(*A free translation from Portuguese into English of the individual and consolidated financial statements originally issued in Portuguese*)

Individual and consolidated financial statements

União Química Farmacêutica Nacional S.A.

December 31, 2020
with independent auditor's report

União Química Farmacêutica Nacional S.A.

Financial statements

December 31, 2020

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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)

Independent auditor's report on individual and consolidated financial statements

To the
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, 2020, and the statements of profit or loss, of comprehensive income, of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of Company as at December 31, 2020, and its individual and consolidated financial performance and cash flows for the year then ended in accordance with 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 Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Recognition of sales revenue - Individual and Consolidated

Notes 2.d and 22

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 of key systems used in the selling, pricing and commercial discount process; (iv) 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; (v) validating the revenue cut-off effect by testing events after the reporting period with the effective submission date, by selecting samples; and (vi) assessing whether the disclosures made in the financial statements are appropriate. As a result of our procedures, adjustments were identified indicating the need to reduce sales revenues, which were not recorded in the Company's individual and consolidated financial statements considering their immateriality on the financial statements taken as a whole.

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.d and 20

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:

As audit response, we performed the following procedures, among others: (i) obtained the list of legal advisors that support the Company and its subsidiaries in the lawsuits and compared the contingency and liability information for civil, tax and labor risks used by the Company and its subsidiaries with that used by inside and outside lawyers and with accounting information, including classifications with respect to loss estimates; (ii) assessed the adequacy of measurement, sufficiency and recognition of the provision for civil, tax and labor contingencies through sampling and analysis of data and historical information; (iii) carried out a selection of cases based on representative sampling and, for these cases, we involved our team of specialists to analyze the assigned amounts and likelihood of loss; and (iv) assessed whether the significant associated disclosures were made in the financial statements as required by accounting practices adopted in Brazil and the IFRS. As a result of our procedures, adjustments were identified indicating the need to supplement the provision and reclassify a portion of the balance to current liabilities, which were not recorded by the Company considering the immateriality for the financial statements taken as a whole.

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 comprises the Management Report.

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

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

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

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with 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 from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free 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 the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's 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 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 determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Brasília, March 4, 2021.

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

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

União Química Farmacêutica Nacional S.A.

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

		Individual		Consolidated	
Assets	**Note**	**12/31/2020**	**12/31/2019**	**12/31/2020**	**12/31/2019**
Current assets					
Cash and cash equivalents	**4**	**343,236**	89,676	**350,146**	95,735
Trade accounts receivable	**5**	**706,092**	528,542	**661,315**	511,667
Inventories	**6**	**583,124**	407,080	**722,808**	492,201
Taxes recoverable	**7**	**16,976**	71,764	**60,979**	103,305
Other accounts receivable	**8**	**9,001**	10,618	**12,829**	13,416
Derivative financial instruments	**9**	**15,947**	6,094	**15,947**	6,094
Prepaid expenses		**5,487**	5,112	**6,355**	6,445
		1,679,863	1,118,886	**1,830,379**	1,228,863
Noncurrent assets					
Other accounts receivable	**8**	**55,459**	44,913	**13,204**	13,762
Deferred taxes	**18.3**	**5,166**	-	**15,699**	1,004
Long-term financial investments		**889**	870	**889**	870
Taxes recoverable	**7**	**4,359**	13,929	**30,157**	24,357
Judicial deposits	**20**	**26,675**	26,531	**27,924**	27,837
Prepaid expenses		**961**	884	**985**	888
Investments	**11**	**309,598**	265,098	**33,936**	18,941
Property, plant and equipment	**12**	**405,046**	341,027	**722,199**	648,457
Intangible assets	**13**	**85,789**	63,451	**85,9**	64,876
		893,942	756,703	**930,893**	800,992
Total assets		**2,573,805**	1,875,589	**2,761,272**	2,029,855

See accompanying notes.

União Química Farmacêutica Nacional S.A.

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

		Individual		Consolidated	
Liabilities and equity	**Note**	**12/31/2020**	**12/31/2019**	**12/31/2020**	**12/31/2019**
Current liabilities					
Trade accounts payable	**15**	**274,112**	183,622	**354,946**	219,801
Loans and financing	**16**	**297,188**	214,046	**307,698**	215,802
Labor and tax obligations	**17**	**127,492**	91,744	**154,568**	119,772
Income and social contribution taxes	**18.2**	**20,818**	2,161	**23,155**	3,843
Derivative financial instruments	**9**	**2,542**	-	**2,542**	-
Dividends payable	**21.5**	**9,933**	5,822	**9,933**	5,822
Supply agreement - manufacturing	**11.4**	**-**	-	**13,21**	12,352
Other accounts payable	**19**	**35,913**	25,965	**38,248**	28,671
		767,998	523,360	**904,300**	606,063
Noncurrent liabilities					
Loans and financing	**16**	**624,844**	397,52	**627,977**	401,152
Provision for contingencies	**20**	**81,091**	33,698	**83,872**	34,783
Deferred taxes	**18.3**	**-**	17,748	**-**	19,444
Labor and tax obligations	**17**	**11,792**	7,961	**11,792**	7,961
Supply agreement - manufacturing	**11.4**	**-**	-	**41,294**	57,055
Other accounts payable	**19**	**39,714**	31,386	**43,671**	39,481
		757,441	488,313	**808,606**	559,876
Equity					
Capital	**21.1**	**440,077**	440,077	**440,077**	440,077
Capital reserve		**1,68**	1,68	**1,68**	1,68
Legal reserve	**21.2**	**36,4**	27,687	**36,4**	27,687
Income reserve	**21.3**	**298,197**	173,833	**298,197**	173,833
Tax incentive reserve	**21.4**	**271,93**	220,652	**271,93**	220,652
Equity adjustments		**82**	(13)	**82**	(13)
		1,048,366	863,916	**1,048,366**	863,916
Total liabilities and equity		**2,573,805**	1,875,589	**2,761,272**	2,029,855

See accompanying notes.

