# Individual and consolidated financial statements

## União Química Farmacêutica Nacional S.A.

December 31, 2018
with independent auditor report

**União Química Farmacêutica Nacional S.A.**

Financial statements

December 31, 2018

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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 accounting policies adopted in Brazil**

# Independent auditor report on individual and consolidated financial statements

To the Board of Directors, Shareholders and Officers
**União Química Farmacêutica Nacional S.A.**
São Paulo - SP

## Opinion

We have audited the individual and consolidated financial statements of União Química Farmacêutica Nacional S.A. (the "Company"), identified as Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2018, and the related 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 individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of União Química Farmacêutica Nacional S.A. as at December 31, 2018, its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended, in accordance with accounting policies adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

## Basis for opinion

We conducted our audit in accordance with 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 and its subsidiaries 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.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide an individual opinion on these matters. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the individual and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

*Recognition of sales revenues*

As disclosed in Notes 2.e and 23 to the individual and consolidated financial statements, the Company's revenues are mainly represented by the sale of goods and rendering of service in significant amounts, which are generally recognized after billing. The process for measuring sales billed and not delivered at the end of the year involves judgment by the Company in determining the estimated Days Sales Outstanding and requires the need to maintain routines and internal controls to identify and measure sales billed and not delivered at the end of the year. Any failures in these controls may impact the measurement of sales billed and not delivered at the end of the year and the amount recognized in the individual and consolidated financial statements. As such, we consider this a key audit matter.

How our audit addressed this matter:

Our audit procedures included, among others: (i) Obtaining an understanding of the revenue recognition flow, considering the nature of the sale, the channels used, types of customers etc.; (ii) Evaluating the design, implementation and effectiveness of the significant internal controls determined by Management over revenue recognition; (iii) Obtaining an understanding of the main systems used in sales, pricing and trade discounts, with the assistance of our information technology (IT) specialists for reviews of the IT environment; (iv) Selecting sales transactions throughout the year on a sampling basis and comparison with the related supporting documentation to check if they represented valid revenues consistent with the Company’s ordinary course of business; (v) Checking the effect of revenue cutoff through subsequent event tests with actual delivery date, on a sampling basis; and (vi) Considering whether the disclosures in Notes 2.e and 23 are appropriate.

As a result of our procedures, adjustments were identified indicating the need to reduce sales revenues, which were recorded by the Company even considering their immateriality on the individual and consolidated financial statements taken as a whole.

Based on the results of the audit procedures performed, which are consistent with the management's assessment, we consider the Company's revenue recognition policies acceptable, in order to support the judgments and information included in the context of the individual and consolidated financial statements taken as a whole.

*Contingent liabilities and provisions for civil, tax and labor risks*

As disclosed in Notes 2.e and 21 to the individual and consolidated financial statements, the Company is a party to civil, tax and labor claims and administrative proceedings arising in the ordinary course of its activities. Some laws and regulations in Brazil have a high degree of complexity, thus the measurement, recognition and disclosure of provisions and contingent liabilities relating to the proceedings and/or, in certain cases, compliance with laws and regulations require a significant professional judgment by the Company, which may result in substantial changes in the balances of provisions when new facts arise or as the proceedings are reviewed in court. Due to the significance, complexity and judgment involved in the evaluation, measurement, definition of the moment for recognition and disclosures related to contingent liabilities, we consider this a key audit matter.

How our audit addressed this matter:

As part of our procedures, among others, we assessed the sufficiency of provisions for contingencies recognized and the amounts of contingencies disclosed through evaluation of the criteria and assumptions used in the measurement methodology, also considering the assessment of the Company's internal and external legal advisors, as well as historical data and information and comparison as to the probability of success of the main tax theses with the Company's evaluation. We also considered whether the disclosures in the individual and consolidated financial statements provide information on the nature, exposure, amounts provisioned or disclosed relating to significant contingencies to which the Company is a party.

Based on the results of the audit procedures performed, which are consistent with the management's assessment, we consider that the Company's practices related to the recognition and disclosures of contingent liabilities and provisions for civil, tax and labor contingencies are appropriate, as well as the information disclosed in the individual and consolidated financial statements taken as a whole.

**Other information accompanying the individual and consolidated financial statements and the auditor’s report**

Management is responsible for such other information, which comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting policies adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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;
- Obtain 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 and its subsidiaries' internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiaries' 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 auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Brasília, March 19, 2019.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Wagner dos Santos Junior
Accountant CRC-1SP216386/O-T

# União Química Farmacêutica Nacional S.A.

Statements of financial position
December 31, 2018 and 2017
(In thousands of reais)

| | | Individual | | Consolidated | |
|---|---|---|---|---|---|
| **Assets** | **Note** | **12/31/2018** | **12/31/2017** | **12/31/2018** | **12/31/2017** |
| **Current assets** | | | | | |
| Cash and cash equivalents | **4** | **59,883** | 31,670 | **66,492** | 42,402 |
| Trade accounts receivable | **6** | **470,555** | 341,340 | **449,843** | 350,323 |
| Inventories | **7** | **325,744** | 194,588 | **405,332** | 251,756 |
| Taxes and contributions recoverable | **8** | **48,344** | 37,018 | **78,050** | 50,749 |
| Other accounts receivable | **9** | **6,992** | 11,253 | **10,867** | 12,460 |
| Derivative financial instruments | **10** | **15,721** | 158 | **15,721** | 158 |
| Prepaid expenses | | **4,289** | 3,108 | **4,949** | 3,774 |
| | | **931,528** | 619,135 | **1,031,254** | 711,622 |
| **Noncurrent assets** | | | | | |
| Other accounts receivable | **9** | **14,476** | 748 | **6,271** | - |
| Deferred taxes | **19.3** | **-** | - | **452** | - |
| Long-term investments | **5** | **2,382** | 4,230 | **2,382** | 4,230 |
| Taxes and contributions recoverable | **8** | **8,119** | 9,346 | **9,585** | 10,620 |
| Judicial deposits | **21** | **26,164** | 23,535 | **27,003** | 23,964 |
| Prepaid expenses | | **657** | 394 | **657** | 394 |
| Investments | **12** | **265,878** | 271,609 | **11,563** | 6,186 |
| Property, plant and equipment | **13** | **303,152** | 296,591 | **612,681** | 604,500 |
| Intangible assets | **14** | **57,992** | 44,598 | **66,825** | 47,827 |
| | | **678,820** | 651,051 | **737,419** | 697,721 |
| **Total assets** | | **1,610,348** | 1,270,186 | **1,768,673** | 1,409,343 |

See accompanying notes.

## União Química Farmacêutica Nacional S.A.

Statements of financial position
December 31, 2018 and 2017
(In thousands of reais)

| | | Individual | | Consolidated | |
|---|---|---|---|---|---|
| **Liabilities and equity** | **Note** | **12/31/2018** | **12/31/2017** | **12/31/2018** | **12/31/2017** |
| **Current liabilities** | | | | | |
| Trade accounts payable | **16** | **94,378** | 75,510 | **121,561** | 88,935 |
| Loans and financing | **17** | **279,753** | 150,744 | **285,718** | 151,177 |
| Labor and tax obligations | **18** | **75,721** | 68,486 | **103,692** | 87,634 |
| Income and social contribution taxes | | **5,022** | - | **6,961** | 865 |
| Derivative financial instruments | **10** | **2,535** | 1,595 | **2,535** | 1,595 |
| Dividends payable | **22.5** | **3,639** | 5,344 | **3,639** | 5,344 |
| Supply agreement - manufacturing | **12.4** | **-** | - | **12,235** | - |
| Other accounts payable | **20** | **23,672** | 14,406 | **19,536** | 19,354 |
| | | **484,720** | 316,085 | **555,877** | 354,904 |
| **Noncurrent liabilities** | | | | | |
| Loans and financing | **17** | **319,366** | 241,162 | **319,366** | 241,483 |
| Provision for contingencies | **21** | **21,444** | 11,656 | **21,862** | 11,783 |
| Deferred taxes | **19.3** | **13,622** | 8,973 | **13,622** | 9,180 |
| Labor and tax obligations | **18** | **11,375** | 19,674 | **11,375** | 19,674 |
| Supply agreement - manufacturing | **12.4** | **-** | - | **73,244** | 92,141 |
| Other accounts payable | **20** | **27,443** | 37,665 | **40,949** | 45,207 |
| | | **393,250** | 319,130 | **480,418** | 419,468 |
| **Equity** | | | | | |
| Capital | **22.1** | **440,077** | 440,077 | **440,077** | 440,077 |
| Capital reserve | | **1,680** | 1,680 | **1,680** | 1,680 |
| Legal reserve | **22.2** | **22,580** | 19,389 | **22,580** | 19,389 |
| Income reserve | **22.3** | **88,985** | 48,951 | **88,985** | 48,951 |
| Tax incentive reserve | **22.4** | **179,000** | 124,843 | **179,000** | 124,843 |
| Equity adjustments | | **56** | 31 | **56** | 31 |
| | | **732,378** | 634,971 | **732,378** | 634,971 |
| **Total liabilities and equity** | | **1,610,348** | 1,270,186 | **1,768,673** | 1,409,343 |

See accompanying notes.

## União Química Farmacêutica Nacional S.A.

Statements of profit and loss
Years ended December 31, 2018 and 2017
(In thousands of reais, except for earnings per share - in reais)

| | | Individual | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 2018 | 2017 | 2018 | 2017 |
| Net operating revenue | 23 | **1,219,778** | 1,026,622 | **1,512,932** | 1,113,205 |
| Cost of sales and services | 24 | **(603,665)** | (493,811) | **(769,961)** | (512,197) |
| Gross profit | | **616,113** | 532,811 | **742,971** | 601,008 |
| Operating expenses and income: | | | | | |
| Selling, general and administrative | 24 | **(410,388)** | (368,266) | **(548,229)** | (436,796) |
| Other operating income, net | 25 | **14,103** | 3,438 | **7,488** | 9,911 |
| Equity pickup | 12.2 | **(17,692)** | 5,498 | **5,377** | 2,869 |
| Operating income before finance income and costs | | **202,136** | 173,481 | **207,607** | 176,992 |
| Finance income | 26 | **118,110** | 33,443 | **121,635** | 33,681 |
| Finance costs | 26 | **(180,854)** | (64,012) | **(187,306)** | (66,978) |
| Finance income (costs), net: | | **(62,744)** | (30,569) | **(65,671)** | (33,297) |
| Income before income and social contribution taxes | | **139,392** | 142,912 | **141,936** | 143,695 |
| Provision for income and social contribution taxes: | | | | | |
| Current | 19.1 | **(26,641)** | (14,551) | **(29,844)** | (16,176) |
| Deferred | 19.1 | **(4,649)** | (5,412) | **(3,990)** | (4,570) |
| Net income for the year | | **108,102** | 122,949 | **108,102** | 122,949 |
| Basic and diluted earnings per share attributable to shareholders (in R$) | 22.6 | **0.2849** | 0.3241 | | |

See accompanying notes.

## União Química Farmacêutica Nacional S.A.

Statements of comprehensive income
Years ended December 31, 2018 and 2017
(In thousands of reais)

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Net income for the year | **108,102** | 122,949 | **108,102** | 122,949 |
| Equity adjustments | **25** | 31 | **25** | 31 |
| Comprehensive income for the year | **108,127** | 122,980 | **108,127** | 122,980 |

See accompanying notes.

**União Química Farmacêutica Nacional S.A.**

Statements of changes in equity
Years ended December 31, 2018 and 2017
(In thousands of reais)

| | Capital | | | | | | |
|---|---|---|---|---|---|---|---|
| | Subscribed capital | Unpaid capital | Capital | Capital reserve | Legal reserve | Income reserve | Tax incentive reserve |
| **Balances at December 31, 2016** | 198,512 | (224) | 198,288 | 1,680 | 14,701 | 247,489 | 60,877 |
| Capital increase | 241,789 | - | 241,789 | - | - | (241,789) | - |
| Net income for the year | - | - | - | - | - | - | - |
| Net income allocation | | | | | | | |
| Setting up of reserves | - | - | - | - | 4,688 | 48,951 | 63,966 |
| Mandatory minimum dividends | - | - | - | - | - | - | - |
| Proposed additional dividend | - | - | - | - | - | (5,700) | - |
| Equity adjustments | - | - | - | - | - | - | - |
| **Balances at December 31, 2017** | 440,301 | (224) | 440,077 | 1,680 | 19,389 | 48,951 | 124,843 |
| Net income for the year | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Net income allocation | | | | | | | |
| Setting up of reserves | **-** | **-** | **-** | **-** | **3,191** | **47,115** | **54,157** |
| Mandatory minimum dividends | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Proposed additional dividend | **-** | **-** | **-** | **-** | **-** | **(7,081)** | **-** |
| Equity adjustments | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Balances at December 31, 2018** | **440,301** | **(224)** | **440,077** | **1,680** | **22,580** | **88,985** | **179,000** |

See accompanying notes.

## União Química Farmacêutica Nacional S.A.

Statements of cash flows
Years ended December 31, 2018 and 2017
(In thousands of reais)

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| **Cash flow from operating activities** | | | | |
| Net income before income and social contribution taxes | **139,392** | 142,912 | **141,936** | 143,695 |
| **Adjustments to reconcile net income (loss) to cash provided by:** | | | | |
| Expected credit loss | **2,600** | 1,079 | **3,092** | 1,079 |
| Provision for inventory losses | **15,348** | 6,669 | **6,752** | 8,192 |
| Equity pickup | **17,692** | (5,498) | **(5,377)** | (2,869) |
| Finance charges and foreign exchange gains/losses | **70,922** | 41,855 | **72,402** | 42,476 |
| Provision for contingencies and restatement of judicial deposits | **8,795** | 1,202 | **8,734** | 1,091 |
| Asset impairment test adjustment | **(10,758)** | (4,540) | **(10,758)** | (4,540) |
| Tax incentive gains | **(12,969)** | - | **(12,969)** | - |
| Losses on sundry receivables | **453** | - | **453** | - |
| Proceeds from disposal of property, plant and equipment | **(517)** | 70 | **(517)** | 65 |
| Present value adjustment | **(580)** | 1,626 | **(580)** | 1,626 |
| Fair value adjustment of unsettled financial instruments | **(14,376)** | 1,437 | **(14,376)** | 1,437 |
| Amortization of supply agreement | **-** | - | **(6,662)** | (4,505) |
| Unrealized profits in inventories | **493** | 1,124 | **-** | - |
| Bargain purchase | **(13)** | - | **-** | - |
| Provision for/reversal of manufacturing agreement | **-** | - | **15,675** | (5,598) |
| Depreciation and amortization | **18,116** | 20,545 | **53,740** | 33,742 |
| Other | **-** | - | **1,720** | - |
| | **234,598** | 208,481 | **253,265** | 215,891 |
| **Changes in current and noncurrent assets and liabilities:** | | | | |
| Accounts receivable | **(125,674)** | (48,762) | **(105,469)** | (32,603) |
| Inventories | **(146,504)** | 15,487 | **(160,328)** | (610) |
| Taxes recoverable | **(1,241)** | 25,516 | **(16,273)** | 24,382 |
| Other assets | **(4,763)** | (7,427) | **(6,102)** | 1,966 |
| Prepaid expenses | **(1,444)** | (1,020) | **(1,438)** | (1,434) |
| Trade accounts payable | **19,170** | 5,881 | **32,914** | 15,274 |
| Labor and tax obligations | **8,911** | 1,114 | **18,001** | (2,244) |
| Other liabilities | **(5,942)** | (5,493) | **(12,724)** | (1,087) |
| Income and social contribution taxes paid | **(21,505)** | (25,073) | **(22,704)** | (25,431) |
| **Net cash flow provided by (used in) operating activities:** | **(44,394)** | 168,704 | **(20,858)** | 194,104 |

## União Química Farmacêutica Nacional S.A.

Statements of cash flows
Years ended December 31, 2018 and 2017
(In thousands of reais)

| | | | | |
|---|---|---|---|---|
| **Cash flow from investing activities:** | | | | |
| Acquisition of property, plant and equipment | **(35,006)** | (29,308) | **(65,748)** | (45,669) |
| Acquisition of intangible assets | **(3,446)** | (3,254) | **(5,061)** | (8,154) |
| Long-term investments | **(696)** | (327) | **(696)** | (327) |
| Proceeds from sales of property, plant and equipment | **836** | 9,467 | **836** | 9,467 |
| Intercompany loan receivable | **(10,808)** | 6,914 | **(4,072)** | - |
| Acquisition of subsidiary, net of cash | **(3,308)** | (159,746) | **(3,278)** | (153,426) |
| **Net cash used in investing activities:** | **(52,428)** | (176,254) | **(78,019)** | (198,109) |
| | | | | |
| **Cash flow from financing activities:** | | | | |
| Loans and financing raised | **425,755** | 168,467 | **431,095** | 169,313 |
| Payment of principal of loans and financing | **(266,467)** | (116,085) | **(266,991)** | (116,261) |
| Payment of interest on loans and financing | **(21,828)** | (29,397) | **(21,838)** | (29,403) |
| Dividends paid to shareholders | **(12,425)** | (10,001) | **(12,425)** | (10,001) |
| Related parties | **-** | (22,086) | **(6,874)** | (16,337) |
| **Net cash provided by (used in) financing activities:** | **125,035** | (9,102) | **122,967** | (2,689) |
| **Net increase (decrease) in cash and cash equivalents** | **28,213** | (16,652) | **24,090** | (6,694) |
| | | | | |
| **Cash and cash equivalents at beginning of year** | **31,670** | 48,322 | **42,402** | 49,096 |
| **Cash and cash equivalents at end of year** | **59,883** | 31,670 | **66,492** | 42,402 |
| | **28,213** | (16,652) | **24,090** | (6,694) |

See accompanying notes.

