# Individual and Consolidated Financial Statements

## EMS S.A.

December 31, 2021
with Independent Auditor's Report

**EMS S.A.**

Individual and consolidated financial statements

December 31, 2021

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 individual and consolidated financial statements

To the
Officers and Shareholders of
**EMS S.A.**

## Opinion

We have audited the individual and consolidated financial statements of EMS S.A. ("Company"), identified as individual and consolidated, which comprise the statement of financial position as at December 31, 2021, 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 individual and consolidated financial position as at December 31, 2021, and its individual and consolidated financial performance and individual and consolidated 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.

## Responsibilities of the Executive Board and those charged with governance for the individual and consolidated financial statements

The Executive Board 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 the officers determine is necessary to enable the preparation of individual and consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, the Executive Board 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 the Executive Board either intends to liquidate the Company or to cease its operations, or has no 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 of 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 the executive board.
- Concluded on the appropriateness of the executive board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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- Evaluated 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, March 31, 2022.

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, 2021 and 2020
(In thousands of reais, unless otherwise stated)

| | | Individual | | Consolidated | |
|---|---|---|---|---|---|
| | **Note** | **2021** | **2020** | **2021** | **2020** |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 10 | **39,443** | 49,087 | **99,487** | 114,476 |
| Trade accounts receivable | 12 | **796,893** | 602,333 | **1,028,700** | 832,953 |
| Accounts receivable from related parties | 30.e | **235,853** | 193,301 | **90,069** | 91,593 |
| Inventories | 13 | **751,605** | 677,765 | **815,369** | 743,871 |
| Taxes recoverable | 14 | **305,417** | 178,301 | **359,450** | 254,009 |
| Dividends receivable | 30.f | **707** | 8,970 | **-** | - |
| Other receivables | 15 | **177,411** | 112,628 | **52,466** | 74,412 |
| Total current assets | | **2,307,329** | 1,822,385 | **2,445,541** | 2,111,314 |
| | | | | | |
| Noncurrent assets | | | | | |
| Taxes recoverable | 14 | **365,841** | 122,759 | **556,086** | 228,669 |
| Judicial deposits | 21.a | **41,998** | 34,544 | **48,753** | 38,021 |
| Short-term investments earmarked for loans | 11 | **2,007** | 4,526 | **2,007** | 4,526 |
| Deferred income and social contribution taxes | 22.a | **43,613** | 73,302 | **65,358** | 87,511 |
| Other receivables | 15 | **4,996** | 4,996 | **4,996** | 4,996 |
| Investments | 16 | **302,088** | 432,948 | **467** | 70,966 |
| Right-of-use assets | 18 | **112,189** | 115,989 | **121,236** | 123,782 |
| Property, plant and equipment | 17 | **870,930** | 805,055 | **874,477** | 807,324 |
| Intangible assets | | **8,148** | 10,232 | **13,189** | 10,293 |
| Total noncurrent assets | | **1,751,810** | 1,604,351 | **1,686,569** | 1,376,088 |
| | | | | | |
| Total assets | | **4,059,139** | 3,426,736 | **4,132,110** | 3,487,402 |

| | | Individual | | Consolidated | |
|---|---|---|---|---|---|
| | **Note** | **2021** | **2020** | **2021** | **2020** |
| Liabilities and equity | | | | | |
| Current liabilities | | | | | |
| Trade accounts payable | 19 | **280,244** | 310,774 | **289,444** | 321,966 |
| Trade payables to related parties | 30.e | **1,297,636** | 1,053,128 | **1,313,148** | 1,064,974 |
| Loans and financing | 20 | **297,768** | 47,850 | **297,768** | 47,850 |
| Lease liabilities | 18 | **55,346** | 35,317 | **61,003** | 39,274 |
| Payroll and related charges | | **105,723** | 99,188 | **116,670** | 108,974 |
| Taxes payable | | **22,370** | 21,933 | **26,613** | 24,457 |
| Income and social contribution taxes payable | 22.c | **26,769** | 15,387 | **75,546** | 27,336 |
| Taxes in installments | | **17,756** | 15,881 | **17,979** | 16,069 |
| Dividends payable | 24.d | **528,184** | 35,821 | **533,313** | 40,950 |
| Other payables | 23 | **91,697** | 87,726 | **111,013** | 98,733 |
| Total current liabilities | | **2,723,493** | 1,723,005 | **2,842,497** | 1,790,583 |
| | | | | | |
| Noncurrent liabilities | | | | | |
| Loans and financing | 20 | **102,748** | 344,070 | **102,748** | 344,070 |
| Lease liabilities | 18 | **62,499** | 87,737 | **66,617** | 91,798 |
| Taxes in installments | | **13,475** | 26,720 | **13,785** | 27,247 |
| Provision for losses on legal proceedings | 21.a | **157,524** | 101,918 | **182,901** | 124,325 |
| Deferred revenue - government grants | | **-** | 3,497 | **-** | 3,497 |
| Provision for losses in subsidiaries | 16 | **80,308** | 31,121 | **-** | - |
| Other payables | 23 | **14,195** | 15,928 | **14,195** | 15,928 |
| Total noncurrent liabilities | | **430,749** | 610,991 | **380,246** | 606,865 |
| | | | | | |
| Total liabilities | | **3,154,242** | 2,333,996 | **3,222,743** | 2,397,448 |
| | | | | | |
| Equity | 24 | | | | |
| Capital | | **221,717** | 221,708 | **221,717** | 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 | | **263,850** | 206,242 | **263,850** | 206,242 |
| Equity adjustments | | **17,921** | 19,542 | **17,921** | 19,542 |
| Income reserves | | **193,048** | 436,887 | **193,048** | 436,887 |
| Equity attributable to controlling interests | | **904,897** | 1,092,740 | **904,897** | 1,092,740 |
| | | | | | |
| Noncontrolling interests | | **-** | - | **4,470** | (2,786) |
| Total equity | | **904,897** | 1,092,740 | **909,367** | 1,089,954 |
| | | | | | |
| Total liabilities and equity | | **4,059,139** | 3,426,736 | **4,132,110** | 3,487,402 |

See accompanying notes.

**EMS S.A.**

Statements of profit or loss
Years ended December 31, 2021 and 2020
(In thousands of reais, unless otherwise stated)

| | | Individual | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 2021 | 2020 | 2021 | 2020 |
| Net operating revenue | 25 | **4,517,794** | 3,951,216 | **4,944,551** | 4,355,396 |
| Cost of sales | 26 | **(2,924,689)** | (2,542,462) | **(3,030,275)** | (2,652,763) |
| Gross profit | | **1,593,105** | 1,408,754 | **1,914,276** | 1,702,633 |
| Selling expenses | 26 | **(362,211)** | (347,019) | **(413,888)** | (374,640) |
| Administrative expenses | 26 | **(1,096,613)** | (918,908) | **(1,226,592)** | (1,044,413) |
| Other operating income, net | 27 | **241,902** | 46,098 | **181,768** | 41,671 |
| Equity pickup | 16 | **13,934** | 60,468 | **2,593** | (20,041) |
| Income before net finance income (costs) and taxes | | **390,117** | 249,393 | **458,157** | 305,210 |
| Finance income | 28 | **269,203** | 51,379 | **275,566** | 55,941 |
| Finance costs | 28 | **(249,342)** | (134,344) | **(254,064)** | (140,344) |
| Finance income (costs), net | | **19,861** | (82,965) | **21,502** | (84,403) |
| Income before income and social contribution taxes | | **409,978** | 166,428 | **479,659** | 220,807 |
| Current and deferred income and social contribution taxes | 22.b | **(94,957)** | (52,844) | **(163,126)** | (111,798) |
| Net income for the year | | **315,021** | 113,584 | **316,533** | 109,009 |
| Net income attributable to controlling interests | | | | **315,021** | 113,584 |
| Net income attributable to noncontrolling interests | | | | **1,512** | (4,575) |
| Net income for the year | | | | **316,533** | 109,009 |
| Earnings per share for the year attributable to equity holders of the parent (per share amounts in R$) | 29 | | | **1.90** | 0.51 |

See accompanying notes.

**EMS S.A.**

Statements of comprehensive income
Years ended December 31, 2021 and 2020
(In thousands of reais, unless otherwise stated)

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Net income for the year | **315,021** | 113,584 | **316,533** | 109,009 |
| Foreign transactions and translation differences | **(1,621)** | 12,519 | **(1,621)** | 12,519 |
| Total comprehensive income | **313,400** | 126,103 | **314,912** | 121,528 |
| | | | | |
| Comprehensive income attributable to: | | | | |
| Controlling interests | | | **313,400** | 126,103 |
| Noncontrolling interests | | | **1,512** | (4,575) |
| Total comprehensive income | | | **314,912** | 121,528 |

See accompanying notes.

# EMS S.A.

Statements of changes in equity
Years ended December 31, 2021 and 2020
(In thousands of reais, unless otherwise stated)

| | | Controlling interests | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Income reserve | | | | | | |
| | **Note** | **Capital** | **Capital reserve** | **Equity adjustments** | **Tax incentive reserve** | **Legal reserve** | **Reserve for distributable profits** | **Retained earnings (accumulated losses)** | **Total equity** | **Noncontrolling interests** | **Total equity** |
| 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 adjustments | 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 |
| Net income for the year | | **-** | | **-** | **-** | **-** | | **315,021** | **315,021** | **1,512** | **316,533** |
| Write-off of foreign operations upon translation | **16** | | | **(2,140)** | | | | | **(2,140)** | **-** | **(2,140)** |
| Cumulative translation adjustments | **16** | **-** | | **519** | **-** | **-** | | **-** | **519** | **-** | **519** |
| Allocation of net income for the year: | | | | | | | | | | | |
| Recognition of tax incentive reserve | | **-** | | **-** | **57,608** | **-** | | **(57,608)** | **-** | **-** | **-** |
| Additional dividends from previous period, as approved in meeting | | **-** | | **-** | **-** | **-** | **(436,890)** | **-** | **(436,890)** | **-** | **(436,890)** |
| Proposed dividends | | **-** | | **-** | **-** | **-** | | **(64,353)** | **(64,353)** | | **(64,353)** |
| Other transactions | | **9** | | **-** | **-** | **-** | **(9)** | **-** | **-** | **5,744** | **5,744** |
| Recognition of income reserve | | **-** | | **-** | **-** | **-** | **193,060** | **(193,060)** | **-** | | **-** |
| | | **-** | | | | | | | | | |
| December 31, 2021 | | **221,717** | **164,019** | **17,921** | **263,850** | **44,342** | **193,048** | **-** | **904,897** | **4,470** | **909,367** |

See accompanying notes.

# EMS S.A.

Statements of cash flows
Years ended December 31, 2021 and 2020
(In thousands of reais, unless otherwise stated)

| | | Individual | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 2021 | 2020 | 2021 | 2020 |
| Cash flows from operating activities | | | | | |
| Income before income and social contribution taxes | | **409,978** | 166,428 | **479,659** | 220,807 |
| Adjustments for: | | | | | |
| Depreciation and amortization | 17/18 | **77,353** | 71,599 | **81,111** | 76,884 |
| Right-of-use assets written off | 18 | **(4,880)** | (2,811) | **(4,668)** | (3,401) |
| Loss on disposal of property, plant and equipment and intangible assets | 17 | **4,340** | 8,764 | **4,412** | 7,191 |
| (Reversal of) Provision for impairment losses on receivables | 12 | **(726)** | 5,799 | **(1,013)** | (13,639) |
| Set-up (reversal) of provision for returns | 12/13 | **2,522** | - | **3,857** | - |
| (Reversal of) Provision for inventory obsolescence | 13 | **21,707** | 2,227 | **21,250** | 2,782 |
| Provision for losses on legal proceedings and judicial deposits | 21 | **55,168** | 9,976 | **56,664** | 11,910 |
| Provision for interest | 20/18 | **48,384** | 73,358 | **49,357** | 74,079 |
| Write-off of investment | 16 | **(8,393)** | - | **45,355** | - |
| Equity pickup | 16 | **(13,934)** | (60,468) | **(2,593)** | 20,041 |
| Financial and exchange losses (gains) | | **20,067** | (7,434) | **26,237** | (6,340) |
| Changes in assets and liabilities | | | | | |
| Trade accounts receivable | | **(197,851)** | (31,617) | **(200,698)** | (69,522) |
| Accounts receivable from related parties | | **(42,552)** | 75,269 | **1,524** | 140,730 |
| Inventories | | **(101,683)** | (80,798) | **(98,125)** | (86,050) |
| Taxes recoverable | | **(424,084)** | (178,178) | **(490,976)** | (241,119) |
| Other accounts receivable | | **(64,783)** | (58,776) | **21,946** | (10,072) |
| Judicial deposits | 21 | **(7,109)** | 254 | **(10,732)** | (220) |
| Trade and other payables | | **(30,525)** | 120,527 | **(23,121)** | 122,702 |
| Taxes payable | | **437** | 11,751 | **2,156** | 9,847 |
| Trade payables to related parties | | **244,508** | (83,340) | **248,174** | (77,317) |
| Payments for legal proceedings and judicial deposits | 21 | **(7,071)** | (9,027) | **(11,496)** | (9,340) |
| Taxes in installments | | **(11,370)** | (11,164) | **(11,552)** | (11,335) |
| Cash from operating activities | | **(30,497)** | 22,339 | **186,728** | 158,618 |
| Interest paid | 20 | **(16,659)** | (5,116) | **(16,659)** | (5,116) |
| Income and social contribution taxes paid | 22c | **-** | (6,161) | **(34,645)** | (59,030) |
| Net cash from (used in) operating activities | | **(47,156)** | 11,062 | **135,424** | 94,472 |
| Cash flows from investing activities | | | | | |
| Acquisition of PPE and intangible assets | | **(113,678)** | (170,603) | **(120,056)** | (171,235) |
| Increase in equity interests in a subsidiary | 16 | **(18,060)** | (25,951) | **(1,368)** | (6,400) |
| Return of investment | 16 | **17,075** | - | **26,965** | - |
| Intercompany loans received | 30g | **-** | 306,310 | **-** | 306,310 |
| Dividends received from subsidiaries | 30f | **210,000** | 110,800 | **-** | - |
| Other investments | | **-** | | **6,263** | |
| Net cash from (used in) investing activities | | **95,337** | 220,556 | **(88,196)** | 128,675 |
| Cash flows from financing activities | | | | | |
| Short-term investments (withdrawal) earmarked for loans | | **2,519** | (402) | **2,519** | (402) |
| Loans raised | 20 | **264,778** | 107,917 | **264,778** | 107,917 |
| Leases paid | 18 | **(39,447)** | (42,851) | **(43,839)** | (46,702) |
| Principal of loans paid | 20 | **(276,795)** | (46,916) | **(276,795)** | (46,916) |
| Dividends paid to Company shareholders | 30f | **(8,880)** | (271,808) | **(8,880)** | (271,808) |
| Net cash used in financing activities | | **(57,825)** | (254,060) | **(62,217)** | (257,911) |
| Net decrease in cash and cash equivalents | | **(9,644)** | (22,442) | **(14,989)** | (34,764) |
| Cash and cash equivalents at beginning of year | | **49,087** | 71,529 | **114,476** | 149,240 |
| Cash and cash equivalents at end of year | | **39,443** | 49,087 | **99,487** | 114,476 |

See accompanying notes.

