

**Individual and consolidated financial  
statements**

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

December 31, 2019  
with independent auditor's report

# União Química Farmacêutica Nacional S.A.

Financial statements

December 31, 2019

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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 practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)**

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## **Independent auditor’s report on individual and consolidated financial statements**

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, 2019, and the statements of profit or loss, of comprehensive income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of União Química Farmacêutica Nacional S.A. as at December 31, 2019, and its individual and consolidated financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and with 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 the 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 a separate 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 revenue - Individual and Consolidated***

Notes 2.e and 23

Due to the relevance of net sales revenue to the Company's individual and consolidated financial statements and considering that sales revenue is recognized at the time of the sale (billing), which does not necessarily coincide with the transfer of the significant risks and rewards of the transaction to the buyer, there is a risk that revenues will not be recognized in the appropriate year. 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, among others; (ii) assessing the design, implementation and effectiveness of significant internal controls determined by management for revenue recognition; (iii) obtaining an understanding and application of audit procedures on the main internal controls designed by management to prevent or detect misstatements in the revenue recognition process; (iv) obtaining an understanding of key systems used in the selling, pricing and commercial discount process, resorting to our information technology specialists to examine the IT environment; (v) selecting sales transactions over the year on a sampling basis, and comparing them with the respective supporting documentation to check whether they represent revenues that are valid and consistent with the ordinary course of the Company's business; (vi) validating the revenue cut-off effect by testing events after the reporting period with the effective submission date, by selecting samples; and (vii) assessing whether the disclosures made in the financial statements are appropriate.

Adjustments were identified and recorded in the Company's individual and consolidated financial statements. Based on the audit procedures performed, which are consistent with management's assessment, we consider the Company's revenue recognition policies acceptable and capable of supporting the judgments and information included in the context of the individual and consolidated financial statements as a whole.

## ***Contingent liabilities and provisions for civil, tax and labor contingencies – Individual and Consolidated***

Notes 2.e and 21

The Company is a plaintiff in civil, tax and labor claims and administrative proceedings arising in the ordinary course of its activities. Some laws and regulations in Brazil are highly complex, thus the measurement, recognition and disclosure of Provisions and Contingent Liabilities relating to 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 timing for recognition and disclosures related to contingent liabilities, we consider this a key audit matter.

How our audit addressed this matter:

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 made by the Company's internal and external legal advisors, as well as historical data and information and comparison of the probability of success of major tax case laws 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 audit procedures performed, which are consistent with management's assessment, we consider that the Company's practices relating to the recognition 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 a whole.

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

Management is responsible for such other information, which comprise 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 the accounting practices 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 of 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 of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's 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.

- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

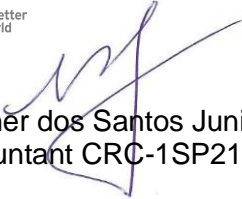
We communicate with those charged with governance regarding, among other matters, the scope and timing of the planned audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

From the matters communicated with those charged with governance, we determined 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 5, 2020.



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



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

A free translation from Portuguese into English of Individual and Consolidated Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)

## União Química Farmacêutica Nacional S.A.

Statements of financial position  
December 31, 2019 and 2018  
(In thousands of reais)

Assets	Note	Individual		Consolidated	
		12/31/2019	12/31/2018	12/31/2019	12/31/2018
<b>Current assets</b>					
Cash and cash equivalents	4	89,676	59,883	95,735	66,492
Trade accounts receivable	6	528,542	470,555	511,667	449,843
Inventories	7	407,080	325,744	492,201	405,332
Taxes recoverable	8	71,764	48,344	103,305	78,050
Other accounts receivable	9	10,618	6,992	13,416	10,867
Derivative financial instruments	10	6,094	15,721	6,094	15,721
Prepaid expenses		5,112	4,289	6,445	4,949
		<b>1,118,886</b>	<b>931,528</b>	<b>1,228,863</b>	<b>1,031,254</b>
<b>Noncurrent assets</b>					
Other accounts receivable	9	44,913	14,476	13,762	6,271
Deferred taxes	19.3	-	-	1,004	452
Short-term investments	5	870	2,382	870	2,382
Taxes recoverable	8	13,929	8,119	24,357	9,585
Judicial deposits	21	26,531	26,164	27,837	27,003
Prepaid expenses		884	657	888	657
Investments	12	265,098	265,878	18,941	11,563
Property, plant and equipment	13	341,027	303,152	648,457	612,681
Intangible assets	14	63,451	57,992	64,876	66,825
		<b>756,703</b>	<b>678,820</b>	<b>800,992</b>	<b>737,419</b>
<b>Total assets</b>		<b>1,875,589</b>	<b>1,610,348</b>	<b>2,029,855</b>	<b>1,768,673</b>

See accompanying notes.



## União Química Farmacêutica Nacional S.A.

Statements of financial position  
December 31, 2019 and 2018  
(In thousands of reais)

	Note	Individual		Consolidated	
		12/31/2019	12/31/2018	12/31/2019	12/31/2018
<b>Liabilities and equity</b>					
<b>Current liabilities</b>					
Trade accounts payable	16	172,346	94,378	210,585	121,561
Loans and financing	17	214,046	279,753	215,802	285,718
Labor and tax obligations	18	91,744	75,721	119,772	103,692
Income and social contribution taxes	19.2	2,161	5,022	3,843	6,961
Derivative financial instruments	10	-	2,535	-	2,535
Dividends payable	22.5	5,822	3,639	5,822	3,639
Supply agreement - manufacturing	12.4	-	-	12,352	12,235
Other accounts payable	20	37,241	23,672	37,887	19,536
		<b>523,360</b>	<b>484,720</b>	<b>606,063</b>	<b>555,877</b>
<b>Noncurrent liabilities</b>					
Loans and financing	17	397,520	319,366	401,152	319,366
Provision for contingencies	21	33,698	21,444	34,783	21,862
Deferred taxes	19.3	17,748	13,622	19,444	13,622
Labor and tax obligations	18	7,961	11,375	7,961	11,375
Supply agreement - manufacturing	12.4	-	-	57,055	73,244
Other accounts payable	20	31,385	27,443	39,480	40,949
		<b>488,312</b>	<b>393,250</b>	<b>559,875</b>	<b>480,418</b>
<b>Equity</b>					
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	27,687	22,580	27,687	22,580
Income reserve	22.3	173,833	88,985	173,833	88,985
Tax incentive reserve	22.4	220,652	179,000	220,652	179,000
Equity adjustments		(12)	56	(12)	56
		<b>863,917</b>	<b>732,378</b>	<b>863,917</b>	<b>732,378</b>
<b>Total liabilities and equity</b>		<b>1,875,589</b>	<b>1,610,348</b>	<b>2,029,855</b>	<b>1,768,673</b>

See accompanying notes.

## União Química Farmacêutica Nacional S.A.

### Statement of profit or loss

Years ended December 31, 2019 and 2018

(In thousands of reais, except for earnings per share - in reais)

	Note	Individual		Consolidated	
		2019	2018	2019	2018
Net operating revenue	23	<b>1,523,427</b>	1,219,778	<b>1,851,910</b>	1,515,044
Cost of sales and services	24	<b>(743,639)</b>	(603,665)	<b>(946,811)</b>	(772,073)
Gross profit		<b>779,788</b>	616,113	<b>905,099</b>	742,971
Operating income and expenses:					
General and administrative expenses	24	<b>(421,407)</b>	(238,994)	<b>(534,373)</b>	(370,909)
Selling expenses	24	<b>(192,013)</b>	(171,394)	<b>(199,404)</b>	(177,320)
Other operating income, net	25	<b>52,684</b>	14,103	<b>51,146</b>	7,488
Equity pickup	12.2	<b>4,533</b>	(17,692)	<b>9,639</b>	5,377
Operating income before finance income (costs)		<b>223,585</b>	202,136	<b>232,107</b>	207,607
Finance income	26	<b>132,472</b>	118,110	<b>133,943</b>	121,635
Finance costs	26	<b>(186,595)</b>	(180,854)	<b>(192,520)</b>	(187,306)
Finance income (costs), net		<b>(54,123)</b>	(62,744)	<b>(58,577)</b>	(65,671)
Income before income and social contribution taxes		<b>169,462</b>	139,392	<b>173,530</b>	141,936
Provision for income and social contribution taxes					
Current	19.1	<b>(21,545)</b>	(26,641)	<b>(24,469)</b>	(29,844)
Deferred	19.1	<b>(4,126)</b>	(4,649)	<b>(5,270)</b>	(3,990)
Net income for the year		<b>143,791</b>	108,102	<b>143,791</b>	108,102
Basic and diluted earnings per share attributable to shareholders (in R\$)	22.6	<b>0.3790</b>	0.2849		

See accompanying notes.

## União Química Farmacêutica Nacional S.A.

Statement of comprehensive income  
Years ended December 31, 2019 and 2018  
(In thousands of reais)

	Individual		Consolidated	
	2019	2018	2019	2018
Net income for the year	<b>143,791</b>	108,102	<b>143,791</b>	108,102
Equity adjustments	<b>(68)</b>	25	<b>(68)</b>	25
Comprehensive income for the year	<b>143,723</b>	108,127	<b>143,723</b>	108,127

See accompanying notes.

## União Química Farmacêutica Nacional S.A.

Statement of changes in equity  
 Years ended December 31, 2019 and 2018  
 (In thousands of reais)

	Capital			Capital reserve	Legal reserve	Income reserve	Tax incentive reserve	Retained earnings	Other comprehensive income	Total
	Subscribed capital	Unpaid capital	Capital							
<b>Balances at December 31, 2017</b>	440,301	(224)	440,077	1,680	19,389	48,951	124,843	-	31	634,971
Net income for the year	-	-	-	-	-	-	-	108,102	-	108,102
Net income allocation	-	-	-	-	3,191	47,115	54,157	(104,463)	-	-
Mandatory minimum dividends	-	-	-	-	-	-	-	(3,639)	-	-
Additional proposed dividends	-	-	-	-	-	(7,081)	-	-	-	(10,720)
Equity adjustments	-	-	-	-	-	-	-	-	25	25
<b>Balances at December 31, 2018</b>	440,301	(224)	440,077	1,680	22,580	88,985	179,000	-	56	732,378
Net income for the year	-	-	-	-	-	-	-	143,791	-	143,791
Net income allocation	-	-	-	-	5,107	91,210	41,652	(137,969)	-	-
Mandatory minimum dividends	-	-	-	-	-	-	-	(5,822)	-	(5,822)
Additional proposed dividends	-	-	-	-	-	(6,362)	-	-	-	(6,362)
Equity adjustments	-	-	-	-	-	-	-	-	(68)	(68)
<b>Balances at December 31, 2019</b>	<b>440,301</b>	<b>(224)</b>	<b>440,077</b>	<b>1,680</b>	<b>27,687</b>	<b>173,833</b>	<b>220,652</b>	<b>-</b>	<b>(12)</b>	<b>863,917</b>

See accompanying notes.

