-impaired financial assets (Continued)

- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.
-

Presentation and write-off of allowance for expected credit losses in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

m) Impairment of nonfinancial assets

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

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

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

7. Significant accounting policies (Continued)

m) Impairment of nonfinancial assets (Continued)

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

n) Leases

The Group applied CPC 06 (R2) - Leases using the modified retrospective approach. Therefore, the corresponding figures have not been restated and are presented in accordance with CPC 06(R2). Details of the accounting policies under CPC 06(R2) are disclosed separately.

Accounting policies applicable as of January 1, 2019

The Company assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in CPC 06(R2). This policy applies to contracts entered into as of January 1, 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of property the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to the condition under the terms and conditions of the lease, less any lease incentive received.

(In thousands of reais, unless otherwise stated)

7. Significant accounting policies (Continued)

n) Leases (Continued)

As a lessee (Continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or the cost of the right-of-use asset reflects that the lessee will exercise the purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the basis of those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

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

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

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;

7. Significant accounting policies (Continued)

n) Leases (Continued)

As a lessee (Continued)

- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the lessee under residual value guarantees; and
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.
-

The lease liability is measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in “property, plant and equipment” and lease liabilities in “loans and financing” in the statement of financial position.

Leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Accounting policies applicable before January 1, 2019

For contracts entered into before January 1, 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

7. **Significant accounting policies** (Continued)

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

Accounting policies applicable before January 1, 2019 (Continued)

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset; or
- facts and circumstances indicate that it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.

Assets held under other leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in the statement of profit and loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

o) <u>Provisions</u>

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

Provision for impairment losses on receivables (Note 12)

The provision for impairment losses on receivables is recognized in accordance with the scope of the CPC 48 impairment model, as described in Note 7(l) - Impairment of financial assets. Accounts receivable from related parties are not included in the provision.

7. Significant accounting policies (Continued)

o) Provisions (Continued)

Provision for inventory losses (Note 13)

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

Provision for losses on legal proceedings (Note 21)

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.

p) Distribution of dividends and interest on equity

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

q) 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).

7. Significant accounting policies (Continued)

q) Financial guarantees (Continued)

As at December 31, 2020 and 2019, the Company did not recognize the fair values of its financial guarantees as they were considered to have a low credit risk because of the issuer. The operations in which the Group acts as a guarantor are detailed in Note 9 - Financial risk management.

8. New standards and interpretations

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

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

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

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

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

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

8. New standards and interpretations (Continued)

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

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

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

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

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

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

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

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

8. New standards and interpretations (Continued)

8.2. Standards issued but not yet effective

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

IFRS 17 - Insurance Contracts

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

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

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

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

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

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

8. New standards and interpretations (Continued)

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

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

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

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

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

9. 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

9. Financial risk management (Continued)

a) Overview

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

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

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

b) Market risk

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

The Group uses derivatives to manage market risks in connection with some transactions.

All of the transactions are performed under the guidelines established by Management.

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

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.

(In thousands of reais, unless otherwise stated)

9. Financial risk management (Continued)

b) Market risk (Continued)

i) *Currency risk* (Continued)

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:

	Individual			
	2020		2019	
	Foreign currency	Reais	Foreign currency	Reais
Trade accounts receivable (Note 12)	**296**	**2,583**	737	3,211
Foreign suppliers (Note 19)	**(26,806)**	**(150,554)**	(13,803)	(55,662)
Finance lease (Note 20)	**(46,724)**	**(242,823)**	(47,791)	(192,184)
Net exposure	**(73,234)**	**(390,794)**	(60,857)	(244,635)

	Consolidated			
	2020		2019	
	Foreign currency	Reais	Foreign currency	Reais
Trade accounts receivable (Note 12)	**737**	**10,989**	682	3,579
Foreign suppliers (Note 19)	**(27,371)**	**(155,434)**	(14,144)	(58,258)
Finance lease (Note 20)	**(46,724)**	**(242,823)**	(47,791)	(192,184)
Net exposure	**(73,358)**	**(387,268)**	(61,253)	(246,863)

ii) *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.

(In thousands of reais, unless otherwise stated)

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

b) <u>Market risk</u> (Continued)

ii) *Sensitivity analysis - currency risk* (Continued)

This table shows the potential impacts on profit and loss considering the scenarios adopted for the transactions indexed to the US dollar:

Individual

Risk	Type	Exposure	Original exposure (R$)	Effective rate - 12/31/20	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation %	50% appreciation Amount
Increase in US dollar	Trade accounts receivable	296	2,583	5.20	(1,047)	6.50	(663)	7.80	(279)
Increase in US dollar	Finance Lease	(46,724)	(242,823)	5.20	12	6.50	(60,691)	7.80	(121,394)
Increase in US dollar	Trade accounts payable	(17,272)	(89,764)	5.20	6	6.50	(22,433)	7.80	(44,872)
Increase in Euro	Trade accounts payable	(9,534)	(60,790)	6.38	(16)	7.97	(15,217)	9.57	(30,419)
		(73,234)	(390,794)		(1,045)		(99,004)		(196,964)

Risk	Type	Exposure	Original exposure (R$)	Effective rate - 12/31/20	Probable Amount	25% devaluation %	25% devaluation Amount	50% devaluation %	50% devaluation Amount
Decrease in US dollar	Trade accounts receivable	296	2,583	5.20	(1,047)	3.90	(1,431)	2.60	(1,815)
Decrease in US dollar	Finance Lease	(46,724)	(242,823)	5.20	12	3.90	60,715	2.60	121,417
Decrease in US dollar	Trade accounts payable	(17,272)	(89,764)	5.20	6	3.90	22,446	2.60	44,885
Decrease in Euro	Trade accounts payable	(9,534)	(60,790)	6.38	(16)	4.78	15,186	3.19	30,387
		(73,234)	(390,794)		(1,045)		96,916		194,874

Consolidated

Risk	Type	Exposure	Original exposure (R$)	Effective rate - 12/31/20	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation %	50% appreciation Amount
Increase in US dollar	Trade accounts receivable	301	2,608	5.20	(1,046)	6.50	(656)	7.80	(265)
Increase in Euro	Trade accounts receivable	436	8,381	6.38	(5,600)	7.97	(4,905)	9.57	(4,210)
Increase in US dollar	Finance Lease	(46,724)	(242,823)	5.20	12	6.50	(60,691)	7.80	(121,394)
Increase in US dollar	Trade accounts payable	(17,837)	(94,407)	5.20	1,712	6.50	(21,462)	7.80	(44,635)
Increase in Euro	Trade accounts payable	(9,534)	(61,027)	6.38	221	7.97	(14,981)	9.57	(30,182)
		(73,358)	(387,328)		(4,701)		(102,695)		(200,686)

Risk	Type	Exposure	Original exposure (R$)	Effective rate - 12/31/20	Probable Amount	25% devaluation %	25% devaluation Amount	50% devaluation %	50% devaluation Amount
Decrease in US dollar	Trade accounts receivable	301	2,608	5.20	(1,046)	3.90	(1,437)	2.60	(1,827)
Decrease in Euro	Trade accounts receivable	436	8,381	6.38	(5,600)	4.78	(6,296)	3.19	(6,991)
Decrease in US dollar	Finance Lease	(46,724)	(242,823)	5.20	12	3.90	60,715	2.60	121,417
Decrease in US dollar	Trade accounts payable	(17,837)	(94,407)	5.20	1,712	3.90	24,886	2.60	48,060
Decrease in Euro	Trade accounts payable	(9,534)	(61,027)	6.38	221	4.78	15,422	3.19	30,624
		(73,358)	(387,328)		(4,701)		93,290		191,283

(In thousands of reais, unless otherwise stated)

9. Financial risk management (Continued)

b) Market risk (Continued)

ii) *Sensitivity analysis - currency risk* (Continued)

This table shows the potential impacts on profit and loss considering the scenarios adopted for the transactions indexed to the US dollar:

Individual

Risk	Type	Exposure	Original exposure (R$)	Effective rate - 12/31/19	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation %	50% appreciation Amount
Increase in US dollar	Trade accounts receivable	737	3,211	4.03	(241)	5.04	502	7.56	2,358
Increase in US dollar	Trade accounts payable	(13,803)	(55,662)	4.03	27	5.04	(13,882)	7.56	(48,654)
Increase in US dollar	Finance Lease	(47,791)	(192,184)	4.03	(447)	5.04	(48,605)	7.56	(168,999)
		(60,857)	(244,635)		(661)		(61,985)		(215,295)

Risk	Type	Exposure	Original exposure (R$)	Effective rate - 12/31/19	Probable Amount	25% devaluation %	25% devaluation Amount	50% devaluation %	50% devaluation Amount
Decrease in US dollar	Trade accounts receivable	737	3,211	4.03	(241)	3.02	(983)	1.51	(2,097)
Decrease in US dollar	Trade accounts payable	(13,803)	(55,662)	4.03	27	3.02	13,936	1.51	34,779
Decrease in US dollar	Finance Lease	(47,791)	(192,184)	4.03	(447)	3.02	47,711	1.51	119,947
		(60,857)	(244,635)		(661)		60,664		152,629

Consolidated

Risk	Type	Exposure	Original exposure (R$)	Effective rate - 12/31/19	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation %	50% appreciation Amount
Increase in US dollar	Trade accounts receivable	682	3,579	4.03	(829)	5.04	(141)	7.56	1,577
Increase in US dollar	Trade accounts payable	(14,144)	(58,258)	4.03	(447)	5.04	(48,605)	7.56	(168,999)
Increase in US dollar	Finance Lease	(47,791)	(192,184)	4.03	1,249	5.04	(13,003)	7.56	(48,633)
		(61,253)	(246,863)		(27)		(61,749)		(216,055)

Risk	Type	Exposure	Original exposure (R$)	Effective rate - 12/31/19	Probable Amount	25% devaluation %	25% devaluation Amount	50% devaluation %	50% devaluation Amount
Decrease in US dollar	Trade accounts receivable	682	3,579	4.03	(829)	3.02	(1,516)	1.51	(2,548)
Decrease in US dollar	Trade accounts payable	(14,144)	(58,258)	4.03	(447)	3.02	47,711	1.51	119,947
Decrease in US dollar	Finance Lease	(47,791)	(192,184)	4.03	1,249	3.02	15,501	1.51	36,880
		(61,253)	(246,863)		(27)		61,696		154,279

(In thousands of reais, unless otherwise stated)

9. Financial risk management (Continued)

c) Credit risk

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

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

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

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Cash and cash equivalents (Note 10)	**49,087**	71,529	**114,476**	149,240
Trade accounts receivable (Note 12)	**602,333**	575,785	**832,953**	749,005
Other receivables (Note 15)	**117,624**	58,848	**79,408**	69,336
Short-term investments earmarked for loans (Note 11)	**4,526**	4,124	**4,526**	4,124
Intercompany loans (Note 30.g)	**-**	316,093	**-**	316,093
	773,570	1,026,379	**1,031,363**	1,287,798

The policy for assessing the provision for impairment of financial assets is shown in Note 7.

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

Cash and cash equivalents and derivatives

The Group's "Cash and cash equivalents" amounted to R$49,087 and R$71,529 as at December 31, 2020 (R$114,476 and R$149,240 in 2019). "Cash and cash equivalents" are held with financial institutions rated by Moody's as stable (or above).

Guarantees

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

9. Financial risk management (Continued)

c) Credit risk (Continued)

Guarantees (Continued)

- On September 6, 2018, the affiliate 3Z Realty Desenvolvimento Imobiliário S.A. raised R$130,000 through CRIs (Certificates of Real Estate Receivables) under the Company's corporate guarantee, rated and backed by nonconvertible debentures. The CRIs bear interest at 102.5% of the CDI, with the principal maturing on August 26, 2021 and interest amortization every six months.
- Given that the loans granted to the related party 3Z are backed by a shareholders' guarantee, the related agreements are considered to have a low credit risk; thus, no impairment loss was recorded in the financial statements.
- The affiliate 3Z Realty Desenvolvimento Imobiliário S.A. obtained a real estate development loan to build residential properties ("plano empresario") subject to interest rates adjusted for TR plus 10.5% to 15% per annum (p.a.) and guaranteed by mortgages and by corporate and shareholders' guarantees. As at December 31, 2020, the balance is R$130,869 (R$132,370 as at December 31, 2019).

Additionally, the Company is a guarantor of other companies' obligations, as follows:

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

d) 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 20) 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.

(In thousands of reais, unless otherwise stated)

9. Financial risk management (Continued)

d) Liquidity risk (Continued)

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.