## 1. Operations

União Química Farmacêutica Nacional S.A., a privately-held corporation (“União Química”, “Company” or “Parent Company”), and its subsidiaries (jointly, the “Group”) are primarily engaged in manufacturing, compounding, selling and distributing pharmaceutical products for human and veterinary use, biological products for pest control, cosmetics, dietary and personal care products, concentrating their operations on the following lines: Ophthalmologicals, Central Nervous System and Pain, Prescription-Free Medicines, Over-the-Counter (OTC) Medicines, Hospital Medicines, Ethical and Generic Medicines.

The Company has currently five manufacturing plants located in Embu-Guaçu (São Paulo state), two in Pouso Alegre (Minas Gerais state) and two in Brasília (Federal District); two distribution centers located in Brasília (Federal District) and Pouso Alegre (Minas Gerais state); and two offices: the administrative and sales office in São Paulo (São Paulo state) and the sales and representation office in Rio de Janeiro (Rio de Janeiro state).

The Company holds interest in the following companies: i) Bionovis S.A. – joint venture – engaged in the research, development, production, distribution and sales of biotechnology products; and in subsidiaries ii) Anovis Industrial Farmacêutica Ltda. iii) Inovat Industria Farmacêutica Ltda. iv) Union Quimica Farmacêutica Internacional S.A. v) UQ Indústria Gráfica e de Embalagens Ltda., and vi) Claris Produtos Farmacêuticos do Brasil Ltda.

Acquisition of Claris Produtos Farmacêuticos do Brasil Ltda.

On December 28, 2017, the Company, Catalys Venture Cap Limited and Claris Lifesciences Limited entered into a "Share Purchase Agreement" to acquire all the shares (units of interest) in Claris Produtos Farmacêuticos do Brasil Ltda. ("Claris").
On May 21, 2018, the 26$^{th}$ Amendment to the Bylaws was ratified by the São Paulo State Board of Trade for Assignment and Transfer of Shares.

The acquisition price of Inovat on the acquisition date, appraised by an external consulting firm, is allocated and broken down as follows:

(In thousands of reais, unless otherwise stated)

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

Acquisition of Claris Produtos Farmacêuticos do Brasil Ltda. (Continued)

| **Assets:** | **Book value** | **Surplus value** | **Fair value** |
|---|---|---|---|
| Cash and cash equivalents | 30 | - | 30 |
| Trade accounts receivable | 20 | - | 20 |
| Taxes and contributions recoverable | 1,587 | - | 1,587 |
| Other accounts receivable | 15 | - | 15 |
| Judicial deposits | 58 | - | 58 |
| Property, plant and equipment | 3 | - | 3 |
| Intangible assets - trademarks | - | 5,579 | 5,579 |
| | **1,713** | **5,579** | **7,292** |
| **Liabilities:** | | | |
| Labor and tax obligations | 86 | - | 86 |
| Other accounts payable | 1,806 | - | 1,806 |
| | **1,892** | **-** | **1,892** |
| Equity | **(179)** | **5,579** | **5,400** |
| Consideration paid | **-** | **-** | 5,387 |
| Bargain purchase calculated | **-** | **-** | 13 |

The bargain purchase calculated is represented by the surplus value in trademarks amounting to R$ 5,579, in relation to the consideration paid. Total consideration paid was R$ 5,387, with R$ 2,079 settled in prior years and the remaining balance (R$ 3,308) settled in 2018. As shown in the table above, this business combination generated a bargain purchase of R$13, and no assets other than the related assets were identified.

(In thousands of reais, unless otherwise stated)

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

Acquisition of Inovat Industria Farmacêutica Ltda.

On November 14, 2017, the Company and Zoetis Industria de Produtos Veterinários Ltda. ("Zoetis") entered into a "Share Purchase and Sale Agreement" to acquire all the shares (units of interest) in Inovat Indústria Farmacêutica Ltda. ("Inovat"). In addition to executing the aforementioned agreement, at the transaction closing date, the Company and Zoetis entered into a manufacturing and supply contract, whereby Inovat will manufacture Zoetis products, and distribute them in more than 100 countries. The purpose of the acquisition was to outsource the production of veterinary drugs, with additional revenue and cash generation measured by this new business and to expand the output capacity of União Química, characterizing a business combination.

The acquisition price of Inovat on the acquisition date, appraised by an external consulting firm, as defined by CPC 15 - Business Combinations, is allocated and broken down as follows:

| **Assets:** | **Book value** | **Surplus value** | **Fair value** |
|---|---|---|---|
| Cash and cash equivalents | 6,320 | - | 6,320 |
| Accounts receivable | 5 | - | 5 |
| Inventories | 20,477 | - | 20,477 |
| Taxes recoverable | 5,807 | - | 5,807 |
| Related parties | 7,637 | - | 7,637 |
| Property, plant and equipment, net | 95,999 | 51,447 | 147,446 |
| | 136,245 | 51,447 | 187,692 |
| **Liabilities:** | | | |
| Trade accounts payable | 966 | - | 966 |
| Labor and tax obligations | 14,281 | - | 14,281 |
| Labor and tax obligations | - | 12,743 | 12,743 |
| | **15,246** | **12,743** | **27,989** |
| Equity | **120,999** | **38,704** | 159,703 |
| Consideration paid | **-** | **-** | 159,746 |
| Bargain purchase calculated | **-** | **-** | (43) |

Goodwill is represented by the appreciation of tangible and other assets identified in the amount of R$ 51,447, net of the fair value of the supply agreement with Zoetis in the amount of R$ 12,743, in relation to the amount of consideration paid. The appreciation in the supply agreement considered the contractual clauses for the supply to Zoetis over the next 5 years. Total consideration amounted to R$ 159,746 and was fully settled as at December 31, 2017. As shown in the table above, this business combination generated goodwill in the amount of R$ 43 and no other assets than related equity elements were identified.

## 2. Significant accounting policies

a) Statement of compliance (regarding IFRS and CPC standards)

The Company's individual and consolidated financial statements were prepared in accordance with accounting policies adopted in Brazil, which comprise provisions contained in the Brazilian Corporation Law (Law No. 6404/76), as amended by Laws No. 11638/07 and No. 11941/09, and the accounting pronouncements, interpretations and guidelines issued by the Brazilian Financial Accounting Standards Board ("CPC"), as well as the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

All significant information of the individual and consolidated financial statements themselves, and only such information, is being disclosed and corresponds to that used by the Company over its management.

The Company's Executive Board authorized the completion of these individual and consolidated financial statements on March 19, 2019.

b) Significant accounting estimates

The preparation of the individual and consolidated financial statements require the use of certain critical accounting estimates and also the exercise of judgment by Company management in the process of applying its accounting practices. The accounting estimates used in preparing the financial statements were based on objective and subjective factors, considering management's judgment to determine the adequate amount to be recognized in the financial statements. Significant items subject to those estimates and assumptions include risk analysis to determine provisions and related amounts; review of estimates for useful lives of property, plant and equipment items and the timing for generating future economic benefits of intangible assets; deferred tax assets and liabilities; impairment of financial and non-financial assets; fair value of financial instruments. The Company reviews its estimates and assumptions at least once a year.

Settlement of transactions involving these estimates may result in amounts different from those recorded in the financial statements due to the probabilistic treatment given to the estimation process.

c) Basis of preparation and presentation of individual and consolidated financial statements

The individual and consolidated financial statements were prepared on a cost basis, except for some asset and liability items measured at fair value, as indicated in this Note.

(In thousands of reais, unless otherwise stated)

## 2. Significant accounting policies (Continued)

d) Basis of consolidation

The following accounting policies are applied in the preparation of the consolidated financial statements:

*Subsidiaries*

Subsidiaries are all entities over which the Company has the power to determine financial and operating policies, generally involving ownership interest of more than half of their capital. The subsidiaries are fully consolidated as from the date when the control is transferred to the Company. The consolidation is discontinued as from the date when such control ends.

Intercompany transactions, balances and unrealized gains on transactions between the Company's entities are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of *impairment* of the asset transferred.

Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Company.

*Companies included in the consolidated financial statements*

The consolidated financial statements comprise the financial statements of União Química Farmacêutica Nacional S.A. and of its direct subsidiaries Anovis Industrial Farmacêutica Ltda., Union Quimica Farmaceutica Internacional S.A., Inovat Indústria Farmacêutica Ltda., UQ Indústria Gráfica e de Embalagens Ltda., and Claris Produtos Farmacêuticos do Brasil Ltda. The Company holds 100% interest in the subsidiaries (except for the 99.99% interest in Anovis) which are accounted for using the equity method in the individual financial statements. The following table summarizes the subsidiaries' financial information:

| | Anovis | | Inovat | | Union | | UQ Gráfica | Claris |
|---|---|---|---|---|---|---|---|---|
| | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2018 |
| Current assets | **124,647** | 78,796 | **73,261** | 39,354 | **1,470** | 8,284 | **14,886** | **227** |
| Noncurrent assets | **114,932** | 105,237 | **98,047** | 97,412 | **-** | - | **6,607** | **61** |
| Current liabilities | **124,463** | 59,062 | **31,076** | 12,556 | **-** | 23 | **14,649** | **1,881** |
| Noncurrent liabilities | **13,140** | 655 | **9,354** | 2,564 | **668** | 7,542 | **1** | **706** |
| Equity | **101,976** | 124,316 | **130,878** | 121,646 | **802** | 719 | **6,843** | **(2,299)** |
| Interest | **100.00%** | 100.00% | **100.00%** | 100.00% | **100.00%** | 100.00% | **100.00%** | **100.00%** |
| Net operating revenue | **205,670** | 123,074 | **163,070** | 2,482 | **-** | - | **24,843** | **-** |
| Net income (loss) for the year | **(22,339)** | 635 | **9,232** | 647 | **83** | (116) | **(188)** | **(2,194)** |

## 2. Significant accounting policies (Continued)

d) Basis of consolidation

*Subsidiaries - Individual financial statements*

In the individual financial statements, subsidiaries are recorded under the equity method. The adjustments are made to both individual and consolidated financial statements in order to reach the same earnings/(losses) and equity attributable to the Company's shareholders.

*Jointly-controlled entities*

A jointly-controlled entity is an entity in which the Company has joint control, which is contractually agreed and requires the unanimous consent about strategic and operational decisions.

The financial information of jointly-controlled subsidiaries is recorded in the individual and consolidated financial statements under the equity method.

e) Summary of significant accounting practices

*General principles and criteria for revenue recognition*

Assets, liabilities, revenues and expenses are computed on an accrual basis. Sales revenue is recognized in the statement of profit and loss upon billing and adjusted to reflect the timing of the transfer of risks and rewards inherent in the products and goods sold, also considering an analysis of the potential realization of amounts owed to the Company and its subsidiaries, and when Management is no longer involved with the goods/products. Sales revenue is presented net of deductions, including taxes on sales.

*Cash and cash equivalents*

Cash and cash equivalents include cash, bank demand deposits and temporary investments with maturity and grace period of up to 90 days as from the investment date, or maturing after 90 days, but considered as highly liquid, since there is the intention and possibility of being redeemed in the short term from the instrument issuer for an amount of cash and subject to an insignificant risk of change in value.

## 2. **Significant accounting policies** (Continued)

e) Summary of significant accounting practices (Continued)

*Financial instruments* (Continued)

Financial instruments are only recognized as from the date the Company and its subsidiaries become a party to such instruments contractual provisions. They are initially stated at fair value upon recognition plus transaction costs directly attributable to their acquisition or issue (where applicable). They are subsequently measured at each date of the statement of financial position in accordance with the rules established for each type of classification of financial assets and liabilities, as described in Note 28.

Financial assets are initially classified as subsequently measured at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss.

Temporary investments are initially recorded at cost to subsequently include earnings based on the effective interest rate through the reporting date (amortized cost), which do not exceed their market value or realizable value. These comprise investments redeemable above 90 days from investment date, or those redeemable above 90 days that cannot be early redeemed without risk of change in value.

Nonderivative financial liabilities are all measured at amortized cost.

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value every month through to year-end. Any gains or losses are recognized in profit or loss for the period in finance income (costs).

*Accounts receivable*

Trade accounts receivable correspond to receivables for sale of goods and rendering of services in the ordinary course of business. The Company and its subsidiaries normally grant an average of 124 days for customers to pay, a term deemed by management as part of the commercial conditions inherent in the operations of Company and of its subsidiaries, with no embedded significant financing component. Consequently, sales transactions are not subject to present value adjustments at the reporting date. All receivables are measured at amortized cost after initial recognition.

## 2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

*Impairment of financial assets*

The Company and its subsidiaries assess, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment loss may include indicators that the borrower is going through significant financial difficulties. The likelihood that borrowers will go bankrupt or undergo any other type of financial restructuring, be in default or make late principal or interest payments may be indicated by a measurable decrease in future estimated cash flows, such as changes in maturity or economic conditions related to the defaults.

*Inventories*

Inventories are carried at the lower amount between cost and net realizable value. The raw material cost is determined using the weighted average method. The cost of finished products and work-in-process comprise raw materials, direct labor and other direct production costs and overhead. The net realizable value is the estimated selling price for the ordinary course of business, less production costs and selling expenses and, where applicable, the provision for losses due to expiration date, rejection by quality control and damages.

The net realizable value is the estimated selling price for the ordinary course of business, less production costs and selling expenses and, where applicable, the provision for losses due to expiration date, rejection by quality control and damages.

*Judicial deposits*

Judicial deposits are demand cash deposits made in court to back lawsuits filed against the Company. They are tested for impairment periodically.

## 2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

*Investments*

The Company's investments in subsidiaries and jointly-controlled subsidiaries are measured and recorded under the equity method in the individual financial statements, initially recognized at cost, with changes posted in the net income for the year or directly in equity, as applicable.

Where necessary, the accounting policies of the investees are adjusted to ensure consistency with the policies adopted by the Company (investor).

*Business combination*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition-date fair value, and the value of any noncontrolling interests in the acquiree. For every business combination, the Company measures the non-controlling interest in the acquiree at fair value or based on its share in such entity’s identifiable net assets. Costs directly associated with an acquisition are expensed as incurred.

When acquiring a business, the Company measures the financial assets acquired and the financial liabilities assumed so as to classify and allocate them on the basis of the contractual terms, economic conditions and other pertinent conditions existing at the acquisition date, which includes separation, by the acquiree, of existing embedded derivatives from host contracts.