## União Química Farmacêutica Nacional S.A.

Statement of cash flows  
Years ended December 31, 2019 and 2018  
(In thousands of reais)

	Individual		Consolidated	
	2019	2018	2019	2018
<b>Cash flow from operating activities</b>				
Net income before income and social contribution taxes	<b>169,462</b>	139,392	<b>173,530</b>	<b>141,936</b>
<b>Adjustments to reconcile net income (loss) to cash from:</b>				
Allowance for expected credit losses	<b>2,917</b>	2,600	<b>4,877</b>	3,092
Provision for inventory losses	<b>22,608</b>	15,348	<b>28,062</b>	6,752
Equity pickup	<b>(4,533)</b>	17,692	<b>(9,639)</b>	(5,377)
Finance charges and foreign exchange difference	<b>42,722</b>	70,922	<b>44,998</b>	72,402
Provision for contingencies	<b>18,094</b>	8,795	<b>19,130</b>	8,734
Reversal of impairment of assets - trademark	-	(10,758)	-	(10,758)
Tax incentive gains	<b>(4,613)</b>	(12,969)	<b>(4,613)</b>	(12,969)
Proceeds from disposal of property, plant and equipment	<b>218</b>	(517)	<b>(838)</b>	(517)
Interest and present value adjustment	<b>(363)</b>	(580)	<b>(1,209)</b>	(580)
Fair value adjustment of unsettled financial instruments	<b>(3,362)</b>	(14,376)	<b>(3,362)</b>	(14,376)
Amortization of supply agreement	-	-	<b>(16,072)</b>	(6,662)
Unrealized profits in inventories	<b>2,638</b>	493	-	-
Income from tax credits	<b>(43,719)</b>	-	<b>(43,719)</b>	-
Manufacturing agreement	-	-	<b>(2,081)</b>	15,675
Depreciation and amortization	<b>30,818</b>	18,116	<b>70,270</b>	53,740
Other	-	440	-	2,173
	<b>232,887</b>	234,598	<b>259,334</b>	253,265
<b>Changes in current and noncurrent assets and liabilities:</b>				
Accounts receivable	<b>(60,904)</b>	(125,674)	<b>(85,267)</b>	(105,469)
Inventories	<b>(103,944)</b>	(146,504)	<b>(119,773)</b>	(160,328)
Taxes recoverable	<b>14,417</b>	(1,241)	<b>4,366</b>	(16,273)
Other assets	<b>(5,489)</b>	(4,763)	<b>(4,442)</b>	(6,102)
Prepaid expenses	<b>(790)</b>	(1,444)	<b>4,674</b>	(1,438)
Trade accounts payable	<b>76,546</b>	19,170	<b>87,502</b>	32,914
Labor and tax obligations	<b>20,099</b>	8,911	<b>16,328</b>	18,001
Other liabilities	<b>(21,453)</b>	(5,942)	<b>(6,761)</b>	(12,724)
Income and social contribution taxes paid	<b>(27,642)</b>	(21,505)	<b>(29,431)</b>	(22,704)
<b>Net cash flow from (used in) operating activities:</b>	<b>123,727</b>	(44,394)	<b>126,530</b>	(20,858)

## União Química Farmacêutica Nacional S.A.

### Statement of cash flows

Years ended December 31, 2019 and 2018

(In thousands of reais)

#### Cash flow from investing activities:

Acquisition of property, plant and equipment	<b>(38,932)</b>	(35,006)	<b>(62,206)</b>	(65,748)
Acquisition of intangible assets	<b>(3,422)</b>	(3,446)	<b>(4,209)</b>	(5,061)
Long-term financial investments	<b>1,512</b>	(696)	<b>1,512</b>	(696)
Proceeds from sales of property, plant and equipment	<b>4,080</b>	836	<b>4,080</b>	836
Intercompany loan receivable	<b>(26,315)</b>	(10,808)	<b>(4,467)</b>	(4,072)
Acquisition of subsidiary, net of cash	-	(3,308)	-	(3,278)
<b>Net cash used in investing activities:</b>	<b>(63,077)</b>	(52,428)	<b>(65,290)</b>	(78,019)

#### Cash flow from financing activities:

Loans and financing raised	<b>261,126</b>	425,755	<b>267,038</b>	431,095
Repayment of principal of loans and financing	<b>(249,442)</b>	(266,467)	<b>(256,137)</b>	(266,991)
Payment of interest on loans and financing	<b>(32,540)</b>	(21,828)	<b>(32,751)</b>	(21,838)
Dividends paid to shareholders	<b>(10,001)</b>	(12,425)	<b>(10,001)</b>	(12,425)
Related parties	-	-	<b>(146)</b>	(6,874)
<b>Net cash from (used in) financing activities:</b>	<b>(30,857)</b>	125,035	<b>(31,997)</b>	122,967
<b>Net increase in cash and cash equivalents</b>	<b>29,793</b>	28,213	<b>29,243</b>	24,090

<b>Cash and cash equivalents at beginning of year</b>	<b>59,883</b>	31,670	<b>66,492</b>	42,402
<b>Cash and cash equivalents at end of year</b>	<b>89,676</b>	59,883	<b>95,735</b>	66,492
	<b>29,793</b>	28,213	<b>29,243</b>	24,090

See accompanying notes.

# União Química Farmacêutica Nacional S.A.

Notes to the financial statements

December 31, 2019

(In thousands of reais, unless otherwise stated)

## 1. Operations

União Química Farmacêutica Nacional S.A., a privately-held corporation (“União Química”, the “Company” or the “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) União Química Farmacêutica Internacional S.A. v) UQ Indústria Gráfica e de Embalagens 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 units of interest of Claris Produtos Farmacêuticos do Brasil Ltda. ("Claris").

On May 21, 2018, the 26<sup>th</sup> Amendment to the Articles of Incorporation was ratified by the São Paulo State Commercial Registry for Assignment and Transfer of Units of Interest.

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

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 1. Operations (Continued)

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

<b>Assets:</b>	<b>Book value</b>	<b>Surplus value</b>	<b>Fair value</b>
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
	<b>1,713</b>	<b>5,579</b>	<b>7,292</b>
<b>Liabilities:</b>			
Labor and tax obligations	86	-	86
Other accounts payable	1,806	-	1,806
	<b>1,892</b>	<b>-</b>	<b>1,892</b>
Equity	<b>(179)</b>	<b>5,579</b>	<b>5,400</b>
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 those listed were identified.

#### Merger of Claris Produtos Farmacêuticos do Brasil Ltda.

On November 1, 2019, Claris was fully merged into União Química Farmacêutica Ltda.



## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)  
December 31, 2019  
(In thousands of reais, unless otherwise stated)

### 2. Significant accounting policies

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

The Company's individual and consolidated financial statements have been prepared in accordance with accounting practices 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 guidance issued by the Brazilian Financial Accounting Standards Board ("CPC"), approved by Brazil's National Association of State Boards of Accountancy ("CFC"), as well as the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

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

The Company's Executive Board authorized the issue of these individual and consolidated financial statements on March 5, 2020.

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 the Company management in the process of applying its accounting policies. 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 testing 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 have been prepared on a historical cost basis, except for certain asset and liability items measured at fair value, as indicated in this Note.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)  
December 31, 2019  
(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 Química Farmacêutica Internacional S.A., Inovat Indústria Farmacêutica Ltda., UQ Indústria Gráfica e de Embalagens Ltda. The Company holds 99.99% interest in the subsidiaries, which are accounted for using the equity method in the individual financial statements. The following table summarizes the subsidiaries' financial information:

	Anovis		Inovat		Union		Claris		UQ Gráfica	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018	10/31/2019	12/31/2018	12/31/2019	12/31/2018
Current assets	<b>100,085</b>	124,647	<b>90,311</b>	73,261	<b>1,214</b>	1,470	<b>215</b>	227	<b>11,097</b>	14,886
Noncurrent assets	<b>123,220</b>	114,932	<b>96,591</b>	98,047	-	-	<b>60</b>	61	<b>19,030</b>	6,607
Current liabilities	<b>114,439</b>	124,463	<b>30,088</b>	31,076	-	-	<b>1,880</b>	1,881	<b>14,296</b>	14,649
Noncurrent liabilities	<b>11,774</b>	13,140	<b>28,001</b>	9,354	<b>522</b>	668	<b>1,596</b>	782	<b>7,032</b>	1
Equity	<b>97,092</b>	101,976	<b>128,813</b>	130,878	<b>692</b>	802	<b>(3,201)</b>	(2,375)	<b>8,799</b>	6,843
Interest	<b>99.99%</b>	99.99%	<b>99.99%</b>	99.99%	<b>99.99%</b>	99.99%	<b>99.99%</b>	99.99%	<b>99.99%</b>	99.99%
Net operating revenue	<b>219,755</b>	<b>205,670</b>	<b>182,214</b>	<b>163,070</b>	-	-	-	-	<b>44,448</b>	<b>24,843</b>
Net income (loss) for the year	<b>(4,884)</b>	<b>(22,339)</b>	<b>(2,065)</b>	<b>9,232</b>	<b>(41)</b>	<b>58</b>	<b>(826)</b>	<b>(2,194)</b>	<b>1,956</b>	<b>(188)</b>

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 2. Significant accounting policies (Continued)

#### d) Basis of consolidation

##### *Subsidiaries – Individual financial statements*

In the individual financial statements, subsidiaries are accounted for 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.

##### *Joint ventures*

Joint ventures are entities 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 joint ventures 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 subject to an insignificant risk of change in value.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 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 recognized at fair value plus transaction costs directly attributable to their acquisition or issue (where applicable). They are subsequently measured at each reporting date in accordance with the rules established for each type of classification of financial assets and liabilities, as described in Note 28.

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and at fair value through profit or loss.

Temporary investments are initially recognized 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 the investment date, or those redeemable within 90 days, and that cannot be redeemed earlier without significant 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 year 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 85 days for customers to pay, a term deemed by management as part of the commercial conditions inherent in the operations of the 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.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 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 an objective evidence of impairment as a result of one or more events that have 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 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 of 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.

# União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

## 2. Significant accounting policies (Continued)

### e) Summary of significant accounting practices (Continued)

#### *Investments*

The Company's investments in subsidiaries and joint ventures are measured and recorded under the equity method in the individual financial statements, initially recognized at cost, with changes posted in 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, which is measured at acquisition date fair value, and the amount of any noncontrolling interests in the acquiree. For each business combination, the Company measures the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability shall be recognized in accordance with CPC 48 in the statement of profit or loss.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 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 profit or loss for the year as incurred.

Land is not depreciated. The 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 profit or loss and carrying amount, and are recognized in "Other income (expenses), net" in the statement of profit or loss.

##### *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 any 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.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

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

##### iii. Software

Acquired software licenses are capitalized based on costs incurred to acquire the software and make it ready 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, when 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 to the Company and it intends and has sufficient funds to complete the 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.



## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 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 and are tested for impairment on an annual basis. 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 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 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 80 days, which follows the Company's usual conditions and the arm's length principle; consequently, no present-value adjustment was applied.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 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 taxable profit 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 the 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.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 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 legally enforceable or contractual right to offset tax assets against tax liabilities, and related to income taxes levied on the same taxable entity by the same taxation 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 from a past event, the settlement of which is expected to result in an outflow of resources embodying economic benefits. They include, where applicable, corresponding charges and monetary or exchange differences incurred. Provisions are recorded based on 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.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 2. Significant accounting policies (Continued)

#### e) Summary of significant accounting practices (Continued)

##### *Provisions for tax, civil and labor contingencies*

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 presentation 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 the reporting date. Exchange gains and losses arising from the settlement of these transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognized in profit or loss for the year.

# União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

## 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 they are 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 will be received and that all the related conditions will be fulfilled. 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 profit or loss 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 nominal value and reflected in the statement of profit or loss 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.

# União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)  
December 31, 2019  
(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*

The individual and consolidated financial statements have been prepared and are presented based on the accounting practices adopted in preparing the individual and consolidated financial statements for the year ended December 31, 2019.

#### 2.1. New standards first-time adopted in 2019

**IFRS 16/ CPC 06 – Leases:** it supersedes the existing standards on leases, and introduces a single on-balance sheet model to account for leases for lessees. A lessee recognizes a right-of-use asset that represents its right to use the leased asset and a lease liability that represents its obligation to make lease payments.

This amendment to CPC 06 did not bring substantial changes for lessors, as their accounting remains similar to the previous standard, i.e., lessors will continue to classify leases as finance or operating leases.

#### i. Leases in which the Company is a lessee

IFRS 16 came into effect on January 1, 2019. Until 2018, the administrative headquarters and other property lease contracts that fall under the standard were recognized directly as expenses; after the implementation of the new CPC 06, the Company now recognizes a lease liability (Note 20) and a right-of-use asset (Note 13) adjusted to present value and restated according to the indices provided for in the contracts. In profit or loss, it recognizes interest expenses on lease liabilities and amortization expenses on the right of use. Consequently, EBITDA and operating income/expenses were affected.

Until December 31, 2018, the Company recognized an expense on a straight-line basis, based on operating lease contracts over the contractual term.

#### ii. Transition

The Company applied CPC 06/IFRS 16 using the modified retrospective approach, which does not provide for the restatement of information of prior comparative periods.

Management decided to use the optional exemptions provided for in the standard for leases of low-value assets.

In the transition, lease liabilities were measured at the present value of the remaining payments, discounted at the lessees' incremental borrowing rate.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 2. Significant accounting policies (Continued)

#### 2.1. New standards first-time adopted in 2019 (Continued)

The lease contracts have an average term of 3 years and the Company made use of late perception, such as in determining the lease term, whether the contract contains the option to extend or terminate it, among others. The payment flows were estimated net of Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Contribution Tax on Gross Revenue for Social Security Financing (COFINS) and the right-of-use assets were measured at an amount equal to the lease liability at present value.

The Company applied the practical expedient with respect to the definition of the lease contract in the transition. This means that it applied CPC 06 (R2)/IFRS 16 to all contracts entered into before January 1, 2019 that were identified as leases in accordance with CPC 06 (R1)/IAS 17 and ICPC 03/IFRIC 4.

The nominal incremental borrowing rate (discount) used to calculate the present value of the contracts was based on the current average spread of the Company's borrowings.

Based on this information, we present below the changes in the Company's right of use and lease liabilities:

Right of use of leases	Individual	Consolidated
<b>Balance at December 31, 2018</b>	-	-
Leases recognized in the transition to CPC 06 (R2) / IFRS 16	34,159	42,643
Amortization	(11,595)	(13,794)
<b>Balance at December 31, 2019 (Note 13)</b>	<b>22,564</b>	<b>28,849</b>
Lease liabilities	Amount	Amount
<b>Balance at December 31, 2018</b>	-	-
Leases recognized in the transition to CPC 06 (R2) / IFRS 16	37,995	47,740
Write-off due to payment of lease liabilities	(12,499)	(14,940)
Present value adjustment recognized in the transition to IFRS 16	(3,835)	(5,095)
Write-off of accumulated interest (present value adjustment)	1,384	1,770
<b>Balance at December 31, 2019 (Note 20)</b>	<b>23,045</b>	<b>29,475</b>
Current	10,584	12,806
Noncurrent	12,461	16,669
Statement of profit or loss	Amount	Amount
<b>Balance at December 31, 2018</b>	-	-
Operating expenses avoided	12,499	14,940
Lease amortization expenses	(11,595)	(13,794)
<b>Operating loss</b>	<b>904</b>	<b>1,146</b>
Finance income (costs) with present value adjustment	(1,384)	(1,770)
<b>Net income (loss) before income and social contribution taxes</b>	<b>(480)</b>	<b>(624)</b>

# União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

## 2. Significant accounting policies (Continued)

### 2.1. New standards first-time adopted in 2019 (Continued)

**IFRIC 23/ ICPC 22 – Uncertainty over income tax treatments:** it determines how to apply the recognition and measurement requirements of CPC 32 when there is uncertainty over income tax treatments. The Company management shall recognize and measure current or deferred tax assets or liabilities by applying the requirements of CPC 32, based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The interpretation was approved on December 21, 2018 and came into effect on January 1, 2019.

According to the Company management's assessment, this interpretation had no significant impacts, since all the procedures adopted for the calculation and payment of income taxes are supported by the legislation and by administrative and legal court rulings.

## 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 profit or loss 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 finance costs 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 early payment/receipt is required, or even enter into transactions in the financial market in order to hedge against the risk of rate fluctuations.



# União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

## 3. Financial instrument risk management (Continued)

### 3.1. Financial risk factors (Continued)

#### a) Market risk (Continued)

##### 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. The Company's net exposure at December 31, 2019 is related to loans in foreign currency, amounting to US\$31.235 thousand and €1.675 thousand (US\$47.874 thousand and €11.729 thousand in 2018), and imports of raw materials and/or services amounting to US\$53,417 thousand and €10,040 thousand (US\$2,973 thousand and €288 thousand in 2018), with instruments (NDF) taken out to hedge a part of this exposure as at December 31, 2019, totaling US\$13,580 thousand and €1,100 thousand (US\$13,855 thousand and €1,521 thousand in 2018).

#### 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 function assesses the customers' credit worthiness, taking into consideration their 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 expected credit losses shown in Note 6.

# União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)  
December 31, 2019  
(In thousands of reais, unless otherwise stated)

## 3. Financial instrument risk management (Continued)

### 3.1. Financial risk factors (Continued)

#### 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 debt ratio, 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. 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.

# União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

## 3. Financial risk management (Continued)

### 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 70% of the consolidated financial liabilities at December 31, 2019. In addition, 6% of bank loans are pegged to fixed interest rates, 22% pegged to contracts with exchange differences, and 2% are restated by other monetary restatement indexes (such as the Long-Term Rate (TLP) and the National Consumer Price Index (INPC)).

CPCs 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, 2019, three different scenarios were estimated, considering the volume of total financing. Based on these consolidated amounts at December 31, 2019, 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 contract.

For each scenario, gross finance costs were calculated, not considering taxes and the aging list of each contract for 2019 and thereafter. The reporting date used was December 31, 2019, with projection of restatement indexes for each contract for the next 12 months and assessment of their sensitivity under each scenario.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 3. Financial risk management (Continued)

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

Risk	Probable scenario	Scenario II	Scenario III
	Dec/19	Dec/19	Dec/19
<b>Foreign exchange difference</b>	<b>133,485</b>	<b>133,485</b>	<b>133,485</b>
Projected finance costs	1,970	35,833	69,697
Difference %	1.48%	26.84%	52.21%
<b>CDI</b>	<b>433,827</b>	<b>433,827</b>	<b>433,827</b>
Projected finance costs	25,548	29,869	34,191
Difference %	5.89%	6.89%	7.88%
<b>Fixed</b>	<b>36,057</b>	<b>36,057</b>	<b>36,057</b>
Projected finance costs	1,675	1,675	1,675
Difference %	4.65%	4.65%	4.65%
<b>Other</b>	<b>13,585</b>	<b>13,585</b>	<b>13,585</b>
Projected finance costs	1,002	1,150	1,299
Difference %	7.38%	8.47%	9.56%
<b>Total bank indebtedness</b>	<b>616,954</b>	<b>616,954</b>	<b>616,954</b>
Total projected finance costs	30,195	68,527	106,862
Total difference %	4.89%	11.11%	17.32%

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 CDI at December 31, 2019, 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	Scenario II	Scenario III
<b>Investments - CDI</b>	<b>90,112</b>	<b>90,112</b>	<b>90,112</b>
Rate subject to variation	3.91%	4.89%	5.86%
Projected finance income	3,523	4,404	5,285
<b>Difference %</b>		<b>881</b>	<b>1,762</b>

The financial assets of the Company and its subsidiaries at December 31, 2019 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:

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(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 Central Bank 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			Individual and Consolidated		
	12/31/2019			12/31/2018		
	Scenario (I) - Probable	Scenario (II) 25% decrease	Scenario (III) 50% decrease	Scenario (I) - Probable	Scenario (II) 25% decrease	Scenario (III) 50% decrease
NDF (banks)	1,527	13,428	28,358	(2,278)	17,339	32,469
Swap	4,567	3,425	2,284	15,464	11,598	7,732
<b>Total</b>	<b>6,094</b>	<b>16,853</b>	<b>30,642</b>	<b>13,186</b>	<b>28,937</b>	<b>40,201</b>

### 4. Cash and cash equivalents

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Cash and banks	434	708	676	1,673
Sort-term investments				
Santander	36,242	23,129	39,619	26,652
Bradesco	185	135	185	135
Banco do Brasil	30,596	15,406	31,734	15,406
Itaú Unibanco	357	47	1,522	1,404
Safra	16,394	5,060	16,394	5,060
Alfa	5,048	5,076	5,048	5,076
BRB	53	51	53	51
Citibank	367	10,271	504	11,035
	<b>89,676</b>	<b>59,883</b>	<b>95,735</b>	<b>66,492</b>

Short-term investments in Bank Deposit Certificates (CDB) have an average yield of 98.10% of the Interbank Deposit Certificate (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.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)  
December 31, 2019  
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### 5. Sort-term investments

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
<b>Noncurrent assets</b>				
Banco de Brasília	<b>870</b>	2,382	<b>870</b>	2,382
	<b>870</b>	2,382	<b>870</b>	2,382

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 October 2019, there was an IDEAS (the program for Industrial Financing for Sustainable Economic Development) auction, in which the debt of R\$6,640 was settled for R\$2,047 (Note 18). For this settlement, R\$1,365 of long-term investments were used.