	Individual				
	Contractual cash flow	**Before 1 year**	**1 to 2 years**	**2 to 5 years**	**After 5 years**
At December 31, 2020					
Trade and other accounts payable	**(414,428)**	**(410,561)**	**-**	**-**	**-**
Trade payables to related parties	**(1,053,128)**	**(1,053,128)**	**-**	**-**	**-**
Loans and financing	**(391,920)**	**(47,850)**	**(63,064)**	**(204,340)**	**(76,666)**
Lease liabilities	**(123,054)**	**(35,317)**	**(13,184)**	**(13,170)**	**(61,384)**
Dividends payable	**(35,821)**	**(35,821)**	**-**	**-**	**-**
Net position	**(2,018,351)**	**(1,582,677)**	**(76,248)**	**(217,510)**	**(138,050)**
At December 31, 2019					
Trade and other accounts payable	(294,777)	(289,443)	(5,334)	-	-
Trade payables to related parties	(1,136,468)	(1,136,468)	-	-	-
Loans and financing	(274,884)	(50,207)	(43,685)	(42,511)	(138,481)
Lease liabilities	(95,139)	(34,505)	(10,193)	(10,182)	(40,259)
Dividends payable	(117,160)	(117,160)	-	-	-
Net position	(1,918,428)	(1,627,783)	(59,212)	(52,693)	(178,740)

(In thousands of reais, unless otherwise stated)

9. Financial risk management (Continued)

d) Liquidity risk (Continued)

	Consolidated				
	Contractual cash flow	Before 1 year	1 to 2 years	2 to 5 years	After 5 years
At December 31, 2020					
Trade and other accounts payable	**(436,627)**	**(432,760)**	**(3,867)**		
Trade payables to related parties	**(1,064,974)**	**(1,064,974)**	**-**	**-**	**-**
Loans and financing	**(391,920)**	**(47,850)**	**(63,064)**	**(204,340)**	**(76,666)**
Lease liabilities	**(131,072)**	**(39,274)**	**(12,895)**	**(12,881)**	**(66,022)**
Dividends payable	**(40,950)**	**(40,950)**	**-**	**-**	**-**
Net position	**(2,065,543)**	**(1,625,808)**	**(79,826)**	**(217,221)**	**(142,688)**
At December 31, 2019					
Trade and other accounts payable	(317,580)	(312,246)	(5,334)	-	-
Trade payables to related parties	(1,142,291)	(1,142,291)	-	-	-
Loans and financing	(274,938)	(50,207)	(43,685)	(42,511)	(138,535)
Lease liabilities	(103,605)	(37,982)	(10,193)	(10,182)	(45,248)
Dividends payable	(122,289)	(122,289)	-	-	-
Net position	(1,960,703)	(1,665,015)	(59,212)	(52,693)	(183,783)

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

e) 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, unless otherwise stated)

9. Financial risk management (Continued)

e) Operational risk (Continued)

i) *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, 2020 and 2019 are summarized below (consolidated):

	Consolidated	
	2020	**2019**
Total loans (Note 20)	**391,920**	274,938
Total lease liabilities	**131,072**	103,605
Less: cash and cash equivalents (Note 10)	**(114,476)**	(149,240)
Net debt	**408,516**	229,303
Total equity	**1,089,955**	1,159,167
Total capital	**1,498,471**	1,388,470
Financial leverage ratio	**1.37%**	1.20%

(In thousands of reais, unless otherwise stated)

9. Financial risk management (Continued)

f) Classification of financial instruments

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

	Individual		Consolidated	
	2020	2019	2020	2019
	Amortized cost	Amortized cost	Amortized cost	Amortized cost
Cash and cash equivalents	**49,087**	71,529	**114,476**	149,240
Trade accounts receivable	**602,333**	575,785	**832,953**	749,005
Receivables from related parties	**193,301**	268,570	**91,593**	232,323
Dividends receivable	**8,970**	119,770	**-**	-
Loans receivable	**-**	316,093	**-**	316,093
Short-term investments earmarked for loans	**4,526**	4,124	**4,526**	4,124
Other receivables	**117,624**	58,848	**79,408**	69,336
Total financial assets	**975,841**	1,414,719	**1,122,956**	1,520,121

	Individual		Consolidated	
	2020	2019	2020	2019
	Other financial liabilities	Other financial liabilities	Other financial liabilities	Other financial liabilities
Trade accounts payable	**(310,774)**	(172,317)	**(321,966)**	(180,857)
Trade payables to related parties	**(1,053,128)**	(1,136,468)	**(1,064,974)**	(1,142,291)
Loans and financing	**(391,920)**	(274,884)	**(391,920)**	(274,938)
Lease liabilities	**(123,054)**	(95,139)	**(131,072)**	(103,605)
Dividends payable	**(35,821)**	(117,160)	**(40,950)**	(122,289)
Other accounts payable	**(103,654)**	(122,460)	**(114,661)**	(136,723)
Total financial liabilities	**(2,018,351)**	(1,918,428)	**(2,065,543)**	(1,960,703)

i) *Interest rate risk*

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

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

EMS S.A.

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

9. Financial risk management (Continued)

f) <u>Classification of financial instruments</u> (Continued)

i) *Interest rate risk* (Continued)

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

<u>Exposure and sensitivity analysis - interest rate risk</u>

Individual									
				Effective rate	Probable	25% appreciation		50% appreciation	
Exposure	Risk	Type	Maturity	12/31/20	Amount	%	Amount	%	Amount
931	Increase in CDI	Short-term investment	7/2/2040 4/29/2021 5/30/2041	2.61%	24	3.27%	1	3.92%	1
3,244	Increase in CDI	Short-term investment	10/20/2022 12/5/2022	2.75%	89	3.44%	3	4.13%	4
124	Increase in CDI	Short-term investment	6/7/2046	2.23%	3	2.78%	-	3.34%	-
92	Increase in CDI	Short-term investment	10/1/2046	2.20%	2	2.75%	-	3.30%	-
136	Increase in CDI	Short-term investment	5/2/2047	2.34%	3	2.92%	-	3.51%	-
10,524	Increase in CDI	Short-term investment	4/6/2021	2.48%	260	3.09%	8	3.71%	10
10,003	Increase in CDI	Short-term investment	1/22/2021	2.34%	234	2.92%	7	3.51%	8
1,680	Increase in CDI	Short-term investment	12/28/2021	2.48%	42	3.09%	1	3.71%	2
18,021	Increase in CDI	Short-term investment	7/2/2040 4/29/2021 5/30/2041	2.26%	406	2.82%	11	3.38%	14
44,755					1,063		31		39

Individual									
				Effective rate	Probable	25% devaluation		50% devaluation	
Exposure	Risk	Type	Maturity	12/31/20	Amount	%	Amount	%	Amount
931	Decrease in CDI	Short-term investment	7/2/2040 4/29/2021 5/30/2041	2.61%	24	1.96%	-	1.31%	-
3,244	Decrease in CDI	Short-term investment	10/20/2022 12/5/2022	2.75%	89	2.06%	2	1.38%	1
124	Decrease in CDI	Short-term investment	6/7/2046	2.23%	3	1.67%	-	1.11%	-
92	Decrease in CDI	Short-term investment	10/1/2046	2.20%	2	1.65%	-	1.10%	-
136	Decrease in CDI	Short-term investment	5/2/2047	2.34%	3	1.75%	-	1.17%	-
10,524	Decrease in CDI	Short-term investment	4/6/2021	2.48%	260	1.86%	5	1.24%	3
10,003	Decrease in CDI	Short-term investment	1/22/2021	2.34%	234	1.75%	4	1.17%	3
1,680	Decrease in CDI	Short-term investment	12/28/2021	2.48%	42	1.86%	1	1.24%	1
18,021	Decrease in CDI	Short-term investment	7/2/2040 4/29/2021 5/30/2041	2.26%	406	1.69%	7	1.13%	5
44,755					1,063		19		13

(In thousands of reais, unless otherwise stated)

9. Financial risk management (Continued)

f) Classification of financial instruments (Continued)

i) *Interest rate risk* (Continued)

Exposure and sensitivity analysis - interest rate risk (Continued)

Individual									
				Effective rate	Probable	25% appreciation		50% appreciation	
Exposure	Risk	Type	Maturity	12/31/19	Amount	%	Amount	%	Amount
12,875	Increase in CDI	Short-term investment	3/26/2020	5.29%	681	6.61%	45	7.93%	54
10,864	Increase in CDI	Short-term investment	N/A	5.94%	645	7.43%	48	8.91%	58
10,337	Increase in CDI	Short-term investment	7/10/2020	5.91%	611	7.39%	45	8.87%	54
5,533	Increase in CDI	Short-term investment	N/A	6.03%	334	7.54%	25	9.05%	30
5,249	Increase in CDI	Short-term investment	1/7/2020	6.02%	316	7.52%	24	9.03%	29
3,780	Increase in CDI	Short-term investment	7/2/2040	5.64%	213	7.05%	15	8.46%	18
1,063	Increase in CDI	Short-term investment	8/8/2024	5.64%	60	7.05%	4	8.46%	5
211	Increase in CDI	Short-term investment	6/7/2046-10/1/2046	4.79%	10	5.99%	1	7.19%	1
133	Increase in CDI	Short-term investment	5/2/2047	5.05%	7	6.31%	-	7.57%	1
11,981	Increase in CDI	Short-term investment	12/11/2020 – 12/23/2020	5.29%	633	6.61%	42	7.93%	50
62,026					3,510		249		300

Individual									
				Effective rate	Probable	25% devaluation		50% devaluation	
Exposure	Risk	Type	Maturity	12/31/19	Amount	%	Amount	%	Amount
12,875	Decrease in CDI	Short-term investment	3/26/2020	5.29%	681	3.96%	27	2.64%	18
10,864	Decrease in CDI	Short-term investment	N/A	5.94%	645	4.46%	29	2.97%	19
10,337	Decrease in CDI	Short-term investment	7/10/2020	5.91%	611	4.43%	27	2.96%	18
5,533	Decrease in CDI	Short-term investment	N/A	6.03%	334	4.52%	15	3.02%	10
5,249	Decrease in CDI	Short-term investment	1/7/2020	6.02%	316	4.51%	14	3.01%	10
3,780	Decrease in CDI	Short-term investment	7/2/2040	5.64%	213	4.23%	9	2.82%	6
1,063	Decrease in CDI	Short-term investment	8/8/2024	5.64%	60	4.23%	3	2.82%	2
211	Decrease in CDI	Short-term investment	6/7/2046-10/1/2046	4.79%	10	3.59%	-	2.40%	-
133	Decrease in CDI	Short-term investment	5/2/2047	5.05%	7	3.79%	-	2.52%	-
11,981	Decrease in CDI	Short-term investment	12/11/2020 – 12/23/2020	5.29%	633	3.96%	25	2.64%	17
62,026					3,510		149		100

(In thousands of reais, unless otherwise stated)

9. Financial risk management (Continued)

f) Classification of financial instruments (Continued)

i) *Interest rate risk* (Continued)

Exposure and sensitivity analysis - interest rate risk (Continued)

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9. Financial risk management (Continued)

f) Classification of financial instruments (Continued)

i) *Interest rate risk* (Continued)

Exposure and sensitivity analysis - interest rate risk (Continued)