Any contingent portion to be transferred by the acquirer will be recognized at fair value on the acquisition date. Subsequent changes in the fair value of the contingent portion to be considered as an asset or liability shall be recognized in accordance with CPC 48 in the income statement.

## 2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

*Property, plant and equipment*

Property, plant and equipment items are segregated into well-defined classes related to its operating activities. The industry in which the Company and its subsidiaries operate is significantly impacted by the technological development, which requires that management review the recoverable amounts and estimates of useful lives of property, plant and equipment items frequently.

Land and buildings comprise mainly plants. Property, plant and equipment are measured at historical cost, net of accumulated depreciation. The historical cost includes costs directly attributable to the acquisition of the items and financing costs related to the acquisition of assets.

Costs subsequently incurred are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only if it is probable that future economic benefits associated with the item will flow to the entity 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 recorded as a matching entry to P&L for the year as incurred.

Land is not depreciated. Depreciation rate of other assets is calculated under the straight-line method for allocation of their costs to their residual values over the estimated useful life, as detailed in Note 13. The useful life of assets is reviewed and adjusted at year-end, as appropriate.

The carrying amount of an asset is immediately discounted to its recoverable amount when the carrying amount exceeds the estimated recoverable amount.

Gains and losses from sale of assets are determined by comparing P&L and carrying amount, and are recognized in “Other income (expenses), net” in the income statement.

*Intangible assets*

i. Goodwill

Goodwill represents the positive difference between the price paid and/or payable for a business acquisition and the net fair value of assets and liabilities in the statement of financial position of that business. Goodwill on acquisitions of subsidiaries is recorded as intangible assets in Consolidated and as investment in Individual. Goodwill is annually tested for impairment. Goodwill is recorded at cost less accumulated impairment losses. Impairment losses recognized on goodwill are not reversed. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

## 2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

*Intangible assets* (Continued)

ii. Trademarks

Trademarks and licenses acquired separately are initially recognized at acquisition cost.

If part of the amount paid in the business combination relates to trademarks, they are recognized in a specific intangible asset account and measured at their fair value on the acquisition date.

Subsequently, trademarks, since they have an indefinite useful life, are annually tested for impairment.

iii. Software

Software licenses acquired are capitalized based on their acquisition costs and further expenses incurred to prepare them for use. These costs are amortized over the five-year estimated average useful life thereof.

Costs associated with software maintenance are recognized as expenses, as incurred.

iv. Research and development of products

Research expenses, as incurred, are recorded directly in profit or loss. Development expenses are capitalized only when development costs can be reliably measured, the product or process is technically and commercially feasible, future economic benefits are likely to flow and the Company intends and has sufficient funds to complete development and use or sell the asset.

Other development expenses are recognized in profit or loss as incurred. After initial recognition, capitalized development expenses are measured at cost less accumulated amortization and any impairment losses.

## 2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

*Provision for impairment of nonfinancial assets*

Assets with indefinite useful lives, such as goodwill, are not subject to amortization but to annual impairment tests. The assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized at the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset’s fair value less costs to sell and its value in use. For impairment measurement, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash-Generating Units - CGU).

Nonfinancial assets other than goodwill that suffered impairment are reviewed for possible reversal of such impairment at the financial statements reporting date.

*Loans and financing*

Loans and financing are initially recognized at fair value, net of transaction costs incurred, and are subsequently carried at amortized cost. Any difference between the funds raised (net of transaction costs) and the total amount repayable is recognized in the income statement over the period the loans remain outstanding, using the effective interest rate method.

The rates paid when loans are taken are recognized as transaction costs, and are capitalized as prepayment of liquidity services and amortized over the period of the loan to which they relate.

*Trade accounts payable*

Trade accounts payable are obligations payable for goods or services acquired from suppliers in the ordinary course of business, and are classified as current liabilities if payment is due within one year or less. Accounts payable are otherwise stated as noncurrent liabilities.

The average payment term of trade accounts payable is 61 days, which follows the Company’s usual conditions and the arm’s length principle; consequently, no present-value adjustment was applied.

## 2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

*Current and deferred income and social contribution taxes*

These taxes are calculated based on the effective income and social contribution tax rates and consider the offsetting of income and social contribution tax losses for payment requirement determination purposes.

Tax expenses for the period comprise current and deferred income and social contribution taxes. Income taxes are recognized in the statement of profit and loss, except where they refer to items directly recognized in equity. In this case, this tax is also recognized in equity or comprehensive income.

Corporate income tax (IRPJ) is calculated based on net income adjusted for additions and exclusions determined by tax legislation in force, at a rate of 15%, plus a 10% surtax, as applicable. Social contribution tax on net profit (CSLL) is calculated at 9% of pre-tax income adjusted as required by applicable legislation.

Deferred IRPJ and CSLL are calculated on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. CPC 32 establishes conditions for recording deferred tax assets arising from temporary differences and IRPJ and CSLL tax losses. These conditions include a history of profitability and expected future taxable profits, supported by a technical feasibility study, that allow the realization of deferred tax assets.

Deferred IRPJ and CSLL liabilities are fully recognized, while the related tax assets depend on the expected future realization.

## 2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

*Income and social contribution taxes* (Continued)

Deferred tax assets and liabilities are stated net if there is a legal or contractual right to offset tax assets against tax liabilities and the deferred taxes are related to the same taxable entity and subject to the same tax authority.

*Other assets and liabilities (current and noncurrent)*

An asset is recognized in the statement of financial position when its future economic benefits are likely to flow to the Company and its subsidiaries, and its cost or value can be reliably measured. A liability is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an economic resource is required to settle it. These include their corresponding charges and monetary or foreign exchange gains or losses incurred, where applicable.  Provisions are recorded reflecting the best estimates of the risk involved.

Assets and liabilities are classified as current when their realization or settlement is likely to occur within the next twelve months. They are otherwise stated as noncurrent.

## 2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

*Provisions for tax, civil and labor claims*

The Company and its subsidiaries are parties to various legal and administrative proceedings. Provisions are recognized for all contingencies in connection with legal proceedings for which it is likely that a cash outflow will be required to settle the contingency/obligation and a reasonable estimate can be made. The assessment of the likelihood of loss includes an analysis of available evidence, the hierarchy of laws, available case law, recent court decisions and their relevance in the legal system, as well as the opinion of outside legal advisors. Provisions are reviewed and adjusted to take into account changes in circumstances, such as the applicable statute of limitations, tax audit conclusions or additional exposures identified based on new matters or court decisions.

*Functional currency and transactions in foreign currency*

The functional currency of the Company and its main subsidiaries is the Brazilian real (R$), which is also their reporting currency. Foreign currency-denominated transactions are translated into the functional currency of the Company and its subsidiaries at the exchange rates prevailing on the transaction dates. The accounts in the statement of financial position are translated at the exchange rate prevailing at its date. Exchange gains and losses arising from the settlement of these transactions and from the conversion of monetary assets and liabilities denominated in foreign currency are recognized in P&L for the year.

## 2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

*Profit sharing*

The Company and its subsidiaries recognize a liability and an expense for employee profit sharing, which is contingent on achieving operational goals and specific objectives determined and approved at the beginning of each year. The Company and its subsidiaries recognize a provision when it is contractually bound or when a past practice created an obligation that was not formalized.

There are no other benefits for employees and officers after leaving the Company and its subsidiaries (post-employment benefits).

*Government grants*

Government grants are recognized when there is reasonable certainty that the benefit shall be received and that all the related conditions shall be met. Whenever the benefit relates to an expense item, it is recognized as revenue throughout the benefit period, on a systematic basis in relation to the costs whose benefit offset is sought. Whenever the benefit relates to an asset, it is recognized as deferred revenue and posted to P&L in equal amounts throughout the expected useful life of the corresponding asset. When the Company receives non-monetary benefits, the relevant item and the benefit are recorded at par value and reflected in the income statement over the expected useful life of the asset in equal annual portions.

The loan or assistance is initially recognized or measured at fair value. Government grants are measured as the difference between the initial carrying amount of the loan and income earned. The loan is subsequently measured according to the accounting policy.

## 2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

*Standards, amendments and interpretations to standards*

The individual and consolidated financial statements were prepared and are presented in accordance with accounting policies adopted in the preparation of the individual and consolidated financial statements for the year ended December 31, 2017, except for the rules contained in CPC 47 and IFRS 15 – Revenue from Contracts with Customers, and CPC 48 and IFRS 9 - Financial Instruments, which have been in force since January 1, 2018. The Company and its subsidiaries chose to use the cumulative effect method in the first-time adoptions of these new regulations (transitions). As a result, the Company and its subsidiaries did not apply the requirements of CPC 48 (IFRS 9) for the comparative year presented.

The following is a summary of the effects of the first-time adoptions of these regulations:

(In thousands of reais, unless otherwise stated)

## 2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

*Standards, amendments and interpretations to standards* (Continued)

Regarding the adoption of CPC 47 (IFRS 15), there were reclassifications in the statement of profit or loss for th concerning the presentation of expenses related to bonuses, which were previously presented as selling expen operating revenue. The Company's practice is to carry out shipments of these natures to its customers in order transactions are presented as sales deductions and their impacts on the statement of profit or loss for the comp 31, 2017 are as follows:

| | Individual | | | | |
|---|---|---|---|---|---|
| | 12/31/2017 (previously stated) | Adjustments | | 12/31/2017 (restated) | 12/31/2017 (previously stated) |
| Net operating revenue (1) | 1,031,370 | (4,748) | | 1,026,622 | 1,117,953 |
| Cost of sales and services | (493,811) | - | | (493,811) | (512,197) |
| Gross profit | 537,559 | (4,748) | (a) | 532,811 | 605,756 |
| Operating income and expenses: | | | | | |
| Selling, general and administrative expenses (1) | (373,014) | 4,748 | (a) | (368,266) | (441,544) |
| Other operating income, net | 3,438 | - | | 3,438 | 9,911 |
| Equity pickup | 5,498 | - | | 5,498 | 2,869 |
| Operating income before finance income (costs) | 173,481 | - | | 173,481 | 176,992 |
| Finance income (costs), net: | (30,569) | - | | (30,569) | (33,297) |
| Income (loss) before income and social contribution taxes | 142,912 | - | | 142,912 | 143,695 |
| Provision for current and deferred income and social contribution taxes: | (19,963) | - | | (19,963) | (20,746) |
| Net income for the year | 122,949 | - | | 122,949 | 122,949 |

(a) This refers to the effects of applying the new accounting standard CPC 47 / IFRS 15, concerning the reclassification of commercial in selling, general and administrative expenses to revenue deductions.

(In thousands of reais, unless otherwise stated)

## 2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

*Standards, amendments and interpretations to standards* (Continued)

Regarding the adoption of CPC 48 (IFRS 9), its adoption did not have a significant effect on the Company's accounting practices. The classifications and measurements of financial instruments remained the same, with emphasis only on the new denomination of Loans and Receivables that became Amortized Cost. Financial assets and liabilities at amortized cost consist of trade accounts receivable, other accounts receivable, judicial deposits, trade accounts payable, loans and financing and other accounts payable.

The following are the original measurement categories in CPC 38 / IAS 39 and the new denominations defined by CPC 48 / IFRS 9 for each class of financial assets and liabilities of the Company as from January 1, 2018:

| **Financial assets:** | **Original classification in accordance with CPC 38 / IAS 39** | **New classification according to CPC 48 / IFRS 9** | **Original book value in accordance with CPC 38 / IAS 39** | **New book value in accordance with CPC 48 / IFRS 9** |
|---|---|---|---|---|
| Cash and cash equivalents, long-term financial investments | Loans and receivables | Amortized cost | 62,265 | 62,265 |
| Derivative financial instruments | Fair value through profit or loss | Fair value through profit or loss | 15,721 | 15,721 |
| Accounts receivable, other accounts receivable and judicial deposits | Loans and receivables | Amortized cost | 518,187 | 518,187 |
| **Total financial assets** | | | **596,173** | **596,173** |
| **Financial liabilities** | | | | |
| Derivative financial instruments | Fair value through profit or loss | Fair value through profit or loss | 2,535 | 2,535 |
| Trade accounts payable, loans and financing, other accounts payable | Amortized cost | Amortized cost | 744,612 | 744,612 |
| **Total financial liabilities** | | | **747,147** | **747,147** |

With regard to the allowance for doubtful accounts - Impairment - considering the new estimation criterion for expected future losses, the Company did not identify any relevant adjustments considering the risk profile of its customers (counterparty) and the short-term turnover of its receivables.

## 2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

*Standards, amendments and interpretations to standards* (Continued)

The pronouncements and interpretations that were issued by CPC and IASB applied to the Company and its subsidiaries, but which were not in force until the date of issue of these individual and consolidated financial statements, are disclosed below.

Applicable on or after January 1, 2019:

- CPC 06 (R2) (IFRS 16) – Leases - it aims to introduce requirements for recognition, measurement, presentation and disclosure of leases. The pronouncement defines a single accounting model for leases, requiring the lessee to recognize the assets and liabilities for all lease agreements, unless the agreement term is lower than 12 months or the leased asset amount is low. For lessors, there are no substantial changes, and lease agreements should continue to be classified as operational or finance, as defined in the standard.

The Company has lease agreements for vehicles and real estate and, to date, the evaluations of the effects and disclosures resulting from these regulations have not been completed. Based on the preliminary evaluation, no significant impacts are expected in relation to the financial statements taken as a whole.

- IFRIC 23/ICPC 22 Uncertainty over Income Tax Treatments - this interpretation clarifies how to apply the recognition and measurement requirements of CPC 32 when there is uncertainty over income tax treatments. In such circumstances, an entity should recognize and measure its current or deferred tax asset or liability by applying the requirements of CPC 32 / IAS 12 based on taxable income (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined on the basis of this interpretation. This interpretation will be in force as from January 1, 2019, but certain transition exemptions are provided. The Company operates in a complex tax environment and is in the process of completing studies on the subject, but it does not expect to have any impacts with the application of the Interpretation.

### 2.1. Reclassifications of comparative balances

For purposes of better presentation of comparative information, the Company carried out certain reclassifications as follows, without changing any relevant information, in the statement of profit or loss:

a) Balances were reclassified between costs of sales and selling, general and administrative expenses amounting to R$19,152 in Individual (R$19,154 in Consolidated) in 2017.

# 3. Financial instrument risk management

## 3.1. Financial risk factors

The Company's and its subsidiaries' activities expose them to certain financial risks, such as market risk, credit risk and liquidity risk.

The Company and its subsidiaries follow a risk management control that guides transactions and requires diversification of transactions and of counterparties. Based on this control, the nature and the general position of financial risks are regularly monitored and managed in order to assess P&L and the financial impact on cash flow.

The risk management control of the Company and its subsidiaries was defined by the Group's Executive Board. Under the terms of this control, market risks are hedged when supporting the corporate strategy is deemed necessary or when maintaining the financial flexibility level is required.

a) Market risk

i) Interest rate risk

Interest rate risk refers to the possibility of the Company and its subsidiaries incurring losses due to fluctuations in interest rates that increase financial expenses relating to loans and financing raised in the market. The Company and its subsidiaries continually monitor market interest rates in order to assess whether renegotiation or payment/early receipt of transactions is required, or even enter into transactions in the financial market in order to hedge against the risk of rate fluctuations.

ii) *Currency risk*

The associated risk arises from the possibility of the Company and its subsidiaries incurring losses due to exchange rate fluctuations that increase the funds raised in the marketplace. At December 31, 2018, the Company's net exposure refers to loans in foreign currency amounting to US$47,874 thousand and €11,729 thousand (2017 – US$18,236 thousand and €2,119 thousand) and import of raw materials and/or services amounting to US$2,973 thousand and €288 thousand (2017 – US$4,844 thousand and €1,126 thousand), with NDF hedging this exposure as at December 31, 2018 totaling US$13,855 thousand and €1,521 thousand (2017 - US$6,210 thousand and €806 thousand).