### 6. Trade accounts receivable

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Domestic customers	<b>375,145</b>	282,160	<b>436,503</b>	363,906
Foreign customers	<b>546</b>	33	<b>546</b>	33
Related parties (Note 11)	<b>156,063</b>	192,598	<b>79,839</b>	90,632
	<b>531,754</b>	474,791	<b>516,888</b>	454,571
(-) Expected credit loss	<b>(3,212)</b>	(4,236)	<b>(5,221)</b>	(4,728)
	<b>528,542</b>	470,555	<b>511,667</b>	449,843

The Company and its subsidiaries adopt, as a procedure, an allowance for expected credit losses 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 losses in 2019 and 2018 are as follows:

	Individual	Consolidated
Balance at 12/31/2017	(1,718)	(1,718)
Provision	(4,387)	(4,879)
Reversal	1,787	1,787
Write-off (effective loss)	82	82
Balance at 12/31/2018	(4,236)	(4,728)
Provision	<b>(9,081)</b>	<b>(14,415)</b>
Reversal	<b>6,164</b>	<b>9,538</b>
Write-off (effective loss)	<b>3,941</b>	<b>4,384</b>
<b>Balance at 12/31/2019</b>	<b>(3,212)</b>	<b>(5,221)</b>

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 6. Trade accounts receivable (Continued)

Based on the history of receivables, the Company considers the probability of default relating to receivables from public bodies in the long term as remote. Therefore, no allowance for expected credit losses were recorded on receivables from Government entities.

The aging list of accounts receivable is summarized below:

	Individual					
	12/31/2019			12/31/2018		
	Private	Government	Total	Private	Government	Total
Falling due	436,035	14,203	450,238	373,396	5,716	379,112
Overdue up to 30 days	10,508	7,161	17,669	21,924	8,020	29,944
Overdue from 31 to 60 days	2,780	2,938	5,718	10,144	3,492	13,636
Overdue from 61 to 120 days	20,911	1,432	22,343	17,795	2,355	20,150
Overdue from 121 to 180 days	15,584	1,641	17,225	22,930	1,345	24,275
Overdue from 181 to 360 days	12,074	1,769	13,843	977	1,099	2,076
Overdue above 361 days	746	3,972	4,718	2,380	3,218	5,598
	<b>498,638</b>	<b>33,116</b>	<b>531,754</b>	<b>449,546</b>	<b>25,245</b>	<b>474,791</b>

	Consolidated				
	12/31/2019			12/31/2018	
	Private	Total	Private	Total	
Falling due	469,254	14,203	347,019	5,716	352,735
Overdue up to 30 days	8,426	7,161	25,059	8,020	33,079
Overdue from 31 to 60 days	682	2,938	10,267	3,492	13,759
Overdue from 61 to 120 days	622	1,432	18,573	2,355	20,928
Overdue from 121 to 180 days	632	1,641	23,189	1,345	24,534
Overdue from 181 to 360 days	1,641	1,769	2,758	1,099	3,857
Overdue above 361 days	2,515	3,972	2,461	3,218	5,679
	<b>483,772</b>	<b>33,116</b>	<b>429,326</b>	<b>25,245</b>	<b>454,571</b>

### 7. Inventories

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Finished products	177,870	114,867	205,727	134,813
Work in process	28,279	23,384	34,603	30,570
Raw materials	140,261	128,991	164,558	148,303
Packaging material	32,640	34,346	47,415	51,626
Maintenance and safety materials	20,446	19,927	36,753	35,984
Advance for acquisition of supplies (i)	20,651	12,411	28,981	12,411
Other (ii)	13,900	5,718	9,924	10,551
(-) Provision for losses	(26,967)	(13,900)	(35,760)	(18,926)
	<b>407,080</b>	<b>325,744</b>	<b>492,201</b>	<b>405,332</b>

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

(ii) Substantially represented by promotional material.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 7. Inventories (Continued)

	<u>Individual</u>	<u>Consolidated</u>
Balance at 12/31/2017	(6,899)	(21,116)
Provision/reversal	(15,348)	(6,752)
Write-off (effective loss)	8,347	8,942
Balance at 12/31/2018	(13,900)	(18,926)
Provision/reversal	<b>(22,608)</b>	<b>(28,062)</b>
Write-off (effective loss)	<b>9,541</b>	<b>11,228</b>
<b>Balance at 12/31/2019</b>	<b>(26,967)</b>	<b>(35,760)</b>

### 8. Taxes recoverable

	<u>Individual</u>		<u>Consolidated</u>	
	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2018</u>
State Value-added Tax (ICMS) (i)	<b>24,050</b>	35,158	<b>46,624</b>	52,643
Contribution Tax on Gross Revenue for	<b>13,265</b>	961	<b>15,006</b>	2,007
Contribution Tax on Gross Revenue for				
Social Security Financing (Cofins)	<b>61,375</b>	3,573	<b>68,700</b>	8,357
Income tax	<b>6,644</b>	5,485	<b>7,797</b>	6,364
Social contribution tax on net profit	<b>4,133</b>	7,006	<b>5,160</b>	7,943
Federal Value-added Tax (IPI)	<b>1,022</b>	3,278	<b>8,953</b>	9,201
Other	<b>896</b>	1,002	<b>1,114</b>	1,120
( - ) Provision for credits	<b>(25,692)</b>	-	<b>(25,692)</b>	-
	<b>85,693</b>	56,463	<b>127,662</b>	87,635
Current	<b>71,764</b>	48,344	<b>103,305</b>	78,050
Noncurrent	<b>13,929</b>	8,119	<b>24,357</b>	9,585

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

#### Exclusion of ICMS from PIS/COFINS base

On September 12, 2019, the Company obtained a favorable final decision regarding the proceeding that discussed the exclusion of ICMS from the PIS/COFINS base, with the original proceeding filed in 2007. The credits for the period from 2002 to 2018 were recognized by the Company. For the period from 2002 to 2010, the Company is in the process of collecting sufficient information for credit approval; it therefore recorded a provision due to the uncertainty of not realizing total credits for that period, in the amount of R\$25,692.

### 9. Other accounts receivable

	<u>Individual</u>		<u>Consolidated</u>	
	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2018</u>
Advances to suppliers	<b>3,266</b>	1,078	<b>3,292</b>	2,309
Advances to employees	<b>6,249</b>	5,879	<b>8,967</b>	8,408
Pledges and collaterals	<b>3,038</b>	2,200	<b>3,039</b>	2,201
Other	<b>3,094</b>	34	<b>3,341</b>	148
Related parties (Note 11)	<b>39,884</b>	12,277	<b>8,539</b>	4,072
	<b>55,531</b>	21,468	<b>27,178</b>	17,138
Current	<b>10,618</b>	6,992	<b>13,416</b>	10,867
Noncurrent	<b>44,913</b>	14,476	<b>13,762</b>	6,271



## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

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### 10. Derivative financial instruments

	Individual and Consolidated	
	12/31/2019	12/31/2018
<b>Assets</b>		
NDF (banks)	1,527	246
Swap	4,567	15,475
	<b>6,094</b>	15,721
<b>Liabilities</b>		
NDF (banks)	-	(2,524)
Swap	-	(11)
	-	(2,535)
Financial instruments, net	<b>6,094</b>	13,186

### 11. Related parties

Related party transactions and balances are as follows:

	Individual		Consolidated	
	2019	2018	2019	2018
<b>Revenues</b>				
Sales to Anovis (i)	61,236	97,006	-	-
Sales to F&F Distribuidora (ii)	207,878	208,302	207,878	208,302
Sales to Inovat (i)	8	39	-	-
Sales to UQ Indústria Gráfica (i)	1,037	6,211	-	-
	<b>270,159</b>	311,558	<b>207,878</b>	208,302
<b>Purchases</b>				
Purchases from Anovis (i)	16,145	9,375	-	-
Purchases from UQ Gráfica (i)	47,942	23,038	-	-
Purchases from Laboratil (ii)	10,257	9,050	10,257	9,050
Purchases from Union Agener (vi)	35,299	-	35,299	-
	<b>109,643</b>	41,463	<b>45,556</b>	9,050

# União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

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## 11. Related parties (Continued)

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
<b>Current assets</b>				
Receivables from Anovis (i)	75,802	97,146	-	-
Receivables from F&F Distribuidora (ii)	79,839	90,632	79,839	90,632
Receivables from Inovat (i)	59	1,085	-	-
Receivables from UQ Indústria Gráfica (i)	363	3,735	-	-
	<b>156,063</b>	192,598	<b>79,839</b>	90,632
<b>Noncurrent assets</b>				
Receivables from Inovat (iii)	25,477	7,498	-	-
Receivables from Union Agener (v)	6,904	4,072	8,380	4,072
Receivables from F&F Distribuidora (iii)	159	-	159	-
Loans - UQ Indústria Gráfica (iii)	495	1	-	-
Loans - Anovis (iii)	6,849	-	-	-
Loans - Claris (iii)	-	706	-	-
	<b>39,884</b>	12,277	<b>8,539</b>	4,072
<b>Current liabilities</b>				
Payables to Anovis (i)	144	452	-	-
Payables to UQ Gráfica (i)	3,858	4,588	-	-
Payables to Laboratil (ii)	29	-	29	-
	<b>4,031</b>	5,040	<b>29</b>	-
<b>Noncurrent liabilities</b>				
Loan - indirect parent (iv)	-	-	522	668
	-	-	<b>522</b>	668

- (i) Balances referring to purchase and sale of medicines and packaging materials at prices and under conditions agreed upon between the parties, and receivables relating to shared services;
- (ii) Balances referring to sale of medicines at market prices and conditions. The Company, F&F Distribuidora and Laboratil have the same controlling shareholder;
- (iii) Balances deriving from shared and mutual services presented at nominal value, the latter increased by 12% interest p.a.; in addition, there are receivables relating to operating expenses, presented at their nominal value. The maturity of all transactions is undetermined;
- (iv) 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;
- (v) Union Agener, a company owned by the Company's shareholder, received funds to pay pre-operating expenses. The reimbursement is expected to take place in the next 2 years, at the nominal value;
- (vi) Balance referring to sale of medicines (Lactotropin) at market prices and conditions.