Consolidated										
				Effective rate	Probable	25% devaluation		50% devaluation		
Exposure	Risk	Type	Maturity	12/31/20	Amount	%	Amount	%	Amount	
931	Decrease in CDI	Short-term investment	7/2/2040 4/29/2021 5/30/2041	**2.61%**	**24**	**1.96%**	**-**	**1.31%**	**-**	
3,244	Decrease in CDI	Short-term investment	10/20/2022 12/5/2022	**2.75%**	**89**	**2.06%**	**2**	**1.38%**	**1**	
124	Decrease in CDI	Short-term investment	6/7/2046	**2.23%**	**3**	**1.67%**	**-**	**1.11%**	**-**	
92	Decrease in CDI	Short-term investment	10/1/2046	**2.20%**	**2**	**1.65%**	**-**	**1.10%**	**-**	
136	Decrease in CDI	Short-term investment	5/2/2047	**2.34%**	**3**	**1.75%**	**-**	**1.17%**	**-**	
10,524	Decrease in CDI	Short-term investment	4/6/2021	**2.48%**	**260**	**1.86%**	**5**	**1.24%**	**3**	
10,003	Decrease in CDI	Short-term investment	1/22/2021	**2.34%**	**234**	**1.75%**	**4**	**1.17%**	**3**	
1,680	Decrease in CDI	Short-term investment	12/28/2021	**2.48%**	**42**	**1.86%**	**1**	**1.24%**	**1**	
18,021	Decrease in CDI	Short-term investment	1/28/2021	**2.26%**	**406**	**1.69%**	**7**	**1.13%**	**5**	
2,419	Decrease in CDI	Short-term investment	1/22/2021	**2.76%**	**67**	**2.07%**	**1**	**1.38%**	**1**	
198	Decrease in CDI	Short-term investment	7/8/2025	**2.64%**	**5**	**1.98%**	**-**	**1.32%**	**-**	
2,417	Decrease in CDI	Short-term investment	9/3/2021 9/14/2021 9/15/2021	**2.50%**	**60**	**1.88%**	**1**	**1.25%**	**1**	
5,112	Decrease in CDI	Short-term investment	3/15/2021 12/16/2021 12/28/2021	**2.48%**	**127**	**1.86%**	**2**	**1.24%**	**2**	
2,331	Decrease in CDI	Short-term investment	2/12/2021	**2.48%**	**58**	**1.86%**	**1**	**1.24%**	**1**	
1,719	Decrease in CDI	Short-term investment	1/25/2021	**1.38%**	**24**	**1.03%**	**-**	**0.69%**	**-**	
1,020	Decrease in CDI	Short-term investment	2/12/2021	**2.34%**	**24**	**1.75%**	**-**	**1.17%**	**-**	
2,640	Decrease in CDI	Short-term investment	1/27/2021	**2.26%**	**60**	**1.69%**	**1**	**1.13%**	**1**	
10,992	Decrease in CDI	Short-term investment	2/3/2021 and 4/19/2021	**2.81%**	**308**	**2.10%**	**6**	**1.40%**	**4**	
1,509	Decrease in CDI	Short-term investment	9/2/2021	**2.74%**	**41**	**2.05%**	**1**	**1.37%**	**1**	
27,279	Decrease in CDI	Short-term investment	10/1/2021	**2.72%**	**743**	**2.04%**	**15**	**1.36%**	**10**	
1,540	Decrease in CDI	Short-term investment	3/15/2021 3/18/2021	**2.48%**	**38**	**1.86%**	**1**	**1.24%**	**-**	
1,070	Decrease in CDI	Short-term investment	1/22/2021	**2.34%**	**25**	**1.75%**	**-**	**1.17%**	**-**	
105,001					**2,643**		**48**		**34**	

(In thousands of reais, unless otherwise stated)

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

f) Classification of financial instruments (Continued)

i) *Interest rate risk* (Continued)

Exposure and sensitivity analysis - interest rate risk (Continued)

Consolidated									
				Effective rate	Probable	25% appreciation		50% appreciation	
Exposure	Risk	Type	Maturity	12/31/19	Amount	%	Amount	%	Amount
12,875	Increase in CDI	Short-term investment	3/26/2020	5.29%	681	6.61%	45	7.93%	54
10,864	Increase in CDI	Short-term investment	N/A	5.94%	645	7.43%	48	8.91%	58
10,337	Increase in CDI	Short-term investment	07/10/2020	5.91%	611	7.39%	45	8.87%	54
5,533	Increase in CDI	Short-term investment	N/A	6.03%	334	7.54%	25	9.05%	30
5,249	Increase in CDI	Short-term investment	01/07/2020	6.02%	316	7.52%	24	9.03%	29
3,780	Increase in CDI	Short-term investment	07/02/2040	5.64%	213	7.05%	15	8.46%	18
1,063	Increase in CDI	Short-term investment	08/08/2024	5.64%	60	7.05%	4	8.46%	5
211	Increase in CDI	Short-term investment	6/7/2046-10/1/2046	4.79%	10	5.99%	1	7.19%	1
133	Increase in CDI	Short-term investment	05/02/2047	5.05%	7	6.31%	-	7.57%	1
11,981	Increase in CDI	Short-term investment	12/11/2020 – 12/23/2020	5.29%	633	6.61%	42	7.93%	50
21,345	Increase in CDI	Short-term investment	10/2/2020	5.85%	1,249	7.31%	91	8.78%	110
9,283	Increase in CDI	Short-term investment	3/23/2020	5.98%	555	7.48%	42	8.97%	50
7,669	Increase in CDI	Short-term investment	3/9/2020 – 12/29/2020	5.29%	405	6.61%	27	7.93%	32
7,540	Increase in CDI	Short-term investment	1/30/2020 – 2/11/2020	5.97%	450	7.46%	34	8.95%	40
7,358	Increase in CDI	Short-term investment	2/10/2020	5.97%	439	7.46%	33	8.95%	39
6,020	Increase in CDI	Short-term investment	3/2/2020	5.95%	358	7.44%	27	8.93%	32
5,387	Increase in CDI	Short-term investment	10/2/2020	5.85%	315	7.31%	23	8.78%	28
3,481	Increase in CDI	Short-term investment	1/24/2020	4.81%	167	6.01%	10	7.22%	12
1,481	Increase in CDI	Short-term investment	9/2/2020	5.85%	87	7.31%	6	8.78%	8
131,590					7,535		542		651

(In thousands of reais, unless otherwise stated)

9. Financial risk management (Continued)

f) Classification of financial instruments (Continued)

i) *Interest rate risk* (Continued)

Exposure and sensitivity analysis - interest rate risk (Continued)

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

(In thousands of reais, unless otherwise stated)

9. Financial risk management (Continued)

f) Classification of financial instruments (Continued)

i) *Interest rate risk* (Continued)

Exposure and sensitivity analysis - interest rate risk (Continued)

Individual

Exposure	Risk	Type	Effective rate 12/31/2020	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation %	50% appreciation Amount
4,140	R&D BNDES - Sub A	Loan (Liability)	**100**	**11**	**125**	**14**	**150**	**17**
2,369	R&D BNDES - Sub B	Loan (Liability)	**100**	**7**	**125**	**9**	**150**	**10**
42,164	Storeroom Reconstruction Project - Sub A	Loan (Liability)	**100**	**763**	**125**	**954**	**150**	**1,145**
38,846	Storeroom Reconstruction Project - Sub B	Loan (Liability)	**100**	**766**	**125**	**958**	**150**	**1,149**
19,342	Oncology Injectables Project - Sub A	Loan (Liability)	**100**	**265**	**125**	**331**	**150**	**397**
5,464	Oncology Injectables Project - Sub B	Loan (Liability)	**100**	**79**	**125**	**99**	**150**	**119**
28,483	R&D Finep	Loan (Liability)	**100**	**80**	**125**	**100**	**150**	**120**
197	FINAME/Promáquina FINA06	Loan (Liability)	**100**	**0**	**125**	**0**	**150**	**0**
37	FINAME/Bauch Campos FINA07	Loan (Liability)	**100**	**0**	**125**	**0**	**150**	**0**
242,823	Aircraft JP Morgan*	Loan (Liability)	**100**	**125**	**125**	**157**	**150**	**188**
8,055	Pró DF	Loan (Liability)	**100**	**161**	**125**	**201**	**150**	**242**
123,054	Leases	Lease liabilities (Liability)	**100**	**10,617**	**125**	**13,271**	**150**	**15,925**
514,974				**12,874**		**16,094**		**19,312**

Individual

Exposure	Risk	Type	Effective rate 12/31/2019	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation %	50% appreciation Amount
192,958	Finance Lease	Loan (Liability)	100	447	125	559	150	671
95,139	Leases	Lease (Liability)	100	4,334	125	5,417	150	6,500
40,707	R&D Finep	Loan (Liability)	100	132	125	165	150	198
20,087	Project - Plant in Brasília	Loan (Liability)	100	87	125	108	150	130
7,441	Project RD&I	Loan (Liability)	100	22	125	28	150	33
6,131	Pró/DF	Loan (Liability)	100	276	125	345	150	414
2,280	Modernization Project - Subcredit A	Loan (Liability)	100	7	125	8	150	10
1,923	DC Expansion Project - Jaguariúna	Loan (Liability)	100	6	125	7	150	8
1,037	FINAME/Fabrima_Horizontal Cartoner - Nonsterile Ointments FINA12	Loan (Liability)	100	4	125	5	150	6
721	FINAME/Fabrima_Horizontal Cartoner - Eye Drops FINA11	Loan (Liability)	100	3	125	4	150	5
535	Modernization Project - Subcredit B	Loan (Liability)	100	2	125	3	150	3
341	FINAME/Promáquina_Eye Drops FINA10	Loan (Liability)	100	1	125	1	150	2
292	FINAME/Promáquina FINA06	Loan (Liability)	100	1	125	1	150	2
233	FINAME/Fabrima_Control Scale - Blister Collator FINA14	Loan (Liability)	100	1	125	1	150	2
145	FINAME/Fabrima_Tube Filler - Eye Ointments FINA13	Loan (Liability)	100	1	125	1	150	2
53	FINAME/Bauch Campos FINA07	Loan (Liability)	100	-	125	-	150	-
370,023				5,324		6,653		7,986

(In thousands of reais, unless otherwise stated)

9. Financial risk management (Continued)

f) Classification of financial instruments (Continued)

i) *Interest rate risk* (Continued)

Exposure and sensitivity analysis - interest rate risk (Continued)

Exposure	Risk	Type	Effective rate 12/31/2020	Probable Amount	25% Devaluation %	25% Devaluation Amount	50% Devaluation %	50% Devaluation Amount
4,140	R&D BNDES - Sub A	Loan (Liability)	**100**	**11**	**75**	**8**	**50**	**6**
2,369	R&D BNDES - Sub B	Loan (Liability)	**100**	**7**	**75**	**5**	**50**	**3**
42,164	Storeroom Reconstruction Project - Sub A	Loan (Liability)	**100**	**763**	**75**	**572**	**50**	**382**
38,846	Storeroom Reconstruction Project - Sub B	Loan (Liability)	**100**	**766**	**75**	**575**	**50**	**383**
19,342	Oncology Injectables Project - Sub A	Loan (Liability)	**100**	**265**	**75**	**199**	**50**	**132**
5,464	Oncology Injectables Project - Sub B	Loan (Liability)	**100**	**79**	**75**	**59**	**50**	**40**
28,483	R&D Finep	Loan (Liability)	**100**	**80**	**75**	**60**	**50**	**40**
197	FINAME/Promáquina FINA06	Loan (Liability)	**100**	**-**	**75**	**-**	**50**	**-**
37	FINAME/Bauch Campos FINA07	Loan (Liability)	**100**	**-**	**75**	**-**	**50**	**-**
242,823	Aircraft JP Morgan*	Loan (Liability)	**100**	**125**	**75**	**94**	**50**	**63**
8,055	Pró DF	Loan (Liability)	**100**	**161**	**75**	**121**	**50**	**81**
123,054	Lease liabilities	Lease liabilities (Liability)	**100**	**10,617**	**75**	**7,963**	**50**	**5,308**
514,974				**12,874**		**9,656**		**6,438**

Exposure	Risk	Type	Effective rate 12/31/2019	Probable Amount	25% Devaluation %	25% Devaluation Amount	50% Devaluation %	50% Devaluation Amount
192,958	Finance Lease	Loan (Liability)	100	447	75	335	50	224
95,139	Leases	Lease (Liability)	100	4,334	75	3,250	50	2,167
40,707	R&D Finep	Loan (Liability)	100	132	75	99	50	66
20,087	Project - Plant in Brasília	Loan (Liability)	100	87	75	65	50	43
7,441	Project RD&I	Loan (Liability)	100	22	75	17	50	11
6,131	Pró/DF	Loan (Liability)	100	276	75	207	50	138
2,280	Modernization Project - Subcredit A	Loan (Liability)	100	7	75	5	50	3
1,923	DC Expansion Project - Jaguariúna	Loan (Liability)	100	6	75	4	50	3
1,037	FINAME/Fabrima_Horizontal Cartoner - Nonsterile Ointments FINA12	Loan (Liability)	100	4	75	3	50	2
721	FINAME/Fabrima_Horizontal Cartoner - Eye Drops FINA11	Loan (Liability)	100	3	75	2	50	2
535	Modernization Project - Subcredit B	Loan (Liability)	100	2	75	2	50	1
341	FINAME/Promáquina_Eye Drops FINA10	Loan (Liability)	100	1	75	1	50	1
292	FINAME/Promáquina FINA06	Loan (Liability)	100	1	75	1	50	1
233	FINAME/Fabrima_Control Scale - Blister Collator FINA14	Loan (Liability)	100	1	75	1	50	1
145	FINAME/Fabrima_Tube Filler - Eye Ointments FINA13	Loan (Liability)	100	1	75	1	50	1
53	FINAME/Bauch Campos FINA07	Loan (Liability)	100	-	75	-	50	-
370,023				5,324		3,993		2,664

(In thousands of reais, unless otherwise stated)

9. Financial risk management (Continued)

f) Classification of financial instruments (Continued)

i) *Interest rate risk* (Continued)