## 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.

Impacts of Covid-19 (Coronavirus) on Company business

On March 11, 2020, the World Health Organization (WHO) declared the outbreak of Coronavirus Covid-19 a pandemic on a global scale. The outbreak triggered significant decisions by governments and private sector entities, which, added to the potential impact of the outbreak, increased the degree of uncertainty for economic agents and led to impacts on the financial statements. The major economies of the world and the main economic blocs have implemented significant economic incentive packages to overcome the potential economic recession effectively produced by these measures to mitigate the spread of Covid-19.

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

Management continuously assesses the impact of the outbreak on the Company’s operations and financial position for the purpose of implementing appropriate measures to mitigate the impacts of the outbreak on operations and on the financial statements. Until the date of authorization for issue of these financial statements, the following key measures were taken, including those of a social nature in 2021 and 2020:

## 1. **Operations** (Continued)

Impacts of Covid-19 (Coronavirus) on Company business (Continued)

- Rescheduling of contracts with domestic and foreign suppliers in order to align the acquisition of inputs for production with expectations relating to the future demand for Company products, considering the current outbreak scenario, and to extend payment terms.
- Implementation of temporary or permanent measures regarding the staff, in order to reduce payroll expenses in the medium term.
- Measures to prevent infection among employees, such as home office, removal of those who are more exposed to the risk group, such as pregnant women, employees aged 60+, etc.
- In-house production of alcohol-based hand sanitizers to be offered to all employees.

Donation of PPE, equipment, food, medicine and financial resources, totaling R$15,000 in donations in 2020, to help fight Covid-19.

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

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

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

(In thousands of reais, unless otherwise stated)

## 2. Basis of consolidated and investments in subsidiaries

The Company holds direct interests in the following companies:

| Subsidiaries | Legal structure | Country | Equity interests | |
|---|---|---|---|---|
| | | | 2021 | 2020 |
| CPM Concessionária Paulista de Medicamentos S/A | S.A. | 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% | 99.79% |
| Monteresearch SRL | Ltda. (limited liability) | Italy | 100% | 100% |
| Rio Bio Pharmaceuticals, LLC | LLC | United States | 100% | 100% |

Please find below the Group's business structure:

- 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, fine and interest amounting to R$ 111,427,537.53 (one hundred and eleven million, four hundred and twenty-seven thousand, five hundred and thirty-seven reais and fifty-three cents) in March 2022, relating to medicines supplied to SESSP, and other amounts, including 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. This company 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.

## 2. Basis of consolidated and investments in subsidiaries (Continued)

- Legrand Pharma Indústria Farmacêutica Ltda. - Located in Hortolândia/SP, it operates in the manufacture and trade of branded generic drugs nationwide. This company 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. In 2020, this company had 25% interests in Luxembourg-based Globe Pharma S.A.R.L., whose corporate purpose is to hold investments in other entities. In 2021, Monteresearch transferred its interests in Globe Pharma to this investee’s controlling shareholders, thus no longer holding any stake in Globe Pharma.

- 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.

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

The consolidated financial statements were prepared using the following criteria:

- Elimination of intercompany asset and liability balances;
- Elimination of intercompany investments and equity pickup against the investee’s respective equity;
- Elimination of intercompany revenues and expenses;
- Elimination of profit from inventories and sale of PPE, when applicable, from intercompany sales;

## 2. Basis of consolidated and investments in subsidiaries (Continued)

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

a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company holds control. The Company has control over an entity when it is exposed or has rights to variable returns resulting from its involvement with the entity, and has the ability to interfere in those returns because of the power exercised over the entity. The subsidiaries are fully consolidated as from the date when control is transferred to the Company. The consolidation is discontinued as from the date when such control ceases. Investments in subsidiaries are recorded under the equity method as from the date when control is acquired.

All intercompany balances, transactions, and unrealized gains are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the transferred asset.

The subsidiaries' accounting practices and estimates are consistent with the accounting practices and estimates adopted by the Company. Additionally, the subsidiaries have the same fiscal year as the Company, which ends at December 31.

b) Transactions and noncontrolling interests

The Company considers transactions involving noncontrolling interest holders as transactions with owners of its subsidiaries' assets. For interests purchased from noncontrolling interest holders, the difference between any consideration paid and the portion acquired of the carrying amount of the subsidiary's net assets is recorded in equity. Gains or losses deriving from disposal of noncontrolling interests are also recorded in equity.

## 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").

These financial statements were approved for issue by the Group's Executive Board on March 31, 2022.

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

## 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.

Disclosures of judgments, assumptions and estimation uncertainties as at December 31, 2021 that have a significant risk of resulting in material adjustments in respect of assets and liabilities within the next financial years 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;
- Notes 12 and 13 – recognition and measurement of provision for returns with effect on inventories and accounts receivable: key assumptions in determining the average period of return and profit margin.

## 5. Use of estimates and judgments (Continued)

- 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 enjoys ICMS tax incentives granted by the State Government of Brasília. The Brazilian 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);
- 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 under the historical cost convention, 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) 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 translated back 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.

Foreign currency differences are recognized in other comprehensive income and recorded in equity as cumulative translation adjustments (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.

## 7. Significant accounting policies (Continued)

a) Foreign currency (Continued)

When the Group disposes of a portion of its interest in a subsidiary that includes a foreign operation but retains control, the related portion of the cumulative currency translation balance is reclassified to equity attributable to noncontrolling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation, while maintaining significant influence or shared control, the respective proportion of the accumulated value is reclassified to the statement of profit or loss for the year.

b) Financial instruments

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

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

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

*Measurement*

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

## 7. Significant accounting policies (Continued)

b) Financial instruments (Continued)

*Measurement* (Continued)

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

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

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

*Recognition*

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

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

*Derecognition*

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

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

## 7. Significant accounting policies (Continued)

b) Financial instruments (Continued)

*Derecognition* (Continued)

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

*Breakdown of financial instruments*

The Company's financial assets substantially include cash and cash equivalents, short-term investments earmarked for loans, trade accounts receivable, and transactions with related parties.

The Company’s financial liabilities substantially include trade accounts payable, loans and financing, lease liabilities, accounts payable to related parties and intercompany loans.

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

*Offsetting*

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

*Other financial liabilities*

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

The effective interest rate method is used to calculate amortized cost of a financial liability and allocate the interest expense over the related period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and charges paid or received that are part of the effective interest rate, transaction costs

## 7. Significant accounting policies (Continued)

b) Financial instruments (Continued)

*Other financial liabilities* (Continued)

and other premiums or discounts) over the estimated life of the financial liability or, when applicable, over a shorter period, for initial recognition of the net book value.

*Impairment of financial assets*

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

The Company recognizes an allowance for expected credit losses on financial assets measured at amortized cost. Expected credit losses are a probability-weighted estimate of credit losses. The Company measures the allowance for losses on trade accounts receivable at an amount equivalent to lifetime expected credit losses that result from all possible default events over the expected life of the financial instrument.

For trade receivables and contract assets, the Company applies a simplified approach in calculating expected credit losses. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime expected credit losses at each reporting date. The Company established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

The Company does not expect any significant recovery of the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

## 7. Significant accounting policies (Continued)

b) Financial instruments (Continued)

*Impairment of nonfinancial assets* (Continued)

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

*Cash and cash equivalents*

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

*Trade accounts receivable*

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

*Trade accounts payable*

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

c) Inventories

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

## 7. Significant accounting policies (Continued)

c) Inventories (Continued)

The provision for inventory losses is recorded considering the criteria disclosed in Note 7.m.

d) Property, plant and equipment

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

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

Land is not subject to depreciation. Depreciation of other assets in 2021 and 2020 is calculated using the straight-line method considering the costs and residual values throughout the estimated useful life of the assets, as follows:

| | **Years 2021 and 2020** |
|---|---|
| Aircraft | 15 |
| Improvements | 28 |
| Buildings | 43 |
| Machinery | 16 |
| Vehicles | 8 |
| Furniture, fixtures, and equipment | 14 |

The residual values and useful lives of property, plant and equipment items are reviewed and adjusted, if necessary, at each year end. The carrying amount of an asset is immediately written down to its recoverable amount when the carrying amount is higher than the estimated recoverable amount.

Any gain or loss arising on 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.

## 7. Significant accounting policies (Continued)

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

Software maintenance costs are recognized as expenses, when incurred.

f) 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.

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

g) 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.

## 7. Significant accounting policies (Continued)

g) Leases (Continued)

*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. Right of use assets are 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.

Right-of-use assets are 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, right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

(In thousands of reais, unless otherwise stated)

## 7. Significant accounting policies (Continued)

g) Leases (Continued)

*Accounting policies applicable as of January 1, 2019* (Continued)

*As a lessee* (Continued)

Lease liabilities are 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 its incremental borrowing rate as of January 1, 2019. The discount rates are shown below:

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

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

- Fixed payments, including in-substance fixed payments;
- 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.

## 7. Significant accounting policies (Continued)

g) Leases (Continued)

*Accounting policies applicable as of January 1, 2019* (Continued)

*As a lessee* (Continued)

Lease liabilities are measured at amortized cost using the effective interest rate method. These liabilities are 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 lease liabilities are remeasured in this manner, 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 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.

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:

- 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;

## 7. Significant accounting policies (Continued)

g) Leases (Continued)

*Accounting policies applicable as of January 1, 2019* (Continued)

*Leases of low-value assets* (Continued)

- 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 or 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.

h) 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.

*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.

## 7. Significant accounting policies (Continued)

i) 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.

j) Finance income and finance costs

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

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

k) Government grants

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

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 or 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 or loss for the year, under “Deductions from revenue,” since the subsidized loan originates from a credit operation

## 7. Significant accounting policies (Continued)

k) Government grants (Continued)

on State VAT (ICMS) generated in import operations. Interest incurred over the life of the loan agreements is recorded in finance costs. The deferred revenue will be recovered as soon as the Company obtains authorization to settle some remaining installment payments.

Because of its activities in the pharmaceutical industry in the State of São Paulo, the 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.

l) Current and deferred income and social contribution taxes

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

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 or 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. Such amount 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.

## 7. Significant accounting policies (Continued)

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

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

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.

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

iii) *Deferred income and social contribution tax expenses*

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

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

## 7. Significant accounting policies (Continued)

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

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

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.

m) Provisions

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

*Provision for impairment losses on receivables (Note 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(b) - Impairment of financial assets. Accounts receivable from related parties are not included in the provision.

*Provision for returns (Notes 12 and 13)*

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

*Provision for inventory losses (Note 13)*

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

*Provision for losses on legal proceedings (Note 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.

## 7. Significant accounting policies (Continued)

m) Provisions (Continued)

*Provision for losses on legal proceedings (Note 21)* (Continued)

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

n) Distribution of dividends and interest on equity

Dividend distribution to the 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.

o) Financial guarantees

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

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

As at December 31, 2021 and 2020, 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.

p) Statements of cash flows

The statements of cash flows were prepared and are presented in accordance with CPC 03 (IAS 7) – Statement of Cash Flows, issued by the Brazilian FASB (CPC), and reflects the changes in cash and cash equivalents that took place in the reported years. The Group classifies dividends received as investing activities rather than as operating activities, in consonance with the Group's internal cash flow strategy.

# 8. New standards and interpretations

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

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

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

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

• A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;

• Permits changes required by the reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;

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

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

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

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

## 8. New standards and interpretations (Continued)

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

As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under CPC 06 (R2), if the change were not a lease modification. The amendment was intended to apply until June 30, 2021, but as the impact of the Covid-19 pandemic may continue, the CPC extended the period of application of this practical expedient to June 30, 2022. This amendment had no impact on the Company's individual and consolidated financial statements.

### 8.2. Standards issued but not yet effective

New and amended standards and interpretations issued but not yet effective by the date of the Group's financial statements are described below.

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

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

## 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

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

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

As at December 31, 2021 and 2020, the Group had no outstanding derivative transactions in its financial statements.

iv) *Currency risk*

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

Management established a policy that requires that Group companies manage their currency risk in relation to their functional currency. The policy is to hedge between 40% and 50% of estimated cash flows (mainly for acquisition of raw material).

(In thousands of reais, unless otherwise stated)

## 9. Financial risk management (Continued)

b) Market risk (Continued)

v) *Currency risk* (Continued)

Exposure to foreign currency risk (net) is shown below:

| | Individual | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| | Foreign currency | Reais | Foreign currency | Reais |
| Trade accounts receivable (Note 12) | **1,420** | **6,465** | 296 | 2,583 |
| Foreign suppliers (Note 19) | **(15,400)** | **(87,571)** | (26,806) | (150,554) |
| Finance leases (Note 20) | **(47,413)** | **(264,591)** | (46,724) | (242,823) |
| Net exposure | **(61,393)** | **(345,697)** | (73,234) | (390,794) |

| | Consolidated | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| | Foreign currency | Reais | Foreign currency | Reais |
| Trade accounts receivable (Note 12) | **1,420** | **6,465** | 737 | 10,989 |
| Foreign suppliers (Note 19) | **(15,400)** | **(88,234)** | (27,371) | (155,434) |
| Finance leases (Note 20) | **(47,413)** | **(264,591)** | (46,724) | (242,823) |
| Net exposure | **(61,393)** | **(346,360)** | (73,358) | (387,268) |

vi) *Sensitivity analysis - currency risk*

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

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

The methodology for deriving the figures shown in the table consisted of replacing the closing exchange rate used for accounting purposes with the stressed rates according to the scenarios below.