### 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	
	2019	2018	2019	2018
Payroll and related charges	15,872	5,142	17,840	8,965
Executive board fees	2,034	1,944	2,034	1,944
Variable compensation	1,227	1,081	1,837	1,686
	<b>19,133</b>	8,167	<b>21,711</b>	12,595

## União Química Farmacêutica Nacional S.A.

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### 12. Investments

#### 12.1. Information on investments

	Capital	Interest held %	Equity	P&L
<b>Bionovis S.A. (joint venture)</b>				
December 31, 2018	24,000	25.00	46,252	21,507
December 31, 2019	<b>24,000</b>	<b>25.00</b>	<b>75,764</b>	<b>38,556</b>
<b>Anovis Industrial Farmacêutica Ltda.</b>				
December 31, 2018	105,524	99.99	101,976	(22,339)
At December 31, 2019	<b>105,524</b>	<b>99.99</b>	<b>97,092</b>	<b>(4,884)</b>
<b>Union Química Farmacêutica Internacional S.A.</b>				
December 31, 2018	176	99.99	802	83
December 31, 2019	<b>176</b>	<b>99.99</b>	<b>692</b>	<b>(110)</b>
<b>Inovat Indústria Farmacêutica Ltda.</b>				
December 31, 2018	128,027	99.99	130,878	9,232
December 31, 2019	<b>128,027</b>	<b>99.99</b>	<b>128,813</b>	<b>(2,065)</b>
<b>UQ Indústria Gráfica e de Embalagens Ltda.</b>				
December 31, 2018	7,031	99.99	6,843	(188)
December 31, 2019	<b>7,031</b>	<b>99.99</b>	<b>8,799</b>	<b>1,956</b>
<b>Clarís Produtos Farmacêuticos dos Brasil Ltda.</b>				
December 31, 2018	7,966	99.99	(2,375)	(2,194)
October 31, 2019	<b>7,966</b>	<b>99.99</b>	<b>(3,201)</b>	<b>(826)</b>

# União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(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 Gráfica (v)	Clarís Brasil (vi)	Total
<b>Balance at December 31, 2017</b>	6,186	104,352	721	160,350	-	-	271,609
Payment of capital	-	-	-	-	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
<b>Balance at December 31, 2018</b>	11,563	82,244	802	161,220	6,843	3,206	265,878
Equity pickup	9,639	(4,884)	(41)	(2,065)	1,956	(826)	3,779
Depreciation - surplus of assets	-	(3,539)	-	(9,744)	-	(2,035)	(15,318)
Amortization of supply agreement	-	13,525	-	2,547	-	-	16,072
Inventory profits	-	(2,638)	-	-	-	-	(2,638)
Dividends receivable	(2,261)	-	-	-	-	-	(2,261)
Merger of Clarís by União Química	-	-	-	-	-	(345)	(345)
Translation gains (losses) on foreign transactions	-	-	(69)	-	-	-	(69)
<b>Balance at December 31, 2019</b>	<b>18,941</b>	<b>84,708</b>	<b>692</b>	<b>151,958</b>	<b>8,799</b>	<b>-</b>	<b>265,098</b>

- (i) On April 2, 2012, the Company paid in R\$2,500 of the capital in Bionovis S.A., the first Brazilian biotechnology product company founded by the Company and Aché Laboratórios Farmacêuticos S.A., EMS Participações S.A. and Hypera S.A.. The equity pickup of R\$9,639 refers to 2019 (R\$5,377 in 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. The equity pickup of R\$(4,884) refers to profit or loss for 2019 (R\$22,339 in 2018). At December 31, 2019, the Company recognized in profit or loss for the year depreciation on the surplus value of tangible assets acquired in the business combination, in the amount of R\$3,539, as well as the amortization of the surplus value of the manufacturing agreement in the amount of R\$13,525. The referred to amortization considered the contractual volumes up to December 31, 2019. These amounts represent 32% of the expected cumulative volume of the agreement up to 2024. The Company also recognized the amount of R\$(2,638) relating to unrealized profits on inventories, arising from sales of medicines to this subsidiary.
- (iii) Cash remitted by the Company for investment and organization of "União Química Farmacêutica Internacional", a company based in Uruguay. Equity pickup of R\$(41) refers to profit or loss for 2019 (R\$58 in 2018).

# União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(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 veterinary medicines and toll manufacturing segments. The equity pick-up of R\$2,065 refers to profit or loss for 2019 (R\$9,232 in 2018). At December 31, 2019, the Company recognized in profit or loss for the year the depreciation on the surplus value of tangible assets acquired in the business combination, in the amount of R\$9,744, as well as the amortization of the manufacturing agreement in the amount of R\$2,547, based on contracted volumes.
- (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 equity pickup of R\$1,956 refers to profit or loss for 2019 (R\$188 in 2018).
- (vi) Claris Produtos Farmacêuticos do Brasil Ltda. was acquired on May 21, 2018 for R\$5,387. On November 1, 2019, Claris was fully merged by União Química Farmacêutica Nacional S.A. The equity pickup of R\$(826) refers to profit or loss for the 10-month period prior to the merger (R\$2,194 in 2018). The amount of R\$3,544 refers to the balance of brands and patents owned by Claris on the date of the merger.

### 12.3. Breakdown of investments

	Investment - Equity pickup	Goodwill/bar gain purchase	Surplus value/supply agreement	Exchange difference s	Dividends	Merger of Claris	Investment balance
Bionovis S.A.	21,202	-	-	-	(2,261)	-	18,941
Anovis Industrial Farmacêutica Ltda.	97,092	2,633	(15,017)	-	-	-	84,708
Union Química Farmacêutica Internacional S.A.	707	-	-	(15)	-	-	692
Inovat Indústria Farmacêutica Ltda.	128,813	(43)	23,188	-	-	-	151,958
UQ Indústria Gráfica e de Embalagens Ltda.	8,799	-	-	-	-	-	8,799
Claris Produtos Farmacêuticos dos Brasil Ltda.	(3,212)	13	3,544	-	-	(345)	-
	<b>253,401</b>	<b>2,603</b>	<b>11,715</b>	<b>(15)</b>	<b>(2,261)</b>	<b>(345)</b>	<b>265,098</b>

### 12.4. Changes in the supply agreement

	Consolidated
Balance at December 31, 2017	92,141
Amortization	(6,662)
Balance at December 31, 2018	85,479
Amortization	(16,072)
Balance at December 31, 2019	69,407
Current	12,352
Noncurrent	57,055

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(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 intended to working capital and 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	Advances to suppliers	Construction in progress	Total
<b>Cost</b>									
<b>Book balance at 12/31/2017</b>	16,043	120,587	234,349	17,479	25,616	414,074	2,327	3,414	419,815
Additions	690	1,726	16,811	1,203	1,402	21,832	718	12,456	35,006
Write-offs	-	(127)	(16,417)	(343)	(1,584)	(18,471)	-	-	(18,471)
Transfers (i)	-	600	7,164	16	1,406	9,186	(2,825)	(9,046)	(2,685)
<b>Book balance at 12/31/2018</b>	16,733	122,786	241,907	18,355	26,840	426,621	220	6,824	433,665
Leases IFRS 16	-	<b>13,235</b>	-	-	<b>20,924</b>	<b>34,159</b>	-	-	<b>34,159</b>
Additions	-	<b>1,888</b>	<b>28,236</b>	<b>1,387</b>	<b>2,112</b>	<b>33,623</b>	<b>3,259</b>	<b>2,050</b>	<b>38,932</b>
Write-offs	<b>(1,397)</b>	-	<b>(546)</b>	<b>(46)</b>	<b>(14,164)</b>	<b>(16,153)</b>	-	-	<b>(16,153)</b>
Transfers	-	<b>1,554</b>	<b>6,503</b>	<b>49</b>	-	<b>8,106</b>	<b>(943)</b>	<b>(7,163)</b>	-
<b>Book balance at 12/31/2019</b>	<b>15,336</b>	<b>139,463</b>	<b>276,100</b>	<b>19,745</b>	<b>35,712</b>	<b>486,356</b>	<b>2,536</b>	<b>1,711</b>	<b>490,603</b>
<b>Depreciation</b>									
<b>Book balance at 12/31/2017</b>	-	(24,129)	(77,020)	(5,855)	(16,220)	(123,224)	-	-	(123,224)
Additions	-	(1,977)	(11,589)	(993)	(2,816)	(17,375)	-	-	(17,375)
Write-offs	-	109	8,941	201	835	10,086	-	-	10,086
<b>Book balance at 12/31/2018</b>	-	(25,997)	(79,668)	(6,647)	(18,201)	(130,513)	-	-	(130,513)
Leases IFRS 16	-	(2,388)	-	-	(9,207)	<b>(11,595)</b>	-	-	<b>(11,595)</b>
Additions	-	<b>(1,981)</b>	<b>(12,440)</b>	<b>(1,099)</b>	<b>(2,196)</b>	<b>(17,716)</b>	-	-	<b>(17,716)</b>
Write-offs	-	-	<b>285</b>	<b>33</b>	<b>9,930</b>	<b>10,248</b>	-	-	<b>10,248</b>
<b>Book balance at 12/31/2019</b>	-	<b>(30,366)</b>	<b>(91,823)</b>	<b>(7,713)</b>	<b>(19,674)</b>	<b>(149,576)</b>	-	-	<b>(149,576)</b>
Net balance at 12/31/2017	16,043	96,458	157,329	11,624	9,396	290,850	2,327	3,414	296,591
Net balance at 12/31/2018	16,733	96,789	162,239	11,708	8,639	296,108	220	6,824	303,152
Net balance at 12/31/2019	<b>15,336</b>	<b>109,097</b>	<b>184,277</b>	<b>12,032</b>	<b>16,038</b>	<b>336,780</b>	<b>2,536</b>	<b>1,711</b>	<b>341,027</b>
Depreciation rate	-	1.67% to 8.11%	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 recoverable.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(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	Advances to suppliers	Construction in progress	Total
<b>Cost</b>									
<b>Book balance at 12/31/2017</b>	61,761	247,032	379,355	20,741	26,203	735,092	2,996	18,177	756,265
Acquisition of subsidiary	-	-	3	-	-	3	-	-	3
Additions	690	1,734	28,364	1,621	1,516	33,925	6,159	25,664	65,748
Write-offs	-	(127)	(5,594)	(197)	(1,584)	(7,502)	-	-	(7,502)
Transfers	-	600	14,100	19	1,406	16,125	(6,979)	(11,831)	(2,685)
<b>Book balance at 12/31/2018</b>	62,451	249,239	416,228	22,184	27,541	777,643	2,176	32,010	811,829
Leases IFRS 16	-	<b>19,400</b>	<b>2,319</b>	-	<b>20,924</b>	<b>42,643</b>	-	-	<b>42,643</b>
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-
Additions	-	<b>2,054</b>	<b>30,237</b>	<b>2,101</b>	<b>2,118</b>	<b>36,510</b>	<b>5,589</b>	<b>20,107</b>	<b>62,206</b>
Write-offs	<b>(1,397)</b>	-	<b>(9)</b>	<b>(156)</b>	<b>(14,304)</b>	<b>(15,866)</b>	-	<b>(23)</b>	<b>(15,889)</b>
Transfers	-	<b>1,632</b>	<b>24,193</b>	<b>49</b>	-	<b>25,874</b>	<b>(1,854)</b>	<b>(24,020)</b>	-
<b>Book balance at 12/31/2019</b>	<b>61,054</b>	<b>272,325</b>	<b>472,968</b>	<b>24,178</b>	<b>36,279</b>	<b>866,804</b>	<b>5,911</b>	<b>28,074</b>	<b>900,789</b>
<b>Depreciation</b>									
<b>Book balance at 12/31/2017</b>	-	(38,102)	(89,214)	(7,888)	(16,561)	(151,765)	-	-	(151,765)
Additions	-	(11,386)	(34,939)	(2,017)	(3,067)	(51,409)	-	-	(51,409)
Write-offs	-	109	2,920	162	835	4,026	-	-	4,026
<b>Book balance at 12/31/2018</b>	-	(49,379)	(121,233)	(9,743)	(18,793)	(199,148)	-	-	(199,148)
Leases IFRS 16	-	<b>(3,159)</b>	<b>(1,428)</b>	-	<b>(9,207)</b>	<b>(13,794)</b>	-	-	<b>(13,794)</b>
Additions	-	<b>(10,590)</b>	<b>(36,071)</b>	<b>(2,107)</b>	<b>(2,247)</b>	<b>(51,015)</b>	-	-	<b>(51,015)</b>
Write-offs	-	-	<b>1,460</b>	<b>95</b>	<b>10,070</b>	<b>11,625</b>	-	-	<b>11,625</b>
<b>Book balance at 12/31/2019</b>	-	<b>(63,128)</b>	<b>(157,272)</b>	<b>(11,755)</b>	<b>(20,177)</b>	<b>(252,332)</b>	-	-	<b>(252,332)</b>
Net balance at 12/31/2017	61,761	208,930	290,141	12,853	9,642	583,327	2,996	18,177	604,500
Net balance at 12/31/2018	62,451	199,860	294,995	12,441	8,748	578,495	2,176	32,010	612,681
Net balance at 12/31/2019	<b>61,054</b>	<b>209,197</b>	<b>315,696</b>	<b>12,423</b>	<b>16,102</b>	<b>614,472</b>	<b>5,911</b>	<b>28,074</b>	<b>648,457</b>
Depreciation rate	-	1.67% to 8.11%	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 recoverable.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 14. Intangible assets