## 3. Financial instrument risk management (Continued)

### 3.1. Financial risk factors (Continued)

b) Credit risk

Credit risk is managed by the Executive Board of Company and its subsidiaries. Credit risk arises from cash and cash equivalents, credit exposure of outstanding accounts receivable and transactions with related parties. The credit analysis area assesses the customer's credit quality, taking into consideration its financial position, past experience, market behavior, credit analyses and other factors. Individual risk limits are determined based on internal ratings defined by management. Use of credit limits is monitored on a regular basis. Sales to customers are usually suspended when there is evidence of default.

For customers with history of default, management requires early payment in some cases to release new orders.

Management does not expect any loss due to default of these counterparties, except for the allowance for doubtful accounts shown in Note 6.

c) Liquidity risk

This is the risk of the Company and its subsidiaries not having sufficient liquidity to meet their financial commitments, due to the mismatch of terms or volume between expected receipts and payments.

To manage cash liquidity in domestic and foreign currency, future cash outflows and receivables assumptions are determined and monitored by the treasury department. See liquidity quantitative analysis in Note 28.

### 3.2. Capital risk management

The objectives of Company and its subsidiaries when managing capital are to safeguard their ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust their capital structure, the Company and its subsidiaries may revise the policy for payment of dividends, return capital to shareholders, issue new shares, or sell assets to reduce their indebtedness level, for example.

Consistently with other companies operating in this industry, the Company and its subsidiaries monitor capital based on the financial leverage ratio. This ratio corresponds to the net debt divided by total capital.

## 3. Financial risk management (Continued)

### 3.2. Capital risk management (Continued)

Net debt, in its turn, corresponds to total loans and financing (including short and long-term loans, as stated in the consolidated statement of financial position), deducted from cash and cash equivalents. Total capital is calculated through the sum of equity, as stated in the consolidated statement of financial position, with net debt.

The financial leverage is basically due to the following transactions:

(i) Finance lease (machinery, equipment and vehicles);
(ii) Import financing and re-financing;
(iii) Raising of working capital;
(iv) FINAME (Government Fund for Financing of Machinery and Equipment) - acquisition of machinery and equipment with at least 60% of their parts manufactured in Brazil; and
(v) Debentures.

### 3.3. Sensitivity analysis of financial assets and liabilities

The financial liabilities of the Company and its subsidiaries relate mostly to contracts pegged to the CDI variation, representing 52% of the consolidated financial liabilities at December 31, 2018. In addition, 6% of bank loans are pegged to fixed interest rates, 40% pegged to contracts with exchange differences, and 2% are restated by other monetary restatement indexes (such as TLP and INPC).

CPC 48, 39 and 40 provide for the presentation of information on financial instruments in a specific note, and for the disclosure of a sensitivity analysis table.

With a view to checking the sensitivity of the debt indexes to which the Company and its subsidiaries are exposed as at December 31, 2018, three different scenarios were estimated, considering the volume of total financing. Based on these consolidated amounts at December 31, 2018, the Company defined the Probable Scenario for the next 12-month period (Scenario I). Based on Scenario I (Probable), the Company simulated additions of 25% (Scenario II) and 50% (Scenario III) on projections of restatement indexes of each agreement.

For each scenario, gross finance costs were calculated, not considering taxes and the aging list of each agreement for 2018 and thereafter. The reporting date used was December 31, 2018, with projection of restatement indexes for each contract for the next 12 months and assessment of their sensitivity under each scenario.

(In thousands of reais, unless otherwise stated)

## 3. Financial risk management (Continued)

### 3.3. Sensitivity analysis of financial assets and liabilities (Continued)

| | Probable scenario | Scenario II | Scenario III |
|---|---|---|---|
| **Risk** | **Dec 2018** | **Dec 2018** | **Dec 2018** |
| **Exchange gains (losses)** | **237,542** | **237,542** | **237,542** |
| Projected finance costs | **2,659** | **62,709** | **122,760** |
| Variation % | **1.12%** | **26.40%** | **51.68%** |
| **CDI** | **310,473** | **310,473** | **310,473** |
| Projected finance costs | **25,752** | **30,748** | **35,744** |
| Variation % | **8.29%** | **9.90%** | **11.51%** |
| **Fixed** | **37,517** | **37,517** | **37,517** |
| Projected finance costs | **1,415** | **1,415** | **1,415** |
| Variation % | **3.77%** | **3.77%** | **3.77%** |
| **Other** | **13,587** | **13,587** | **13,587** |
| Projected finance costs | **1,963** | **2,217** | **2,470** |
| Variation % | **14.45%** | **16.32%** | **18.18%** |
| Total bank indebtedness | **599,119** | **599,119** | **599,119** |
| Total projected finance costs | **31,789** | **97,089** | **162,389** |
| Total variation % | **5.31%** | **16.21%** | **27.10%** |

The financial assets of the Company and its subsidiaries are pegged to the CDI variation. In order to assess the sensitivity of possible changes in the CDI at December 31, 2018, the Company defined a Probable Scenario for the next 12-month period and thereafter and, based on this scenario, it simulated variations of 25% (Scenario II) and 50% (Scenario III) on index projections.

| | Probable scenario I | Scenario II | Scenario III |
|---|---|---|---|
| **Investments - CDI** | **61,557** | **61,556** | **61,556** |
| Rate subject to variation | 6.32% | 7.90% | 9.48% |
| Projected finance income | 3,890 | 4,863 | 5,836 |
| **Variation** | **-** | **973** | **1,945** |

The financial assets of the Company and its subsidiaries at December 31, 2018 are pegged to the daily yield equivalent to a percentage of the CDI variation, with daily liquidity. Part of the investments characterize as automatic investments, based on the final balance available in the checking account. Part of the investments were invested in CDBs with daily liquidity through specific amounts/lots traded and distributed in the main institutions with which the Company and its subsidiaries do business.

The Company and its subsidiaries include NDFs and Swap in the sensitivity analysis using the scenarios below:

(In thousands of reais, unless otherwise stated)

## 3. Financial risk management (Continued)

### 3.3. Sensitivity analysis of financial assets and liabilities (Continued)

Scenario I - considered a benchmark by the Company and its subsidiaries: derived from the R$ / US$ exchange rate and CDI rates, based on the compilation of market projections obtained from reports of leading consulting firms, national and international financial institutions and the Bank Central of Brazil.

Scenarios II and III - decrease in exchange rates and CDI - these scenarios consider 25% and 50% decrease (devaluation) in interest rates (marked to market) linked to derivative financial instruments entered into by the Company and its subsidiaries with outstanding positions on the closing date.

The sensitivity values shown in the table below are variations of derivative financial instruments under each scenario.

| | Individual and Consolidated | | |
|---|---|---|---|
| | 12/31/2018 | | |
| | Scenario (I) - Probable | Scenario (II) 25% decrease | Scenario (III) 50% decrease |
| NDF (banks) | (2,278) | 17,339 | 32,469 |
| Swap | 15,464 | 11,598 | 7,732 |
| **Total** | 13,186 | 28,937 | 40,201 |

## 4. Cash and cash equivalents

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| Cash and banks | **708** | 336 | **1,673** | 512 |
| Short-term investments | | | | |
| Santander | **23,129** | 12,876 | **26,652** | 15,424 |
| Bradesco | **135** | - | **135** | - |
| Banco do Brasil | **15,406** | 8,180 | **15,406** | 8,180 |
| Itaú Unibanco | **47** | 20 | **1,404** | 8,028 |
| SAFRA | **5,060** | - | **5,060** | - |
| Alfa | **5,076** | 1 | **5,076** | 1 |
| BRB | **51** | 49 | **51** | 49 |
| Citibank | **10,271** | 10,208 | **11,035** | 10,208 |
| | **59,883** | 31,670 | **66,492** | 42,402 |

Short-term investments in Bank Deposit Certificates (CDB) have an average yield of 98.29% of CDI. They comprise cash or cash equivalent amounts invested in securities issued by prime financial institutions with credit rating assigned by international credit rating agencies, which are highly liquid and redeemable at any time without any effective loss.

(In thousands of reais, unless otherwise stated)

## 5. Long-term investments

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **12/31/2018** | **12/31/2017** | **12/31/2018** | **12/31/2017** |
| **Noncurrent assets** | | | | |
| Banco de Brasília | **2,382** | 4,230 | **2,382** | 4,230 |
| | **2,382** | 4,230 | **2,382** | 4,230 |

The Company maintained transactions referring to financing of 70% of the State VAT (ICMS) amount arising from sales made through Brasília, and the Company is responsible for paying the other 30%. As required by the respective agreement, Bank Deposit Certificates (CDB) issued by Banco de Brasília (BRB) have been acquired as guarantee, in an amount equivalent to 10% of each loan installment drawn down, which shall be maintained until the maturity of referred to financing and fully used to amortize the debt. In August 2018, there was the Pro-DF auction in which there was a full settlement of the debt of R$14,876 for R$4,291 (Note 18). There was also the IDEAS auction in which there was a settlement of the debt of R$3,087 for R$703. (Note 18). In order to carry out the aforementioned settlements, R$ 2,637 of long-term financial investments were used.

## 6. Trade accounts receivable

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **12/31/2018** | **12/31/2017** | **12/31/2018** | **12/31/2017** |
| Domestic customers | **282,160** | 260,129 | **363,906** | 301,281 |
| Foreign customers | **33** | 68 | **33** | 68 |
| Related parties (Note 11) | **192,598** | 82,861 | **90,632** | 50,692 |
| | **474,791** | 343,058 | **454,571** | 352,041 |
| (-) Expected credit loss | **(4,236)** | (1,718) | **(4,728)** | (1,718) |
| | **470,555** | 341,340 | **449,843** | 350,323 |

The Company and its subsidiaries adopt, as a procedure, an allowance for doubtful accounts taking into account the characteristics of customers and due dates of trade notes, together with the individual analysis of its customer portfolio and expected losses.
Changes in expected credit loss in 2018 and 2017 are as follows*:*

| | Individual | Consolidated |
|---|---|---|
| Balance at 12/31/2016 | (3,453) | (3,453) |
| Allowance | (4,632) | (4,632) |
| Reversal | 3,553 | 3,553 |
| Write-off (actual loss) | 2,814 | 2,814 |
| Balance at 12/31/2017 | (1,718) | (1,718) |
| Allowance | **(4,387)** | **(4,879)** |
| Reversal | **1,787** | **1,787** |
| Write-off (actual loss) | **82** | **82** |
| **Balance at 12/31/2018** | **(4,236)** | **(4,728)** |

(In thousands of reais, unless otherwise stated)

## 6. Trade accounts receivable (Continued)

At December 31, 2017, the Company reversed the allowance for doubtful accounts receivable from government entities, considering their remote probability of default in the long term and the history of realization of the receivables, even though such credits currently show a default level. At December 31, 2018, management's assessment of the factors mentioned above remains unchanged.

The aging list of accounts receivable is summarized as follows:

| | Individual | | | | | |
|---|---|---|---|---|---|---|
| | 12/31/2018 | | | 12/31/2017 | | |
| | Corporate customers | Government entities | Total | Corporate customers | Government entities | Total |
| Falling due | **373,396** | **5,716** | **379,112** | 313,084 | 4,960 | 318,044 |
| Overdue up to 30 days | **21,924** | **8,020** | **29,944** | 5,187 | 3,306 | 8,493 |
| Overdue from 31 to 60 days | **10,144** | **3,492** | **13,636** | 431 | 1,798 | 2,229 |
| Overdue from 61 to 120 days | **17,795** | **2,355** | **20,150** | 1,279 | 2,761 | 4,040 |
| Overdue from 121 to 180 days | **22,930** | **1,345** | **24,275** | 361 | 1,507 | 1,868 |
| Overdue from 181 to 360 days | **977** | **1,099** | **2,076** | 1,023 | 4,377 | 5,400 |
| Overdue for more than 361 days | **2,380** | **3,218** | **5,598** | 425 | 2,559 | 2,984 |
| | **449,546** | **25,245** | **474,791** | 321,790 | 21,268 | 343,058 |

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 12/31/2018 | | | 12/31/2017 | | |
| | Corporate customers | Government entities | Total | Corporate customers | Government entities | Total |
| Falling due | **347,019** | **5,716** | **352,735** | 319,709 | 4,960 | 324,669 |
| Overdue up to 30 days | **25,059** | **8,020** | **33,079** | 7,290 | 3,306 | 10,596 |
| Overdue from 31 to 60 days | **10,267** | **3,492** | **13,759** | 551 | 1,798 | 2,349 |
| Overdue from 61 to 120 days | **18,573** | **2,355** | **20,928** | 1,403 | 2,761 | 4,164 |
| Overdue from 121 to 180 days | **23,189** | **1,345** | **24,534** | 399 | 1,507 | 1,906 |
| Overdue from 181 to 360 days | **2,758** | **1,099** | **3,857** | 989 | 4,377 | 5,366 |
| Overdue for more than 361 days | **2,461** | **3,218** | **5,679** | 432 | 2,559 | 2,991 |
| | **429,326** | **25,245** | **454,571** | 330,773 | 21,268 | 352,041 |

## 7. Inventories

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| Finished products | **114,867** | 67,617 | **134,813** | 82,390 |
| Work-in-process | **23,384** | 16,308 | **30,570** | 21,274 |
| Raw materials | **128,991** | 69,209 | **148,303** | 86,666 |
| Packaging material | **34,346** | 24,057 | **51,626** | 39,147 |
| Maintenance and safety materials | **19,927** | 15,747 | **35,984** | 30,577 |
| Advance for acquisition of supplies (i) | **12,411** | 3,226 | **12,411** | 3,226 |
| Other | **5,718** | 5,323 | **10,551** | 9,592 |
| (-) Provision for losses | **(13,900)** | (6,899) | **(18,926)** | (21,116) |
| | **325,744** | 194,588 | **405,332** | 251,756 |

(i) This refers to advances for the acquisition of raw material and imported medications for resale.

(In thousands of reais, unless otherwise stated)

## 7. Inventories (Continued)

| | Individual | Consolidated |
|---|---|---|
| Balance at 12/31/2016 | (14,394) | (15,806) |
| Provision/Reversal | (6,669) | (8,192) |
| Write-off (actual loss) | 14,164 | 14,164 |
| Acquisition of subsidiary | - | (11,282) |
| Balance at 12/31/2017 | (6,899) | (21,116) |
| Provision/Reversal | **(15,348)** | **(6,752)** |
| Write-off (actual loss) | **8,347** | **8,942** |
| **Balance at 12/31/2018** | **(13,900)** | **(18,926)** |

## 8. Taxes and contributions recoverable

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| State Value-added Tax (ICMS) (i) | **35,158** | 26,614 | **52,643** | 37,333 |
| Contribution Tax on Gross Revenue for Social | **961** | 851 | **2,007** | 943 |
| Contribution Tax on Gross Revenue for Social | **3,573** | 3,786 | **8,357** | 4,413 |
| Income tax | **5,485** | 4,736 | **6,364** | 5,991 |
| Social contribution tax on net profit | **7,006** | 6,452 | **7,943** | 7,440 |
| Withholding Income Tax (IRRF) | **-** | - | **17** | 16 |
| Federal Value-added Tax (IPI) | **3,278** | 3,382 | **9,201** | 4,606 |
| Other | **1,002** | 543 | **1,103** | 627 |
| | **56,463** | 46,364 | **87,635** | 61,369 |
| Current | **48,344** | 37,018 | **78,050** | 50,749 |
| Noncurrent | **8,119** | 9,346 | **9,585** | 10,620 |

(i) This mainly refers to credits resulting from import of medicines.

## 9. Other accounts receivable

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| Advances to suppliers | **1,078** | 874 | **2,309** | 1,214 |
| Prepaid vacation pay | **3,401** | 3,076 | **4,172** | 3,781 |
| Pledges and collaterals | **2,200** | 1,608 | **2,201** | 1,608 |
| Other (i) | **2,512** | 278 | **4,384** | 440 |
| Advance for future investment acquisitions | **-** | 5,417 | **-** | 5,417 |
| Related parties (Note 11) | **12,277** | 748 | **4,072** | - |
| | **21,468** | 12,001 | **17,138** | 12,460 |
| Current | **6,992** | 11,253 | **10,867** | 12,460 |
| Noncurrent | **14,476** | 748 | **6,271** | - |

(i) Substantially represented by employee benefit prepayments.