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

(In thousands of reais, unless otherwise stated)

## 9. Financial risk management (Continued)

b) Market risk (Continued)

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

**Individual**

| Risk | Type | Exposure | Original exposure (R$) | Effective rate - 12/31/21 | Probable Amount | 25% appreciation 25% % | Amount | 50% appreciation 50% % | Amount |
|---|---|---|---|---|---|---|---|---|---|
| Increase in US dollar | Trade accounts receivable | 1,420 | 6,465 | 5.58 | 1,459 | 6.98 | 3,440 | 8.37 | 5,421 |
| Increase in US dollar | Finance leases | (47,413) | (264,591) | 5.58 | - | 6.98 | (66,148) | 8.37 | (132,295) |
| Increase in US dollar | Trade accounts payable | (13,244) | (73,233) | 5.58 | (675) | 6.98 | (19,152) | 8.37 | (37,629) |
| Increase in Euro | Trade accounts payable | (2,156) | (14,338) | 6.32 | 710 | 7.90 | (2,697) | 9.48 | (6,104) |
| | | (61,393) | (345,697) | | 1,494 | | (84,557) | | (170,607) |

| Risk | Type | Exposure | Original exposure (R$) | Effective rate at 12/31/21 | Probable Amount | 25% devaluation % | Amount | 50% devaluation % | Amount |
|---|---|---|---|---|---|---|---|---|---|
| Decrease in US dollar | Trade accounts receivable | 1,420 | 6,465 | 5.58 | 1,459 | 4.19 | (522) | 2.79 | (2,503) |
| Decrease in US dollar | Finance leases | (47,413) | (264,591) | 5.58 | - | 4.19 | 66,148 | 2.79 | 132,296 |
| Decrease in US dollar | Trade accounts payable | (13,244) | (73,233) | 5.58 | (675) | 4.19 | 17,802 | 2.79 | 36,279 |
| Decrease in Euro | Trade accounts payable | (2,156) | (14,338) | 6.32 | 710 | 4.74 | 4,117 | 3.16 | 7,524 |
| | | (61,393) | (345,697) | | 1,494 | | 87,545 | | 173,596 |

**Consolidated**

| Risk | Type | Exposure | Original exposure (R$) | Effective rate - 12/31/21 | Probable Amount | 25% appreciation 25% % | Amount | 50% appreciation 50% % | Amount |
|---|---|---|---|---|---|---|---|---|---|
| Increase in US dollar | Trade accounts receivable | 1,420 | 6,465 | 5.58 | 1,459 | 6.98 | 3,440 | 8.37 | 5,421 |
| Increase in US dollar | Finance leases | (47,413) | (264,591) | 5.58 | 0 | 6.98 | (66,148) | 8.37 | (132,295) |
| Increase in US dollar | Trade accounts payable | (13,259) | (73,896) | 5.58 | (96) | 6.98 | (18,594) | 8.37 | (37,092) |
| Increase in Euro | Trade accounts payable | (2,156) | (14,338) | 6.32 | 710 | 7.90 | (2,697) | 9.48 | (6,104) |
| | | (61,408) | (346,360) | | 2,073 | | (83,999) | | (170,070) |

(In thousands of reais, unless otherwise stated)

| Risk | Type | Exposure | Original exposure (R$) | Effective rate - 12/31/21 | Probable Amount | 25% devaluation 25% % | 25% devaluation 25% Amount | 50% devaluation 50% % | 50% devaluation 50% Amount |
|---|---|---|---|---|---|---|---|---|---|
| Decrease in US dollar | Trade accounts receivable | 1,420 | 6,465 | 5.58 | 1,459 | 4.19 | (522) | 2.79 | (2,503) |
| Decrease in US dollar | Finance leases | (47,413) | (264,591) | 5.58 | 0 | 4.19 | 66,148 | 2.79 | 132,296 |
| Decrease in US dollar | Trade accounts payable | (13,259) | (73,896) | 5.58 | (96) | 4.19 | 18,402 | 2.79 | 36,900 |
| Decrease in Euro | Trade accounts payable | (2,156) | (14,338) | 6.32 | 710 | 4.74 | 4,117 | 3.16 | 7,524 |
| | | (61,408) | (346,360) | | 2,073 | | 88,145 | | 174,217 |

(In thousands of reais, unless otherwise stated)

# 9. Financial risk management (Continued)

b) Market risk (Continued)

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

**Individual**

| Risk | Type | Exposure | Original exposure (R$) | Effective rate - 12/31/20 | Probable Amount | 25% appreciation 25% % | Amount | 50% appreciation 50% % | 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 leases | (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 at 12/31/20 | Probable Amount | 25% devaluation % | Amount | 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 leases | (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% % | Amount | 50% appreciation 50% % | 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 leases | (46,724) | (242,823) | 5.20 | 12 | 6.50 | (60,691) | 7.80 | (121,394) |

(In thousands of reais, unless otherwise stated)

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 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) | (387,268) | | (4,701) | | (102,695) | | (200,686) |

| Risk | Type | Exposure | Original exposure (R$) | Effective rate - 12/31/20 | Probable Amount | 25% devaluation 25% % | 25% devaluation 25% Amount | 50% devaluation 50% % | 50% devaluation 50% 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 leases | (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) | (387,268) | | (4,701) | | 93,290 | | 191,283 |

(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.

Maximum exposure to credit risk as at December 31, 2021 and 2020 is as follows:

| | **Individual** | | **Consolidated** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Cash and cash equivalents (Note 10) | **39,443** | 49,087 | **99,487** | 114,476 |
| Trade accounts receivable (Note 12) | **796,893** | 602,333 | **1,028,700** | 832,953 |
| Other receivables (Note 15) | **182,407** | 117,624 | **57,462** | 79,408 |
| Short-term investments earmarked for loans (Note 11) | **2,007** | 4,526 | **2,007** | 4,526 |
| | **1,020,750** | 773,570 | **1,187,656** | 1,031,363 |

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 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, 2021 and 2020, 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, affiliate 3Z Realty Desenvolvimento Imobiliário S.A. raised R$130,000 through CRIs (Certificates of Real Estate Receivables) under the Company's corporate guarantee, rated and backed by nonconvertible debentures. The CRIs bear interest at 102.5% of the CDI, with the principal maturing on August 26, 2021 and interest amortization every six months. In 2021, such CRI was fully settled, thus ending the guarantee between the related companies.

Additionally, the Company is a guarantor of another company's obligations, as follows:

- Lorraine Administradora de Bens e Participações Sociedade Simples Ltda. raised R$145,203 from Financiadora de Estudos e Projetos (FINEP) to be repaid by December 12, 2023. The outstanding amount of this financing is R$96,834 (R$145,203 in 2020).

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 |
| **December 31, 2021** | | | | | |
| Trade and other accounts payable | **(386,135)** | **(371,940)** | **(14,195)** | **-** | **-** |
| Trade payables to related parties | **(1,297,636)** | **(1,297,636)** | **-** | **-** | **-** |
| Loans and financing | **(400,516)** | **(297,768)** | **(30,013)** | **(23,402)** | **(49,333)** |
| Lease liabilities | **(117,845)** | **(55,346)** | **(35,543)** | **(26,956)** | **-** |
| Dividends payable | **(528,184)** | **(528,184)** | **-** | **-** | **-** |
| Net position | **(2,730,316)** | **(2,550,874)** | **(79,751)** | **(50,358)** | **(49,333)** |
| **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) |

(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 |
| **December 31, 2021** | | | | | |
| Trade and other accounts payable | **(414,652)** | **(400,457)** | **(14,195)** | **-** | **-** |
| Trade payables to related parties | **(1,313,148)** | **(1,313,148)** | **-** | **-** | **-** |
| Loans and financing | **(400,516)** | **(297,768)** | **(30,013)** | **(23,402)** | **(49,333)** |
| Lease liabilities | **(127,620)** | **(61,003)** | **(36,540)** | **(30,077)** | **-** |
| Dividends payable | **(533,313)** | **(533,313)** | **-** | **-** | **-** |
| Net position | **(2,789,249)** | **(2,605,689)** | **(80,748)** | **(53,479)** | **(49,333)** |
| **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) |

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

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, 2021 and 2020 are summarized below (consolidated):

| | Consolidated | |
|---|---|---|
| | **2021** | **2020** |
| Total loans and financing (Note 20) | **400,516** | 391,920 |
| Total lease liabilities (Note 18b) | **127,620** | 131,072 |
| (-) Cash and cash equivalents (Note 10) | **(99,487)** | (114,476) |
| Net debt | **428,649** | 408,516 |
| Total equity | **909,367** | 1,089,955 |
| Total capital | **1,338,016** | 1,498,471 |
| Financial leverage ratio | **1.42%** | 1.37% |

(In thousands of reais, unless otherwise stated)

## 9. Financial risk management (Continued)

f) Classification of financial instruments

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

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Fair value through profit or loss | | | | |
| Cash and cash equivalents | **39,443** | 49,087 | **99,487** | 114,476 |
| Short-term investments earmarked for loans | **2,007** | 4,526 | **2,007** | 4,526 |
| Amortized cost | | | | |
| Trade accounts receivable | **796,893** | 602,333 | **1,028,700** | 832,953 |
| Accounts receivable from related parties | **235,853** | 193,301 | **90,069** | 91,593 |
| Dividends receivable | **707** | 8,970 | **-** | - |
| Other receivables | **182,407** | 117,624 | **57,462** | 79,408 |
| Total financial assets | **1,257,310** | 975,841 | **1,277,725** | 1,122,956 |

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Amortized cost | | | | |
| Trade accounts payable | **(280,244)** | (310,774) | **(289,444)** | (321,966) |
| Trade payables to related parties | **(1,297,636)** | (1,053,128) | **(1,313,148)** | (1,064,974) |
| Loans and financing | **(400,516)** | (391,920) | **(400,516)** | (391,920) |
| Lease liabilities | **(117,845)** | (123,054) | **(127,620)** | (131,072) |
| Dividends payable | **(528,184)** | (35,821) | **(533,313)** | (40,950) |
| Other payables | **(105,892)** | (103,654) | **(125,208)** | (114,661) |
| Total financial liabilities | **(2,730,317)** | (2,018,351) | **(2,789,249)** | (2,065,543) |

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.

(In thousands of reais, unless otherwise stated)

## 9. Financial risk management (Continued)

f) Classification of financial instruments (Continued)

i) *Interest rate risk* (Continued)

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

*Exposure and sensitivity analysis - interest rate risk*

| Individual | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Effective rate | Probable | 25% appreciation | | 50% appreciation | |
| Exposure | Risk | Type | Maturity | 12/31/21 | Amount | % | Amount | % | Amount |
| 16,732 | Increase in CDI | Investment (assets) | 12/03/2025 | 4.89% | 818 | 6.11% | 1,023 | 7.34% | 1,227 |
| 95 | Increase in CDI | Investment (assets) | 10/01/2046 | 3.54% | 3 | 4.42% | 4 | 5.30% | 5 |
| 128 | Increase in CDI | Investment (assets) | 06/07/2046 | 3.58% | 5 | 4.48% | 6 | 5.37% | 7 |
| 141 | Increase in CDI | Investment (assets) | 05/02/2047 | 3.76% | 5 | 4.70% | 7 | 5.64% | 8 |
| 209 | Increase in CDI | Investment (assets) | 10/02/2023 | 4.46% | 9 | 5.58% | 12 | 6.70% | 14 |
| 1,430 | Increase in CDI | Investment (assets) | 06/21/2023 | 4.64% | 66 | 5.80% | 83 | 6.96% | 100 |
| 7,421 | Increase in CDI | Investment (assets) | 03/18/2022 | 3.32% | 246 | 4.14% | 308 | 4.97% | 369 |
| 3,634 | Increase in CDI | Investment (assets) | 01/13/2022 | 3.80% | 138 | 4.75% | 173 | 5.70% | 207 |
| 29,790 | | | | | 1,290 | | 1,616 | | 1,937 |

| Individual | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Effective rate | Probable | 25% devaluation | | 50% devaluation | |
| Exposure | Risk | Type | Maturity | 12/31/21 | Amount | % | Amount | % | Amount |
| 16,732 | Decrease in CDI | Investment (assets) | 12/03/2025 | 4.89% | 818 | 3.67% | 614 | 2.45% | 409 |
| 95 | Decrease in CDI | Investment (assets) | 10/01/2046 | 3.54% | 3 | 2.65% | 3 | 1.77% | 2 |
| 128 | Decrease in CDI | Investment (assets) | 06/07/2046 | 3.58% | 5 | 2.69% | 3 | 1.79% | 2 |
| 141 | Decrease in CDI | Investment (assets) | 05/02/2047 | 3.76% | 5 | 2.82% | 4 | 1.88% | 3 |
| 209 | Decrease in CDI | Investment (assets) | 10/02/2023 | 4.46% | 9 | 3.35% | 7 | 2.23% | 5 |
| 1,430 | Decrease in CDI | Investment (assets) | 06/21/2023 | 4.64% | 66 | 3.48% | 50 | 2.32% | 33 |
| 7,421 | Decrease in CDI | Investment (assets) | 03/18/2022 | 3.32% | 246 | 2.49% | 185 | 1.66% | 123 |
| 3,634 | Decrease in CDI | Investment (assets) | 01/13/2022 | 3.80% | 138 | 2.85% | 104 | 1.90% | 69 |
| 29,790 | | | | | 1,290 | | 970 | | 646 |

(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)