Exposure and sensitivity analysis - interest rate risk (Continued)

Consolidated

Exposure	Risk	Type	Effective rate 12/31/2020	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation %	50% appreciation Amount
4,140	R&D BNDES - Sub A	Loan (Liability)	**100**	**11**	**125**	**14**	**150**	**17**
2,369	R&D BNDES - Sub B	Loan (Liability)	**100**	**7**	**125**	**9**	**150**	**10**
42,164	Storeroom Reconstruction Project - Sub A	Loan (Liability)	**100**	**763**	**125**	**954**	**150**	**1,145**
38,846	Storeroom Reconstruction Project - Sub B	Loan (Liability)	**100**	**766**	**125**	**958**	**150**	**1,149**
19,342	Oncology Injectables Project - Sub A	Loan (Liability)	**100**	**265**	**125**	**331**	**150**	**397**
5,464	Oncology Injectables Project - Sub B	Loan (Liability)	**100**	**79**	**125**	**99**	**150**	**119**
28,483	R&D Finep	Loan (Liability)	**100**	**80**	**125**	**100**	**150**	**120**
197	FINAME/Promáquina FINA06	Loan (Liability)	**100**	**0**	**125**	**0**	**150**	**0**
37	FINAME/Bauch Campos FINA07	Loan (Liability)	**100**	**0**	**125**	**0**	**150**	**0**
242,823	Aircraft JP Morgan*	Loan (Liability)	**100**	**125**	**125**	**157**	**150**	**188**
8,055	Pró DF	Loan (Liability)	**100**	**161**	**125**	**201**	**150**	**242**
131,072	Lease liabilities	Lease (Liability)	**100**	**11,309**	**125**	**14,136**	**150**	**16,963**
522,992				**13,566**		**16,959**		**20,350**

Consolidated

Exposure	Risk	Type	Effective rate 12/31/2019	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation %	50% appreciation Amount
193,012	Finance Lease	Loan (Liability)	100	448	125	560	150	672
103,605	Leases	Lease (Liability)	100	4,655	125	5,819	150	6,982
40,707	R&D Finep	Loan (Liability)	100	132	125	165	150	198
20,087	Project - Plant in Brasília	Loan (Liability)	100	87	125	108	150	130
7,441	Project RD&I	Loan (Liability)	100	22	125	28	150	33
6,131	Pró/DF	Loan (Liability)	100	276	125	345	150	414
2,280	Modernization Project - Subcredit A	Loan (Liability)	100	7	125	8	150	10
1,923	DC Expansion Project - Jaguariúna	Loan (Liability)	100	6	125	7	150	8
1,037	FINAME/Fabrima_Horizontal Cartoner - Nonsterile Ointments FINA12	Loan (Liability)	100	4	125	5	150	6
721	FINAME/Fabrima_Horizontal Cartoner - Eye Drops FINA11	Loan (Liability)	100	3	125	4	150	5
535	Modernization Project - Subcredit B	Loan (Liability)	100	2	125	3	150	3
341	FINAME/Promáquina_Eye Drops FINA10	Loan (Liability)	100	1	125	1	150	2
292	FINAME/Promáquina FINA06	Loan (Liability)	100	1	125	1	150	2
233	FINAME/Fabrima_Control Scale - Blister Collator FINA14	Loan (Liability)	100	1	125	1	150	2
145	FINAME/Fabrima_Tube Filler - Eye Ointments FINA13	Loan (Liability)	100	1	125	1	150	2
53	FINAME/Bauch Campos FINA07	Loan (Liability)	100	-	125	-	150	-
378,543				5,646		7,056		8,469

(In thousands of reais, unless otherwise stated)

9. Financial risk management (Continued)

f) Classification of financial instruments (Continued)

i) *Interest rate risk* (Continued)

Exposure and sensitivity analysis - interest rate risk (Continued)

Exposure	Risk	Type	Effective rate 12/31/2020	Probable Amount	25% Devaluation %	25% Devaluation Amount	50% Devaluation %	50% Devaluation Amount
4,140	R&D BNDES - Sub A	Loan (Liability)	**100**	**11**	**75**	**14**	**50**	**17**
2,369	R&D BNDES - Sub B	Lease (Liability)	**100**	**7**	**75**	**9**	**50**	**10**
42,164	Storeroom Reconstruction Project - Sub A	Loan (Liability)	**100**	**763**	**75**	**954**	**50**	**1,145**
38,846	Storeroom Reconstruction Project - Sub B	Loan (Liability)	**100**	**766**	**75**	**958**	**50**	**1,149**
19,342	Oncology Injectables Project - Sub A	Loan (Liability)	**100**	**265**	**75**	**331**	**50**	**397**
5,464	Oncology Injectables Project - Sub B	Loan (Liability)	**100**	**79**	**75**	**99**	**50**	**119**
28,483	R&D Finep	Loan (Liability)	**100**	**80**	**75**	**100**	**50**	**120**
197	FINAME/Promáquina FINA06	Loan (Liability)	**100**	**-**	**75**	**-**	**50**	**0**
37	FINAME/Bauch Campos FINA07	Loan (Liability)	**100**	**-**	**75**	**-**	**50**	**0**
242,823	Aircraft JP Morgan*	Loan (Liability)	**100**	**125**	**75**	**157**	**50**	**188**
8,055	Pró DF	Loan (Liability)	**100**	**161**	**75**	**201**	**50**	**242**
131,072	Lease liabilities	Loan (Liability)	**100**	**11,309**	**75**	**14,136**	**50**	**16,963**
522,992				**13,566**		**16,959**		**20,350**

Exposure	Risk	Type	Effective rate 12/31/2019	Probable Amount	25% Devaluation %	25% Devaluation Amount	50% Devaluation %	50% Devaluation Amount
193,012	Finance Lease	Loan (Liability)	100	448	75	336	50	224
103,605	Leases	Lease (Liability)	100	4,655	75	3,491	50	2,327
40,707	R&D Finep	Loan (Liability)	100	132	75	99	50	66
20,087	Project - Plant in Brasília	Loan (Liability)	100	87	75	65	50	43
7,441	Project RD&I	Loan (Liability)	100	22	75	17	50	11
6,131	Pró/DF	Loan (Liability)	100	276	75	207	50	138
2,280	Modernization Project - Subcredit A	Loan (Liability)	100	7	75	5	50	3
1,923	DC Expansion Project - Jaguariúna	Loan (Liability)	100	6	75	4	50	3
1,037	FINAME/Fabrima_Horizontal Cartoner - Nonsterile Ointments FINA12	Loan (Liability)	100	4	75	3	50	2
721	FINAME/Fabrima_Horizontal Cartoner - Eye Drops FINA11	Loan (Liability)	100	3	75	2	50	2
535	Modernization Project - Subcredit B	Loan (Liability)	100	2	75	2	50	1
341	FINAME/Promáquina_Eye Drops FINA10	Loan (Liability)	100	1	75	1	50	1
292	FINAME/Promáquina FINA06	Loan (Liability)	100	1	75	1	50	1
233	FINAME/Fabrima_Control Scale - Blister Collator FINA14	Loan (Liability)	100	1	75	1	50	1
145	FINAME/Fabrima_Tube Filler - Eye Ointments FINA13	Loan (Liability)	100	1	75	1	50	1
53	FINAME/Bauch Campos FINA07	Loan (Liability)	100	-	75	-	50	-
378,543				5,646		4,235		2,824

9. Financial risk management (Continued)

f) Classification of financial instruments (Continued)

ii) *Accounting classification and fair value measurement*

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

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

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

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

In compliance with the transitional provisions of CPC 46 (Fair value measurement), the Company has applied the new fair value measurement guidance prospectively, and the changes had no significant impact on the measurement of the Company's assets and liabilities. The classification according to the fair value hierarchy of the Company's financial instruments measured at fair value is determined as follows:

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

9. Financial risk management (Continued)

f) Classification of financial instruments (Continued)

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

2020	Individual						
	Fair value			Total	Other categories	Fair value	Carrying value
	Level 1	Level 2	Level 3				
Assets							
Cash and cash equivalents	-	-	-		**49,087**	**49,087**	**49,087**
Trade accounts receivable	-	-	-		**602,333**	**602,333**	**602,333**
Accounts receivable from related parties	-	-	-		**193,301**	**193,301**	**193,301**
Dividends receivable	-	-	-		**8,970**	**8,970**	**8,970**
Loans receivable	-	-	-		-	-	-
Short-term investments earmarked for loans	-	-	-		**4,526**	**4,526**	**4,526**
Other receivables	-	-	-		**117,624**	**117,624**	**117,624**
Total	-	-	-		**975,841**	**975,841**	**975,841**
Liabilities							
Trade accounts payable	-	-	-	-	**(310,774)**	**(310,774)**	**(310,774)**
Trade payables to related parties	-	-	-	-	**(1,053,128)**	**(1,053,128)**	**(1,053,128)**
Loans and financing	-	-	-	-	**(391,920)**	**(391,920)**	**(391,920)**
Lease liabilities	-	-	-	-	**(123,054)**	**(123,054)**	**(123,054)**
Dividends payable	-	-	-	-	**(35,821)**	**(35,821)**	**(35,821)**
Other payables	-	-	-	-	**(103,654)**	**(103,654)**	**(103,654)**
Total	-	-	-	-	**(2,018,351)**	**(2,018,351)**	**(2,018,351)**

2019	Individual						
	Fair value			Total	Other categories	Fair value	Carrying value
	Level 1	Level 2	Level 3				
Assets							
Cash and cash equivalents	-	-	-	-	71,529	71,529	71,529
Trade accounts receivable	-	-	-	-	575,785	575,785	575,785
Accounts receivable from related parties	-	-	-	-	268,570	268,570	268,570
Dividends receivable	-	-	-	-	119,770	119,770	119,770
Loans receivable	-	-	-	-	316,093	316,093	316,093
Short-term investments earmarked for loans	-	-	-	-	4,124	4,124	4,124
Other receivables	-	-	-	-	58,848	58,848	58,848
Total	-	-	-	-	1,414,719	1,414,719	1,414,719
	-	-	-				
Liabilities							
Trade accounts payable	-	-	-	-	(172,317)	(172,317)	(172,317)
Trade payables to related parties	-	-	-	-	(1,136,468)	(1,136,468)	(1,136,468)
Loans and financing	-	-	-	-	(274,884)	(274,884)	(274,884)
Lease liabilities					(95,139)	(95,139)	(95,139)
Dividends payable	-	-	-	-	(117,160)	(117,160)	(117,160)
Other payables	-	-	-	-	(122,460)	(122,460)	(122,460)
Total	-	-	-	-	(1,918,428)	(1,918,428)	(1,918,428)

(In thousands of reais, unless otherwise stated)

9. Financial risk management (Continued)

f) Classification of financial instruments (Continued)

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

2020	Consolidated						
	Fair value			Total	Other categories	Fair value	Carrying value
	Level 1	Level 2	Level 3				
Assets							
Cash and cash equivalents	**-**	**-**	**-**	**-**	**114,476**	**114,476**	**114,476**
Trade accounts receivable	**-**	**-**	**-**	**-**	**832,953**	**832,953**	**832,953**
Accounts receivable from related parties	**-**	**-**	**-**	**-**	**91,593**	**91,593**	**91,593**
Loans receivable	**-**	**-**	**-**	**-**	**0**	**0**	**0**
Short-term investments earmarked for loans	**-**	**-**	**-**	**-**	**4,526**	**4,526**	**4,526**
Other receivables	**-**	**-**	**-**	**-**	**79,408**	**79,408**	**79,408**
	-	**-**	**-**		**1,122,956**	**1,122,956**	**1,122,956**
Liabilities							
Trade accounts payable	**-**	**-**	**-**	**-**	**(321,966)**	**(321,966)**	**(321,966)**
Trade payables to related parties	**-**	**-**	**-**	**-**	**(1,064,974)**	**(1,064,974)**	**(1,064,974)**
Dividends payable	**-**	**-**	**-**	**-**	**(40,950)**	**(40,950)**	**(40,950)**
Loans and financing	**-**	**-**	**-**	**-**	**(391,920)**	**(391,920)**	**(391,920)**
Lease liabilities	**-**	**-**	**-**	**-**	**(131,072)**	**(131,072)**	**(131,072)**
Other payables	**-**	**-**	**-**	**-**	**(114,661)**	**(114,661)**	**(114,661)**
Total	**-**	**-**	**-**	**-**	**(2,065,543)**	**(2,065,543)**	**(2,065,543)**