(In thousands of reais, unless otherwise stated)

## 10. Derivative financial instruments

| | Individual and Consolidated | |
|---|---|---|
| | 12/31/2018 | 12/31/2017 |
| **Assets** | | |
| NDF (banks) | **246** | 158 |
| Swap | **15,475** | - |
| | **15,721** | 158 |
| **Liabilities** | | |
| NDF (banks) | **(2,524)** | (147) |
| Swap | **(11)** | (1,448) |
| | **(2,535)** | (1,595) |
| Financial instruments, net | **13,186** | (1,437) |

## 11. Related parties

Related-party transactions and balances are as follows:

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Revenue** | | | | |
| Sales to Anovis (i) | **97,006** | 52,608 | **-** | **-** |
| Sales to F&F Distribuídora (ii) | **208,302** | 144,307 | **208,302** | 144,307 |
| Sales to Inovat (i) | **39** | - | **-** | - |
| Sales to UQ Indústria Gráfica (iii) | **6,211** | - | **-** | - |
| | **311,558** | 196,915 | **208,302** | 144,307 |
| **Purchases** | | | | |
| Purchases from Anovis (i) | **9,375** | 3,523 | **-** | - |
| Purchases from UQ Gráfica (iii) | **23,038** | - | **-** | - |
| Purchases from Laboratil (iv) | **9,050** | 5,132 | **9,050** | 5,132 |
| | **41,463** | 8,655 | **9,050** | 5,132 |

(i) Balances referring to transactions of purchase and sale of medicines and packaging materials carried out at observable market prices and conditions;

(ii) Balances referring to transactions of sale of medicines carried out at observable market prices and conditions. The Company and F&F Distribuidora have the same controlling shareholder;

(iii) Balances referring to transactions of purchase and sale of graphic materials carried out at observable market prices and conditions;

(iv) Balances referring to secondary packaging service carried out at observable market prices and conditions. The Company and Laboratil have the same controlling shareholder.

(In thousands of reais, unless otherwise stated)

## 11. Related parties (Continued)

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| **Current assets** | | | | |
| Receivables from Anovis (i) | **97,146** | 32,169 | **-** | - |
| Receivables from F&F Distribuídora (ii) | **90,632** | 50,665 | **90,632** | 50,665 |
| Receivables from Inovat (iv) | **1,085** | - | **-** | - |
| Receivables from Laboratil (ii) | **-** | 27 | **-** | 27 |
| Receivables from UQ Indústria Gráfica (iii) | **3,735** | - | **-** | - |
| | **192,598** | 82,861 | **90,632** | 50,692 |
| **Noncurrent assets** | | | | |
| Other receivables from Inovat (iv) | **7,498** | 748 | **-** | - |
| Other receivables from Union Agener (vi) | **4,072** | - | **4,072** | - |
| Loans - UQ Indústria Gráfica | **1** | - | **-** | - |
| Loans - Claris (vii) | **706** | - | **-** | - |
| | **12,277** | 748 | **4,072** | - |
| **Current liabilities** | | | | |
| Payables to Anovis (i) | **452** | 653 | **-** | - |
| Payables to UQ Gráfica (iii) | **4,588** | - | **-** | - |
| Loan - indirect parent (v) | **-** | - | **668** | 7,542 |
| | **5,040** | 653 | **668** | 7,542 |

(i) Balances referring to transactions of purchase and sale of medicines and packaging materials carried out at observable market prices and conditions, and receivables from shared services;

(ii) Balances referring to transactions of sale of medicines carried out at observable market prices and conditions. The Company and F&F Distribuidora have the same controlling shareholder;

(iii) Balances referring to transactions of purchase and sale of graphic materials carried out at observable market prices and conditions;

(iv) The balance with Inovat Farmacêutica Ltda. refers to receivables related to operating expenses, stated at nominal value, with no fixed maturity, shared services and intercompany loans, also stated at nominal value plus 12% p.a. interest, with no fixed maturity;

(v) This refers to the loan balance obtained by Union Internacional from its indirect parent, stated at its nominal value translated into the functional currency, not subject to interest and with no fixed maturity;

(vi) Union Agener, a company owned by the Company's shareholder, received funds to pay pre-operating expenses. The expectation is that the reimbursement will take place in the next 2 years, without interest;

(vii) This refers to loans for payment of operating expenses, stated at nominal value, without interest and with no fixed maturity.

Key management personnel compensation

Key management personnel includes the Chief Executive Officer and Executive Officers, and their compensation paid and/or payable is as follows:

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Payroll and related charges | **5,142** | 5,561 | **8,965** | 7,554 |
| Executive Board fees | **1,944** | 1,944 | **1,944** | 1,944 |
| Variable compensation | **1,081** | 1,245 | **1,686** | 1,395 |
| | **8,167** | 8,750 | **12,595** | 10,893 |

(In thousands of reais, unless otherwise stated)

# 12. Investments

## 12.1. Information on investments

| | Capital | Interest in capital % | Equity | P&L |
|---|---|---|---|---|
| **Bionovis S.A. (joint venture)** | | | | |
| At December 31, 2017 | 24,000 | 25.00 | 24,745 | 12,753 |
| At December 31, 2018 | **24,000** | **25.00** | **46,252** | **21,507** |
| **Anovis Industrial Farmacêutica Ltda.** | | | | |
| At December 31, 2017 | 105,524 | 99.99 | 124,316 | 635 |
| At December 31, 2018 | **105,524** | **99.99** | **101,976** | **(22,339)** |
| **Union Quimica Farmacêutica Internacional S.A.** | | | | |
| At December 31, 2017 | 176 | 100.00 | 719 | (116) |
| At December 31, 2018 | **176** | **100.00** | **802** | **83** |
| **Inovat Indústria Farmacêutica Ltda.** | | | | |
| At December 31, 2017 (i) | 128,027 | 100.00 | 121,646 | 647 |
| At December 31, 2018 | **128,027** | **100.00** | **130,878** | **9,232** |
| **UQ Indústria Gráfica e de embalagens Ltda.** | | | | |
| At December 31, 2018 (ii) | **7,031** | **100.00** | **6,843** | **(188)** |
| **Claris Produtos Farmacêuticos dos Brasil Ltda.** | | | | |
| At December 31, 2018 (iii) | **7,966** | **100.00** | **(2,375)** | **(2,194)** |

(i) 2-month period P&L.
(ii) 6-month period P&L.
(iii) 8-month period P&L.

(In thousands of reais, unless otherwise stated)

## 12. Investments (Continued)

### 12.2. Changes in investments

| | Bionovis (i) | Anovis (ii) | Union Química (iii) | Inovat (iv) | UQ Indústria Gráfica (v) | Claris Brasil (vi) | Total |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2016** | 3,317 | 104,000 | 184 | - | - | - | 107,501 |
| Equity pickup | 2,869 | 635 | 506 | 647 | - | - | 4,657 |
| Acquisition of investee | - | - | - | 121,042 | - | - | 121,042 |
| Goodwill based on future profitability | - | - | - | (43) | - | - | (43) |
| Fair value upon acquisition | - | - | - | 38,704 | - | - | 38,704 |
| Depreciation - surplus of assets | - | (3,664) | - | - | - | - | (3,664) |
| Amortization of supply agreement | - | 4,505 | - | - | - | - | 4,505 |
| Inventory profits | - | (1,124) | - | - | - | - | (1,124) |
| Translation gains (losses) on foreign transactions | - | - | 31 | - | - | - | 31 |
| **Balance at December 31, 2017** | 6,186 | 104,352 | 721 | 160,350 | - | - | 271,609 |
| Capital payment | **-** | **-** | **-** | | **7,031** | **-** | **7,031** |
| Acquisition of investee | **-** | **-** | **-** | **-** | **-** | **(179)** | **(179)** |
| Equity pickup | **5,377** | **(22,339)** | **58** | **9,232** | **(188)** | **(2,194)** | **(10,054)** |
| Fair value upon acquisition | **-** | **-** | **-** | **-** | **-** | **5,566** | **5,566** |
| Bargain purchase | **-** | **-** | **-** | **-** | **-** | **13** | **13** |
| Depreciation - surplus of assets | **-** | **(3,390)** | **-** | **(10,910)** | **-** | **-** | **(14,300)** |
| Amortization of supply agreement | **-** | **4,114** | **-** | **2,548** | **-** | **-** | **6,662** |
| Inventory profits | **-** | **(493)** | **-** | **-** | **-** | **-** | **(493)** |
| Translation gains (losses) on foreign transactions | **-** | **-** | **23** | **-** | | **-** | **23** |
| **Balance at December 31, 2018** | **11,563** | **82,244** | **802** | **161,220** | **6,843** | **3,206** | **265,878** |

(i) On April 2, 2012, the Company paid in R$2,500 of the capital in Bionovis S.A., first Brazilian biotechnology product company founded by the Company and Aché Laboratórios Farmacêuticos S.A., EMS Participações S.A. and Hypera S.A.. Equity pickup of R$5,377 refers to year 2018.

(ii) Anovis Industrial Farmacêutica Ltda. was acquired on February 13, 2015 for R$83,147. This company operates in the medicine distribution and toll manufacturing segments. Equity pickup of R$(22,339) refers to P&L for year 2018. At December 31, 2018, the Company recognized in P&L for the year the depreciation on the surplus value of tangible assets acquired in the business combination, in the amount of R$3,390, as well as the amortization of the surplus value of the manufacturing agreement in the amount of R$4,114. The referred to amortization considered the contractual volumes up to December 31, 2018. These amounts represent 17.70% of the expected cumulative volume of the agreement up to 2024. The Company also recognized the amount of R$(493) related to unrealized profits on inventories, arising from sales of medicines to this subsidiary.

(iii) Cash remitted by the Company for investment and organization of "Union Química Farmacêutica Internacional", a company based in Uruguay. Equity pickup of R$58 refers to P&L for year 2018.

(In thousands of reais, unless otherwise stated)

## 12. Investments (Continued)

### 12.2. Changes in investments (Continued)

(iv) Inovat Industrial Farmacêutica Ltda. was acquired on November 14, 2017 for R$159.746. This company operates in the medicines and toll manufacturing segments. Equity pickup of R$9,232 refers to P&L for year 2018. At December 31, 2018, the Company recognized in P&L for the year the depreciation on the surplus value of tangible assets acquired in the business combination, in the amount of R$10,910, as well as the amortization of the manufacturing agreement in the amount of R$2,548, based on contracted volumes. Such amortization considered the amount of the supply agreement in relation to the elapsed year of the agreement, which has a term of 05 (five) years, at December 31, 2018.

(v) UQ Indústria Gráfica e de Embalagens Ltda. started its operations in June 2018 and operates in the manufacture and sale of paper, metal and other packaging. The amount of R$7,031 refers to capital payment through PP&E and intangible assets, carried out by the Company in the company. Equity pickup of R$(188) refers to the seven-month loss.

(vi) Claris Produtos Farmaceuticos do Brasil Ltda was acquired on May 21, 2018 for R$5,387. Equity pickup of R$(2,194) refers to P&L for the year under the subsidiary's management. The effects of the business combination are described in Note 1.

### 12.3. Investment breakdown

| | Investment - Equity pickup | Goodwill/bargain | Surplus value/supply | Exchange difference | Investment balance |
|---|---|---|---|---|---|
| Bionovis S.A. | **11,563** | **-** | **-** | **-** | **11,563** |
| Anovis Industrial Farmacêutica Ltda. | **101,976** | **2,633** | **(22,365)** | **-** | **82,244** |
| Union Quimica Farmacêutica Internacional S.A. | **748** | **-** | **-** | **54** | **802** |
| Inovat Industrial Farmacêutica Ltda. | **130,878** | **(43)** | **30,385** | **-** | **161,220** |
| UQ Industrial Gráfica e embalagens Ltda. | **6,843** | **-** | **-** | **-** | **6,843** |
| Claris Produtos Farmacêuticos do Brasil Ltda. | **(2,386)** | **13** | **5,579** | **-** | **3,206** |
| | **249,622** | **2,603** | **13,599** | **54** | **265,878** |

### 12.4. Changes in the supply agreement

| | Consolidated |
|---|---|
| **Balance at December 31, 2016** | 83,906 |
| Amortization | (4,508) |
| Acquisition of parent company | 12,743 |
| **Balance at December 31, 2017** | 92,141 |
| Amortization | **(6,662)** |
| **Balance at December 31, 2018** | **85,479** |
| Current | **12,235** |
| Noncurrent | **73,244** |

(In thousands of reais, unless otherwise stated)

## 13. Property, plant and equipment

As mentioned in Note 17, the Company has collateralized property, plant and equipment items for loans fo
financing of assets, such as machinery, equipment, vehicles and properties.

| | Individual | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Land** | **Buildings and improvements** | **Machinery, equipment and facilities** | **Furniture and fixtures** | **Vehicles and other** | **Total in operation** | **Ad s** |
| **Cost** | | | | | | | |
| **Book balance at 12/31/2016** | 13,962 | 107,465 | 215,657 | 16,676 | 39,723 | 393,483 | |
| Additions | 2,081 | 52 | 8,831 | 1,458 | 1,136 | 13,558 | |
| Disposals | - | - | (538) | (672) | (15,453) | (16,663) | |
| Transfers | - | 13,070 | 10,399 | 17 | 210 | 23,696 | |
| **Book balance at 12/31/2017** | 16,043 | 120,587 | 234,349 | 17,479 | 25,616 | 414,074 | |
| Additions | **690** | **1,726** | **16,811** | **1,203** | **1,402** | **21,832** | |
| Disposals | **-** | **(127)** | **(16,417)** | **(343)** | **(1,584)** | **(18,471)** | |
| Transfers (i) | **-** | **600** | **7,164** | **16** | **1,406** | **9,186** | |
| **Book balance at 12/31/2018** | **16,733** | **122,786** | **241,907** | **18,355** | **26,840** | **426,621** | |
| **Depreciation** | | | | | | | |
| **Book balance at 12/31/2016** | - | (22,097) | (65,337) | (4,963) | (18,183) | (110,580) | |
| Additions | **-** | (2,032) | (11,996) | (1,027) | (3,948) | (19,003) | |
| Disposals | **-** | - | 313 | 135 | 5,911 | 6,359 | |
| **Book balance at 12/31/2017** | - | (24,129) | (77,020) | (5,855) | (16,220) | (123,224) | |
| Additions | **-** | **(1,977)** | **(11,589)** | **(993)** | **(2,816)** | **(17,375)** | |
| Disposals | **-** | **109** | **8,941** | **201** | **835** | **10,086** | |
| **Book balance at 12/31/2018** | **-** | **(25,997)** | **(79,668)** | **(6,647)** | **(18,201)** | **(130,513)** | |
| Net balance at 12/31/2016 | 13,962 | 85,368 | 150,320 | 11,713 | 21,540 | 282,903 | |
| Net balance at 12/31/2017 | 16,043 | 96,458 | 157,329 | 11,624 | 9,396 | 290,850 | |
| Net balance at 12/31/2018 | **16,733** | **96,789** | **162,239** | **11,708** | **8,639** | **296,108** | |
| Depreciation rate | - | 1.67% to 4% | 5% to 6.67% | 10% | 6.6% to | | |

(i) This refers to the transfer of prior-period Pis and Cofins credits on machinery, buildings and improvements totaling R$2,685 to taxes reco

(In thousands of reais, unless otherwise stated)