*<u>Exposure and sensitivity analysis - interest rate risk</u>* (Continued)

| Individual | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Effective rate | Probable | 25% appreciation | | 50% appreciation | |
| **Exposure** | **Risk** | **Type** | **Maturity** | **12/31/20** | **Amount** | **%** | **Amount** | **%** | **Amount** |
| 931 | Increase in CDI | Financial investment | 07/02/2040<br>04/29/2021<br>05/30/2041 | 2.61% | 24 | 3.27% | 1 | 3.92% | 1 |
| 3,244 | Increase in CDI | Financial investment | 10/20/2022<br>12/05/2022 | 2.75% | 89 | 3.44% | 3 | 4.13% | 4 |
| 124 | Increase in CDI | Financial investment | 06/07/2046 | 2.23% | 3 | 2.78% | - | 3.34% | - |
| 92 | Increase in CDI | Financial investment | 10/01/2046 | 2.20% | 2 | 2.75% | - | 3.30% | - |
| 136 | Increase in CDI | Financial investment | 05/02/2047 | 2.34% | 3 | 2.92% | - | 3.51% | - |
| 10,524 | Increase in CDI | Financial investment | 04/06/2021 | 2.48% | 260 | 3.09% | 8 | 3.71% | 10 |
| 10,003 | Increase in CDI | Financial investment | 01/22/2021 | 2.34% | 234 | 2.92% | 7 | 3.51% | 8 |
| 1,680 | Increase in CDI | Financial investment | 12/28/2021 | 2.48% | 42 | 3.09% | 1 | 3.71% | 2 |
| 18,021 | Increase in CDI | Financial investment | 07/02/2040<br>04/29/2021<br>05/30/2041 | 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 | Financial investment | 07/02/2040<br>04/29/2021<br>05/30/2041 | 2.61% | 24 | 1.96% | - | 1.31% | - |
| 3,244 | Decrease in CDI | Financial investment | 10/20/2022<br>12/05/2022 | 2.75% | 89 | 2.06% | 2 | 1.38% | 1 |
| 124 | Decrease in CDI | Financial investment | 06/07/2046 | 2.23% | 3 | 1.67% | - | 1.11% | - |
| 92 | Decrease in CDI | Financial investment | 10/01/2046 | 2.20% | 2 | 1.65% | - | 1.10% | - |
| 136 | Decrease in CDI | Financial investment | 05/02/2047 | 2.34% | 3 | 1.75% | - | 1.17% | - |
| 10,524 | Decrease in CDI | Financial investment | 04/06/2021 | 2.48% | 260 | 1.86% | 5 | 1.24% | 3 |
| 10,003 | Decrease in CDI | Financial investment | 01/22/2021 | 2.34% | 234 | 1.75% | 4 | 1.17% | 3 |
| 1,680 | Decrease in CDI | Financial investment | 12/28/2021 | 2.48% | 42 | 1.86% | 1 | 1.24% | 1 |
| 18,021 | Decrease in CDI | Financial investment | 07/02/2040<br>04/29/2021<br>05/30/2041 | 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)

| Consolidated | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Effective rate | Probable | 25% appreciation | | 50% appreciation | |
| Exposure | Risk | Type | Maturity | 12/31/21 | Amount | % | Amount | % | Amount |
| 95 | Increase in CDI | Investment (assets) | 10/01/2046 | 3.54% | 3 | 4.42% | 4 | 5.30% | 5 |
| 128 | Increase in CDI | Investment (assets) | 06/07/2046 | 3.58% | 5 | 4.48% | 6 | 5.37% | 7 |
| 141 | Increase in CDI | Investment (assets) | 05/02/2047 | 3.76% | 5 | 4.70% | 7 | 5.64% | 8 |
| 209 | Increase in CDI | Investment (assets) | 10/02/2023 | 4.46% | 9 | 5.58% | 12 | 6.70% | 14 |
| 1,430 | Increase in CDI | Investment (assets) | 06/21/2023 | 4.64% | 66 | 5.80% | 83 | 6.96% | 100 |
| 28,314 | Increase in CDI | Investment (assets) | 10/03/2022 | 4.31% | 1,220 | 5.39% | 1,525 | 6.46% | 1,830 |
| 1,568 | Increase in CDI | Investment (assets) | 09/02/2022 | 4.42% | 69 | 5.53% | 87 | 6.63% | 104 |
| - | Increase in CDI | Investment (assets) | 01/24/2022 | 2.65% | 0 | 3.32% | 0 | 3.98% | 0 |
| 741 | Increase in CDI | Investment (assets) | 01/28/2022 | 2.87% | 21 | 3.59% | 27 | 4.31% | 32 |
| 10,287 | Increase in CDI | Investment (assets) | 03/18/2022 | 3.32% | 341 | 4.14% | 426 | 4.97% | 512 |
| 260 | Increase in CDI | Investment (assets) | 03/04/2022 | 3.45% | 9 | 4.31% | 11 | 5.17% | 13 |
| 3,800 | Increase in CDI | Investment (assets) | 01/13/2022 | 3.80% | 144 | 4.75% | 181 | 5.70% | 217 |
| 283 | Increase in CDI | Investment (assets) | 04/25/2022 | 3.98% | 11 | 4.97% | 14 | 5.97% | 17 |
| 24,542 | Increase in CDI | Investment (assets) | 12/03/2025 | 4.89% | 1,200 | 6.11% | 1,500 | 7.34% | 1,800 |
| 71,798 | | | | | 3,103 | | 3,882 | | 4,659 |

| Consolidated | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Effective rate | Probable | 25% devaluation | | 50% devaluation | |
| Exposure | Risk | Type | Maturity | 12/31/21 | Amount | % | Amount | % | Amount |
| 95 | Increase in CDI | Investment (assets) | 10/01/2046 | 3.54% | 3 | 2.65% | 3 | 1.77% | 2 |
| 128 | Increase in CDI | Investment (assets) | 06/07/2046 | 3.58% | 5 | 2.69% | 3 | 1.79% | 2 |
| 141 | Increase in CDI | Investment (assets) | 05/02/2047 | 3.76% | 5 | 2.82% | 4 | 1.88% | 3 |

(In thousands of reais, unless otherwise stated)

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 209 | Increase in CDI | Investment (assets) | 10/02/2023 | 4.46% | 9 | 3.35% | 7 | 2.23% | 5 |
| 1,430 | Increase in CDI | Investment (assets) | 06/21/2023 | 4.64% | 66 | 3.48% | 50 | 2.32% | 33 |
| 28,314 | Increase in CDI | Investment (assets) | 10/03/2022 | 4.31% | 1,220 | 3.23% | 915 | 2.15% | 610 |
| 1,568 | Increase in CDI | Investment (assets) | 09/02/2022 | 4.42% | 69 | 3.32% | 52 | 2.21% | 35 |
| - | Increase in CDI | Investment (assets) | 01/24/2022 | 2.65% | 0 | 1.99% | 0 | 1.33% | 0 |
| 741 | Increase in CDI | Investment (assets) | 01/28/2022 | 2.87% | 21 | 2.15% | 16 | 1.44% | 11 |
| 10,287 | Increase in CDI | Investment (assets) | 03/18/2022 | 3.32% | 341 | 2.49% | 256 | 1.66% | 171 |
| 260 | Increase in CDI | Investment (assets) | 03/04/2022 | 3.45% | 9 | 2.59% | 7 | 1.72% | 4 |
| 3,800 | Increase in CDI | Investment (assets) | 01/13/2022 | 3.80% | 144 | 2.85% | 108 | 1.90% | 72 |
| 283 | Increase in CDI | Investment (assets) | 04/25/2022 | 3.98% | 11 | 2.98% | 8 | 1.99% | 6 |
| 24,542 | Increase in CDI | Investment (assets) | 12/03/2025 | 4.89% | 1,200 | 3.67% | 900 | 2.45% | 600 |
| 71,798 | | | | | 3,103 | | 2,329 | | 1,554 |

(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 | 12/31/20 | Amount | % | Amount | % | Amount |
| 931 | Increase in CDI | Financial investment | 07/02/2040 04/29/2021 05/30/2041 | 2.61% | 24 | 3.27% | 1 | 3.92% | 1 |
| 3,244 | Increase in CDI | Financial investment | 10/20/2022 12/05/2022 | 2.75% | 89 | 3.44% | 3 | 4.13% | 4 |
| 124 | Increase in CDI | Financial investment | 06/07/2046 | 2.23% | 3 | 2.78% | - | 3.34% | - |
| 92 | Increase in CDI | Financial investment | 10/01/2046 | 2.20% | 2 | 2.75% | - | 3.30% | - |
| 136 | Increase in CDI | Financial investment | 05/02/2047 | 2.34% | 3 | 2.92% | - | 3.51% | - |
| 10,524 | Increase in CDI | Financial investment | 04/06/2021 | 2.48% | 260 | 3.09% | 8 | 3.71% | 10 |
| 10,003 | Increase in CDI | Financial investment | 01/22/2021 | 2.34% | 234 | 2.92% | 7 | 3.51% | 8 |
| 1,680 | Increase in CDI | Financial investment | 12/28/2021 | 2.48% | 42 | 3.09% | 1 | 3.71% | 2 |
| 18,021 | Increase in CDI | Financial investment | 01/28/2021 | 2.26% | 406 | 2.82% | 11 | 3.38% | 14 |
| 2,419 | Increase in CDI | Financial investment | 01/22/2021 | 2.76% | 67 | 3.45% | 2 | 4.15% | 3 |
| 198 | Increase in CDI | Financial investment | 07/08/2025 | 2.64% | 5 | 3.30% | - | 3.96% | - |
| 2,417 | Increase in CDI | Financial investment | 09/03/2021 09/14/2021 09/15/2021 | 2.50% | 60 | 3.13% | 2 | 3.75% | 2 |
| 5,112 | Increase in CDI | Financial investment | 03/15/2021 12/16/2021 12/28/2021 | 2.48% | 127 | 3.09% | 4 | 3.71% | 5 |
| 2,331 | Increase in CDI | Financial investment | 02/12/2021 | 2.48% | 58 | 3.09% | 2 | 3.71% | 2 |
| 1,719 | Increase in CDI | Financial investment | 01/25/2021 | 1.38% | 24 | 1.72% | - | 2.06% | - |
| 1,020 | Increase in CDI | Financial investment | 02/12/2021 | 2.34% | 24 | 2.92% | 1 | 3.51% | 1 |
| 2,640 | Increase in CDI | Financial investment | 01/27/2021 | 2.26% | 60 | 2.82% | 2 | 3.38% | 2 |
| 10,992 | Increase in CDI | Financial investment | 02/03/2021 and 04/19/2021 | 2.81% | 308 | 3.51% | 11 | 4.21% | 13 |
| 1,509 | Increase in CDI | Financial investment | 09/02/2021 | 2.74% | 41 | 3.42% | 1 | 4.10% | 2 |
| 27,279 | Increase in CDI | Financial investment | 10/01/2021 | 2.72% | 743 | 3.40% | 25 | 4.08% | 30 |
| 1,540 | Increase in CDI | Financial investment | 03/15/2021 03/18/2021 | 2.48% | 38 | 3.09% | 1 | 3.71% | 1 |

(In thousands of reais, unless otherwise stated)

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1,070 | Increase in CDI | Financial investment | 01/22/2021 | 2.34% | 25 | 2.92% | 1 | 3.51% | 1 |
| 105,001 | | | | | 2,643 | | 83 | | 101 |

(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 | 12/31/20 | Amount | % | Amount | % | Amount |
| 931 | Decrease in CDI | Financial investment | 07/02/2040 04/29/2021 05/30/2041 | 2.61% | 24 | 1.96% | - | 1.31% | - |
| 3,244 | Decrease in CDI | Financial investment | 10/20/2022 12/05/2022 | 2.75% | 89 | 2.06% | 2 | 1.38% | 1 |
| 124 | Decrease in CDI | Financial investment | 06/07/2046 | 2.23% | 3 | 1.67% | - | 1.11% | - |
| 92 | Decrease in CDI | Financial investment | 10/01/2046 | 2.20% | 2 | 1.65% | - | 1.10% | - |
| 136 | Decrease in CDI | Financial investment | 05/02/2047 | 2.34% | 3 | 1.75% | - | 1.17% | - |
| 10,524 | Decrease in CDI | Financial investment | 04/06/2021 | 2.48% | 260 | 1.86% | 5 | 1.24% | 3 |
| 10,003 | Decrease in CDI | Financial investment | 01/22/2021 | 2.34% | 234 | 1.75% | 4 | 1.17% | 3 |
| 1,680 | Decrease in CDI | Financial investment | 12/28/2021 | 2.48% | 42 | 1.86% | 1 | 1.24% | 1 |
| 18,021 | Decrease in CDI | Financial investment | 01/28/2021 | 2.26% | 406 | 1.69% | 7 | 1.13% | 5 |
| 2,419 | Decrease in CDI | Financial investment | 01/22/2021 | 2.76% | 67 | 2.07% | 1 | 1.38% | 1 |
| 198 | Decrease in CDI | Financial investment | 07/08/2025 | 2.64% | 5 | 1.98% | - | 1.32% | - |
| 2,417 | Decrease in CDI | Financial investment | 09/03/2021 09/14/2021 09/15/2021 | 2.50% | 60 | 1.88% | 1 | 1.25% | 1 |
| 5,112 | Decrease in CDI | Financial investment | 03/15/2021 12/16/2021 12/28/2021 | 2.48% | 127 | 1.86% | 2 | 1.24% | 2 |
| 2,331 | Decrease in CDI | Financial investment | 02/12/2021 | 2.48% | 58 | 1.86% | 1 | 1.24% | 1 |
| 1,719 | Decrease in CDI | Financial investment | 01/25/2021 | 1.38% | 24 | 1.03% | - | 0.69% | - |
| 1,020 | Decrease in CDI | Financial investment | 02/12/2021 | 2.34% | 24 | 1.75% | - | 1.17% | - |
| 2,640 | Decrease in CDI | Financial investment | 01/27/2021 | 2.26% | 60 | 1.69% | 1 | 1.13% | 1 |
| 10,992 | Decrease in CDI | Financial investment | 02/03/2021 and 04/19/2021 | 2.81% | 308 | 2.10% | 6 | 1.40% | 4 |
| 1,509 | Decrease in CDI | Financial investment | 09/02/2021 | 2.74% | 41 | 2.05% | 1 | 1.37% | 1 |
| 27,279 | Decrease in CDI | Financial investment | 10/01/2021 | 2.72% | 743 | 2.04% | 15 | 1.36% | 10 |
| 1,540 | Decrease in CDI | Financial investment | 03/15/2021 03/18/2021 | 2.48% | 38 | 1.86% | 1 | 1.24% | - |

(In thousands of reais, unless otherwise stated)

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1,070 | Decrease in CDI | Financial investment | 01/22/2021 | 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)