2019	Consolidated						
	Fair value			Total	Other categories	Fair value	Carrying value
	Level 1	Level 2	Level 3				
Assets							
Cash and cash equivalents	-	-	-	-	149,240	149,240	149,240
Trade accounts receivable	-	-	-	-	749,005	749,005	749,005
Accounts receivable from related parties	-	-	-	-	232,323	232,323	232,323
Loans receivable	-	-	-	-	316,093	316,093	316,093
Short-term investments earmarked for loans	-	-	-	-	4,124	4,124	4,124
Other receivables	-	-	-	-	69,336	69,336	69,336
					1,520,121	1,520,121	1,520,121
Liabilities							
Trade accounts payable	-	-	-	-	(180,857)	(180,857)	(180,857)
Trade payables to related parties	-	-	-	-	(1,142,291)	(1,142,291)	(1,142,291)
Dividends payable	-	-	-	-	(122,289)	(122,289)	(122,289)
Loans and financing	-	-	-	-	(274,938)	(274,938)	(274,938)
Lease liabilities					(103,605)	(103,605)	(103,605)
Other payables	-	-	-	-	(136,723)	(136,723)	(136,723)
Total					(1,960,703)	(1,960,703)	(1,960,703)

(In thousands of reais, unless otherwise stated)

9. Financial risk management (Continued)

f) Classification of financial instruments (Continued)

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

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

- Cash and cash equivalents and short-term investments earmarked for loans: stated at market value, which corresponds to their carrying value.
- Trade and related-party receivables: derive directly from the transactions of the Group and its customers, and are classified as noncurrent. These are recorded at their original value, subject to a provision for impairment losses. The original amounts, net of the provision, approximate their fair values at the reporting date.
- Loans receivable from related parties: classified as loans and receivables recorded for the related contract prices.
- Loans and financing: classified as other financial liabilities recorded for the related contract prices.
- Trade and related-party payables: derive directly from the transactions of the Group and its suppliers for the purchase of goods, and are classified as other financial liabilities. These are recorded at their original amounts, which approximate their fair values at the reporting date.
- Other receivables and payables: recorded at their original amounts, which approximate their fair values at the reporting date.

10. Cash and cash equivalents

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Bank	**8,858**	13,627	**14,001**	21,774
Short-term investments	**40,229**	57,902	**100,475**	127,466
	49,087	71,529	**114,476**	149,240

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.

(In thousands of reais, unless otherwise stated)

11. Short-term investments earmarked for loans

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

The financial investment made in Banco de Brasília, classified in noncurrent assets totaling R$4,526 (R$4,124 in 2019), refers to a guarantee of the ICMS financing granted to the Company as a government grant (Note 7.g). The amount can only be used to fully repay the final installments of the financing.

12. Trade accounts receivable

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Trade accounts receivable	**611,301**	578,954	**843,612**	773,303
Less: provision for impairment losses	**(8,968)**	(3,169)	**(10,659)**	(24,298)
	602,333	575,785	**832,953**	749,005

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

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Current	**581,376**	524,385	**726,723**	642,043
Past due 0-3 months	**20,617**	51,910	**28,030**	81,745
Past due 3-6 months	**7,150**	2,279	**8,983**	32,010
Past due 6-12 months	**2,067**	380	**8,327**	17,505
Past due 12+ months (a)	**91**	-	**71,549**	-
	611,301	578,954	**843,612**	773,303

(a) These substantially refer to receivables by CPM, which are insured in a Pledge Agreement (Note 2); therefore, no provision for losses was recorded.

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

(In thousands of reais, unless otherwise stated)

12. Trade accounts receivable (Continued)

Changes in the allowance for doubtful accounts are as follows:

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
January 1	**(3,169)**	(3,972)	**(24,298)**	(30,317)
Recognition	**(7,194)**	(2,960)	**10,979**	(3,948)
Reversal	**1,395**	3,763	**2,660**	9,967
December 31	**(8,968)**	(3,169)	**(10,659)**	(24,298)

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

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Reais	**599,750**	572,574	**821,964**	745,426
Euro	**-**	-	**8,381**	-
US dollars	**2,583**	3,211	**2,608**	3,579
	602,333	575,785	**832,953**	749,005

13. Inventories

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Raw material	**221,268**	218,924	**223,459**	222,673
Finished products	**293,506**	270,188	**354,788**	325,994
Products in process	**51,143**	47,333	**51,180**	47,322
Packaging and other materials	**57,810**	44,847	**61,216**	48,610
Advances to suppliers - third parties	**68,475**	32,923	**70,703**	34,403
Imports in transit	**18,962**	8,504	**19,349**	8,038
Provision for obsolescence	**(33,399)**	(31,172)	**(36,824)**	(34,042)
	677,765	591,547	**743,871**	652,998

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Balance at January 1	**(31,172)**	(16,984)	**(34,042)**	(19,029)
Recognition	**(29,618)**	(27,790)	**(32,909)**	(30,039)
Reversal	**27,391**	13,602	**30,127**	15,026
Balance at December 31	**(33,399)**	(31,172)	**(36,824)**	(34,042)

The criteria used to recognize the provision for obsolescence are detailed in Note 7.m.

(In thousands of reais, unless otherwise stated)

14. Taxes recoverable

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
IRPJ and CSLL (i)	**81,236**	86,937	**91,691**	94,147
Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Contribution Tax on Gross Revenue for Social Security Financing (COFINS) (ii)	**132,940**	7,411	**188,759**	62,089
State VAT (ICMS) (iii)	**79,391**	43,021	**167,069**	106,255
Tax on Financial Transactions (IOF)	**-**	11,235	**-**	11,235
Federal Value-Added Tax (IPI)	**6,857**	4,244	**33,989**	32,179
Other	**636**	24,851	**1,170**	22,056
	301,060	177,699	**482,678**	327,961
Current amount	**178,301**	170,996	**254,009**	321,258
Noncurrent amount	**122,759**	6,703	**228,669**	6,703
	301,060	177,699	**482,678**	327,961

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

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

(iii) State VAT (ICMS) credits on capital expenditures.

15. Other receivables

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Advances to suppliers - third parties	**10,997**	16,447	**37,491**	28,208
Advances to related parties (Note 30)	**76,036**	17,853	**8,536**	9,973
Advances to employees	**8,752**	11,829	**9,633**	12,836
Sublease receivables	**5,900**	5,900	**5,900**	5,900
Other	**15,939**	6,819	**17,848**	12,419
	117,624	58,848	**79,408**	69,336
Current amount	**112,628**	53,852	**74,412**	63,466
Noncurrent amount	**4,996**	4,996	**4,996**	5,870
	117,624	58,848	**79,408**	69,336

(In thousands of reais, unless otherwise stated)

16. Investments and provision for losses on investments

a) Balances and changes in investments

I) Individual

	December 31, 2020									
	Investments								Provision for losses	
	EMS Sigma	Legrand	CPM	Monteresearch	Rio Biopharmaceuticals	Gronin	Other	Total Investments	Luxbiotech	Total investments and provision for losses, net
Number of shares/units of interest forming capital	7,662,451	136,464	64,205,000	90,000		105,782,60	-		58,636,851	
Capital	7,740	138	64,605	574	3,308	105,551	-		97,723	
Income (loss) for the year	1,559	123,663	(7,951)	(13,443)	-	(266)	-		(57,966)	
Interest in capital - %	99.00%	99.00%	99.38%	100.00%	100%	2.40%	-		99.79%	
Subsidiary’s equity	9,715	232,287	78,655	79,782	30,251	194,833	-		(31,051)	
Investment’s initial balance at January 1, 2020	8,076	107,538	70,160	70,505	14,570	4,715	467	276,031	26,858	302,889
Capital increase	-	-	-	3,870	15,681	6,400	-	25,951	-	25,951
Translation of foreign operation	-	-	-	13,085	-	(566)	-	12,519	-	12,519
Equity pickup	1,553	122,426	8,019	(7,678)	-	(5,873)	-	118,447	(57,979)	(60,468)
	9,628	229,964	78,179	79,782	30,251	4,676	467	432,948	(31,121)	401,827

(In thousands of reais, unless otherwise stated)

16. Investments and provision for losses on investments (Continued)

a) Balances and changes in investments (Continued)

I) *Individual* (Continued)

	December 31, 2019								
	EMS Sigma	Legrand	Luxbiotech	CPM	Monteresearch	Rio Biopharmaceuticals	Gronin	Other	Total Investment
Investments									
Number of shares/units of interest forming capital	7,662,451	136,464	58,636,851	64,205,000	90,000	-	99,151,000		-
Capital	7,740	138	97,723	64,605	406	3,308	99,151		-
Income (loss) for the year	2,402	93,207	(44,849)	41,084	(34,594)	-	20,752		-
Interest in capital - %	99.00%	99.00%	99.65%	99.38%	100%	100%	2.40%		-
Subsidiary's equity	8,155	108,624	26,915	70,704	70,507	1,085	188,693		-
Investment's initial balance at January 1, 2019	5,699	15,263	3,792	82,030	56,637	9,589	4,263	467	177,740
Appropriation of dividends receivable	-	-	-	(17,343)	-	-	-	-	(17,343)
Capital increase (*)	-	-	67,947	-	651	4,981	-	-	73,579
Foreign operation upon translation	-	-	-	-	4,318	-	2,706	-	7,024
Other changes	(1)	-	-	-	156	-	(1)	-	154
Equity pickup	2,378	92,275	(44,881)	5,473	8,743	-	(2,253)	-	61,735
Company's investments	8,076	107,538	26,858	70,160	70,505	14,570	4,715	467	302,889

(*) In 2019, EMS contributed R$67,947 to the capital of investee Luxbiotech, R$38,880 of which was through the payment of advances made in 2019, and R$29,067 through the payment of advances made in 2018.

(In thousands of reais, unless otherwise stated)

16. Investments and provision for losses on investments (Continued)

a) Balances and changes in investments (Continued)

II) Consolidated

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

	December 31, 2019			
	Gronin	**Globe**	**Other**	**Total**
Net income for the year	20,752	27,987		
Interest in capital - %	2.40%	25%		
Subsidiary's equity	188,693	263,292		
Investment's initial balance at January 1, 2020	4,263	53,210	458	57,931
Other changes	(1)	(23,228)	9	(23,220)
Translation of foreign operation	2,706	2,274	-	4,980
Equity pickup	(2,253)	34,432	-	32,179
	4,715	66,688	467	71,870

(In thousands of reais, unless otherwise stated)

16. Investments and provision for losses on investments (Continued)

b) Summary of financial information

The following table summarizes the subsidiaries' financial information:

i) *Summary statements of financial position of subsidiaries*

	EMS Sigma		Legrand		Luxbiotech		Monteresearch		Rio Bio Pharmaceuticals		CPM		Gronin	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Current														
Assets	138,491	249,129	289,489	290,812	53,810	48,360	15,915	7,275	1,167	1,167	90,070	86,142	641	1,566
Liabilities	(128,457)	(240,149)	(65,124)	(185,258)	(77,555)	(16,074)	(10,965)	(5,036)	(82)	(82)	(10,453)	(15,347)	(10,286)	(10,338)
Current assets, net	10,034	8,980	224,365	105,554	(23,745)	32,286	4,950	2,239	1,085	1,085	79,617	70,795	(9,645)	(8,772)
Noncurrent														
Noncurrent assets	5,499	4,484	17,582	13,850	3,552	2,906	67,301	68,268	-	-	(303)	940	228,214	197,468
Noncurrent liabilities	(5,818)	(5,309)	(9,660)	(10,780)	(10,858)	(8,277)	-	-	-	-	(659)	(1,031)	(218,835)	(167,944)
Noncurrent assets, net	(319)	(825)	7,922	3,070	(7,306)	(5,371)	67,301	68,268	-	-	(962)	(91)	9,379	29,524
Equity	9,715	8,155	232,287	108,624	(31,051)	26,915	72,251	70,507	1,085	1,085	78,655	70,704	(266)	(20,752)

(In thousands of reais, unless otherwise stated)

16. Investments and provision for losses on investments (Continued)

b) Summary of financial information (Continued)

ii) *Statement of profit and loss for the year of subsidiaries*

	EMS Sigma		Legrand		Luxbiotech		Montresearch		CPM		Gronin	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
P&L												
Revenue	**227,214**	165,833	**563,930**	437,092	**8,321**	9,362	**13,606**	9,855	**-**	83,772	**-**	-
Income before income and social contribution taxes	**1,602**	3,273	**182,610**	140,360	**(58,001)**	(44,876)	**(13,443)**	(34,594)	**7,951**	86,610	**(266)**	(20,752)
Income and social contribution tax expense	**(43)**	(871)	**(58,947)**	(47,153)	**35**	27	**-**	-	**-**	(45,526)	**-**	-
Net income (loss) for the year	**1,559**	2,402	**123,663**	93,207	**(57,966)**	(44,849)	**(13,443)**	(34,594)	**7,951**	41,084	**(266)**	(20,752)