## 13. Property, plant and equipment (Continued)

| | Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Land** | **Buildings and improvements** | **Machinery, equipment and facilities** | **Furniture and fixtures** | **Vehicles and other** | **Total in operation** | **Adv su** |
| **Cost** | | | | | | | |
| **Book balance at 12/31/2016** | 55,143 | 183,660 | 270,855 | 18,909 | 39,967 | 568,534 | |
| Acquisition of subsidiary | 4,537 | 50,250 | 83,601 | 1,145 | 365 | 139,898 | |
| Additions | 2,081 | 52 | 17,006 | 1,533 | 1,136 | 21,808 | |
| Disposals | - | - | (6,354) | (863) | (15,475) | (22,692) | |
| Transfers | - | 13,070 | 14,247 | 17 | 210 | 27,544 | |
| **Book balance at 12/31/2017** | 61,761 | 247,032 | 379,355 | 20,741 | 26,203 | 735,092 | |
| Acquisition of subsidiary | **-** | **-** | **3** | **-** | **-** | **3** | |
| Additions | **690** | **1,734** | **28,364** | **1,621** | **1,516** | **33,925** | |
| Disposals | **-** | **(127)** | **(5,594)** | **(197)** | **(1,584)** | **(7,502)** | |
| Transfers (i) | **-** | **600** | **14,100** | **19** | **1,406** | **16,125** | |
| **Book balance at 12/31/2018** | **62,451** | **249,239** | **416,228** | **22,184** | **27,541** | **777,643** | |
| | | | | | | | |
| **Depreciation** | | | | | | | |
| **Book balance at 12/31/2016** | - | (31,179) | (76,165) | (6,309) | (18,398) | (132,051) | |
| Additions | **-** | (6,923) | (19,078) | (1,806) | (4,096) | (31,903) | |
| Disposals | **-** | - | 6,029 | 227 | 5,933 | 12,189 | |
| **Book balance at 12/31/2017** | **-** | (38,102) | (89,214) | (7,888) | (16,561) | (151,765) | |
| Additions | **-** | **(11,386)** | **(34,939)** | **(2,017)** | **(3,067)** | **(51,409)** | |
| Disposals | **-** | **109** | **2,920** | **162** | **835** | **4,026** | |
| **Book balance at 12/31/2018** | **-** | **(49,379)** | **(121,233)** | **(9,743)** | **(18,793)** | **(199,148)** | |
| | | | | | | | |
| Net balance at 12/31/2016 | 55,143 | 152,481 | 194,690 | 12,600 | 21,569 | 436,483 | |
| Net balance at 12/31/2017 | 61,761 | 208,930 | 290,141 | 12,853 | 9,642 | 583,327 | |
| Net balance at 12/31/2018 | **62,451** | **199,860** | **294,995** | **12,441** | **8,748** | **578,495** | |
| Depreciation rate | - | 1.67% to 4% | 5% to 6.67% | 10% | 6.6% to 20% | | |

(i) This refers to the transfer of prior-period Pis and Cofins credits on machinery, buildings and improvements totaling R$2,685 to taxes reco

(In thousands of reais, unless otherwise stated)

## 14. Intangible assets

| Individual | | | | |
|---|---|---|---|---|
| | Trademarks and patents (i) | Goodwill (ii) | Software (iii) | Total |
| **Cost** | | | | |
| **Book balance at 12/31/2016** | 28,844 | 2,700 | 14,060 | 45,604 |
| Additions | 2,633 | 43 | 578 | 3,254 |
| Impairment test adjustment | 4,540 | - | - | 4,540 |
| **Book balance at 12/31/2017** | 36,017 | 2,743 | 14,638 | 53,398 |
| Additions | **3,169** | **-** | **277** | **3,446** |
| Disposals | **-** | **-** | **(103)** | **(103)** |
| Impairment test adjustment | **-** | **10,758** | **-** | **10,758** |
| **Book balance at 12/31/2018** | **39,186** | **13,501** | **14,812** | **67,499** |
| | | | | |
| **Amortization** | | | | |
| **Book balance at 12/31/2016** | **-** | **-** | (7,258) | (7,258) |
| Additions | - | - | (1,542) | (1,542) |
| **Book balance at 12/31/2017** | - | - | (8,800) | (8,800) |
| Additions | **-** | **-** | **(741)** | **(741)** |
| Disposals | **-** | **-** | **34** | **34** |
| **Book balance at 12/31/2018** | **-** | **-** | **(9,507)** | **(9,507)** |
| | | | | |
| Net balance at 12/31/2016 | 28,844 | 2,700 | 6,802 | 38,346 |
| Net balance at 12/31/2017 | 36,017 | 2,743 | 5,838 | 44,598 |
| Net balance at 12/31/2018 | **39,186** | **13,501** | **5,305** | **57,992** |

| Consolidated | | | | |
|---|---|---|---|---|
| | Trademarks and patents (i) | Goodwill (ii) | Software (iii) | Total |
| **Cost** | | | | |
| **Book balance at 12/31/2016** | 28,844 | 2,700 | 14,067 | 45,611 |
| Additions | 2,633 | 43 | 5,524 | 8,200 |
| Disposals | - | - | (1,701) | (1,701) |
| Transfers | - | - | 276 | 276 |
| Reversal of impairment | 4,540 | - | - | 4,540 |
| **Book balance at 12/31/2017** | 36,017 | 2,743 | 18,166 | 56,926 |
| Additions | **3,169** | **-** | **1,892** | **5,061** |
| Acquisition of subsidiary | **5,579** | **-** | **-** | **5,579** |
| Disposals | **-** | **-** | **(103)** | **(103)** |
| Reversal of impairment | **-** | **10,758** | **-** | **10,758** |
| **Book balance at 12/31/2018** | **44,765** | **13,501** | **19,955** | **78,221** |
| | | | | |
| **Amortization** | | | | |
| **Book balance at 12/31/2016** | - | - | (7,260) | (7,260) |
| Additions | - | - | (1,839) | (1,839) |
| **Book balance at 12/31/2017** | - | - | (9,099) | (9,099) |
| Additions | **-** | **-** | **(2,331)** | **(2,331)** |
| Disposals | **-** | **-** | **34** | **34** |
| **Book balance at 12/31/2018** | **-** | **-** | **(11,396)** | **(11,396)** |
| Net balance at 12/31/2016 | 28,844 | 2,700 | 6,807 | 38,351 |
| Net balance at 12/31/2017 | 36,017 | 2,743 | 9,067 | 47,827 |
| Net balance at 12/31/2018 | **44,765** | **13,501** | **8,559** | **66,825** |

## 14. Intangible assets (Continued)

(i) This refers to the acquisition cost of trademarks, patents and internal development of certain products manufactured and sold by the Company, which are not amortized. In 2017, trademarks and patents were tested for impairment and the result indicated the need to reverse the provision for impairment by R$4,540. In 2018, as a result of the impairment test, there was no need for recognition.

(ii) This substantially refers to a goodwill of R$2,466 paid for the acquisition of trademarks and patents of Bio Macro Laboratório Farmacêutico Ltda. merged in 2008, and R$10,992 referring to goodwill paid on investee Tecnopec Consultoria Comércio e Representações Ltda. in 2010, which was merged into the Company in 2011. In 2018, goodwill was tested for impairment, identifying that the assumptions used in the projections made in prior periods were incorrect. As such, there was a reversal of R$10,758 for the year.

(iii) This refers to acquired software licenses amortized over the period of five years.

## 15. Impairment test of goodwill paid based on expected future profitability

At December 31, 2018, the Company and its subsidiaries tested goodwill for impairment, based on its value in use, using the discounted cash flow model for the Cash-Generating Units (CGUs). The value-in-use estimate process involves the use of assumptions, judgment and estimates on future cash flows, and represents the Company’s best estimate approved by the Board of Directors. The result of the impairment test performed by the Company did not indicate the need to supplement its provision for impairment.

Main assumptions used to calculate value in use

The calculation of value in use for all cash-generating units presented sensibility in relation to the following assumptions:

(i) Gross margins
(ii) Discount rate
(iii) CAPM Calculation Model
(iv) WACC rate for Discounted Cash Flow
(v) Market share during the projection period
(vi) Investment in Working Capital - trade accounts receivable-inventories/accounts payable

Projections were made based on the past performance and expected market development. The weighted average growth rates used are consistent with forecasts included in the reports of the sectors in which the Company operates. The pre-tax discount rates were reassessed through interactive calculation based on the calculation of the after-tax discount rate. Accordingly, the discount rate of 10.2% was calculated using the weighted average cost of capital methodology, which corresponds to a pre-tax rate of 11.7%.

(In thousands of reais, unless otherwise stated)

## 16. Trade accounts payable

The transactions between União Química and its subsidiaries with domestic and foreign suppliers are substantially represented by purchase of industrial equipment and specific inputs.

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| Domestic suppliers | **64,711** | 56,761 | **94,187** | 68,432 |
| Foreign suppliers | **24,627** | 18,096 | **27,374** | 20,503 |
| Related parties (Note 11) | **5,040** | 653 | **-** | - |
| | **94,378** | 75,510 | **121,561** | 88,935 |

The aging list of obligations with domestic and foreign suppliers is as follows:

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| Overdue up to 15 days | **3,653** | 4,338 | **4,589** | 8,390 |
| Falling due within 30 days | **50,919** | 42,630 | **66,957** | 48,334 |
| Falling due from 31 to 60 days | **24,557** | 17,459 | **30,629** | 19,817 |
| Falling due from 61 to 120 days | **15,249** | 11,083 | **19,386** | 12,394 |
| | **94,378** | 75,510 | **121,561** | 88,935 |

(In thousands of reais, unless otherwise stated)

## 17. Loans and financing

| Type | | Individual | | Consolidated | |
|---|---|---|---|---|---|
| **Foreign currency:** | **Average rate of charges %** | **12/31/2018** | **12/31/2017** | **12/31/2018** | **12/31/2017** |
| FINIMP | Euro exchange differences plus 1.11% to 3.04% p.a. | **52,067** | 8,415 | **52,067** | 8,415 |
| FINIMP | US dollar exchange differences plus 2.95% to 5.10% p.a. | **185,475** | 60,325 | **191,064** | 60,325 |
| Loan - Resolution 4131 (i) | CDI + 2.3% p.a. | **105,709** | 101,093 | **105,709** | 101,093 |
| | | **343,251** | 169,833 | **348,840** | 169,833 |
| **Local currency:** | | | | | |
| BNDES – FINAME | 2.5% to 10.10% p.a. plus TLP | **3,134** | 4,594 | **3,134** | 4,594 |
| Working capital | 9.48% p.a. | **10,453** | - | **10,453** | - |
| Finep | 3.50% p.a. | **36,488** | 46,232 | **36,488** | 46,232 |
| Debentures (a) | CDI +1.63% p.a. | **204,763** | 169,535 | **204,763** | 169,535 |
| Lease | 4.12% to 18.18% p.a. | **1,030** | 1,712 | **1,406** | 2,466 |
| | | **255,868** | 222,073 | **256,244** | 222,827 |
| | | **599,119** | 391,906 | **605,084** | 392,660 |
| Current | | **279,753** | 150,744 | **285,718** | 151,177 |
| Noncurrent | | **319,366** | 241,162 | **319,366** | 241,483 |

(i) Transaction entered into by the Company in accordance with Resolution No. 4131, including a swap contract that results in a final debt cost of CDI + 2.3% p.a.

Aging list of debts:

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **12/31/2018** | **12/31/2017** | **12/31/2018** | **12/31/2017** |
| 2018 | **-** | 150,744 | **-** | 151,177 |
| 2019 | **279,753** | 88,379 | **285,718** | 88,700 |
| 2020 | **66,073** | 88,015 | **66,073** | 88,015 |
| From 2021 onwards | **253,293** | 64,768 | **253,293** | 64,768 |
| | **599,119** | 391,906 | **605,084** | 392,660 |

## 17. Loans and financing (Continued)

FINAME and lease agreements are backed by machinery and equipment and financed vehicles, respectively. The other financing agreements are backed by promissory notes, trade notes receivable and guarantee given by the Company's shareholders.

Land and buildings of Inovat Indústria Farmacêutica Ltda. and Anovis Industrial Farmacêutica Ltda. with a book value (cost) of R$57,319 are subject to mortgage as guarantees issued.

a) Debentures

In July 2018, the Company held the 3rd public issue of unsecured debentures structured with the consortium formed by Santander and Bradesco banks. The total amount of the issue was R$200,000 (two hundred million reais) in a single series, with a total term of 60 months, with a 6-month grace period for payment of half-yearly interest and 24-month grace period for amortization of semiannual principal installments. The debentures are not convertible into shares and are secured by real estate mortgage. The Company may redeem total outstanding debentures early, at its discretion and at any time. Due to the 3rd public issue of debentures, the Company settled the 2nd public issue of debentures in advance totaling R$141,322.

b) Covenants

The Company has loan and financing agreements with covenants usually applicable to such transactions, such as compliance with economic-financial indices, cash generation and others. These covenants have been met and are not limited to the Company's ability to continue as a going concern.

(In thousands of reais, unless otherwise stated)

## 18. Labor and tax obligations

The balance of labor and tax obligations is broken down as follows:

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| **Labor obligations** | | | | |
| Accrued vacation pay and social | **23,130** | 17,245 | **36,702** | 26,610 |
| INSS payable | **6,797** | 5,905 | **9,135** | 7,821 |
| FGTS payable | **1,924** | 1,681 | **2,811** | 2,352 |
| Provision for commissions and | **1,967** | 2,346 | **1,967** | 2,346 |
| Provision for profit sharing and bonus | **9,040** | 8,404 | **15,737** | 13,905 |
| Other labor obligations | **2** | 4 | **18** | 20 |
| | **42,860** | 35,585 | **66,370** | 53,054 |
| **Tax obligations** | | | | |
| ICMS payable | **21,056** | 22,975 | **21,728** | 23,223 |
| PIS and COFINS | **6,827** | 5,436 | **8,961** | 5,547 |
| ICMS - Installment payment (a) | **10,239** | 5,370 | **10,239** | 5,370 |
| IPI – ISS | **49** | 552 | **156** | 639 |
| Withholding Income Tax (IRRF) | **3,755** | 3,366 | **5,303** | 4,599 |
| ICMS Pro-DF (b) | **-** | 14,876 | **-** | 14,876 |
| ICMS IDEAS | **2,310** | - | **2,310** | - |
| | **44,236** | 52,575 | **48,697** | 54,254 |
| | **87,096** | 88,160 | **115,067** | 107,308 |
| Current | **75,721** | 68,486 | **103,692** | 87,634 |
| Noncurrent | **11,375** | 19,674 | **11,375** | 19,674 |

(a) Includes ICMS payment in installment as follows:

| Location | Remaining installments | Installment amount (in reais) | Debt balance |
|---|---|---|---|
| Federal District (i) | 73 | 64,363 | 4,699 |
| Minas Gerais (ii) | 113 | 58,774 | 5,540 |
| | | | 10,239 |

(i) Installment payment referring to ICMS Pro-DF not approved by the Federal District Finance Department in the period from July through November 2010, in the amount of R$4,435, with down payment of R$114 and the other installments payable in 120 months, with 47 installments paid by December 31, 2018.

(ii) Installment payment related to ICMS ST on internal transactions in the State of Minas Gerais, from 2014 to 2018, totaling R$7,053 in 120 months, with the first installment settled in June 2018. The debt balance at December 31, 2018, amounting to R$6,641, is deducted from the amount of R$1,101, related to present value adjustment, to cover the differences between the rates used by the Company and the Minas Gerais Department of Finance.

(b) Original portion of ICMS incentivized by the Federal District Government, according to Decree No. 24430, article 17, if the taxpayer is confirmed for the incentive program, the extended term to comply with a part of the tax liability that is equivalent to the tax benefit amount is applicable. In August 2018, there was the Pro-DF auction in which there was a full settlement of the debt of R$14,876 for R$4,291.