**Individual**

| **Exposure** | **Risk** | **Type** | **Effective rate 12/31/2021** | **Probable Amount** | **25% appreciation %** | **25% appreciation Amount** | **50% appreciation %** | **50% appreciation Amount** |
|---|---|---|---|---|---|---|---|---|
| **264,591** | **Bradesco 4101** | **Loan (liability)** | **100** | **2,308** | **125** | **2,885** | **150** | **3,462** |
| **16,235** | **FINEP** | **Loan (liability)** | **100** | **51** | **125** | **64** | **150** | **77** |
| **111,513** | **BNDES** | **Loan (liability)** | **100** | **2,315** | **125** | **2,894** | **150** | **3,473** |
| **122** | **FINAME** | **Loan (liability)** | **100** | **-** | **125** | **0** | **150** | **0** |
| **8,055** | **Banco Regional de Brasília** | **Loan (liability)** | **100** | **265** | **125** | **331** | **150** | **397** |
| **117,845** | **Lease liabilities** | **Leases (liability)** | **100** | | **125** | **13,473** | **150** | **16,167** |
| | | | | **10,778** | | | | |
| **518,361** | | | | **15,717** | | **19,646** | | **23,576** |

**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 | Leases (liability) | 100 | 10,617 | 125 | 13,271 | 150 | 15,925 |
| 514,974 | | | | 12,874 | | 16,094 | | 19,312 |

(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 12/31/2021 | Probable Amount | 25% devaluation % | 25% devaluation Amount | 50% devaluation % | 50% devaluation Amount |
|---|---|---|---|---|---|---|---|---|
| **264,591** | **Bradesco 4101** | **Loan (liability)** | **100** | **2,308** | **75** | **1,731** | **50** | **1,154** |
| **16,235** | **FINEP** | **Loan (liability)** | **100** | **51** | **75** | **38** | **50** | **26** |
| **111,513** | **BNDES** | **Loan (liability)** | **100** | **2,315** | **75** | **1,736** | **50** | **1,158** |
| **122** | **FINAME** | **Loan (liability)** | **100** | **-** | **75** | **0** | **50** | **0** |
| **8,055** | **Banco Regional de Brasília** | **Loan (liability)** | **100** | **265** | **75** | **199** | **50** | **132** |
| **117,845** | **Lease liabilities** | **Leases (liability)** | **100** | **10,778** | **75** | **8,084** | **50** | **5,389** |
| **518,361** | | | | **15,717** | | **11,788** | | **7,859** |

| 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 |

(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 12/31/2021 | Probable Amount | 25% appreciation % | 25% appreciation Amount | 50% appreciation % | 50% appreciation Amount |
|---|---|---|---|---|---|---|---|---|
| **264,591** | **Finance leases** | **Loan (liability)** | **100** | **2,308** | **125** | **2,885** | **150** | **3,462** |
| **16,235** | **FINEP** | **Loan (liability)** | **100** | **51** | **125** | **64** | **150** | **77** |
| **111,513** | **BNDES** | **Loan (liability)** | **100** | **2,315** | **125** | **2,894** | **150** | **3,473** |
| **122** | **FINAME** | **Loan (liability)** | **100** | **-** | **125** | **-** | **150** | **-** |
| **8,055** | **Banco Regional de Brasília** | **Loan (liability)** | **100** | **265** | **125** | **331** | **150** | **397** |
| **127,620** | **Lease liabilities** | **Leases (liability)** | **100** | **11,672** | **125** | **14,590** | **150** | **17,508** |
| **528,136** | | | | **16,611** | | **20,764** | | **24,917** |

**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 | Leases (liability) | 100 | 11,309 | 125 | 14,136 | 150 | 16,963 |
| 522,992 | | | | 13,566 | | 16,959 | | 20,350 |

(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)

<u>*Exposure and sensitivity analysis - interest rate risk*</u> (Continued)

| Exposure | Risk | Type | Effective rate 12/31/2021 | Probable Amount | 25% devaluation % | 25% devaluation Amount | 50% devaluation % | 50% devaluation Amount |
|---|---|---|---|---|---|---|---|---|
| **264,591** | **Finance leases** | **Loan (liability)** | **100** | **2,308** | **75** | **1,731** | **50** | **1,154** |
| **16,235** | **FINEP** | **Loan (liability)** | **100** | **51** | **75** | **38** | **50** | **26** |
| **111,513** | **BNDES** | **Loan (liability)** | **100** | **2,315** | **75** | **1,736** | **50** | **1,158** |
| **122** | **FINAME** | **Loan (liability)** | **100** | **-** | **75** | **0** | **50** | **0** |
| **8,055** | **Banco Regional de Brasília** | **Loan (liability)** | **100** | **265** | **75** | **199** | **50** | **132** |
| **127,620** | | | | | | **8,754** | | **5,836** |
| | **Lease liabilities** | **Leases (liability)** | **100** | **11,672** | **75** | | **50** | |
| **528,136** | | | | **16,611** | | **12,458** | | **8,306** |

| 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 | Loan (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 | Leases (liability) | 100 | 11,309 | 75 | 14,136 | 50 | 16,963 |
| 522,992 | | | | 13,566 | | 16,959 | | 20,350 |

## 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:

(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)

| | | Individual | | | |
|---|---|---|---|---|---|
| | | 2021 | | 2020 | |
| | Fair value measurement | Book value | Fair value | Book value | Fair value |
| **Assets** | | | | | |
| Cash and cash equivalents | Level 2 | 39,443 | 39,443 | 49,087 | 49,087 |
| Trade accounts receivable | Level 2 | 796,893 | 796,893 | 602,333 | 602,333 |
| Accounts receivable from related parties | Level 2 | 235,853 | 235,853 | 193,301 | 193,301 |
| Dividends receivable | Level 2 | 707 | 707 | 8,970 | 8,970 |
| Loans receivable | Level 2 | 0 | 0 | - | - |
| Short-term investments earmarked for loans | Level 2 | 2,007 | 2,007 | 4,526 | 4,526 |
| Other receivables | Level 2 | 182,407 | 182,407 | 117,624 | 117,624 |
| Total | | 1,257,310 | 1,257,310 | 975,841 | 975,841 |
| **Liabilities** | | | | | |
| Trade accounts payable | Level 2 | (280,244) | (280,244) | (310,774) | (310,774) |
| Trade payables to related parties | Level 2 | (1,297,636) | (1,297,636) | (1,053,128) | (1,053,128) |
| Loans and financing | Level 2 | (400,516) | (400,516) | (391,920) | (391,920) |
| Lease liabilities | Level 2 | (117,845) | (117,845) | (123,054) | (123,054) |
| Dividends payable | Level 2 | (528,184) | (528,184) | (35,821) | (35,821) |
| Other payables | Level 2 | (105,892) | (105,892) | (103,654) | (103,654) |
| Total | | (2,730,317) | (2,730,317) | (2,018,351) | (2,018,351) |

| | | Consolidated | | | |
|---|---|---|---|---|---|
| | | 2021 | | 2020 | |
| | Fair value measurement | Book value | Fair value | Book value | Fair value |
| **Assets** | | | | | |
| Cash and cash equivalents | Level 2 | 99,487 | 99,487 | 114,476 | 114,476 |
| Trade accounts receivable | Level 2 | 1,028,700 | 1,028,700 | 832,953 | 832,953 |
| Accounts receivable from related parties | Level 2 | 90,069 | 90,069 | 91,593 | 91,593 |
| Short-term investments earmarked for loans | Level 2 | 2,007 | 2,007 | 4,526 | 4,526 |
| Other receivables | Level 2 | 57,462 | 57,462 | 79,408 | 79,408 |
| | | 1,277,725 | 1,277,725 | 1,122,956 | 1,122,956 |
| **Liabilities** | | | | | |
| Trade accounts payable | Level 2 | (289,444) | (289,444) | (321,966) | (321,966) |
| Trade payables to related parties | Level 2 | (1,313,148) | (1,313,148) | (1,064,974) | (1,064,974) |
| Dividends payable | Level 2 | (533,313) | (533,313) | (40,950) | (40,950) |
| Loans and financing | Level 2 | (400,516) | (400,516) | (391,920) | (391,920) |
| Lease liabilities | Level 2 | (127,620) | (127,620) | (131,072) | (131,072) |
| Other payables | Level 2 | (125,208) | (125,208) | (114,661) | (114,661) |
| Total | | (2,789,249) | (2,789,249) | (2,065,543) | (2,065,543) |

(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, 2021 and 2020:

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

## 10. Cash and cash equivalents

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Bank | **11,660** | 8,858 | **29,696** | 14,001 |
| Short-term investments | **27,783** | 40,229 | **69,791** | 100,475 |
| | **39,443** | 49,087 | **99,487** | 114,476 |

(In thousands of reais, unless otherwise stated)

## 10. Cash and cash equivalents (Continued)

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.

## 11. Short-term investments earmarked for loans

| | Individual and Consolidated | |
|---|---|---|
| | **2021** | **2020** |
| Short-term investments earmarked for loans | **2,007** | 4,526 |
| | **2,007** | 4,526 |

The financial investment made in Banco de Brasília, classified as noncurrent, totaling R$ 2,007 (R$4,526 in 2020), refers to a guarantee of the ICMS financing granted to the Company as a government grant (Note 7.k). The amount can only be used to fully repay the final installments of the financing.

## 12. Trade accounts receivable

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Trade accounts receivable | **809,089** | 611,301 | **1,043,830** | 843,612 |
| (-) Allowance for expected credit losses | **(8,035)** | (8,968) | **(9,032)** | (10,659) |
| (-) Provision for returns | **(4,161)** | - | **(6,098)** | - |
| | **796,893** | 602,333 | **1,028,700** | 832,953 |

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

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Falling due | **730,218** | 581,376 | **874,829** | 726,723 |
| Overdue: | | | | |
| Within 3 months | **70,684** | 20,617 | **79,383** | 28,030 |
| Between 3 and 6 months | **1,883** | 7,150 | **6,485** | 8,983 |
| Between 6 and 12 months | **2,552** | 2,067 | **4,262** | 8,327 |
| More than 1 year (a) | **3,752** | 91 | **78,871** | 71,549 |
| | **809,089** | 611,301 | **1,043,830** | 843,612 |

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

(In thousands of reais, unless otherwise stated)

## 12. Trade accounts receivable (Continued)

Trade accounts receivable are denominated in the following currencies:

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Reais | 802,624 | 608,718 | 1,037,365 | 832,623 |
| Euro | 490 | - | 490 | 8,381 |
| US dollars | 5,975 | 2,583 | 5,975 | 2,608 |
| | 809,089 | 611,301 | 1,043,830 | 843,612 |

Changes in provisions are as follows:

| | Individual | | | |
|---|---|---|---|---|
| | Expected credit losses | | Returns | |
| | 2021 | 2020 | 2021 | 2020 |
| January 1 | (8,968) | (3,169) | - | - |
| Reversals (set-up) | 726 | (5,799) | (4,161) | - |
| Write-offs (effective loss) | 207 | - | - | - |
| December 31 | (8,035) | (8,968) | (4,161) | - |

| | Consolidated | | | |
|---|---|---|---|---|
| | Impairment | | Returns | |
| | 2021 | 2020 | 2021 | 2020 |
| | | | | - |
| January 1 | (10,659) | (24,298) | - | - |
| Reversals (set-up) | 1,013 | 13,639 | (6,098) | - |
| Write-offs (effective loss) | 614 | - | - | - |
| December 31 | (9,032) | (10,659) | (6,098) | - |

## 13. Inventories

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Raw material | 284,537 | 221,268 | 287,407 | 223,459 |
| Finished products | 356,046 | 293,506 | 414,289 | 354,788 |
| Products in process | 64,614 | 51,143 | 64,805 | 51,180 |
| Packaging and other materials | 68,360 | 57,810 | 72,839 | 61,216 |
| Advances to suppliers - third parties | 21,600 | 68,475 | 22,155 | 70,703 |
| Imports in transit | 9,915 | 18,962 | 9,707 | 19,349 |
| Provision for obsolescence | (55,106) | (33,399) | (58,074) | (36,824) |
| Provision for returns | 1,639 | - | 2,241 | - |
| | 751,605 | 677,765 | 815,369 | 743,871 |

(In thousands of reais, unless otherwise stated)

## 13. Inventories (Continued)

Changes in provisions are as follows:

| | Individual | | | |
|---|---|---|---|---|
| | Obsolescence | | Returns | |
| | 2021 | 2020 | 2021 | 2020 |
| January 1 | **(33,399)** | (31,172) | - | - |
| Recognition | **(48,647)** | (29,618) | **1,639** | - |
| Reversals | **26,940** | 27,391 | - | - |
| December 31 | **(55,106)** | (33,399) | **1,639** | - |

| | Consolidated | | | |
|---|---|---|---|---|
| | Obsolescence | | Returns | |
| | 2021 | 2021 | 2021 | 2020 |
| January 1 | **(36,824)** | (34,042) | - | - |
| Recognition | **(51,447)** | (32,909) | **2,241** | - |
| Reversals | **30,197** | 30,127 | - | - |
| December 31 | **(58,074)** | (36,824) | **2,241** | - |

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

## 14. Taxes recoverable

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| IRPJ and CSLL (i) | **37,960** | 81,236 | **51,038** | 91,691 |
| Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Contribution Tax on Gross Revenue for Social Security Financing (COFINS) (ii) | **487,929** | 132,940 | **586,628** | 188,759 |
| State VAT (ICMS) (iii) | **133,350** | 79,391 | **237,826** | 167,069 |
| Federal VAT (IPI) | **11,099** | 6,857 | **38,275** | 33,989 |
| Other | **920** | 636 | **1,769** | 1,170 |
| | **671,258** | 301,060 | **915,536** | 482,678 |
| Current | **365,841** | 178,301 | **371,830** | 254,009 |
| Noncurrent | **305,417** | 122,759 | **543,706** | 228,669 |
| | **671,258** | 301,060 | **915,536** | 482,678 |

(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.

(In thousands of reais, unless otherwise stated)

## 14. Taxes recoverable (Continued)

Exclusion of ICMS from PIS and COFINS bases

In 2007, the Company and its subsidiaries EMS Sigma, Legrand and Luxbiotech filed a petition for writ of mandamus aiming at the exclusion of ICMS from the PIS and COFINS tax bases. In May 2019, a favorable decision was granted on the appeal (STF). At the same time, the case became final and not subject to further appeal. As such, aforementioned companies calculated their respective amounts as from 2006. In 2021, based on the opinion of and report prepared by their legal advisors, the Company and its subsidiaries measured these amounts and recorded in the individual and consolidated financial statements R$230,702 and R$245,328, respectively, of which R$165,990 and R$180,552 referring to PIS and COFINS, under other operating income, and R$64,712 and R$64,776 referring to interest and monetary adjustments, under finance income, to be offset against taxes managed by the Brazilian IRS in future periods.