	Individual			
	Trademarks and patents (i)	Goodwill (ii)	Software (iii)	Total
<b>Cost</b>				
<b>Book balance at 12/31/2017</b>	36,017	2,743	14,638	53,398
Additions	3,169	-	277	3,446
Write-offs	-	-	(103)	(103)
Reversal of impairment	-	10,758	-	10,758
<b>Book balance at 12/31/2018</b>	39,186	13,501	14,812	67,499
Additions	-	-	3,422	3,422
Merger of subsidiary	3,544	-	-	3,544
<b>Book balance at 12/31/2019</b>	<b>42,730</b>	<b>13,501</b>	<b>18,234</b>	<b>74,465</b>
<b>Amortization</b>				
<b>Book balance at 12/31/2017</b>	-	-	(8,800)	(8,800)
Additions	-	-	(741)	(741)
Write-offs	-	-	34	34
<b>Book balance at 12/31/2018</b>	-	-	(9,507)	(9,507)
Additions	(407)	-	(1,100)	(1,507)
<b>Book balance at 12/31/2019</b>	<b>(407)</b>	-	<b>(10,607)</b>	<b>(11,014)</b>
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
Net balance at 12/31/2019	<b>42,323</b>	<b>13,501</b>	<b>7,627</b>	<b>63,451</b>

	Consolidated			
	Trademarks and patents (i)	Goodwill (ii)	Software (iii)	Total
<b>Cost</b>				
<b>Book balance at 12/31/2017</b>	36,017	2,743	18,588	57,348
Additions	3,169	-	1,892	5,061
Acquisition of subsidiary	5,579	-	-	5,579
Write-offs	-	-	(103)	(103)
Reversal of impairment	-	10,758	-	10,758
<b>Book balance at 12/31/2018</b>	44,765	13,501	20,377	78,643
Additions	-	-	4,209	4,209
Write-offs	-	-	(818)	(818)
<b>Book balance at 12/31/2019</b>	<b>44,765</b>	<b>13,501</b>	<b>23,768</b>	<b>82,034</b>
<b>Amortization</b>				
<b>Book balance at 12/31/2017</b>	-	-	(9,521)	(9,521)
Additions	-	-	(2,331)	(2,331)
Write-offs	-	-	34	34
<b>Book balance at 12/31/2018</b>	-	-	(11,818)	(11,818)
Additions	(2,442)	-	(3,019)	(5,461)
Write-offs	-	-	121	121
<b>Book balance at 12/31/2019</b>	<b>(2,442)</b>	-	<b>(14,716)</b>	<b>(17,158)</b>
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
Net balance at 12/31/2019	<b>42,323</b>	<b>13,501</b>	<b>9,052</b>	<b>64,876</b>



# União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)  
December 31, 2019  
(In thousands of reais, unless otherwise stated)

## 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 2019, as a result of the impairment test, no provision was recognized.
- (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 a five-year period.

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

At December 31, 2019, 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 management. The result of the impairment test performed by the Company did not indicate the need to recognize additional impairment losses.

### 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 rates
- (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 past performance and expected market development. The weighted average growth rates used are consistent with forecasts included in the reports of the industries 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 (WACC) methodology, which corresponds to a pre-tax rate of 11.7%.

## União Química Farmacêutica Nacional S.A.

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December 31, 2019

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### 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	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Domestic suppliers	109,593	54,835	140,690	76,376
Foreign suppliers	49,070	24,627	51,923	27,374
Suppliers – confirming (i)	9,652	9,876	17,943	17,811
Related parties (Note 11.1)	4,031	5,040	29	-
	<b>172,346</b>	94,378	<b>210,585</b>	121,561

- (i) The Company allows certain suppliers to assign the Company's notes without the right of recourse to Financial Institutions (confirming). In this transaction, the supplier is entitled to reduce its financial costs because the financial institution takes the buyer's credit risk into consideration. At December 31, 2019, the discount rates on assignment transactions conducted by our suppliers with financial institutions in the local market were between 0.67% p.m. and 1.12% p.m. with a weighted average of 0.93% p.m. There were no assignment transactions conducted by our suppliers with financial institutions in the foreign market.

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

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Overdue up to 15 days	1,312	3,653	2,669	4,589
Falling due within 30 days	61,618	50,919	75,318	66,957
Falling due from 31 to 60 days	43,022	24,557	52,216	30,629
Falling due from 61 to 120	66,394	15,249	80,382	19,386
	<b>172,346</b>	94,378	<b>210,585</b>	121,561

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 17. Loans and financing

Type		Individual		Consolidated	
<u>Foreign currency:</u>	<u>Average rate of charges %</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2018</u>
FINIMP	Euro exchange differences plus 1.23% to 1.91% p.a.	<b>7,587</b>	52,067	<b>7,587</b>	52,067
FINIMP	US dollar exchange rate plus 3.89% to 5.17% p.a.	<b>125,898</b>	185,475	<b>125,898</b>	191,064
Loan - Resolution 4131 (i)	CDI + 1.84% p.a.	<b>167,630</b>	105,709	<b>167,630</b>	105,709
		<b>301,115</b>	343,251	<b>301,115</b>	348,840
<b><u>Domestic currency:</u></b>					
BNDES - FINAME	3% to 5% plus TLP and/or	<b>2,179</b>	3,134	<b>4,402</b>	3,134
Working capital	CDI + 1.97% p.a.	<b>70,302</b>	10,453	<b>70,302</b>	10,453
Finep	3.50% p.a.	<b>27,731</b>	36,488	<b>27,731</b>	36,488
Debentures (a)	CDI + 1.63% p.a.	<b>205,079</b>	204,763	<b>205,079</b>	204,763
Leases	From 7.48% to 12.07% p.a.	<b>5,160</b>	1,030	<b>8,325</b>	1,406
		<b>310,451</b>	255,868	<b>315,839</b>	256,244
		<b>611,566</b>	599,119	<b>616,954</b>	605,084
Current		<b>214,046</b>	279,753	<b>215,802</b>	285,718
Noncurrent		<b>397,520</b>	319,366	<b>401,152</b>	319,366

- (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 + 1.84% p.a.

Aging list of debts:

	Individual		Consolidated	
	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2018</u>
2019	-	279.753	-	285,718
2020	<b>214,046</b>	66,073	<b>215,802</b>	66,073
2021	<b>129,480</b>	226,183	<b>131,180</b>	226,183
Above 2022	<b>268,040</b>	27,110	<b>269,972</b>	27,110
	<b>611,566</b>	599,119	<b>616,954</b>	605,084

## União Química Farmacêutica Nacional S.A.

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### 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. with a book value (cost) of R\$48,453 are subject to mortgage as a guarantee of debentures issued.

The plant of União Química Farmacêutica Nacional S.A. in Brasília with a book value (cost) of R\$86,047 is subject to mortgage as a guarantee of the loan (Resolution 4131).

#### a) Debentures

In July 2018, the Company held the 3<sup>rd</sup> 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 3<sup>rd</sup> public issue of debentures, the Company settled the 2<sup>nd</sup> 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 do not limit the Company's ability to continue as a going concern.

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Notes to the financial statements (Continued)  
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### 18. Labor and tax obligations

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

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
<b>Labor obligations</b>				
Accrued vacation pay and social	30,728	23,130	42,865	36,702
Social Security Tax (INSS) payable	7,497	6,797	9,980	9,135
Unemployment Compensation Fund	2,418	1,924	3,177	2,811
Provision for commissions and	2,355	1,967	2,355	1,967
Provision for profit sharing and bonus	12,099	9,040	18,279	15,737
Other labor obligations	158	2	260	18
	<b>55,255</b>	<b>42,860</b>	<b>76,916</b>	<b>66,370</b>
<b>Tax obligations</b>				
ICMS payable	25,528	21,056	27,977	21,728
PIS and COFINS	3,994	6,827	6,658	8,961
ICMS – Installment payment (a)	9,027	10,239	9,027	10,239
IPI – ISS	307	49	415	156
Withholding Income Tax (IRRF)	5,323	3,755	6,461	5,303
ICMS IDEAS	271	2,310	271	2,310
Tax on Financial Transactions (IOF)	-	-	8	-
	<b>44,450</b>	<b>44,236</b>	<b>50,817</b>	<b>48,697</b>
	<b>99,705</b>	<b>87,096</b>	<b>127,733</b>	<b>115,067</b>
Current	91,744	75,721	119,772	103,692
Noncurrent	7,961	11,375	7,961	11,375

(a) Includes ICMS payment in installment as follows:

Location	Remaining installments	Installment amount (In Reais)	Debt balance
Federal District (i)	61	69,557	4,243
Minas Gerais (ii)	101	58,774	4,784
			<u>9,027</u>

- (i) Installment payment referring to ICMS Pro-DF not granted by the Federal District Finance Department in the period from July through November 2010, in the amount of R\$4,243, with down payment of R\$114 and the other 59 installments payable in 120 months until December 31, 2019.
- (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, 2019, amounting to R\$4,784, is deducted from the amount of R\$1,152, related to present value adjustment, to cover the differences between the rates used by the Company and the Minas Gerais Department of Finance.