(In thousands of reais, unless otherwise stated)

## 19. Income and social contribution taxes

### 19.1. Reconciliation of income and social contribution tax expenses

The reconciliation between the income and social contribution tax expenses at the statutory and effective rate is shown below:

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Income before income and social contribution taxes | **139,392** | 142,912 | **141,936** | 143,695 |
| Combined statutory rate of taxes - % | **34** | 34 | **34** | 34 |
| Income and social contribution taxes | **(47,393)** | (48,590) | **(48,258)** | (49,292) |
| **Adjustments for calculation at the effective rate** | | | | |
| Equity pickup | **(6,015)** | 1,869 | **1,828** | 1,869 |
| Technology innovation | **7,416** | 5,016 | **7,416** | 5,016 |
| Donations and gifts | **(892)** | (1,025) | **(892)** | (1,025) |
| Investment grants | **18,414** | 21,330 | **18,414** | 21,330 |
| Temporary additions/exclusions | **3,211** | 3,149 | **2,107** | 1,418 |
| Permanent additions/exclusions | **(2,346)** | 2,720 | **(3,757)** | 3,506 |
| Deferred income and social contribution tax assets not recognized for the year | **-** | - | **(7,666)** | - |
| Income and social contribution tax expense in P&L | **(27,605)** | (15,531) | **(30,808)** | (17,178) |
| Deductions (PAT and incentives) | **985** | 980 | **985** | 1,002 |
| Current taxes | **(26,641)** | (14,551) | **(29,844)** | (16,176) |
| Deferred taxes | **(4,649)** | (5,412) | **(3,990)** | (4,570) |
| P&L - current/deferred IRPJ/CSLL | **(31,290)** | (19,963) | **(33,834)** | (20,746) |

Current and deferred income and social contribution taxes are calculated at a rate of 15%, plus 10% surtax on taxable profit exceeding R$240 in the year for income tax, and a rate of 9% on taxable profit for social contribution tax on net profit, and consider offsetting of social contribution tax losses, limited to 30% of annual taxable profit.

The temporary additions and exclusions used to reconcile income and social contribution tax expenses basically refer to the recording and reversal of provisions.

(In thousands of reais, unless otherwise stated)

## 19. Income and social contributions taxes (Continued)

### 19.2. Deferred income and social contribution taxes

Deferred Corporate Income Tax (IRPJ) and Social Contribution Tax on Net Profit (CSLL), assets and liabilities, are broken down as follows:

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| Provisions | **15,077** | 8,274 | **15,077** | 9,374 |
| Sales recorded and not delivered | **6,008** | 3,179 | **6,008** | 3,180 |
| Impairment of assets | **1,067** | 3,976 | **1,067** | 3,976 |
| Deferred foreign exchange gains (losses) | **-** | 566 | **-** | 593 |
| Other | **(426)** | (101) | **26** | 885 |
| | **21,726** | 15,894 | **22,178** | 18,008 |
| Lease | **(3,471)** | (2,729) | **(3,471)** | (2,722) |
| Depreciation - R&D assets | **(4,280)** | (2,353) | **(4,280)** | (2,353) |
| Depreciation - effects of review of new useful life | **(22,215)** | (18,890) | **(22,215)** | (21,218) |
| Derivative financial instruments | **(4,483)** | - | **(4,483)** | - |
| Bargain purchase | **(899)** | (895) | **(899)** | (895) |
| | **(35,348)** | (24,867) | **(35,348)** | (27,188) |
| Deferred income and social contribution tax liabilities, net | **(13,622)** | (8,973) | **(13,170)** | (9,180) |

Changes in deferred income and social contribution taxes are as follows:

| | Individual | Consolidated |
|---|---|---|
| **Balance of deferred tax assets/liabilities at December 31, 2016** | (3,561) | (4,610) |
| Changes in the year ended 12/31/2017, net | (5,412) | (4,570) |
| **Deferred tax liabilities at December 31, 2017** | (8,973) | (9,180) |
| Changes in the year ended 12/31/2018, net | **(4,649)** | **(4,894)** |
| **Balance of deferred tax assets at December 31, 2018** | **-** | **452** |
| **Balance of deferred tax liabilities at December 31, 2018** | **(13,622)** | **(13,622)** |

(In thousands of reais, unless otherwise stated)

## 20. Other accounts payable

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| Accounts payable | **13,303** | 4,277 | **21,838** | 9,161 |
| Novartis Biociências S.A. (i) | **33,877** | 40,976 | **33,877** | 40,976 |
| Other accounts payable | **3,935** | 6,818 | **4,102** | 6,882 |
| Related parties (Note 11) | **-** | - | **668** | 7,542 |
| | **51,115** | 52,071 | **60,485** | 64,561 |
| Current | **23,672** | 14,406 | **19,536** | 19,354 |
| Noncurrent | **27,443** | 37,665 | **40,949** | 45,207 |

(i) This balance refers to debt relating to acquisition of Anovis Industrial Farmacêutica Ltda. with Novartis Biociências S.A., with three annual consecutive installments remaining for settlement of the balance. This amount is restated by reference to the IPCA, and over the year ended December 31, 2018, the amounts of R$1,385 (R$1,330 in 2017) and R$521 (R$295 in December 2017) were recognized in “Finance income (costs) referring to interest incurred and present value adjustment, respectively.

## 21. Judicial deposits and provision for contingencies

The Company and its subsidiaries are parties to legal and administrative proceedings before courts and government agencies arising from the ordinary course of their business, involving mostly tax, social security, labor and civil matters. The provisions for contingencies are determined based on the analysis of ongoing lawsuits, official notices and risk assessments in which the likelihood of loss is deemed probable by management and legal advisors.

| | Judicial deposits | | | | Provision for contingencies | | | |
|---|---|---|---|---|---|---|---|---|
| | Individual | | Consolidated | | Individual | | Consolidated | |
| | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| Tax | **20,258** | 19,361 | **20,258** | 19,361 | **5,195** | 4,059 | **5,271** | 4,059 |
| Labor and social security | **5,223** | 3,540 | **5,867** | 3,774 | **12,044** | 6,384 | **12,386** | 6,511 |
| Civil | **683** | 634 | **878** | 829 | **4,205** | 1,213 | **4,205** | 1,213 |
| | **26,164** | 23,535 | **27,003** | 23,964 | **21,444** | 11,656 | **21,862** | 11,783 |

(In thousands of reais, unless otherwise stated)

## 21. Judicial deposits and provision for contingencies (Continued)

Changes in provisions:

| | Individual | Consolidated |
|---|---|---|
| **Balance at 12/31/2016** | 13,797 | 13,801 |
| Additions | - | 123 |
| Write-off due to losses | (4,096) | (4,096) |
| Write-off due to reversal | (77) | (77) |
| Restatements and changes in risks | 2,032 | 2,032 |
| **Balance at 12/31/2017** | 11,656 | 11,783 |
| Additions | **10,447** | **10,738** |
| Write-off due to losses | **(1,631)** | **(1,631)** |
| Write-off due to reversal | **(388)** | **(388)** |
| Restatements and changes in risks | **1,360** | **1,360** |
| **Balance at 12/31/2018** | **21,444** | **21,862** |

<u>The nature of legal proceedings and obligations is summarized as follows:</u>

Tax proceedings - refer to legal proceedings in which the lawfulness or constitutionality of certain taxes, charges and contributions, as well as the different interpretations on the calculation or offsetting methods applied to certain taxes are challenged. Such issues include lawsuits involving ICMS collection by the Finance Department of Goiás, Minas Gerais and São Paulo states, challenges involving tax delinquency notices referring to collection of IPI, PIS and COFINS on lease for acquisition of assets.

Labor and social security proceedings - refer primarily to claims filed by employees in connection with compensations paid in case of employment termination and employment relationship.

Civil proceedings - the main lawsuits are related to the results obtained from the use of medicines manufactured by the Company.

<u>Possible losses not provisioned in the financial statements</u>

The Company and its subsidiaries are parties to tax, civil and labor lawsuits involving risks of loss classified by the Company's legal advisors as possible, for which no provision is recorded, broken down as follows:

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **12/31/2018** | **12/31/2017** | **12/31/2018** | **12/31/2017** |
| Tax | **63,142** | 52,942 | **63,142** | 52,942 |
| Labor and social security | **20,750** | 17,745 | **29,185** | 25,619 |
| Civil | **47,569** | 38,242 | **47,569** | 38,242 |
| | **131,461** | 108,929 | **139,896** | 116,803 |

## 21. Judicial deposits and provision for contingencies (Continued)

<u>Possible losses not provisioned in the financial statements</u> (Continued)

The Company's and its subsidiaries' main cases with a possible loss risk, as determined by the legal advisors, are listed below:

*Tax claims*

(i) Challenge relating to the Tax Violation Notice and Imposition of Fines relating to the disallowance of expenses used and considered nondeductible for the purpose of determining Corporate Income Tax (IRPJ) and Social Contribution Tax (CSLL) tax bases. The defense submitted awaits review and judgment. The files were sent to the Federal Revenue Judgment Office where they remain awaiting judgment. The statement of discontentment (appeal) submitted awaits review and judgment.

(ii) Tax violation notice served by the Internal Revenue Service in 2004, challenging the proof of costs of the goods and services sold and their related deductibility for the purpose of determining Corporate Income Tax (IRPJ) and Social Contribution Tax (CSLL) tax bases.

(iii) The São Paulo State Finance Office challenged the use of ICMS credits with the record of invoices for the transfer of goods received from a branch unit located in the Federal District.

(iv) Writ of mandamus seeking the right to not pay PIS / PASEP contribution taxes and COFINS on the importation of fixed assets.

*Civil*

(i) Lawsuit demanding the payment of compensation for pain and suffering and property damages for the collection of own property in bankruptcy proceedings.

(ii) Principal declaratory proceeding relating to a payment order given as guarantee. Lawsuit involving pain and suffering and property damages relating to employee termination and loss of profits. Losses due to the alleged unilateral agreement termination and retention of a new distributor.

(iii) Allegation of health problems caused by supposed medical malpractice or defective medications prescribed by the hospital. Compensation sought for pain and suffering, and aesthetic and property damages for reimbursement of medical expenses with medications and loss of profits due to the decrease in work capacity.

(iv) Disputes involving alleged injuries from the use of drugs, claiming compensation for pain and suffering and damages, in monthly payments.

(In thousands of reais, unless otherwise stated)

## 21. Judicial deposits and provision for contingencies (Continued)

Possible losses not provisioned in the financial statements (Continued)

*Labor claims*
(i) The Company and its subsidiaries are parties to labor claims involving disputes seeking compensation for salary differences.

(ii) The other cases refer to claims for pain and suffering, property damages, as well as employment relationship.

## 22. Equity

### 22.1. Capital

At December 31, 2018 and December 31, 2017, paid-up capital was R$440,077, comprising 379,377,291 common shares, distributed as follows:

| | 12/31/2018 and 12/31/2017 | |
|---|---|---|
| | **Shares** | **%** |
| Robferma Administração e Participações Ltda. | 305,985,001 | 80.654538% |
| MJP Adm. Participações S/S Ltda. | 43,175,452 | 11.380611% |
| Cleita de Castro Marques | 15,108,419 | 3.982426% |
| Cleide Marques Pinto | 15,108,419 | 3.982426% |
| | **379,377,291** | **100.00%** |

### 22.2. Legal reserve

The legal reserve is set up on an annual basis at 5% of net income for the year, less the government grant portion, and shall not exceed 20% of capital. The purpose of the legal reserve is to ensure capital integrity and it may only be used to offset losses and/or increase capital. The legal reserve calculation is as follows:

| Description | 2018 | 2017 |
|---|---|---|
| Net income for the year | **108,102** | 122,949 |
| (-) Grant reserve | **(44,281)** | (29,190) |
| Legal reserve base | **63,821** | 93,759 |
| Legal reserve (5%) | **3,191** | 4,688 |

(In thousands of reais, unless otherwise stated)

## 22. Equity (Continued)

### 22.3. Income reserve

The Company allocated from net income for the year the amount of R$47,115 (R$48,951 in 2017) to the reserve of retained profits for investment, based on a capital budget prepared by Management.

### 22.4. Tax incentive reserve

The Company has ICMS tax benefits granted in an administrative tax proceeding, supported by a law/decree of the Minas Gerais State Government and the Federal District Government, which required signing Agreements. Changes in this reserve is presented in the Statement of Changes in Equity. In 2018, Company management recognized the amount of R$54,157, with R$12,969 arising from the Pro-DF/IDEAS auction and R$41,188 from the Agreement with the Minas Gerais Government.

### 22.5. Mandatory minimum dividends

According to the Company's Articles of Incorporation, 6% of adjusted annual net income are allocated to pay mandatory minimum dividends, as provided for by article 202 of the Brazilian Corporation Law. The calculation of proposed dividends is presented below:

| Description | 2018 | 2017 |
|---|---|---|
| Net income for the year | **108,102** | 122,949 |
| (-) Grant reserve | **(44,281)** | (29,190) |
| Legal reserve base | **63,821** | 93,759 |
| Legal reserve (5%) | **(3,191)** | (4,688) |
| Dividend calculation basis | **60,630** | 89,071 |
| Proposed dividends (6%) | **3,639** | 5,344 |

Changes in dividends are as follows:

| | |
|---|---|
| Dividend payable - December 31, 2017 | 5,344 |
| Payments in the year | **(12,425)** |
| Proposed additional dividend | **7,081** |
| Mandatory minimum dividends for the year | **3,639** |
| **Dividend payable - December 31, 2018** | **3,639** |

(In thousands of reais, unless otherwise stated)

## 22. Equity (Continued)

### 22.6. Earnings (loss) per share

Basic and diluted earnings (loss) per share are calculated by dividing income (loss) for the year attributed to holders of Company's common shares by the weighted average number of common shares available in the year.

There are no arrangements or agreements in place to issue common shares; thus, there is no event that may dilute the dividends attributable to the Company's shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | 2018 | 2017 |
|---|---|---|
| Profit attributable to ordinary equity holders | **108,102** | 122,949 |
| Denominator | | |
| Weighted average number of | **379,377,291** | 379,377,291 |
| Basic and diluted earnings per share (in | **0.2849** | 0.3829 |

## 23. Net operating revenue

Revenues from product sales are recognized when performance obligations are met and their respective risks are transferred to the buyer, which usually takes place upon delivery.

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Gross sales of products | **1,521,161** | 1,253,812 | **1,520,516** | 1,215,405 |
| Gross sales of services | **2,144** | 1,674 | **301,979** | 123,319 |
| (-) Sales taxes | **(235,653)** | (194,665) | **(255,057)** | (198,422) |
| (-) Sales and service taxes | **(250)** | (237) | **(18,741)** | (8,290) |
| (-) Promotional discounts | **(5,517)** | (4,748) | **(5,546)** | (4,748) |
| (-) Unconditional discounts | **(46,879)** | (18,843) | **(10,025)** | (560) |
| (-) Sales returns | **(15,228)** | (10,371) | **(20,194)** | (13,499) |
| | **1,219,778** | 1,026,622 | **1,512,932** | 1,113,205 |

In compliance with CPC 47 and IFRS 15 - Revenue from Contracts with Customers, the Company recognized as revenue only invoices with actual delivery in the year. Invoices issued but not delivered as at December 31, 2018 total R$40,517 (R$21,878 as at December 31, 2017).