## 15. Other receivables

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Advances to suppliers - third parties | **10,001** | 10,997 | **10,887** | 37,491 |
| Advances to related parties (Note 30) | **134,525** | 76,036 | **5,445** | 8,536 |
| Advances to employees | **12,840** | 8,752 | **13,874** | 9,633 |
| Sublease receivables | **6,587** | 5,900 | **6,587** | 5,900 |
| Other | **18,454** | 15,939 | **20,669** | 17,848 |
| | **182,407** | 117,624 | **57,462** | 79,408 |
| Current | **177,411** | 112,628 | **52,466** | 74,412 |
| Noncurrent | **4,996** | 4,996 | **4,996** | 4,996 |
| | **182,407** | 117,624 | **57,462** | 79,408 |

(In thousands of reais, unless otherwise stated)

# 16. Investments and valuation allowance

a) <u>Balances and changes in investments</u>

I) Individual

| | December 31, 2021 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Investments | | | | | | | | Valuation allowance | |
| | EMS Sigma | Legrand | CPM | Monteresearch | Rio Biopharmaceuticals | Gronin | Other | Total investments | Luxbiotech | Total investments and valuation allowance, net |
| Number of shares/units of interest forming capital | 7,662,451 | 136,464 | 64,205,000 | 90,000 | - | | | | 97,516,851 | |
| Capital | 7,740 | 138 | 64,605 | (9,003) | (59,720) | | | | 97,723 | |
| Income (loss) for the year | (1,592) | 160,412 | 4,742 | (20,208) | (22,183) | | | | (49,290) | |
| Interest in capital - % | 99.00% | 99.00% | 99.38% | 100.00% | 100.00% | | | | 99.79% | |
| Subsidiary's equity | 8,123 | 190,962 | 83,397 | 13,281 | 2,830 | | | | (80,341) | |
| **Opening investment balance at January 1, 2021** | **9,629** | **229,964** | **78,179** | **79,782** | **30,251** | **4,676** | **467** | **432,948** | **(31,121)** | **401,827** |
| Dividends proposed by subsidiary | **-** | **(201,738)** | **-** | **-** | **-** | | **-** | **(201,738)** | **-** | **(201,738)** |
| Capital increase | **-** | **-** | **-** | **-** | **16,692** | **1,368** | **-** | **18,060** | **-** | **18,060** |
| Translation of foreign operation | **-** | **-** | **-** | **(723)** | **1,242** | **-** | **-** | **519** | **-** | **519** |
| Write-off of foreign operation upon translation – equity effect | | | | | | **(2,140)** | **-** | **(2,140)** | **-** | **(2,140)** |
| Write-off of investment – P&L | **-** | **-** | **-** | **(2,185)** | **-** | **10,578** | **-** | **8,393** | **-** | **8,393** |
| Write-off of investment – cash receipt (a) | **-** | **-** | **-** | **-** | **-** | **(17,075)** | **-** | **(17,075)** | **-** | **(17,075)** |
| Equity pickup | **(1,577)** | **158,808** | **4,713** | **(56,061)** | **(45,355)** | **2,593** | **-** | **63,121** | **(49,187)** | **13,934** |
| | **8,052** | **187,034** | **82,892** | **20,813** | **2,830** | **-** | **467** | **302,088** | **(80,308)** | **221,780** |

(In thousands of reais, unless otherwise stated)

## 16. Investments and valuation allowance (Continued)

a) Balances and changes in investments (Continued)

i) *Individual* (Continued)

| | December 31, 2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | investments | | | | | | | | Valuation allowance | |
| | **EMS Sigma** | **Legrand** | **CPM** | **Monteresearch** | **Rio Biopharmaceuticals** | **Gronin** | **Other** | **Total investments** | **Luxbiotech** | **Total investments and valuation allowance, 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) | |
| Opening investment 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 | 1,552 | 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 valuation allowance (Continued)

a) Balances and changes in investments (Continued)

II) Consolidated

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | **Gronin** | **Globe** | **Other** | **Total** |
| Net income for the year | | **75,742** | | |
| Interest in capital - % | | **25%** | | |
| Subsidiary's equity | | **295,188** | | |
| Opening investment balance at January 1, 2020 | **4,676** | **65,823** | **467** | **70,966** |
| Capital increase | **1,368** | | **-** | **1,368** |
| Translation of foreign operation | **-** | | **-** | **-** |
| Write-off of investment – cash receipt (a) | **(17,075)** | **(9,890)** | **-** | **(26,965)** |
| Write-off of foreign operation upon translation – equity effect | **(2,140)** | **-** | **-** | **(2,140)** |
| Write-off of investment – P&L (a) | **10,578** | **(55,933)** | **-** | **(45,355)** |
| Equity pickup | **2,593** | **-** | **-** | **2,593** |
| | **-** | **-** | **467** | **467** |

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

(a) Write-off of investments

Gronin Pharma Participações S.A.

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

Globe Pharma s.a.r.l

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

(In thousands of reais, unless otherwise stated)

## 16. Investments and valuation allowance (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 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| **Current** | | | | | | | | | | | | | | |
| Assets | **7,483** | 138,491 | **285,484** | 289,489 | **48,678** | 53,810 | **21,735** | 15,915 | **2,968** | 1,167 | **79,967** | 90,070 | **-** | 641 |
| Liabilities | **(178,493)** | (128,457) | **(102,279)** | (65,124) | **(141,565)** | (77,555) | **(10,502)** | (10,965) | **(138)** | (82) | **(1,664)** | (10,453) | **-** | (10,286) |
| **Current assets, net** | **(171,010)** | 10,034 | **183,205** | 224,365 | **(92,887)** | (23,745) | **11,233** | 4,950 | **2,830** | 1,085 | **78,303** | 79,617 | **-** | (9,645) |
| **Noncurrent** | | | | | | | | | | | | | | |
| Noncurrent assets | **185,142** | 5,499 | **19,461** | 17,582 | **24,553** | 3,552 | **2,048** | 67,301 | **-** | - | **5,179** | (303) | **-** | 228,214 |
| Noncurrent liabilities | **(6,009)** | (5,818) | **(11,703)** | (9,660) | **(12,007)** | (10,858) | **-** | - | **-** | - | **(85)** | (659) | **-** | (218,835) |
| **Noncurrent assets, net** | **179,133** | (319) | **7,757** | 7,922 | **12,546** | (7,306) | **2,048** | 67,301 | **-** | - | **5,094** | (962) | **-** | 9,379 |
| **Equity** | **8,123** | 9,715 | **190,962** | 232,287 | **(80,341)** | (31,051) | **13,281** | 72,251 | **2,830** | 1,085 | **83,397** | 78,655 | **-** | (266) |

(In thousands of reais, unless otherwise stated)

## 16. Investments and valuation allowance (Continued)

b) Summary of financial information (Continued)

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

| | EMS Sigma | | Legrand | | Luxbiotech | | Monteresearch | | Rio Bio Pharmaceuticals | | CPM | | Gronin | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| **P&L** | | | | | | | | | | | | | | |
| Revenue | **251,974** | 227,214 | **581,054** | 563,930 | **(4,518)** | 8,321 | **13,781** | 13,606 | **-** | **-** | **891** | - | **-** | - |
| Income before income and social contribution taxes | **(2,118)** | 1,602 | **234,836** | 182,610 | **(55,857)** | (58,001) | **(20,113)** | (13,443) | **(22,183)** | **-** | **5,484** | 7,951 | **-** | (266) |
| Income and social contribution tax expense | **526** | (43) | **(74,424)** | (58,947) | **6,567** | 35 | **(95)** | - | **-** | **-** | **(742)** | - | **-** | - |
| Net income (loss) for the year | **(1,592)** | 1,559 | **160,412** | 123,663 | **(49,290)** | (57,966) | **(20,208)** | (13,443) | **(22,183)** | **-** | **4,742** | 7,951 | **-** | (266) |

(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 |
| Write-offs, 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 |
| Opening balance at December 31, 2020 | **186,613** | **284,728** | **25,067** | **-** | **114,825** | **193,822** | **805,055** |
| Acquisitions | **2** | **4,667** | **2,557** | **-** | **105,467** | **-** | **112,693** |
| Write-offs, net | **(5)** | **(241)** | **(59)** | **-** | **(3,553)** | **-** | **(3,858)** |
| Transfers | **4,828** | **43,674** | **3,224** | **-** | **(51,766)** | **-** | **(40)** |
| Depreciation | **(5,087)** | **(20,282)** | **(3,597)** | **-** | **-** | **(13,954)** | **(42,920)** |
| Net book balance | **186,351** | **312,546** | **27,192** | **-** | **164,973** | **179,868** | **870,930** |
| **December 31, 2021** | | | | | | | |
| Cost | **249,601** | **493,688** | **54,472** | **733** | **164,973** | **231,715** | **1,195,182** |
| Accumulated depreciation | **(63,250)** | **(181,142)** | **(27,280)** | **(733)** | **-** | **(51,847)** | **(324,252)** |
| | **186,351** | **312,546** | **27,192** | **-** | **164,973** | **179,868** | **870,930** |

(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 |
| Write-offs, 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 |
| Opening balance at December 31, 2020 | **190,426** | **283,365** | **25,255** | **-** | **114,456** | **193,822** | **807,324** |
| Acquisitions | **765** | **4,666** | **3,100** | **-** | **110,535** | **-** | **119,066** |
| Write-offs, net | **(5)** | **(413)** | **(75)** | **-** | **(3,553)** | **-** | **(4,046)** |
| Transfers | **4,828** | **43,674** | **3,229** | **-** | **(56,771)** | **-** | **(5,040)** |
| Depreciation | **(5,290)** | **(19,700)** | **(3,883)** | **-** | **-** | **(13,954)** | **(42,827)** |
| | **190,724** | **311,592** | **27,626** | **-** | **164,667** | **179,868** | **874,477** |
| **December 31, 2021** | | | | | | | |
| Cost | **255,370** | **500,024** | **57,817** | **733** | **164,667** | **231,715** | **1,210,326** |
| Accumulated depreciation | **(64,646)** | **(188,432)** | **(30,191)** | **(733)** | **-** | **(51,847)** | **(335,849)** |
| Net book balance | **190,724** | **311,592** | **27,626** | **-** | **164,667** | **179,868** | **874,477** |

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

(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, 2020 | | | | | |
| Opening balance | **65,955** | **48,175** | **708** | **1,151** | **115,989** |
| Acquisitions | **39,294** | **29,406** | **1,097** | **-** | **69,797** |
| Write-offs | **(23,301)** | **(18,490)** | **-** | | **(41,791)** |
| Depreciation/amortization | **(10,071)** | **(19,712)** | **(872)** | **(1,151)** | **(31,806)** |
| **December 31, 2021** | **71,877** | **39,379** | **933** | **-** | **112,189** |
| **Cost** | **89,079** | **94,535** | **2,390** | **10,357** | **196,361** |
| **Accumulated depreciation** | **(17,202)** | **(55,156)** | **(1,457)** | **(10,357)** | **(84,172)** |
| **Net book balance** | **71,877** | **39,379** | **933** | **-** | **112,189** |

| | 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 |

(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 |
| **December 31, 2020** | | | | | |
| Opening balance | 70,151 | 51,360 | 1,120 | 1,151 | 123,782 |
| Acquisitions and corrections | **40,156** | **33,719** | **1,097** | **-** | **74,972** |
| Write-offs | **(23,302)** | **(18,700)** | **-** | | **(42,002)** |
| Depreciation/amortization | **(10,493)** | **(22,709)** | **(1,163)** | **(1,151)** | **(35,516)** |
| | **76,512** | **43,670** | **1,054** | **-** | **121,236** |
| **December 31, 2021** | | | | | |
| Cost | **95,025** | **118,222** | **3,450** | **10,357** | **227,054** |
| Accumulated depreciation | **(18,513)** | **(74,552)** | **(2,396)** | **(10,357)** | **(105,818)** |
| Net book balance | **76,512** | **43,670** | **1,054** | **-** | **121,236** |

| | 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)

b) Lease liabilities

| | Individual | | | | |
|---|---|---|---|---|---|
| | Land and buildings | Vehicles and machinery | Furniture, fixtures, and equipment | Data Center | Total |
| **December 31, 2020** | | | | | |
| Opening balance | 72,260 | 48,237 | 726 | 1,831 | 123,054 |
| Acquisitions and remeasurements | **39,294** | **29,406** | **1,097** | **-** | **69,797** |
| Interest incurred | **8,260** | **2,745** | **88** | **19** | **11,112** |
| Write-offs | **(25,909)** | **(20,762)** | **-** | **-** | **(46,671)** |
| Payments | **(16,066)** | **(21,161)** | **(370)** | **(1,850)** | **(39,447)** |
| **December 31, 2021** | **77,839** | **38,465** | **1,541** | **-** | **117,845** |
| | | | | | |
| Current | | | | | **55,346** |
| Noncurrent | | | | | **62,499** |
| | | | | | **117,845** |

| | 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 |
| Write-offs | - | (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 | | | | | 35,317 |
| Noncurrent | | | | | 87,737 |
| | | | | | 123,054 |

(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, 2020** | | | | | |
| Opening balance | 76,785 | 51,289 | 1,170 | 1,828 | 131,072 |
| Acquisitions and remeasurements | **40,156** | **33,719** | **1,097** | **-** | **74,972** |
| Interest incurred | **8,787** | **3,163** | **116** | **19** | **12,085** |
| Write-offs | **(25,465)** | **(21,205)** | **-** | **-** | **(46,670)** |
| Payments | **(17,362)** | **(23,925)** | **(705)** | **(1,847)** | **(43,839)** |
| **December 31, 2021** | **82,901** | **43,041** | **1,678** | **-** | **127,620** |

| | |
|---|---|
| Current | **61,003** |
| Noncurrent | **66,617** |
| | **127,620** |

| | 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 |
| Write-offs | - | (3,391) | (10) | - | (3,401) |
| Payments | (11,980) | (28,691) | (915) | (5,117) | (46,703) |
| December 31, 2020 | 76,783 | 51,289 | 1,170 | 1,830 | 131,072 |

| | |
|---|---|
| Current | 39,274 |
| Noncurrent | 91,798 |
| | 131,072 |

## 19. Trade accounts payable

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Foreign suppliers | **87,571** | 150,554 | **88,234** | 155,434 |
| Domestic suppliers | **144,970** | 127,094 | **148,778** | 128,271 |
| Service suppliers | **47,703** | 33,126 | **52,432** | 38,261 |
| | **280,244** | 310,774 | **289,444** | 321,966 |

(In thousands of reais, unless otherwise stated)

## 20. Loans and financing

| | Interest rate | Maturity | Individual and Consolidated 2021 | 2020 |
|---|---|---|---|---|
| Finance leases (a) | 1.21% p.a. to 3.23% p.a. and Libor + 0.35% p.a. | May 2021 | **-** | 242,823 |
| Bradesco 4131 (e) | 1.44% a.a. | May 2022 | **264,591** | - |
| FINEP (b) | (b) | April 2023 | **16,235** | 28,483 |
| BNDES (c) | (c) | March 2026 to February 2027 | **111,513** | 112,325 |
| FINAME | 2.5% to 3% p.a. | January 2023 to February 2023 | **122** | 234 |
| Banco Regional de Brasília - ICMS financing (d) | 25% of INPC (i) | December 2031 | **8,055** | 8,055 |
| | | | **400,516** | 391,920 |
| Current | | | **297,768** | 47,850 |
| Noncurrent | | | **102,748** | 344,070 |
| | | | **400,516** | 391,920 |

(i) Annual effective rate.