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### 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	
	2019	2018	2019	2018
Income before income and social contribution taxes	169,462	139,392	173,530	141,936
Combined statutory rate of taxes - %	34	34	34	34
Income and social contribution taxes	(57,617)	(47,393)	(56,062)	(48,258)
<b>Adjustments for calculation at the effective rate:</b>				
Equity pickup	1,540	(6,015)	3,277	1,828
Technology innovation	18,440	7,416	18,440	7,416
Donations and gifts	(1,478)	(892)	(1,478)	(892)
Investment grants	12,593	18,414	12,593	18,414
Temporary additions and exclusions	9,153	3,211	8,755	2,107
Permanent additions and exclusions	(4,913)	(2,346)	(6,671)	(3,757)
Deferred income and social contribution tax assets not recognized for the	-	-	(4,060)	(7,666)
Income and social contribution tax expense in P&L	(22,282)	(27,605)	(25,206)	(30,808)
Deductions (Workers' Meal Program (PAT) and incentives)	737	964	737	964
Current taxes	(21,545)	(26,641)	(24,469)	(29,844)
Deferred taxes	(4,126)	(4,649)	(5,270)	(3,990)
P&L - current/deferred IRPJ/CSLL	(25,671)	(31,290)	(29,739)	(33,834)
Effective tax rate	15.15%	22.45%	17.14%	23.84%

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.

#### 19.2. Income and social contribution taxes to offset (payable)

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Income and social contribution taxes	(19,026)	(13,273)	(21,056)	(14,667)
Prepaid income and social contribution taxes	27,642	20,742	30,170	22,013
	8,616	7,469	9,114	7,346
Current asset balance	10,777	12,491	12,957	14,307
Current liability balance	(2,161)	(5,022)	(3,843)	(6,961)
	8,616	7,469	9,114	7,346

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Notes to the financial statements (Continued)

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

#### 19.3. 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	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Provisions	33,820	15,077	37,801	15,077
Sales recorded and not delivered	6,938	6,008	6,938	6,008
Impairment of assets	1,067	1,067	1,067	1,067
Other	2,056	(426)	4,052	26
	<b>43,881</b>	21,726	<b>49,858</b>	22,178
Lease	(4,906)	(3,471)	(4,906)	(3,471)
Depreciation - R&D assets	(4,596)	(4,280)	(4,596)	(4,280)
Depreciation - effects of review of new useful life	(25,472)	(22,215)	(32,141)	(22,215)
Derivative financial instruments	(2,072)	(4,483)	(2,072)	(4,483)
Tax credits	(23,684)	-	(23,684)	-
Bargain purchase	(899)	(899)	(899)	(899)
	<b>(61,629)</b>	(35,348)	<b>(68,298)</b>	(35,348)
Deferred income and social contribution tax liabilities, net	<b>(17,748)</b>	(13,622)	<b>(18,440)</b>	(13,170)

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

	Individual	Consolidated
<b>Balance of deferred tax assets/liabilities at December 31, 2017</b>	(8,973)	(8,973)
Changes for the year ended 12/31/2018, net	(4,649)	(4,197)
Deferred tax assets at December 31, 2018	-	452
Deferred tax liabilities at December 31, 2018	(13,622)	(13,622)
<b>Changes for the year ended 12/31/2019, net</b>	<b>(4,126)</b>	<b>(5,270)</b>
<b>Balance of deferred tax assets at December 31, 2019</b>	-	1,004
<b>Balance of deferred tax liabilities at December 31, 2019</b>	<b>(17,748)</b>	<b>(19,444)</b>

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Notes to the financial statements (Continued)

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### 20. Other accounts payable

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Accounts payable	11,276	13,303	9,203	9,041
Novartis Biociências S.A. (i)	27,211	33,877	30,428	46,675
Other accounts payable	7,094	3,935	7,739	4,101
Leases	23,045	-	29,475	-
Related parties (Note 11)	-	-	522	668
	<b>68,626</b>	<b>51,115</b>	<b>77,367</b>	<b>60,485</b>
Current	37,241	23,672	37,887	19,536
Noncurrent	31,385	27,443	39,480	40,949

- (i) This balance refers to debt relating to acquisition of Anovis Industrial Farmacêutica Ltda. from Novartis Biociências S.A., with two annual consecutive installments remaining for settlement of the balance. This amount is restated by reference to the Extended Consumer Price Index (IPCA), and over the year ended December 31, 2019, R\$881 (R\$1,385 in 2018) and R\$1,799 (R\$521 in December 2018) 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	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Tax	21,171	20,258	21,171	20,258	5,121	5,195	5,121	5,271
Labor and social security	4,635	5,223	5,736	5,867	20,277	12,044	21,362	12,386
Civil	725	683	930	878	8,300	4,205	8,300	4,205
	<b>26,531</b>	<b>26,164</b>	<b>27,837</b>	<b>27,003</b>	<b>33,698</b>	<b>21,444</b>	<b>34,783</b>	<b>21,862</b>



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

Changes in provisions:

	<u>Individual</u>	<u>Consolidated</u>
<b>Balance at 12/31/2017</b>	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
<b>Balance at 12/31/2018</b>	<u>21,444</u>	<u>21,862</u>
Additions	<b>3,696</b>	<b>4,785</b>
Write-off due to losses	<b>(5,840)</b>	<b>(6,209)</b>
Write-off due to reversal	<b>(933)</b>	<b>(1,009)</b>
Restatement of balance	<b>5,726</b>	<b>5,726</b>
Change in prognosis	<b>9,605</b>	<b>9,628</b>
<b>Balance at 12/31/2019</b>	<u><b>33,698</b></u>	<u><b>34,783</b></u>

The nature of legal proceedings and obligations is summarized below:

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.

Possible losses not provisioned in the financial statements

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:

	<u>Individual</u>		<u>Consolidated</u>	
	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2018</u>
Tax	<b>66,389</b>	63,142	<b>66,589</b>	63,142
Labor and social security	<b>25,589</b>	20,750	<b>31,370</b>	31,066
Civil	<b>34,287</b>	47,569	<b>34,482</b>	47,569
	<u><b>126,265</b></u>	<u>131,461</u>	<u><b>132,441</b></u>	<u>141,777</u>

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

#### Possible losses not provisioned in the financial statements (Continued)

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

##### *Tax claims*

(i) Challenge relating to the Tax Delinquency 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) bases. The defense submitted awaits review and judgment. The files were sent to the Federal Revenue Judgment Office where they await judgment. The protest letter submitted also awaits review and judgment.

(ii) Tax Delinquency Notice served by the Brazilian 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) 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 import of property, plant and equipment items.

##### *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 alleged 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.

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### 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 lawsuits seek pain and suffering and property damages, as well as employment relationship.

### 22. Equity

#### 22.1. Capital

At December 31, 2019 and December 31, 2018, the paid-up capital amounted to R\$440,077, divided into 379,377,291 common shares, distributed as follows:

	<u>12/31/2019 and 12/31/2018</u>	
	<u>Shares</u>	<u>%</u>
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%
	<u><b>379,377,291</b></u>	<u><b>100.00%</b></u>

#### 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:

<u>Description</u>	<u>2019</u>	<u>2018</u>
Net income for the year	<b>143,791</b>	108,102
(-) Grant reserve	<b>(41,652)</b>	(44,281)
Legal reserve base	<u><b>102,139</b></u>	<u>63,821</u>
Legal reserve (5%)	<u><b>(5,107)</b></u>	<u>(3,191)</u>

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### 22. Equity (Continued)

#### 22.3. Income reserve

The Company allocated from net income for 2019 the amount of R\$91,210 (R\$47,115 in 2018) to the reserve of profits retained 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/decreed of the Minas Gerais State Government and the Federal District Government, which required entering into an Agreement. Changes in this reserve is presented in the Statement of Changes in Equity. In 2019, the Company management recognized R\$41,652, with R\$4,613 arising from the Pro-DF/IDEAS auction and R\$37,039 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	2019	2018
Net income for the year	143,791	108,102
(-) Grant reserve	(41,652)	(44,281)
Legal reserve base	102,139	63,821
Legal reserve (5%)	(5,107)	(3,191)
Dividend calculation base	97,032	60,630
Proposed dividends (6%)	(5,822)	(3,639)

Changes in dividends are as follows:

Dividend payable - December 31, 2018	3,639
Payments in the year	(10,001)
Proposed additional dividend	6,362
Mandatory minimum dividends for the year	5,822
<b>Dividend payable - December 31, 2019</b>	<b>5,822</b>

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### 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 the 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 table below reflects the income and share data used to calculate basic and diluted earnings per share:

	<u>2019</u>	<u>2018</u>
Profit attributable to ordinary equity holders	<b>143,791</b>	108,102
Denominator		
Weighted average number of	<b>379,377,291</b>	379,377,291
Basic and diluted earnings per share (in	<b>0.3790</b>	0.2849

### 23. Net operating revenue

Sales revenue is recognized when all significant risks and rewards of ownership are transferred to buyer, which usually occurs upon their delivery.

	<u>Individual</u>		<u>Consolidated</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Gross sales of products	<b>1,819,724</b>	1,521,161	<b>1,855,821</b>	1,522,628
Gross sales of services	<b>1,944</b>	2,144	<b>332,369</b>	301,979
(-) Sales taxes	<b>(247,553)</b>	(235,653)	<b>(262,467)</b>	(255,057)
(-) Sales and service taxes	<b>(247)</b>	(250)	<b>(21,721)</b>	(18,741)
(-) Promotional discounts	<b>(8,462)</b>	(5,517)	<b>(8,462)</b>	(5,546)
(-) Unconditional discounts	<b>(24,789)</b>	(46,879)	<b>(20,311)</b>	(10,025)
(-) Sales returns	<b>(17,190)</b>	(15,228)	<b>(23,319)</b>	(20,194)
	<b>1,523,427</b>	<b>1,219,778</b>	<b>1,851,910</b>	1,515,044

In compliance with CPC 47 and IFRS 15 - Revenue from contracts with customers, the Company recognized as revenue only invoices with actual delivery made in the year. Invoices issued for goods not yet delivered at December 31, 2019 total R\$47,400 (R\$40,517 at December 31, 2018).