(In thousands of reais, unless otherwise stated)

## 24. Expenses by nature and function

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Raw material and store and supplies | **(420,426)** | (335,682) | **(472,886)** | (299,871) |
| Sales commissions | **(38,756)** | (38,813) | **(38,756)** | (38,813) |
| Payroll and employee benefits | **(246,045)** | (219,145) | **(377,224)** | (281,943) |
| Social security charges | **(38,664)** | (30,678) | **(64,364)** | (44,599) |
| Depreciation and amortization | **(18,116)** | (20,545) | **(53,740)** | (33,742) |
| Transportation expenses | **(31,897)** | (24,446) | **(36,425)** | (25,364) |
| Advertising expenses | **(25,707)** | (16,466) | **(25,771)** | (16,474) |
| Research and development | **(4,052)** | (4,540) | **(4,525)** | (4,556) |
| Services rendered | **(51,188)** | (49,016) | **(70,718)** | (64,129) |
| Vehicle expenses | **(21,986)** | (14,924) | **(22,516)** | (15,060) |
| Utilities | **(12,500)** | (11,651) | **(20,901)** | (15,878) |
| Taxes and charges | **(4,170)** | (6,124) | **(7,186)** | (7,634) |
| Rental | **(6,020)** | (7,927) | **(7,987)** | (8,943) |
| Maintenance | **(22,734)** | (19,326) | **(38,988)** | (28,286) |
| Communications | **(2,572)** | (3,795) | **(2,933)** | (3,799) |
| Free samples | **(17,754)** | (20,849) | **(17,775)** | (20,857) |
| Legal costs, net | **(14,909)** | (3,501) | **(15,200)** | (3,627) |
| Fines | **(1,829)** | (500) | **(2,007)** | (559) |
| Insurance coverage | **(2,915)** | (4,172) | **(3,517)** | (4,175) |
| Gifts and donations | **(9,409)** | (6,278) | **(9,429)** | (6,291) |
| Travel and lodging | **(14,440)** | (12,461) | **(15,103)** | (12,861) |
| Fairs and conferences | **(11,445)** | (10,322) | **(11,546)** | (10,390) |
| Expected credit loss | **(2,600)** | (1,079) | **(3,092)** | (1,079) |
| Other expenses | **6,081** | 163 | **4,399** | (63) |
| | **(1,014,053)** | (862,077) | **(1,318,190)** | (948,993) |
| | | | | |
| Cost of sales and services rendered | **(603,665)** | (493,811) | **(769,961)** | (512,197) |
| Selling, general and administrative expenses | **(410,388)** | (368,266) | **(548,229)** | (436,796) |
| | **(1,014,053)** | (862,077) | **(1,318,190)** | (948,993) |

(In thousands of reais, unless otherwise stated)

## 25. Other operating income, net

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Recovery of expenses (i) | **6,161** | 3,960 | **6,795** | 4,084 |
| Net gain (loss) on disposal of property, plant and equipment | **517** | (70) | **517** | (65) |
| Supply agreement (iv) | **-** | - | **(5,598)** | 5,598 |
| Proceeds from the sale of scrap | **271** | 389 | **735** | 479 |
| Taxes payable in installments | **(7,452)** | (1,239) | **(7,596)** | (1,355) |
| Recovery of trade receivables | **173** | 1,128 | **173** | 1,128 |
| Income from tax incentives (ii) | **12,969** | - | **12,969** | - |
| Other, net | **1,464** | (730) | **(507)** | 42 |
| | **14,103** | 3,438 | **7,488** | 9,911 |

(i) Substantially represented by prior-period PIS and COFINS credits amounting to R$5,946.

(ii) Net P&L from the settlement of the balance of IDEAS tax incentive amounting to R$2,384, in August 2018, and the balance of Pro-DF tax incentive amounting to R$10,585. (Note 5);

(iii) Comprising written off cost and depreciation amounting to R$8,385 (R$10,304 in 2017), with R$6,624 through capital contribution to a subsidiary and R$1,761 disposal of R$2,278 (R$9,473 in 2017), with R$836 (R$9,467 in 2017) received.

(iv) Substantially represented by adjustments to contractual clauses of product supply agreements.

(In thousands of reais, unless otherwise stated)

## 26. Finance income (costs), net

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| **Finance income** | | | | |
| Short-term investment yield | **1,958** | 7,104 | **1,980** | 7,119 |
| Foreign exchange gains | **88,732** | 15,966 | **91,450** | 16,775 |
| Interest income, discounts received and other income | **3,750** | 8,033 | **4,535** | 7,447 |
| Present value adjustment | **3,504** | 1,362 | **3,504** | 1,362 |
| Gains - NDF | **3,255** | 978 | **3,255** | 978 |
| Fair value - Swap | **16,911** | - | **16,911** | - |
| | **118,110** | 33,443 | **121,635** | 33,681 |
| **Finance costs** | | | | |
| Monetary variations and financial commissions | **(10,043)** | (5,545) | **(11,901)** | (7,317) |
| Interest on loans and financing | **(13,651)** | (4,911) | **(13,856)** | (4,950) |
| Interest on intercompany loan - Robferma | **-** | (1,964) | **-** | (1,964) |
| Interest on debt with Novartis | **(1,385)** | (1,330) | **(1,385)** | (1,330) |
| Interest on debentures | **(16,880)** | (25,531) | **(16,880)** | (25,531) |
| Foreign exchange losses | **(129,023)** | (19,082) | **(133,029)** | (20,146) |
| Bank expenses and Tax on Financial Transactions (IOF) | **(806)** | (1,291) | **(1,189)** | (1,382) |
| Present value adjustment | **(2,924)** | (1,657) | **(2,924)** | (1,657) |
| Interest on ICMS payment in installments | **(352)** | (596) | **(352)** | (596) |
| Losses - NDF | **(5,790)** | (657) | **(5,790)** | (657) |
| Fair value - Swap | **-** | (1,448) | **-** | (1,448) |
| | **(180,854)** | (64,012) | **(187,306)** | (66,978) |
| | **(62,744)** | (30,569) | **(65,671)** | (33,297) |

## 27. Insurance coverage

The insurance coverage at December 31, 2018 presented the following amounts, pursuant to the insurance policies, and are in accordance with the risk assessment made by management:

| Insurance lines | Effective until | Sum insured |
|---|---|---|
| Operational risks, including fire in inventories and PP&E items | 03/27/2019 | 1,031,526 |
| National ground transportation | 04/30/2019 | 1,408,000 |
| General civil liability | 11/08/2019 | 20,000 |
| Civil Liability Insurance for Managers | 06/30/2019 | 50,000 |
| International transportation | 03/27/2019 | 8,000 |
| Aircraft | 02/03/2020 | 1,146 |
| Vehicles and optional civil liability | 08/13/2019 | Market value - FIPE |

## 28. Financial instruments

Capital management

The capital management policies of the Company and its subsidiaries involve maintaining a strong capital base to uphold relations of trust with investors, creditors and market players, also allowing future business development.

The primary objective of the Company and its subsidiaries when managing their capital is to ensure their ability to continue as a going concern in order to offer returns to shareholders and benefits to stakeholders, maintaining an adequate capital structure to reduce this cost.

Transactions with derivative financial instruments carried out by the Company and its subsidiaries are measured at fair value and posted to the statement of profit and loss.

a) Classification of financial instruments

The financial instruments held by the Company and its subsidiaries are classified in the following categories:

(i) Financial assets and liabilities measured at fair value through profit or loss; and
(ii) Amortized cost.

The Company's and its subsidiaries' financial instruments had the following positions as at December 31, 2018 and 2017:

(In thousands of reais, unless otherwise stated)

## 28. Financial instruments (Continued)

Capital management (Continued)

a) Classification of financial instruments (Continued)

| | | Individual | | Consolidated | |
|---|---|---|---|---|---|
| **Assets** | **Category** | **2018** | **2017** | **2018** | **2017** |
| **Current assets** | | | | | |
| Cash and cash equivalents | (i) | **59,883** | 31,670 | **66,492** | 42,402 |
| Long-term financial investments | (i) | **2,382** | 4,230 | **2,382** | 4,230 |
| Trade accounts receivable | (ii) | **470,555** | 341,340 | **449,843** | 350,323 |
| Other accounts receivable | (ii) | **21,468** | 12,001 | **17,138** | 12,460 |
| Derivative financial instruments | (i) | **15,721** | 158 | **15,721** | 158 |
| Judicial deposits | (ii) | **26,164** | 23,535 | **27,003** | 23,964 |
| | | **596,173** | 412,934 | **578,579** | 433,537 |
| **Liabilities** | | | | | |
| Trade accounts payable | (ii) | **94,378** | 75,510 | **121,561** | 88,935 |
| Derivative financial instruments | (i) | **2,535** | 1,595 | **2,535** | 1,595 |
| Loans and financing | (ii) | **599,119** | 391,906 | **605,084** | 392,660 |
| Other accounts payable | (ii) | **51,115** | 52,071 | **60,485** | 64,561 |
| | | **747,147** | 521,082 | **789,665** | 547,751 |

b) Fair value of financial instruments

The estimated fair values of financial instruments for 2018 considered the following methods and assumptions:

- Cash and cash equivalents: these are stated close to their fair value, which approximates book value, as described in Note 4.
- Long-term investments: these are stated close to their fair value, which approximates book value, as described in Note 5.
- Accounts receivable from domestic and foreign customers: these derive directly from the Company's and its subsidiaries' transactions, classified as amortized cost and recorded at their original amounts, subject to the provision for losses. The original amounts net of provision are similar to fair values at the financial statement closing date, as described in Note 6.
- Derivative financial instruments: are disclosed at fair value and classified as financial assets and liabilities, as described in Note 10.

## 28. Financial instruments (Continued)

Capital management (Continued)

b) Fair value of financial instruments (Continued)

- Judicial deposits: these are stated close to their market value, which approximates book value. these are classified as amortized cost, and adjusted using the effective interest method.

- Trade accounts payable: these are classified as financial liabilities at amortized cost and the amounts approximate to the respective fair values of the obligations recorded under this item.

- Loans and financing (in local and foreign currency): these are classified as financial liabilities at amortized cost and are recorded at their contractual values. The fair value of these loans and financing approximates book value, as described in Note 17.

- Other accounts payable: these are classified as loans and receivables, and adjusted using the effective interest method (amortized cost) and are stated close to their fair values.

c) Fair value calculation of derivative financial instruments

The fair value calculation of derivative financial instruments for the individual and consolidated financial information at December 31, 2018 considered the following methods and assumptions:

- **Non Deliverable Forward ("NDF")**: the market values of NDF contracts were obtained through information available in the active market where these financial instruments are traded.

- **Swap**: The fair value of interest rate swaps is measured at the present value of future cash flows estimated based on the yield curves adopted by the market.

Management believes that the results obtained from these derivative transactions comply with the price, currency and interest rate hedge strategies established by the Company and its subsidiaries.

(In thousands of reais, unless otherwise stated)

## 28. Financial instruments (Continued)

c) Fair value calculation of derivative financial instruments (Continued)

The fair values of financial assets and liabilities were determined based on available market information and appropriate valuation methodologies. The use of different market assumptions and/or estimate methodology may have a different effect on the estimated fair values.

As of December 31, 2018, the Company’s and its subsidiaries’ derivative financial instruments had the following positions:

| | Individual and Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 12/31/2018 | | | | 12/31/2017 | |
| | **Hedged item** | **Notional currency** | **Notional value** | **Fair value (R$)** | **Notional value (R$)** | **Fair value (R$)** |
| Non-deliverable forwards | Currency | USD | **13,855** | **(1,739)** | **20,390** | **(33)** |
| Non-deliverable forwards | Currency | EUR | **1,521** | **(539)** | **3,133** | **44** |
| Swap | Currency | USD | **101,562** | **15,464** | **101,438** | **(1,448)** |
| Total currency derivatives | | | **116,938** | **13,186** | **124,961** | **(1,437)** |

Management believes that the Company’s and its subsidiaries’ internal controls are sufficient and adequate to manage derivative financial instruments and mitigate the risks associated with each market's operating strategy. Subsidiaries Anovis, Inovat, Union, UQ Gráfica and Claris did not have transactions involving derivative financial instruments as at December 31, 2018 and 2017.

d) Fair value hierarchy

The table below shows the financial instruments used by the Company and its subsidiaries, which are recorded at fair value. The different levels were defined as follows:

Level 1: quoted (unadjusted) prices in active markets for similar 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: assumptions for the asset or liability that are not based on market observable data (unobservable inputs).

(In thousands of reais, unless otherwise stated)

## 28. Financial instruments (Continued)

d) Fair value hierarchy (Continued)

The Company and its subsidiaries show the respective derivative financial instruments in the table below, as well as their classifications at the abovementioned levels:

| | Individual and Consolidated | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 12/31/2018 | | | | 12/31/2017 | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| NDF agreements (banks) | - | (2,278) | - | (2,278) | - | 11 | - | 11 |
| Swap | - | 15,464 | - | 15,464 | - | (1,448) | - | (1,448) |
| | - | 13,186 | - | 13,186 | - | (1,437) | - | (1,437) |

The Company and its subsidiaries recorded gains and losses on derivative financial instruments, as shown in the table below:

| | Individual and Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | Impact on assets and liabilities | | Impact on P&L | Impact on assets and liabilities | | Impact on P&L |
| | 12/31/2018 | | | 12/31/2017 | | |
| | Current assets | Current liabilities | | Current assets | Current liabilities | |
| Currency risks - NDF | 246 | (2,524) | (2,535) | 158 | (147) | 11 |
| Swap | 15,475 | (11) | 16,911 | - | (1,448) | (1,448) |
| | 15,721 | (2,535) | 14,376 | 158 | (1,595) | (1,437) |

(In thousands of reais, unless otherwise stated)

## 28. Financial instruments (Continued)

d) Foreign exchange rate risk, interest rate risk and transactions with derivative financial instruments

The Company and its subsidiaries use derivative financial instruments, such as NDF and Swap transactions, to hedge any exposed positions subject to impacts from exchange rate and interest rate fluctuations.

Derivative transactions do not have initial disbursements, and are only due in the respective maturities.

The prices of raw materials used by the Company and its subsidiaries are partially indexed to the U.S. dollar and the euro, while a significant part of the costs, expenses, investments and indebtedness are indexed to reais. Therefore, the Company's cash flow is continuously exposed to the dollar and the euro volatility against the Brazilian real and interest rates, especially to the fluctuation of the U.S. currency, since part of the costs and expenses are in Reais.

In order to mitigate risk and reduce exposure to foreign currency volatility and its effects on the Company's accounts denominated in Brazilian Reais, Management has used derivative financial instruments, such as NDF and swap contracts, in order to cover any exposed positions subject to impacts from exchange rate fluctuations in the futures market and interest rates. Derivative transactions do not have initial disbursements, and are only due in the respective maturities.

Below is a summary of the net exposure of the Company and its subsidiaries to the exchange rate factor as of December 31, 2018 and 2017:

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | US$ thousand 12/31/2018 | US$ 12/31/2017 | US$ 12/31/2018 | US$ 12/31/2017 |
| Cash and cash equivalents | **-** | 2,426 | **355** | 2,426 |
| Accounts receivable - foreign market | **9** | 33 | **9** | 33 |
| Advances to foreign suppliers | **2,981** | 1,184 | **3,447** | 1,184 |
| **Total asset exposure** | **2,990** | 3,643 | **3,811** | 3,643 |
| | | | | |
| Loans and financing | **(58,108)** | (20,780) | **(59,520)** | (20,780) |
| Foreign suppliers | **(14,983)** | (6,196) | **(15,642)** | (6,196) |
| **Total liability exposure** | **(73,091)** | (26,976) | **(75,162)** | (26,976) |
| **Net exposure** | **(70,101)** | (23,333) | **(71,351)** | (23,333) |

(In thousands of reais, unless otherwise stated)

## 28. Financial instruments (Continued)

e) Loans and financing, net

| | Individual | | Consolidated | |
|---|---|---|---|---|
| | **12/31/2018** | **12/31/2017** | **12/31/2018** | **12/31/2017** |
| Loans in foreign currency | **(343,251)** | (169,833) | **(348,840)** | (169,833) |
| Loans in local currency | **(255,868)** | (222,073) | **(256,244)** | (222,827) |
| **Total loans and financing** | **(599,119)** | (391,906) | **(605,084)** | (392,660) |
| | | | | |
| Non-deliverable-forwards (NDF) | **(2,278)** | 11 | **(2,278)** | 11 |
| Swap with cash flow | **15,464** | (1,448) | **15,464** | (1,448) |
| **Total hedging instruments** | **13,186** | (1,437) | **13,186** | (1,437) |
| | **(585,933)** | (393,343) | **(591,898)** | (394,097) |

## 29. Long-term commitments

Anovis and Inovat have future commitments resulting from supply agreements with their customers. At December 31, 2018, the number of items is as follows:

| | Consolidated | |
|---|---|---|
| **Commitments** | **12/31/2018** | **12/31/2017** |
| 2018 | **-** | 89,820,546 |
| 2019 | **90,299,156** | 90,299,156 |
| 2020 | **90,873,668** | 90,873,668 |
| 2021 | **91,428,853** | 91,428,853 |
| 2022 | **92,169,787** | 92,169,787 |
| 2023 | **75,843,605** | 75,843,605 |
| 2024 | **75,733,782** | 75,733,782 |
| | **516.348.851** | 606.169.397 |