(In thousands of reais, unless otherwise stated)

17. Property, plant and equipment

	Individual						
	Land and buildings	**Vehicles and machinery**	**Furniture, fixtures, and equipment**	**Other**	**Work in progress (i)**	**Aircraft**	**Total**
Opening balance at December 31, 2019	164,251	228,509	22,915	-	54,427	207,189	677,291
Acquisitions	1,737	7,464	2,086	-	157,002	-	168,289
Eliminations, net	(618)	(3,642)	(20)	-	(2,711)	-	(6,991)
Transfers	24,380	67,227	2,276	-	(93,893)	-	(10)
Depreciation	(3,137)	(14,830)	(2,190)	-	-	(13,367)	(33,524)
Net book balance	186,613	284,728	25,067	-	114,825	193,822	805,055
December 31, 2020							
Cost	**244,809**	**446,817**	**49,149**	**733**	**114,825**	**231,715**	**1,088,048**
Accumulated depreciation	**(58,196)**	**(162,089)**	**(24,082)**	**(733)**	**-**	**(37,893)**	**(282,993)**
	186,613	**284,728**	**25,067**	**-**	**114,825**	**193,822**	**805,055**

	Individual						
	Land and buildings	**Vehicles and machinery**	**Furniture, fixtures, and equipment**	**Other**	**Work in progress (i)**	**Aircraft**	**Total**
Opening balance at December 31, 2018	133,751	169,276	17,568	-	96,208	219,104	635,907
Acquisitions	9,967	23,138	4,952	-	33,618	-	71,675
Eliminations, net	(2,082)	(4,304)	(667)	-	(4,142)	-	(11,195)
Transfers	25,232	44,325	1,555	-	(71,257)	-	(145)
Depreciation	(2,617)	(3,926)	(493)	-	-	(11,915)	(18,951)
Net book balance	164,251	228,509	22,915	-	54,427	207,189	677,291
December 31, 2019							
Cost	220,658	379,343	45,159	733	54,427	231,715	932,035
Accumulated depreciation	(56,407)	(150,834)	(22,244)	(733)	-	(24,526)	(254,744)
	164,251	228,509	22,915	-	54,427	207,189	677,291

(In thousands of reais, unless otherwise stated)

17. Property, plant and equipment (Continued)

	Consolidated						
	Land and buildings	**Vehicles and machinery**	**Furniture, fixtures, and equipment**	**Other**	**Work in progress (i)**	**Aircraft**	**Total**
Opening balance at December 31, 2019	168,013	227,174	22,665	-	54,030	207,189	679,071
Acquisitions	1,875	7,263	2,726	-	157,030	-	168,894
Eliminations, net	(618)	(1,827)	(22)	-	(2,711)	-	(5,178)
Transfers	24,380	67,227	2,276	-	(93,893)	-	(10)
Depreciation	(3,224)	(16,472)	(2,390)	-	-	(13,367)	(35,453)
	190,426	283,365	25,255	-	114,456	193,822	807,324
December 31, 2020							
Cost	**249,815**	**453,326**	**51,962**	**733**	**114,456**	**231,715**	**1,102,007**
Accumulated depreciation	**(59,389)**	**(169,961)**	**(26,707)**	**(733)**	**-**	**(37,893)**	**(294,683)**
Net book balance	**190,426**	**283,365**	**25,255**	**-**	**114,456**	**193,822**	**807,324**

	Consolidated						
	Land and buildings	**Vehicles and machinery**	**Furniture, fixtures, and equipment**	**Other**	**Work in progress (i)**	**Aircraft**	**Total**
December 31, 2018							
Opening balance	137,608	168,717	17,158	-	95,810	219,104	638,397
Acquisitions	9,967	23,570	5,399	-	33,618	-	72,554
Eliminations, net	(2,082)	(4,324)	(690)	-	(4,142)	-	(11,238)
Transfers	25,234	44,325	1,555		(71,256)	-	(142)
Depreciation	(2,714)	(5,114)	(757)	-	-	(11,915)	(20,500)
	168,013	227,174	22,665	-	54,030	207,189	679,071
December 31, 2019							
Cost	225,526	384,238	47,331	733	54,030	231,715	943,573
Accumulated depreciation	(57,513)	(157,064)	(24,666)	(733)	-	(24,526)	(264,502)
Net book balance	168,013	227,174	22,665	-	54,030	207,189	679,071

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

Bank loans are secured by property, plant and equipment items in the amount of R$25,821.

(In thousands of reais, unless otherwise stated)

18. Right-of-use assets and lease liabilities

a) Right-of-use assets

	Individual				
	Land and buildings	**Vehicles and machinery**	**Furniture, fixtures, and equipment**	**Data Center**	**Total**
December 31, 2019					
Opening balance	61,892	22,165	59	5,754	89,870
Acquisitions and remeasurements	10,729	51,487	1,205	-	63,421
Write-offs	-	(5,630)	(21)	-	(5,651)
Depreciation write-offs	-	4,300	12	-	4,312
Depreciation	(6,666)	(24,147)	(547)	(4,603)	(35,963)
	65,955	48,175	708	1,151	115,989
December 31, 2020					
Cost	**78,842**	**86,946**	**1,293**	**10,357**	**177,438**
Accumulated depreciation	**(12,887)**	**(38,771)**	**(585)**	**(9,206)**	**(61,449)**
Net book balance	**65,955**	**48,175**	**708**	**1,151**	**115,989**

	Individual				
	Land and buildings	**Vehicles and machinery**	**Furniture, fixtures, and equipment**	**Data Center**	**Total**
Initial adoption - January 1, 2019	62,732	35,980	105	10,357	109,174
Acquisitions	5,381	5,109	4		10,494
Depreciation/amortization	(6,221)	(18,924)	(50)	(4,603)	(29,798)
December 31, 2019	61,892	22,165	59	5,754	89,870
Cost	68,113	41,089	109	10,357	119,668
Accumulated depreciation	(6,221)	(18,924)	(50)	(4,603)	(29,798)
Net book balance	61,892	22,165	59	5,754	89,870

	Consolidated				
	Land and buildings	**Vehicles and machinery**	**Furniture, fixtures, and equipment**	**Data Center**	**Total**
December 31, 2019					
Opening balance	66,077	25,424	761	5,754	98,016
Acquisitions and remeasurements	11,228	54,207	1,206	-	66,641
Write-offs	-	6,247	13	-	6,260
Depreciation write-offs	-	(7,815)	(20)	-	(7,835)
Depreciation	(7,154)	(26,703)	(840)	(4,603)	(39,300)
	70,151	51,360	1,120	1,151	123,782
December 31, 2020					
Cost	**83,927**	**106,999**	**2,353**	**10,357**	**203,636**
Accumulated depreciation	**(13,776)**	**(55,639)**	**(1,233)**	**(9,206)**	**(79,854)**
Net book balance	**70,151**	**51,360**	**1,120**	**1,151**	**123,782**

(In thousands of reais, unless otherwise stated)

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

a) Right-of-use assets (Continued)

	Consolidated				
	Land and buildings	Vehicles and machinery	Furniture, fixtures, and equipment	Data Center	Total
Initial adoption - January 1, 2019	66,966	39,895	256	10,357	117,474
Acquisitions and corrections	5,733	6,650	878	-	13,261
Depreciation	(6,622)	(21,121)	(373)	(4,603)	(32,719)
	66,077	25,424	761	5,754	98,016
December 31, 2019					
Cost	72,699	46,545	1,134	10,357	130,735
Accumulated depreciation	(6,622)	(21,121)	(373)	(4,603)	(32,719)
Net book balance	66,077	25,424	761	5.754	98,016

b) Lease liabilities

	Individual				
	Land and buildings	Vehicles and machinery	Furniture, fixtures, and equipment	Data Center	Total
December 31, 2019					
Opening balance	65,389	23,101	60	6,589	95,139
Acquisitions and remeasurements	10,729	51,487	1,206	-	63,422
Interest incurred	7,331	2,415	50	359	10,155
Eliminations	-	(2,801)	(10)	-	(2,811)
Payments	(11,189)	(25,965)	(580)	(5,117)	(42,851)
December 31, 2020	**72,260**	**48,237**	**726**	**1,831**	**123,054**
Current amount					**35,317**
Noncurrent amount					**87,737**
					123,054

	Individual				
	Land and buildings	Vehicles and machinery	Furniture, fixtures, and equipment	Data Center	Total
Initial adoption - January 1, 2019	63,798	35,980	105	10,357	110,240
Acquisitions and corrections	5,049	5,109	4	104	10,266
Interest incurred	7,206	2,829	7	831	10,873
Payments	(10,664)	(20,817)	(56)	(4,703)	(36,240)
December 31, 2019	65,389	23,101	60	6,589	95,139
Current amount					34,505
Noncurrent amount					60,634
					95,139

(In thousands of reais, unless otherwise stated)

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

b) Lease liabilities (Continued)

	Consolidated				
	Land and buildings	Vehicles and machinery	Furniture, fixtures, and equipment	Data Center	Total
December 31, 2019					
Opening balance	69,751	26,483	783	6,588	103,605
Acquisitions and remeasurements	11,228	54,207	1,206	-	66,641
Interest incurred	7,784	2,681	106	359	10,930
Eliminations	-	(3,391)	(10)	-	(3,401)
Payments	(11,980)	(28,691)	(913)	(5,117)	(46,702)
December 31, 2020	**76,783**	**51,289**	**1,170**	**1,828**	**131,072**
Current amount					**39,274**
Noncurrent amount					**91,798**
					131,072

	Consolidated				
	Land and buildings	Vehicles and machinery	Furniture, fixtures, and equipment	Data Center	Total
Opening balance	-	-	-	-	-
Initial adoption of CPC (06)/IFRS 16 - January 1, 2019	68,032	39,895	257	10,357	118,541
Acquisitions and remeasurements	5,401	6,650	878	602	13,531
Interest incurred	7,680	3,185	54	831	11,750
Payments	(11,362)	(23,247)	(406)	(5,202)	(40,217)
December 31, 2019	69,751	26,483	783	6,588	103,605
Current amount					37,982
Noncurrent amount					65,623
					103,605

19. Trade accounts payable

	Individual		Consolidated	
	2020	2019	2020	2019
Foreign suppliers	**150,554**	55,662	**155,434**	58,258
Domestic suppliers	**127,094**	69,351	**128,271**	70,390
Service suppliers	**33,126**	47,304	**38,261**	52,209
	310,774	172,317	**321,966**	180,857

(In thousands of reais, unless otherwise stated)

20. Loans and financing

			Individual		Consolidated	
	Interest rate	Maturity	2020	2019	2020	2019
Finance Lease (a)	1.21% p.a. to 3.23% p.a. and Libor + 0.35% p.a.	February 2020 and May 2023	**242,823**	192,958	**242,823**	193,012
FINEP (b)	(b)	April de 2023	**28,483**	40,707	**28,483**	40,707
BNDES (c)	(c)	March 2020 to March 2026	**112,325**	32,266	**112,325**	32,266
FINAME	1.21% p.a. to 3.23% p.a. and Libor + 0.35% p.a.	June 2020 to February 2023	**234**	2,822	**234**	2,822
Banco Regional de Brasília - ICMS financing (d)	25% of INPC (i)	December 2031	**8,055**	6,131	**8,055**	6,131
			391,920	274,884	**391,920**	274,938
Current amount			**47,850**	50,207	**47,850**	50,207
Noncurrent amount			**344,070**	224,677	**344,070**	224,731
			391,920	274,884	**391,920**	274,938

(i) Annual effective rate.

(a) The Finance Lease amount comprises: JP Morgan, which refers to the purchase of an aircraft, with the current outstanding balance being R$242,823.

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

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

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

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

(a) Sub-credit "A" - in the amount of R$43,283 for the expansion and renovation of an industrial unit, including the production of liquid and semi-solid drug formulations, packaging lines and storeroom, in the city of Hortolândia, SP. The outstanding amount is R$42,163, subject to interest of IPCA* 1.36% p.a.* 1.79% p.a., and final payment on February 15, 2027.

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

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

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

20. Loans and financing (Continued)

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

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

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

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

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

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

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

The economic benefit (government grant), calculated as the difference between the market rate on the date the financing is released and the interest rates obtained (prefixed curve (PRE x DI) of the BM&F), is recognized as deferred revenue and recorded in the statement of profit and loss on a straight-line basis according to the maturity of each amount released. As at December 31, 2019, the deferred revenue recognized by the Company was R$19,032 (R$19,032 as at December 31, 2018)

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

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

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

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

Loan and financing agreements have nonfinancial covenants that were fully complied with at the end of the years 2020 and 2019.