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### 24. Expenses by nature and function

	Individual		Consolidated	
	2019	2018	2019	2018
Raw material and store and supplies	<b>(559,131)</b>	(420,426)	<b>(627,797)</b>	(474,998)
Sales commissions	<b>(43,306)</b>	(38,756)	<b>(43,317)</b>	(38,756)
Payroll and employee benefits	<b>(330,426)</b>	(246,045)	<b>(451,443)</b>	(377,224)
Social security charges	<b>(98,970)</b>	(38,664)	<b>(132,415)</b>	(64,364)
Depreciation and amortization	<b>(30,818)</b>	(18,116)	<b>(70,270)</b>	(53,740)
Transportation expenses	<b>(35,808)</b>	(31,897)	<b>(40,951)</b>	(36,425)
Advertising expenses	<b>(24,428)</b>	(25,707)	<b>(24,489)</b>	(25,771)
Research and development	<b>(7,333)</b>	(4,052)	<b>(8,143)</b>	(4,525)
Services rendered	<b>(50,113)</b>	(51,188)	<b>(65,979)</b>	(70,718)
Vehicle expenses	<b>(13,266)</b>	(21,986)	<b>(13,855)</b>	(22,516)
Utilities	<b>(15,128)</b>	(12,500)	<b>(26,205)</b>	(20,901)
Taxes and charges	<b>(6,820)</b>	(4,170)	<b>(11,077)</b>	(7,186)
Rental	<b>(2,762)</b>	(6,020)	<b>(3,216)</b>	(7,987)
Maintenance	<b>(26,186)</b>	(22,734)	<b>(43,727)</b>	(38,988)
Communications	<b>(2,321)</b>	(2,572)	<b>(2,572)</b>	(2,933)
Free samples	<b>(28,459)</b>	(17,754)	<b>(28,565)</b>	(17,775)
Legal costs, net	<b>(21,828)</b>	(14,909)	<b>(22,710)</b>	(15,200)
Fines	<b>(1,133)</b>	(1,829)	<b>(1,174)</b>	(2,007)
Insurance	<b>(2,798)</b>	(2,915)	<b>(3,406)</b>	(3,517)
Gifts and donations	<b>(10,181)</b>	(9,409)	<b>(10,192)</b>	(9,429)
Travel and lodging	<b>(18,344)</b>	(14,440)	<b>(19,388)</b>	(15,103)
Fairs and conferences	<b>(18,221)</b>	(11,445)	<b>(18,647)</b>	(11,545)
Expected credit loss	<b>(2,917)</b>	(2,600)	<b>(4,877)</b>	(3,092)
Other expenses/income	<b>(6,362)</b>	6,081	<b>(6,173)</b>	4,398
	<b>(1,357,059)</b>	(1,014,053)	<b>(1,680,588)</b>	(1,320,302)
Cost of sales and services	<b>(743,639)</b>	(603,665)	<b>(946,811)</b>	(772,073)
General and administrative expenses	<b>(421,407)</b>	(238,994)	<b>(534,373)</b>	(370,909)
Selling expenses	<b>(192,013)</b>	(171,394)	<b>(199,404)</b>	(177,320)
	<b>(1,357,059)</b>	(1,014,053)	<b>(1,680,588)</b>	(1,320,302)

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Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 25. Other operating income, net

	Individual		Consolidated	
	2019	2018	2019	2018
Recovery of expenses (i)	5,215	6,161	8,282	6,795
Net gain (loss) on disposal of property, plant and equipment	(218)	517	838	517
Supply agreement (iii)	-	-	-	(5,598)
Proceeds from the sale of scrap	301	271	1,156	735
Taxes payable in installments	(6,913)	(7,452)	(8,301)	(6,064)
Recovery of trade receivables	173	173	173	173
Income from tax incentives (ii)	4,613	12,969	4,613	12,969
Income from prior-year tax credits (iv)	49,138	-	49,138	-
Other, net	375	1,464	(4,753)	(2,039)
	<b>52,684</b>	<b>14,103</b>	<b>51,146</b>	<b>7,488</b>

(i) Substantially represented by reimbursement made by carriers for insurance claims and product damage.

(ii) Net income from the settlement of the balance of IDEAS tax incentive in October 2019 (Note 5);

(iii) Substantially represented by adjustments to contractual clauses of product supply agreements, and by write-off of leasehold improvements;

(iv) Substantially represented by the credit arising from ICMS exclusion from the PIS/COFINS base recognized after a final decision has been handed down by the court. (Note 8).

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Notes to the financial statements (Continued)

December 31, 2019

(In thousands of reais, unless otherwise stated)

### 26. Finance income (costs), net

	Individual		Consolidated	
	2019	2018	2019	2018
<b>Finance income</b>				
Short-term investment yield	4,386	1,958	4,426	1,980
Foreign exchange gains	82,404	88,732	84,800	91,450
Interest income, discounts received and other income	5,512	3,750	4,547	4,535
Present value adjustment	-	3,504	-	3,504
Gains - NDF	15,101	3,255	15,101	3,255
Fair value - Swap	25,069	16,911	25,069	16,911
	<b>132,472</b>	<b>118,110</b>	<b>133,943</b>	<b>121,635</b>
<b>Finance costs</b>				
Monetary difference and financial commissions	(8,552)	(10,043)	(10,254)	(11,901)
Interest on loans and financing	(21,660)	(13,651)	(22,083)	(13,856)
Interest on lease	(1,384)	-	(1,770)	-
Interest on debt with Novartis	(881)	(1,385)	(881)	(1,385)
Interest on debentures	(15,119)	(16,880)	(15,119)	(16,880)
Foreign exchange losses	(98,831)	(129,023)	(101,766)	(133,029)
Bank expenses and Tax on Financial Transactions	(1,233)	(806)	(1,712)	(1,189)
Present value adjustment	(1,748)	(2,924)	(1,748)	(2,924)
Interest on ICMS payment in installments	(379)	(352)	(379)	(352)
Losses - NDF	(10,496)	(5,790)	(10,496)	(5,790)
Fair value - Swap	(26,312)	-	(26,312)	-
	<b>(186,595)</b>	<b>(180,854)</b>	<b>(192,520)</b>	<b>(187,306)</b>
	<b>(54,123)</b>	<b>(62,744)</b>	<b>(58,577)</b>	<b>(65,671)</b>

### 27. Insurance

The insurance coverage at December 31, 2019 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	03/27/2020	1,292,104
National ground transportation	04/30/2020	3,000
General civil liability	11/08/2020	20,000
Civil Liability Insurance – D&O	06/30/2020	50,000
International transportation	03/27/2020	8,000
Vehicles and optional civil liability	08/13/2020	Market value - FIPE



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## 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, 2019 and 2018:

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Notes to the financial statements (Continued)  
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### 28. Financial instruments (Continued)

#### Capital management (Continued)

##### a) Classification of financial instruments (Continued)

Assets	Category	Individual		Consolidated	
		12/31/2019	12/31/2018	12/31/2019	12/31/2018
<b>Current assets</b>					
Cash and cash equivalents	(i)	<b>89,676</b>	59,883	<b>95,735</b>	66,492
Long-term financial investments	(i)	<b>870</b>	2,382	<b>870</b>	2,382
Trade accounts receivable	(ii)	<b>528,542</b>	470,555	<b>511,667</b>	449,843
Other accounts receivable	(ii)	<b>55,531</b>	21,468	<b>27,178</b>	17,138
Derivative financial instruments	(i)	<b>6,094</b>	15,721	<b>6,094</b>	15,721
Judicial deposits	(ii)	<b>26,531</b>	26,164	<b>27,837</b>	27,003
		<b>707,244</b>	596,173	<b>669,381</b>	578,579
<b>Liabilities</b>					
Trade accounts payable	(ii)	<b>172,346</b>	94,378	<b>210,585</b>	121,561
Derivative financial instruments	(i)	-	2,535	-	2,535
Loans and financing	(ii)	<b>611,566</b>	599,119	<b>616,954</b>	605,084
Other accounts payable	(ii)	<b>68,626</b>	51,115	<b>77,367</b>	60,485
		<b>852,538</b>	747,147	<b>904,906</b>	789,665

##### b) Fair value of financial instruments

The estimated fair values of financial instruments for 2019 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.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)  
December 31, 2019  
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### 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. They are classified at 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 the respective fair values of the obligations recorded under this item.
- Loans and financing (in domestic and foreign currency): these are classified as financial liabilities at amortized cost and are accounted for at their contractual values, according to 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) Calculation of fair value of derivative financial instruments

The calculation of fair value of derivative financial instruments for the individual and consolidated financial information at December 31, 2019 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 in which 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 hedging strategies established by the Company and its subsidiaries.

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)  
December 31, 2019  
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### 28. Financial instruments (Continued)

#### c) Calculation of fair value 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, 2019, the Company's and its subsidiaries' derivative financial instruments had the following positions:

	Individual and Consolidated					
	12/31/2019			12/31/2018		
	Hedged item	Reference currency	Notional amount	Fair value (R\$)	Notional amount	Fair value (R\$)
Non-deliverable forwards	Currency	USD	13,580	1,476	13,855	(1,739)
Non-deliverable forwards	Currency	EUR	1,100	51	1,521	(539)
Swap	Currency	USD	32,242	4,567	26,211	15,464
Total currency derivatives			46,922	6,094	41,587	13,186

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 and UQ Gráfica did not have transactions involving derivative financial instruments as at December 31, 2019 and 2018.

#### 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).

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)  
December 31, 2019  
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### 28. Financial instruments (Continued)

#### d) Fair value hierarchy (Continued)

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

	Consolidated							
	12/31/2019				12/31/2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
NDF Contracts	-	1,527	-	1,527	-	(2,278)	-	(2,278)
Swap	-	4,567	-	4,567	-	15,464	-	15,464
	-	6,094	-	6,094	-	13,186	-	13,186

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
	12/31/2019			12/31/2018		
	Current assets	Current liabilities	Current assets	Current liabilities		
Currency risks - NDF	1,527	-	4,605	246	(2,524)	(2,535)
Swap	4,567	-	(1,243)	15,475	(11)	16,911
	6,094	-	3,362	15,721	(2,535)	14,376

## União Química Farmacêutica Nacional S.A.

Notes to the financial statements (Continued)  
December 31, 2019  
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### 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 at their 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 the Brazilian real. 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 at their respective maturities.

Below is a summary of the net exposure of the Company and its subsidiaries to the exchange rate factor as at December 31, 2019 and 2018:

	Individual		Consolidated	
	US\$ thousand 12/31/2019	US\$ 12/31/2018	US\$ thousand 12/31/2019	US\$ 12/31/2018
Cash and cash equivalents	-	-	7	355
Accounts receivable - foreign market	131	9	131	9
Advances to foreign suppliers	5,250	2,981	7,692	3,449
Non-deliverable forwards	14,680	15,376	14,680	15,376
Swap	32,242	26,211	32,242	26,211
<b>Total asset exposure</b>	<b>52,303</b>	<b>44,577</b>	<b>54,752</b>	<b>45,400</b>
Loans and financing	(74,705)	(88,583)	(74,705)	(89,996)
Foreign suppliers	(13,246)	(14,983)	(13,895)	(17,054)
<b>Total liability exposure</b>	<b>(87,951)</b>	<b>(103,566)</b>	<b>(88,600)</b>	<b>(107,050)</b>
<b>Net exposure</b>	<b>(35,648)</b>	<b>(58,989)</b>	<b>(33,848)</b>	<b>(61,650)</b>

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Notes to the financial statements (Continued)

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### 29. Long-term commitments

Anovis and Inovat have future commitments resulting from supply agreements with their customers. At December 31, 2019, the number of items is as follows:

Commitments	Consolidated	
	12/31/2019	12/31/2018
2019	-	90,299,156
2020	<b>44,405,128</b>	90,873,668
2021	<b>45,269,437</b>	91,428,853
2022	<b>46,185,603</b>	92,169,787
2023	<b>30,000,000</b>	75,843,605
2024	<b>30,000,000</b>	75,733,782
	<b>195,860,168</b>	516,348,851

On May 2, 2019, the subsidiary Anovis renegotiated one of its manufacturing and supply agreements, resulting in an annual obligation to supply 30,000,000 units of finished product; due to this renegotiation, the quantities subject to long-term commitments have changed.