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

(b) This refers to the partial costing of expenses incurred in the preparation and implementation of the Innovation Strategic Plan approved and offered by FINEP, in accordance with the Disbursement Schedule. The principal of the debt will be subject to pro rata tempore compound interest by reference to the TJLP plus a 5% spread per annum (p.a.), less equalization equivalent to 3% p.a. The outstanding amount is R$16,235.

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

(i) R&D agreement for a line of credit totaling R$75,712 (amount released: R$ 7,309). The remaining amount will be released in subloans based on the rendering of accounts. The outstanding amount is R$5,271, subject to interest of TJLP + 1.75% and 2.25% p.a. and final payment on March 15, 2026.

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

(a) Subloan "A" - in the amount of R$43,283 for the expansion and renovation of an industrial unit, including the production of liquid and semi-solid drug formulations, packaging lines and storeroom, in the city of Hortolândia, SP. The outstanding amount is R$42,297, subject to interest of IPCA* 1.36% p.a.* 1.79% p.a., and final payment on February 15, 2027.

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

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

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

## 20. Loans and financing (Continued)

(b) Subloan "B" - R$13,410 (R$5,384 was released) for the acquisition of imported machinery and equipment with no domestic equivalent required for the implementation of the project. The outstanding amount is R$5,507, subject to interest of IPCA* 2.16 p.a.* 1.79 p.a., and final payment on February 15, 2027.

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

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

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

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

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

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

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

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

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

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

In 2020, the Company had movements totaling R$2,052 that supported the recognition of gains from the grant, and received a R$3,974 release referring to the ICMS benefit. There were no grant-related movements in 2021.

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

Loan and financing agreements have nonfinancial covenants that were fully complied with at the end of the years 2021 and 2020.

(In thousands of reais, unless otherwise stated)

## 20. Loans and financing (Continued)

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

| | 2021 | 2020 |
|---|---|---|
| 2021 | **-** | 47,850 |
| 2022 | **297,768** | 63,064 |
| 2023 | **30,013** | 204,340 |
| 2024 | **23,402** | 23,402 |
| 2025 onwards | **49,333** | 53,264 |
| | **400,516** | 391,920 |

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

*Individual and Consolidated*

| | Individual and Consolidated | |
|---|---|---|
| | **2021** | **2020** |
| Balance at beginning of year | **391,920** | 274,884 |
| Items in cash flows from financing activities: | | |
| Loans raised | **264,778** | 107,917 |
| Loan repayment | **(276,795)** | (46,916) |
| Grant written off | **-** | (2,052) |
| Total cash flows used in financing activities | **(12,017)** | 58,949 |
| Other items: | | |
| Provision for interest expense and exchange differences | **37,272** | 63,203 |
| Payment of interest and exchange differences | **(16,659)** | (5,116) |
| Total other items | **20,613** | 58,087 |
| Balance at December 31 – current year | **400,516** | 391,920 |

(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 | |
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Civil (i) | **58,294** | 36,310 | **(24,260)** | (14,839) | **34,034** | **21,471** |
| Labor and social security (ii) | **99,230** | 65,608 | **(17,738)** | (19,705) | **81,492** | **45,903** |
| | **157,524** | 101,918 | **(41,998)** | (34,544) | **115,526** | **67,374** |

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | Provision for losses on legal proceedings | | Judicial deposits | | Net balance | |
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Civil (i) | **80,159** | 56,307 | **(30,622)** | (17,714) | **45,457** | 38,593 |
| Labor and social security (ii) | **102,742** | 68,018 | **(18,131)** | (20,307) | **84,611** | 47,711 |
| | **182,901** | 124,325 | **(48,753)** | (38,021) | **130,068** | 86,304 |

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

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| January 1 | **101,918** | 93,839 | **124,325** | 113,490 |
| Recognition of provision | **58,301** | 14,466 | **61,163** | 16,583 |
| Monetary restatement | **11,364** | 7,130 | **13,408** | 8,265 |
| Proceedings written off - payments | **(10,926)** | (9,027) | **(11,496)** | (9,340) |
| Reversal of provision in the year | **(3,133)** | (4,490) | **(4,499)** | (4,673) |
| December 31 | **157,524** | 101,918 | **182,901** | 124,325 |

(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 | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Recognition of provision | **58,301** | 14,466 | **61,163** | 16,583 |
| Reversal of provision | **(3,133)** | (4,490) | **(4,499)** | (4,673) |
| | **55,168** | 9,976 | **56,664** | 11,910 |

i) *Civil and tax claims*

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

ii) *Labor claims*

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

Based on the opinion of its legal advisors, management believes there are no significant risks that are not covered by sufficient provisions in its financial statements or that may result in a significant impact on future 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 | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Civil (*) | **583,384** | 583,028 | **625,605** | 622,840 |
| Tax - IR/CSLL (**) | **1,701,498** | 1,988,476 | **1,701,498** | 1,988,476 |
| Labor | **118,643** | 154,845 | **127,068** | 162,386 |
| Tax - other | **55,929** | 32,656 | **57,122** | 33,683 |
| | **2,459,454** | 2,759,005 | **2,511,293** | 2,807,385 |

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

(**) 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 accounting standards in effect when the transaction was performed authorized the amortization method used, reason why such transaction was completed under the principle of legality, and all documents were properly registered and published, which demonstrates the inexistence of bad faith. The thesis defended by the company was recognized by the 1st Panel of the Administrative Board of Tax Appeals (CARF), which analyzed the case and canceled the tax notice by majority of votes. 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 these consolidated financial statements because the Group, based on legislation, case law and jurisprudence, 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.

In 2021, changes in and sources of deferred income and social contribution taxes are as follows:

| | Individual | | |
|---|---|---|---|
| | **Balance at 12/31/2020** | **Recognized in P&L** | **Balance at 12/31/2021** |
| Provision for tax recovery | - | (56,436) | (56,436) |
| Provision for useful life recorded for corporate and tax purposes | (33,588) | (10,142) | (43,730) |
| Provision for labor claims | 22,307 | 11,431 | 33,738 |
| Net effect of reversal of revenue from products billed and not delivered | 28,183 | (523) | 27,660 |
| Provision for obsolescence | 11,356 | 7,380 | 18,736 |
| Provision for losses on tax and civil claims | 12,346 | 7,474 | 19,820 |
| Provision for impairment losses on receivables | 3,049 | (317) | 2,732 |
| Provision for profit sharing | 8,236 | 2,131 | 10,367 |
| Provision for free samples | 3,425 | 3,892 | 7,317 |
| Provision for leased vehicles | 212 | 101 | 313 |
| Provision for deferred exchange differences for tax purposes | (9,419) | 8,951 | (468) |
| Leases – CPC 06 | 9,777 | (7,854) | 1,923 |
| Other provisions | 17,418 | 4,223 | 21,641 |
| | 73,302 | (29,689) | 43,613 |

| | Consolidated | | |
|---|---|---|---|
| | **Balance at 12/31/2020** | **Recognized in P&L** | **Balance at 12/31/2021** |
| Provision for tax recovery | - | (61,388) | (61,388) |
| Provision for useful life recorded for corporate and tax purposes | (33,629) | (10,155) | (43,784) |
| Provision for labor claims | 22,939 | 11,851 | 34,790 |
| Net effect of reversal of revenue from products billed and not delivered | 32,566 | (914) | 31,652 |
| Provision for impairment losses on receivables | 3,611 | (587) | 3,024 |
| Provision for obsolescence | 11,858 | 7,744 | 19,602 |
| Provision for profit sharing | 9,033 | 3,145 | 12,178 |
| Provision for losses on tax and civil claims | 15,936 | 11,304 | 27,240 |
| Provision for free samples | 3,991 | 3,996 | 7,987 |
| Provision for leased vehicles | 308 | 123 | 431 |
| Provision for deferred exchange differences for tax purposes | (9,376) | 8,883 | (493) |
| Leases – CPC 06 | 10,128 | (2,667) | 7,461 |
| Other provisions | 20,146 | 6,512 | 26,658 |
| | 87,511 | (22,153) | 65,358 |

(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 | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Income before income and social contribution taxes | **409,978** | 166,428 | **479,659** | 220,807 |
| IRPJ and CSLL at local rates (34%) | **(139,393)** | (56,586) | **(163,084)** | (75,074) |
| Equity pickup | **4,738** | 20,559 | **882** | (6,814) |
| Technological innovation (R&D) Law No. 11196/05 | **11,991** | 8,623 | **11,991** | 8,623 |
| Capital grant | **19,587** | 15,919 | **21,982** | 27,552 |
| Additions / exclusions | **8,120** | (41,359) | **(34,897)** | (66,085) |
| IRPJ and CSLL taxes on the statement of profit or loss | **(94,957)** | (52,844) | **(163,126)** | (111,798) |
| Current income and social contribution taxes | **(65,268)** | (76,366) | **(140,973)** | (139,627) |
| Deferred income and social contribution taxes | **(29,689)** | 23,522 | **(22,153)** | 27,829 |
| IRPJ and CSLL taxes on the statement of profit or loss | **(94,957)** | (52,844) | **(163,126)** | (111,798) |
| Effective rate | **-23%** | -32% | **-34%** | -51% |

c) Income and social contribution taxes payable

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| IRPJ payable | **19,541** | 7,338 | **56,377** | 16,025 |
| CSLL payable | **7,228** | 8,049 | **19,169** | 11,311 |
| | **26,769** | 15,387 | **75,546** | 27,336 |

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

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Opening balance | 15,387 | - | 27,336 | 33,141 |
| (+) Provision for current IR/CS in the year | **65,268** | 76,366 | **140,973** | 139,627 |
| (-) Amounts offset against federal taxes* | **(53,886)** | (54,818) | **(58,118)** | (86,402) |
| (-) Amounts prepaid/paid in the year | **-** | (6,161) | **(34,645)** | (59,030) |
| (=) Closing balance | **26,769** | 15,387 | **75,546** | 27,336 |

* Amounts offset against income and social contribution tax losses and requests for refund of PIS and COFINS.

(In thousands of reais, unless otherwise stated)

## 23. Other payables

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Advances from customers | **34,583** | 36,482 | **35,455** | 37,113 |
| Advances from related parties (Note 30) | **4,840** | 4,840 | **4,840** | 4,840 |
| Land payable | **12,342** | 12,061 | **12,342** | 12,061 |
| Employees | **4,333** | 2,090 | **4,523** | 2,221 |
| Exclusive right | **2,133** | 3,867 | **2,271** | 3,867 |
| Project expenses | **1,011** | 1,011 | **1,011** | 1,011 |
| Third-parties services | **15,453** | 17,357 | **15,687** | 18,289 |
| Insurance on leased vehicles | **5,669** | 624 | **6,619** | 977 |
| Other | **25,528** | 25,322 | **42,460** | 34,282 |
| | **105,892** | 103,654 | **125,208** | 114,661 |
| Current | **91,697** | 87,726 | **111,013** | 98,733 |
| Noncurrent | **14,195** | 15,928 | **14,195** | 15,928 |
| | **105,892** | 103,654 | **125,208** | 114,661 |

## 24. Equity

a) Capital

As at December 31, 2021, subscribed and paid-in capital amounts to R$ 221,717 (R$ 221,708 in 2020) comprising 20,000,000 common shares with no par value, held as follows:

| | December 31, 2021 and 2020 | |
|---|---|---|
| | Shares | Amount |
| NC Participações S.A. | 19,800,000 | 219,500 |
| Germed Farmacêutica LDA. | 200,000 | 2,217 |
| | 20,000,000 | 221,717 |

In 2021, the Company regularized capital by R$9 in order to comply with its bylaws. This amount was included under retained earnings/(accumulated losses).

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.

## 24. Equity (Continued)

b) Capital reserve

*Goodwill reserve on merger*

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

c) Income reserve

*Tax incentive reserve*

The Group has a line of credit government grant under the Federal District Fostering Program for the Sustainable Integrated Economic Development (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 or loss for equal amounts based on the maturity of each loan. A substantial part of the loan was settled and the respective grant revenue was recognized in the statement of profit or loss for the year and subsequently transferred to tax incentive in equity, as an income reserve in 2014. In 2016, due to settlement of Programa Ideas, the amount of R$3,003 was realized. However, the Company is still waiting for the auction to be held 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 2020, based on the opinion of its legal advisors, the Company exercised the right of exclusion.

As at December 31, 2021, the amounts calculated and paid in connection with this exclusion, i.e., R$19,587 (R$15,919 in 2020), were recognized in the statement of profit or loss for the year as income and social contribution taxes - current.

In 2021, 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$57,608 (R$46,822 in 2020).

(In thousands of reais, unless otherwise stated)

## 24. Equity (Continued)

c) Income reserve (Continued)

*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, 2021 and 2020, the Group did not recognize the amount of 5% of the net income for the year as part of the legal reserve, since it reached the limit of 20% of capital, as determined by article 193 of Law No. 6404/86.