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

(In thousands of reais, unless otherwise stated)

20. Loans and financing (Continued)

	2020	2019
2020	**-**	50,207
2021	**47,850**	43,685
2022	**63,064**	42,511
2023	**204,340**	122,567
2024 onwards	**76,666**	15,914
	391,920	274,884

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

Individual

	Individual	
	2020	**2019**
Balance at beginning of year	**274,884**	317,621
Item in cash flow from financing activities:		
Loans raised	**107,917**	
Loan amortization	**(46,916)**	(54,468)
Grant written off	**(2,052)**	-
Total cash flow used in financing activities	**58,949**	(54,468)
Other items:		
Interest expense and exchange losses	**63,203**	19,816
Payment of interest and exchange losses	**(5,116)**	(8,085)
Total other items	**58,087**	11,731
Balance at December 31 – current year	**391,920**	274,884

Consolidated

	Consolidated	
	2020	**2019**
Balance at December 31 – previous year	**274,938**	317,729
Item in cash flow from financing activities:		-
Loans raised	**107,917**	
Loan amortization	**(46,916)**	(54,518)
Grant written off	**(2,052)**	
Total cash flow used in financing activities	**58,949**	(54,518)
Other items:		
Interest expense and exchange losses	**63,149**	19,812
Payment of interest and exchange losses	**(5,116)**	(8,085)
Total other items	**58,033**	11,727
Balance at December 31 – current year	**391,920**	274,938

(In thousands of reais, unless otherwise stated)

21. Provision for losses on legal proceedings and judicial deposits

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

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

a) Breakdown

At the reporting date, the Group records the following liabilities and corresponding judicial deposits, relating to legal proceedings:

	Individual					
	Provision for losses on legal proceedings		Judicial deposits		Net balance	
	2020	2019	2020	2019	2020	2019
Tax and civil claims (i)	**36,310**	33,148	**(14,839)**	(12,299)	**21,471**	20,849
Labor and social security claims (ii)	**65,608**	60,691	**(19,705)**	(22,499)	**45,903**	38,192
	101,918	93,839	**(34,544)**	(34,798)	**67,374**	59,041

	Consolidated					
	Provision for losses on legal proceedings		Judicial deposits		Net balance	
	2020	2019	2020	2019	2020	2019
Tax and civil claims (i)	**56,307**	50,273	**(17,714)**	(15,212)	**38,593**	35,061
Labor and social security claims (ii)	**68,018**	63,217	**(20,307)**	(22,589)	**47,711**	40,628
	124,325	113,490	**(38,021)**	(37,801)	**86,304**	75,689

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

	Individual		Consolidated	
	2020	2019	2020	2019
January 1	**93,839**	125,734	**113,490**	144,490
Recognition of provision	**14,466**	13,894	**16,583**	15,440
Monetary adjustment	**7,130**	6,223	**8,265**	7,389
Proceedings written off - payments	**(9,027)**	(33,069)	**(9,340)**	(35,127)
Reversal of provision in the year	**(4,490)**	(18,943)	**(4,673)**	(18,702)
December 31	**101,918**	93,839	**124,325**	113,490

(In thousands of reais, unless otherwise stated)

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

a) Breakdown (Continued)

The full amount of the provision for contingencies is classified in noncurrent liabilities. Please find below the reconciliation of the net effect of the provision for losses on legal proceedings recognized in the statement of profit or loss for the year with the statement of cash flows:

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Recognition of provision	**14,466**	13,894	**16,583**	15,440
Reversal of provision	**(4,490)**	(18,943)	**(4,673)**	(18,702)
	9,976	(5,049)	**11,910**	(3,262)

i) *Civil and tax claims*

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

ii) *Labor claims*

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

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

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

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

(In thousands of reais, unless otherwise stated)

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

a) Breakdown (Continued)

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

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Civil (*)	**583,028**	67,790	**622,840**	86,351
Tax - IR/CSLL (**)	**1,988,476**	1,855,780	**1,988,476**	1,855,780
Labor	**154,845**	149,853	**162,386**	157,923
Tax - other	**32,656**	22,334	**33,683**	22,648
	2,759,005	2,095,757	**2,807,385**	2,122,702

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

(**) 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. Notwithstanding the regularity of the procedure adopted, the federal tax auditors disallowed the goodwill amortization expenses as they understood, in summary, that there was no business purpose for the acquisition of the equity interest including goodwill since the transaction took place "within the same economic group."

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

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, unless otherwise stated)

22. Income and social contribution taxes

a) Deferred income and social contribution taxes

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

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

	Individual		
	Balance at 12/31/2019	**Recognized in P&L**	**Balance at 12/31/2020**
Provision for labor claims	20,635	**1,672**	**22,307**
Net effect of reversal of revenue from products billed and not delivered	16,447	**11,736**	**28,183**
Provision for obsolescence	10,598	**758**	**11,356**
Provision for losses on tax and civil claims	11,270	**1,076**	**12,346**
Provision for impairment losses on receivables	1,078	**1,971**	**3,049**
Provision for profit sharing	5,080	**3,156**	**8,236**
Provision for free samples	4,273	**(848)**	**3,425**
Provision for leased vehicles	779	**(567)**	**212**
Provision for deferred exchange differences for tax purposes	(5,065)	**(4,354)**	**(9,419)**
Lease CPC06/ IFRS16	1,338	**8,439**	**9,777**
Provision for interest on intercompany loans	(32,139)	**32,139**	**(16,170)**
Other provisions	15,486	**(31,656)**	
	49,780	**23,522**	**73,302**

	Consolidated		
	Balance at 12/31/2019	**Recognized in P&L**	**Balance at 12/31/2020**
Provision for labor claims	21,310	**1,629**	**22,939**
Net effect of reversal of revenue from products billed and not delivered	20,184	**12,382**	**32,566**
Provision for impairment losses on receivables	1,448	**2,163**	**3,611**
Provision for obsolescence	10,962	**896**	**11,858**
Provision for profit sharing	5,187	**3,846**	**9,033**
Provision for losses on tax and civil claims	14,642	**1,294**	**15,936**
Provision for free samples	4,777	**(786)**	**3,991**
Provision for leased vehicles	905	**(597)**	**308**
Provision for deferred exchange differences for tax purposes	(5,076)	**(4,300)**	**(9,376)**
Lease CPC06	1,410	**8,718**	**10,128**
Provision for interest on intercompany loans	(32,139)	**32,139**	**-**
Other provisions	16,072	**(29,555)**	**(13,483)**
	59,682	**27,829**	**87,511**

(In thousands of reais, unless otherwise stated)

22. Income and social contribution taxes (Continued)

b) Current income and social contribution taxes

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

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Income before income and social contribution taxes	**166,428**	557,978	**220,807**	634,196
IRPJ and CSLL at local rates (34%)	**(56,586)**	(189,713)	**(75,074)**	(215,627)
Equity pickup	**20,559**	20,990	**(6,814)**	10,941
Technological innovation (R&D) Law No. 11196/05	**8,623**	2,491	**8,623**	2,491
Capital grant	**15,919**	11,633	**27,552**	11,633
Permanent additions/exclusions	**(41,359)**	13,737	**(66,085)**	(25,496)
IRPJ and CSLL taxes on the statement of profit and loss	**(52,844)**	(140,862)	**(111,798)**	(216,058)
Current income and social contribution taxes	**(76,366)**	(86,267)	**(139,627)**	(146,568)
Deferred income and social contribution taxes	**23,522**	(54,595)	**27,829**	(69,490)
IRPJ and CSLL taxes on the statement of profit and loss	**(52,844)**	(140,862)	**(111,798)**	(216,058)
Effective rate	**-32%**	-25%	**-51%**	-34%

c) Income and social contribution taxes payable

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
IRPJ payable	**7,338**	-	**16,025**	25,320
CSLL payable	**8,049**	-	**11,311**	7,821
	15,387	-	**27,336**	33,141

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

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Opening balance	**-**	-	**33,141**	18,553
(+) Provision for current IR/CS in the year	**76,366**	86,267	**139,627**	146,568
(-) Amounts offset against federal taxes	**(54,817)**	(66,957)	**(86,402)**	(69,631)
(-) Amounts prepaid/paid in the year	**(6,161)**	(19,310)	**(59,030)**	(62,349)
(=) Closing balance	**15,387**	-	**27,336**	33,141

(In thousands of reais, unless otherwise stated)

23. Other payables

	Individual		Consolidated	
	2020	2019	2020	2019
Advances from customers	**36,482**	35,452	**37,113**	36,217
Advances from related parties (Note 30)	**4,840**	24,273	**4,840**	24,273
Land payable	**12,061**	12,061	**12,061**	12,061
Employees	**2,090**	7,997	**2,221**	8,220
Exclusive right	**3,867**	5,333	**3,867**	5,333
Project expenses	**1,011**	3,438	**1,011**	3,438
Third-parties services	**17,357**	26,696	**18,289**	27,652
Insurance on leased vehicles	**624**	2,294	**977**	2,942
Other	**25,322**	4,916	**34,282**	16,587
	103,654	122,460	**114,661**	136,723
Current amount	**87,726**	105,065	**87,726**	105,065
Noncurrent amount	**15,928**	17,395	**15,928**	17,395
	103,654	122,460	**114,661**	136,723

24. Equity

a) Capital

As at December 31, 2020 and 2019, subscribed and paid-in capital is R$221,708 comprising 20,000,000 common shares with a par value of R$11,0854 each, held as follows:

	December 31, 2020 and 2019	
	Shares	Amount
NC Participações S.A.	19,800,000	219,491
Germed Farmacêutica LDA.	200,000	2,217
	20,000,000	221,708

Each common share is entitled to a vote in the Special and Annual Shareholders' Meetings. Every year, a minimum dividend of 25% of net income, calculated in accordance with Brazilian corporate law, will be attributable to the shareholders.

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 its parent company EMS Investimentos S/A. Said reserve may be capitalized in future resolutions by the Meeting.

24. Equity (Continued)

c) Income reserves

Tax incentive reserve

The Group has a line of credit government grant under the Federal District Fostering Program for the Sustainable Integrated Economic Development (PRO-DF), granted in the form of a subsidized loan obtained from Banco Regional de Brasília (BRB). The economic benefit obtained is accounted for as deferred revenue and recorded in the statement of profit and loss for equal amounts based on the maturity of each loan. A substantial part of the loan was settled and the respective grant revenue was recognized in the statement of profit and loss for the year and subsequently transferred to tax incentive in equity, as an income reserve in 2014. In 2016, the amount of R$3,003 was realized in connection with the settlement of the Ideas Program. However, the Company still awaits the auction to settle the residual value.

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 2019, based on the opinion of its legal advisors, the Company exercised the right of exclusion.

As at December 31, 2020, the amounts calculated and paid in connection with this exclusion, i.e., R$15,919 (R$11,663 in 2019), were recognized in the statement of profit and loss for the year as income and social contribution taxes - current.

In 2020, as required by the Income Tax legislation, the tax benefits obtained were allocated to the tax incentive reserve, limited to the amount of net income for the year, totaling R$46,822 (R$34,214 in 2019).

Legal reserve

The legal reserve is recognized 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, 2020 and 2019, the Group did not recognize the amount of 5% of the net income for the year as part of the legal reserve, since it reached the limit of 20% of capital, as determined by article 193 of Law 6404/86.

(In thousands of reais, unless otherwise stated)

24. Equity (Continued)

c) Income reserve (Continued)

Income reserve

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

d) Dividends

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

	2020	2019
Net income for the year	**113,584**	417,116
(-) Capital grant	**(46,822)**	(34,214)
Base income for dividend calculation	**66,762**	382,902
Minimum mandatory dividend (25%)	**16,691**	95,726
Opening balance	**117,160**	90,170
Income reserve from prior years approved in the year	**173,778**	22,014
(-) Payments	**(271,808)**	(90,750)
Total dividends payable	**35,821**	117,160

25. Net operating revenue

The reconciliation of gross sales to net revenue is as follows:

	Individual		Consolidated	
	2020	2019	2020	2019
Gross sale of products and services, less trade discounts	**4,834,090**	4,325,281	**5,331,418**	4,733,440
Sales taxes	**(742,140)**	(676,964)	**(791,878)**	(678,586)
Sales returns	**(140,734)**	(117,392)	**(184,144)**	(137,697)
Net operating revenue	**3,951,216**	3,530,925	**4,355,396**	3,917,157

(In thousands of reais, unless otherwise stated)

26. Costs and expenses by nature

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Raw material and supplies	**(2,154,490)**	(1,659,734)	**(2,262,673)**	(1,740,668)
Payroll and related charges	**(571,037)**	(535,088)	**(633,896)**	(586,657)
Third-party services - legal entities	**(206,767)**	(236,338)	**(221,888)**	(257,685)
Social security costs	**(151,086)**	(142,349)	**(165,318)**	(154,438)
Advertising costs	**(139,481)**	(172,489)	**(151,301)**	(190,181)
Transportation expenses	**(103,944)**	(92,875)	**(123,407)**	(109,884)
Samples	**(90,468)**	(61,907)	**(102,190)**	(73,828)
Legal benefits	**(54,349)**	(51,805)	**(58,902)**	(55,500)
Lease payments	**(3,297)**	(2,718)	**(4,962)**	(4,509)
Cleaning and office supplies	**(51,146)**	(42,384)	**(51,301)**	(45,450)
Travel/accommodation and meals	**(20,949)**	(44,489)	**(24,708)**	(50,793)
Other employee benefits	**(63,720)**	(66,094)	**(70,365)**	(73,321)
Profit sharing plan	**(29,655)**	(23,125)	**(33,317)**	(24,604)
Third-party services - maintenance and repair	**(38,590)**	(36,525)	**(41,057)**	(37,891)
Depreciation, amortization and impairment charges	**(71,599)**	(50,882)	**(76,884)**	(55,393)
Electricity, water and telephone	**(15,529)**	(16,741)	**(16,161)**	(19,259)
Fuel and lubricants	**(11,438)**	(13,872)	**(12,719)**	(15,302)
Provision for losses on legal proceedings	**(6,177)**	38,745	**(7,436)**	38,935
Sales commissions	**(5,649)**	(2,741)	**(9,473)**	(4,392)
Other expenses, net of other revenue	**(13,219)**	(16,658)	**(17,497)**	(20,100)
Reversal of (provision for) impairment losses on receivables	**(5,799)**	803	**13,639**	6,019
Total cost of sales, selling expenses and administrative expenses	**(3,808,389)**	(3,229,266)	**(4,071,816)**	(3,474,901)

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Cost of sales	**(2,542,462)**	(2,018,640)	**(2,652,763)**	(2,126,729)
Selling expenses	**(347,019)**	(330,948)	**(374,640)**	(374,262)
Administrative expenses	**(918,908)**	(879,678)	**(1,044,413)**	(973,910)
	(3,808,389)	(3,229,266)	**(4,071,816)**	(3,474,901)

(In thousands of reais, unless otherwise stated)

27. Other operating income (expenses), net

	Individual		Consolidated	
	2020	2019	2020	2019
Other revenue				
Insurance refund	-	86,853	-	86,853
Insurance claim - Reversal of provision/write-off of Inventories/Property, plant and equipment	-	48,438	-	48,393
Grant revenue	**18,590**	-	**18,590**	-
Tax recovery	**43,209**	-	**44,749**	-
Other	**18,382**	26,035	**18,421**	26,217
Total other revenue	**80,181**	161,326	**81,760**	161,463
Other expenses				
Taxes	**(32,051)**	(28,321)	**(36,685)**	(39,841)
Other	**(2,032)**	(6,060)	**(3,404)**	(33,394)
Total other expenses	**(34,083)**	(34,381)	**(40,089)**	(73,235)
Other expenses (revenue), net	**46,098**	126,945	**41,671**	88,228

28. Finance income (costs)

	Individual		Consolidated	
	2020	2019	2020	2019
Finance income				
Foreign exchange gains	**43,103**	17,017	**45,156**	17,538
Finance income from short-term bank deposits	**3,762**	7,095	**6,041**	13,308
Interest on trade notes receivable	**4,228**	3,080	**4,458**	4,535
Lease IFRS16	-	646	-	646
Interest income on intercompany loans	-	94,528	-	94528
Other	**286**	10,943	**286**	11,018
Total finance income	**51,379**	133,309	**55,941**	141,573
Finance costs				
Interest on loans	**(18,672)**	(22,340)	**(22,021)**	(24,806)
Foreign exchange losses	**(99,790)**	(27,064)	**(101,541)**	(27,676)
Discounts granted	**(391)**	(1,181)	**(440)**	(1,348)
Lease - interest payable	**(10,155)**	(10,873)	**(10,930)**	(11,750)
Other	**(5,336)**	(4,212)	**(5,412)**	(4,460)
Total finance costs	**(134,344)**	(65,670)	**(140,344)**	(70,040)
Finance income (costs), net	**(82,965)**	67,639	**(84,403)**	71,533

(In thousands of reais, unless otherwise stated)

29. Basic and diluted earnings per share

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

	2020	2019
Profit attributable to Company shareholders	**113,584**	417,116
Weighted average number of common shares (thousands)	**20,000**	20,000
Basic and diluted earnings per share - R$	**5.68**	20.86

Diluted earnings per share is the same as basic earnings per share since there are no potentially dilutive instruments.

30. Related parties

Significant asset and liability balances at December 31, 2020 and 2019 as well as transactions affecting P&L for the years regarding transactions with related parties refer to the Company's transactions with its related parties, carried out under the conditions agreed upon by the parties, as follows:

a) <u>Consolidated</u>

The Group is controlled by the holding company NC Participações S.A. (incorporated in Brazil), which holds 99% of the Company's shares. The remaining 1% is held by Germed Farmacêutica LDA, based in Portugal.

b) <u>Sales and resales of products</u>

	Individual		Consolidated	
	2020	2019	2020	2019
Germed Farmacêutica Ltda.	**140,557**	152,239	**141,227**	154,757
Multilab Indústria e Comércio de Medicamentos Ltda.	**40,687**	6,896	**40,687**	
Legrand Pharma Indústria Farmacêutica Ltda.	**233,991**	203,877	**-**	-
EMS Sigma Pharma Ltda (*)	**305,721**	242,134	**-**	-
Nova Química Farmacêutica S.A.	**99,324**	109,158	**99,346**	111,019
Lafiman Distribuidora de Medicamentos Ltda.	**14,771**	24,489	**18,599**	29,409
Novamed Fabricação de Produtos Farmacêuticos Ltda.	**93,804**	70,633	**342,013**	70,633
CPM - Concessíonária Paulista de Medicamentos S/A.	**-**	1,117	**-**	-
Other	**487**	21	**-**	6,896
	929,342	810,564	**641,872**	372,714

(In thousands of reais, unless otherwise stated)

30. Related parties (Continued)

b) Sales and resales of products (Continued)

(*) Revenue from the sale of packaging materials and lease of physical structure and manpower for the industrialization of products manufactured by Novamed Fabricação de Produtos Farmacêuticos Ltda. This process has been structured by the Group as of November 2018.

c) Net acquisitions of products and services

	Subsidiary		Consolidated	
	2020	**2019**	**2020**	**2019**
Novamed Fabricação de Produtos Farmacêuticos Ltda.	**1,566,603**	1,144,713	**1,665,122**	1,239,684
Multilab Indústria e Comércio de Medicamentos Ltda.	**46,761**	164	**55,812**	164
Germed Farmacêutica Ltda.	**4,361**	49,044	**4,361**	54,325
Nova Química Farmacêutica S.A.	**5,179**	5,148	**16,456**	6,511
Legrand Pharma Indústria Farmacêutica Ltda.	**2,561**	1,535	**-**	-
EMS Sigma Pharma Ltda.	**405**	257	**-**	-
Other	**66**	-	**-**	-
	1,625,936	1,200,861	**1,741,751**	1,300,684

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

Accounts receivable from related parties

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Novamed Fabricação de Produtos Farmacêuticos Ltda.	**20,411**	3,574	**39,488**	178,258
Germed Farmacêutica Ltda.	**6,012**	4,865	**6,107**	5,795
EMS Sigma Pharma Ltda	**127,031**	237,304	**-**	-
Multilab Ind. e Com. Prod. Farm. Ltda.	**3,913**	7,256	**3,913**	7,256
Legrand Pharma Indústria Farmacêutica Ltda.	**11,097**	6,581	**-**	-
Nova Química Farmacêutica S.A.	**4,639**	4,275	**4,639**	6,462
Lafiman Distribuidora de Medicamentos Ltda.	**5,739**	2,282	**32,650**	30,935
CPM - Concessíonária Paulista de Medicamentos S/A	**9,334**	740	**-**	-
Luxbiotech Farmacêutica Ltda.	**874**	11	**-**	-
Other	**4,251**	1,682	**4,796**	3,617
	193,301	268,570	**91,593**	232,323

The balances of accounts receivable from related parties mainly arise from sales transactions and mature within 120 days. Accounts receivable are unsecured and are not subject to interest.

(In thousands of reais, unless otherwise stated)

30. Related parties (Continued)

d) Balance at year-end, arising from sales/acquisitions of products (Continued)

Other receivables from related parties

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Advances				
Luxbiotech Farmacêutica Ltda.	**67,500**	7,840	**-**	-
Instituto Vita Nova	**5,874**	6,870	**5,874**	6,870
Other	**2,662**	3,143	**2,662**	3,103
	76,036	17,853	**8,536**	9,973

Trade payables to related parties

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Novamed Fabricação de Produtos Farmacêuticos Ltda	**961,377**	914,605	**965,885**	920,848
Germed Farmacêutica Ltda.	**44,386**	200,128	**44,386**	203,906
Multilab Ind. e Com. Prod. Farm. Ltda.	**36,930**	3,245	**39,335**	3,245
Nova Química Farmacêutica S.A.	**680**	2,869	**5,265**	3,588
EMS Sigma Pharma Ltda.	**156**	5,574	**-**	-
Legrand Pharma Indústria Farmacêutica Ltda.	**74**	25	**-**	-
Other	**9,525**	10,022	**10,103**	10,704
	1,053,128	1,136,468	**1,064,974**	1,142,291

Other payables to related parties - Advances

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Nova Química Farmacêutica S.A.	**-**	19,433	**-**	19,433
Innoveren Pharma S/A.	**4,840**	4,840	**4,840**	4,840
Lafiman Distribuidora de Medicamentos Ltda.	**-**	-	**-**	
	4,840	24,273	**4,840**	24,273

e) Dividends payable and receivable

	Individual		Consolidated	
Dividends receivable	**2020**	**2019**	**2020**	**2019**
Legrand Pharma Indústria Farmacêutica Ltda.	**8,263**	119,063	**-**	-
EMS Sigma Pharma Ltda.	**707**	707	**-**	-
	8,970	119,770	**-**	-

(In thousands of reais, unless otherwise stated)

30. Related parties (Continued)

e) Dividends payable and receivable (Continued)

Changes in dividends receivable:

	Individual	
	2020	2019
Initial balance for the year	**119,770**	239,770
(+) Accrued dividends receivable	**-**	17,343
(-) Dividends received in the year (a)	**(110,800)**	(137,343)
(=) Balance at end of year	**8,970**	119,770

(a) Dividends received from subsidiaries are classified as cash flows from investing activities, because the Company believes that they represent returns on its investments.

	Individual		Consolidated	
Dividends payable	2020	2019	2020	2019
NC Participações S.A.	**186**	98,030	**21,672**	103,159
Germed Farmacêutica LDA.	**35,635**	19,130	**19,278**	19,130
	35,821	117,160	**40,950**	122,289

The accounts payable to related parties mainly arise from purchase transactions and recognition of the provision for dividends payable.

Changes in dividends payable:

	Individual		Consolidated	
	2020	2019	2020	2019
Initial balance for the year	**117,160**	90,170	**122,289**	95,299
(+) Supplemental dividends payable, as approved in meetings	**173,778**	22,014	**173,777**	22,014
(+) Minimum mandatory dividend	**16,691**	95,726	**16,691**	95,726
(-) Payments	**(271,808)**	(90,750)	**(271,808)**	(90,750)
(=) Balance at end of year	**35,821**	117,160	**40,950**	122,289

f) Loans receivable

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

(In thousands of reais, unless otherwise stated)

30. Related parties (Continued)

f) Loans receivable (Continued)

In 2019, the balance of loans receivable is subject to interest at a rate of 1%. In 2019, Management recognized interest receivable on intercompany loans that had not been recorded until the previous year. The effects from prior periods totaling R$68,851 (of a recorded amount totaling R$94,528) recognized in the statement of profit and loss for the year were deemed immaterial by management for retrospective recognition.
In 2020, the amount (principal and interest) was received, thus settling the loans receivable transaction.

Changes in intercompany loans are as follows:

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

g) Key management personnel compensation

Compensation paid and payable to key Management personnel, including salaries and charges, profit sharing and other benefits, represents 5% of payroll expenses for the year ended December 31, 2020 (5.23% as at December 31, 2019).

31. Insurance

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

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