*Income reserve*

The income reserve is recognized with the balance of net income for 2021 and 2020 after appropriation of dividends, and recognition of legal reserve and tax incentive 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:

| | **2021** | **2020** |
|---|---|---|
| Net income for the year | **315,021** | 113,584 |
| (-) Capital grant | **(57,608)** | (46,822) |
| Dividend calculation base | **257,413** | 66,762 |
| Mandatory minimum dividend (25%) | **64,353** | 16,691 |
| Opening balance | **35,821** | 117,160 |
| Income from prior years approved in the year | **436,890** | 173,778 |
| (-) Payments | **(8,880)** | (271,808) |
| Total dividends payable | **528,184** | 35,821 |

(In thousands of reais, unless otherwise stated)

## 25. Net operating revenue

Reconciliation of gross sales to net revenue is as follows:

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Gross sale of products and services, less trade discounts | **5,507,861** | 4,834,090 | **5,998,362** | 5,331,418 |
| Sales taxes | **(820,340)** | (742,140) | **(855,647)** | (791,878) |
| Sales returns | **(169,727)** | (140,734) | **(198,164)** | (184,144) |
| Net operating revenue | **4,517,794** | 3,951,216 | **4,944,551** | 4,355,396 |

## 26. Costs and expenses by nature

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Raw material and supplies | **(2,472,542)** | (2,154,490) | **(2,574,920)** | (2,262,673) |
| Payroll and related charges | **(633,324)** | (571,037) | **(691,522)** | (633,896) |
| Third-party services - legal entities | **(271,628)** | (206,767) | **(295,682)** | (221,888) |
| Social security costs | **(164,734)** | (151,086) | **(178,348)** | (165,318) |
| Advertising costs | **(132,849)** | (139,481) | **(144,857)** | (151,301) |
| Transportation expenses | **(115,316)** | (103,944) | **(134,037)** | (123,407) |
| Samples | **(104,663)** | (90,468) | **(118,339)** | (102,190) |
| Legal benefits | **(60,003)** | (54,349) | **(64,217)** | (58,902) |
| Rent | **3,192** | (3,297) | **2,209** | (4,962) |
| Cleaning and office supplies | **(57,960)** | (51,146) | **(58,073)** | (51,301) |
| Travel/lodging and meals | **(27,897)** | (20,949) | **(32,773)** | (24,708) |
| Other employee benefits | **(68,453)** | (63,720) | **(74,528)** | (70,365) |
| Profit sharing plan | **(37,388)** | (29,655) | **(40,819)** | (33,317) |
| Third-party services - maintenance and repair | **(45,341)** | (38,590) | **(47,082)** | (41,057) |
| Depreciation, amortization and impairment charges | **(77,353)** | (71,599) | **(81,111)** | (76,884) |
| Electricity, water and telephone | **(19,178)** | (15,529) | **(18,616)** | (16,161) |
| Fuel and lubricants | **(20,027)** | (11,438) | **(21,983)** | (12,719) |
| Provision for losses on legal proceedings | **(49,819)** | (6,177) | **(51,602)** | (7,436) |
| Sales commissions | **(8,313)** | (5,649) | **(16,173)** | (9,473) |
| Other expenses, net of other revenue | **(20,850)** | (13,219) | **(30,049)** | (17,497) |
| Reversal of (provision for) impairment losses on receivables | **933** | (5,799) | **1,767** | 13,639 |
| Total cost of sales, selling expenses and administrative expenses | **(4,383,513)** | (3,808,389) | **(4,670,755)** | (4,071,816) |

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Cost of sales | **(2,924,689)** | (2,542,462) | **(3,030,275)** | (2,652,763) |
| Selling expenses | **(362,211)** | (347,019) | **(413,888)** | (374,640) |
| Administrative expenses | **(1,096,613)** | (918,908) | **(1,226,592)** | (1,044,413) |
| | **(4,383,513)** | (3,808,389) | **(4,670,755)** | (4,071,816) |

(In thousands of reais, unless otherwise stated)

## 27. Other operating income (expenses), net

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Other income** | | | | |
| Tax recovery (i) | **237,598** | 43,209 | **258,314** | 44,749 |
| Write-off of investments (Note 16) | **8,393** | - | **-** | - |
| Grant income | **3,497** | 18,590 | **3,497** | 18,590 |
| Other | **18,520** | 18,382 | **30,269** | 18,421 |
| Total other income | **268,008** | 80,181 | **292,080** | 81,760 |
| **Other expenses** | | | | |
| Write-off of investments (ii) | **-** | - | **(70,892)** | - |
| Taxes | **(18,395)** | (32,051) | **(24,580)** | (36,685) |
| Other | **(7,711)** | (2,032) | **(14,840)** | (3,404) |
| Total other expenses | **(26,106)** | (34,083) | **(110,312)** | (40,089) |
| Other expenses (revenue), net | **241,902** | 46,098 | **181,768** | 41,671 |

(i) This substantially refers to accounting for the exclusion of ICMS from the PIS and COFINS tax bases, as evidenced in Note 14.

(ii) This amount includes R$45,355 referring to investments written off (Note 16).

## 28. Finance income (costs)

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Finance income** | | | | |
| Foreign exchange gains | **188,143** | 43,103 | **190,534** | 45,156 |
| Finance income from short-term bank deposits | **4,145** | 3,762 | **7,055** | 6,041 |
| Interest receivable (*) | **71,782** | 4,228 | **72,790** | 4,458 |
| Other | **5,133** | 286 | **5,187** | 286 |
| Total finance income | **269,203** | 51,379 | **275,566** | 55,941 |
| **Finance costs** | | | | |
| Interest payable | **(30,711)** | (18,672) | **(32,163)** | (22,021) |
| Foreign exchange losses | **(204,563)** | (99,790) | **(206,575)** | (101,541) |
| Discounts granted | **(789)** | (391) | **(816)** | (440) |
| Leases - interest payable | **(11,112)** | (10,155) | **(12,085)** | (10,930) |
| Other | **(2,167)** | (5,336) | **(2,425)** | (5,412) |
| Total finance costs | **(249,342)** | (134,344) | **(254,064)** | (140,344) |
| Finance income (costs), net | **19,861** | (82,965) | **21,502** | (84,403) |

(*) This substantially refers to accounting for interest on exclusion of ICMS from the PIS and COFINS tax bases (Note 14).

(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.

| | 2021 | 2020 |
|---|---|---|
| Profit attributable to Company shareholders | **315,021** | 113,584 |
| Weighted average number of common shares (thousands) | **20,000** | 20,000 |
| Basic and diluted earnings per share - R$ | **15.75** | 5.68 |

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

## 30. Transactions with related parties

Significant asset and liability balances at December 31, 2021 and 2020 as well as transactions affecting P&L for the years regarding transactions with related parties refer to the Company's transactions with its related parties, carried out under the conditions agreed upon by the parties, as follows:

a) Consolidated

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) Sales and resales of products

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Germed Farmacêutica Ltda. | **198,911** | 140,557 | **203,153** | 141,227 |
| Multilab Indústria e Comércio de Medicamentos Ltda. | **172,555** | 40,687 | **173,112** | 40,687 |
| Legrand Pharma Indústria Farmacêutica Ltda. | **207,909** | 233,991 | **-** | - |
| EMS Sigma Pharma Ltda (*) | **343,950** | 305,721 | **-** | - |
| Nova Química Farmacêutica S.A. | **31,109** | 99,324 | **31,109** | 99,346 |
| Lafiman Distribuidora de Medicamentos Ltda. | **14,981** | 14,771 | **18,658** | 18,599 |
| Novamed Fabricação de Produtos Farmacêuticos Ltda. | **82,478** | 93,804 | **366,876** | 342,013 |
| Other | **17** | 487 | **-** | - |
| | **1,051,910** | 929,342 | **792,908** | 641,872 |

(In thousands of reais, unless otherwise stated)

## 30. Tansactions with 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 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Novamed Fabricação de Produtos Farmacêuticos Ltda. | **1,885,918** | 1,566,603 | **1,982,691** | 1,665,122 |
| Multilab Indústria e Comércio de Medicamentos Ltda. | **64,178** | 46,761 | **81,877** | 55,812 |
| Germed Farmacêutica Ltda. | **6,295** | 4,361 | **6,434** | 4,361 |
| Nova Química Farmacêutica S.A. | **3,336** | 5,179 | **12,082** | 16,456 |
| Legrand Pharma Indústria Farmacêutica Ltda. | **526** | 2,561 | **-** | - |
| EMS Sigma Pharma Ltda. | **-** | 405 | **-** | - |
| Other | **-** | 66 | | - |
| | **1,960,253** | 1,625,936 | **2,083,084** | 1,741,751 |

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

*Accounts receivable from related parties*

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Novamed Fabricação de Produtos Farmacêuticos Ltda. | **37,353** | 20,411 | **44,436** | 39,488 |
| Germed Farmacêutica Ltda. | **889** | 6,012 | **2,029** | 6,107 |
| EMS Sigma Pharma Ltda | **176,772** | 127,031 | **-** | - |
| Multilab Ind. e Com. Prod. Farm. Ltda. | **4,051** | 3,913 | **4,148** | 3,913 |
| Legrand Pharma Indústria Farmacêutica Ltda. | **981** | 11,097 | **-** | - |
| Nova Química Farmacêutica S.A. | **-** | 4,639 | **-** | 4,639 |
| Lafiman Distribuidora de Medicamentos Ltda. | **11,104** | 5,739 | **33,597** | 32,650 |
| CPM - Concessionária Paulista de Medicamentos S/A | **1** | 9,334 | **-** | - |
| Luxbiotech Farmacêutica Ltda. | **516** | 874 | **-** | - |
| Other | **4,186** | 4,251 | **5,859** | 4,796 |
| | **235,853** | 193,301 | **90,069** | 91,593 |

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. Tansactions with related parties (Continued)

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

*Other receivables from related parties*

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Advances (Note 15) | | | | |
| Luxbiotech Farmacêutica Ltda. | **129,080** | 67,500 | **-** | - |
| Instituto Vita Nova | **3,539** | 5,874 | **3,539** | 5,874 |
| Other | **1,906** | 2,662 | **1,906** | 2,662 |
| | **134,525** | 76,036 | **5,445** | 8,536 |

*Trade payables to related parties*

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Novamed Fabricação de Produtos Farmacêuticos Ltda | **1,256,163** | 961,377 | **1,256,072** | 965,885 |
| Germed Farmacêutica Ltda. | **228** | 44,386 | **268** | 44,386 |
| Multilab Ind. e Com. Prod. Farm. Ltda. | **30,572** | 36,930 | **45,831** | 39,335 |
| Nova Química Farmacêutica S.A. | **-** | 680 | **-** | 5,265 |
| EMS Sigma Pharma Ltda. | **376** | 156 | **-** | - |
| Legrand Pharma Indústria Farmacêutica Ltda. | **-** | 74 | **-** | - |
| Other | **10,297** | 9,525 | **10,977** | 10,103 |
| | **1,297,636** | 1,053,128 | **1,313,148** | 1,064,974 |

*Other payables to related parties - Advances*

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Other payables (Note 23) | | | | |
| Innoveren Pharma S/A. | **4,840** | 4,840 | **4,840** | 4,840 |
| | **4,840** | 4,840 | **4,840** | 4,840 |

e) Dividends payable and receivable

| | Individual | | Consolidated | |
|---|---|---|---|---|
| **Dividends receivable** | **2021** | **2020** | **2021** | **2020** |
| Legrand Pharma Indústria Farmacêutica Ltda. | **-** | 8,263 | **-** | - |
| EMS Sigma Pharma Ltda. | **707** | 707 | **-** | - |
| | **707** | 8,970 | **-** | - |

(In thousands of reais, unless otherwise stated)

## 30. Tansactions with related parties (Continued)

e) Dividends payable and receivable (Continued)

Changes in dividends receivable:

| | Individual | |
|---|---|---|
| | **2021** | **2020** |
| Balance at beginning of year | **8,970** | 119,770 |
| (+) Accrued dividends receivable | **201,737** | - |
| (-) Dividends received in the year (a) | **(210,000)** | (110,800) |
| (=) Balance at end of year | **707** | 8,970 |

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

| | Individual | | Consolidated | |
|---|---|---|---|---|
| **Dividends payable** | **2021** | **2020** | **2021** | **2020** |
| NC Participações S.A. | **529,454** | 186 | **534,584** | 21,672 |
| Germed Farmacêutica LDA. | **25,269** | 35,635 | **25,269** | 19,278 |
| | **554,723** | 35,821 | **559,853** | 40,950 |

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

Changes in dividends payable are as follows:

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Balance at beginning of year | **35,821** | 117,160 | **40,950** | 122,289 |
| (+) Supplemental dividends payable, as approved in meetings | **436,890** | 173,778 | **436,890** | 173,777 |
| (+) Mandatory minimum dividend | **64,353** | 16,691 | **64,353** | 16,691 |
| (-) Payments | **(8,880)** | (271,808) | **(8,880)** | (271,807) |
| (=) Balance at end of year | **528,184** | 35,821 | **533,313** | 40,950 |

(In thousands of reais, unless otherwise stated)

## 30. Tansactions with related parties (Continued)

f) Loans receivable

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 or 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 Imobiliário S.A.** |
|---|---|
| | **2020** |
| Balance at beginning of year | 316,093 |
| Loan repayment | (306,310) |
| PIS and COFINS | 4,396 |
| Carryforward IRRF on interest | (14,179) |
| Interest recognized | - |
| **Balance at December 31** | - |

g) Key management personnel compensation

Compensation paid and payable to key management personnel, including salaries and charges, profit sharing and other benefits, represents 6.08% of payroll expenses for the year ended December 31, 2021 (5% at December 31, 2020).

## 31. Insurance

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

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

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.

## 32 Events after the reporting period

Corporate restructuring

Given the corporate restructuring strategy focused on the Company's operating segments, the merger of the total net assets of the Company into related party EMS S/A (EMS) was approved, in order to consolidate EMS brand and achieve market growth. This merger is expected to be concluded by the end of the first half of 2022. Accordingly, after the merger date, all Company activities will be solely performed by EMS, as a branch.

The Company's financial statements should be read by taking this restructuring into consideration.