União Química Farmacêutica Nacional S.A.

Statement of profit or loss
Years ended December 31, 2020 and 2019
(In thousands of reais, except for earnings per share - in reais)

		Individual		Consolidated	
	Note	**2020**	**2019**	**2020**	**2019**
Net operating revenue	**22**	**2,055,311**	1,523,427	**2,384,620**	1,851,910
Cost of sales and services	**23**	**(1,028,382)**	(743,639)	**(1,209,510)**	(946,811)
Gross profit		**1,026,929**	779,788	**1,175,110**	905,099
Operating income and expenses:					
General and administrative expenses	**23**	**(346,377)**	(260,320)	**(471,383)**	(373,286)
Selling expenses	**23**	**(371,52)**	(353,100)	**(379,683)**	(360,491)
Other operating income, net	**24**	**30,262**	52,684	**32,972**	51,146
Equity pickup	**11.2**	**46,37**	4,533	**16,832**	9,639
Operating income before finance income (costs)		**385,664**	223,585	**373,848**	232,107
Finance income	**25**	**247,475**	132,669	**263,136**	134,14
Finance costs	**25**	**(354,513)**	(186,792)	**(362,923)**	(192,717)
Finance income (costs), net		**(107,038)**	(54,123)	**(99,787)**	(58,577)
Income before income and social contribution taxes		**278,626**	169,462	**274,061**	173,530
Provision for income and social contribution taxes					
Current	**18.1**	**(75,996)**	(21,545)	**(82,656)**	(24,469)
Deferred	**18.3**	**22,914**	(4,126)	**34,139**	(5,270)
Net income for the year		**225,544**	143,791	**225,544**	143,791
Diluted earnings per share attributable to shareholders (in R$)	**21.7**	**0.5945**	0.3790	**0.5945**	0.3790

See accompanying notes.

União Química Farmacêutica Nacional S.A.

Statement of comprehensive income
Years ended December 31, 2020 and 2019
(In thousands of reais)

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Net income for the year	**225,544**	143,791	**225,544**	143,791
Equity adjustments	**95**	(69)	**95**	(69)
Comprehensive income for the year	**225,639**	143,722	**225,639**	143,722

See accompanying notes.

União Química Farmacêutica Nacional S.A.

Statement of changes in equity
Years ended December 31, 2020 and 2019
(In thousands of reais)

	Capital									
	Subscribed capital	**Unpaid capital**	**Capital**	**Capital reserve**	**Legal reserve**	**Income reserve**	**Tax incentive reserve**	**Retained earnings**	**Other comprehensive income**	**Total**
Balances at December 31, 2018	440,301	(224)	440,077	1,680	22,58	88,985	179	-	56	732,378
Net income for the year	-	-	-	-	-	-	-	143,791	-	143,791
Net income allocation	-	-	-	-	5,107	91,21	41,652	(137,969)	-	-
Mandatory minimum dividends	-	-	-	-	-	-	-	(5,822)	-	(5,822)
Additional proposed dividends	-	-	-	-	-	(6,362)	-	-	-	(6,362)
Equity adjustments	-	-	-	-	-	-	-	-	(69)	(69)
Balances at December 31, 2019	440,301	(224)	440,077	1,680	27,687	173,833	220,652	-	(13)	863,916
Net income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**225,544**	**-**	**225,544**
Net income allocation	**-**	**-**	**-**	**-**	**8,713**	**124,364**	**51,278**	**(184,355)**	**-**	**-**
Mandatory minimum dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(9,933)**	**-**	**(9,933)**
Additional proposed dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(31,256)**	**-**	**(31,256)**
Equity adjustments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**95**	**95**
Balances at December 31, 2020	**440,301**	**(224)**	**440,077**	**1,680**	**36,400**	**298,197**	**271,930**	**-**	**82**	**1,048,366**

See accompanying notes.

União Química Farmacêutica Nacional S.A.

Statement of cash flows
Years ended December 31, 2020 and 2019
(In thousands of reais)

	Individual		Consolidated	
	2020	2019	2020	2019
Cash flow from operating activities				
Net income before income and social contribution taxes	**278,626**	169,462	**274,061**	173,530
Adjustments to reconcile net income (loss) to cash from:				
Allowance for expected credit losses	**1,080**	2,917	**1,279**	4,877
Provision for inventory losses	**49,106**	22,608	**54,449**	28,062
Equity pickup	**(46.370)**	(4,533)	**(16,832)**	(9,639)
Finance charges and foreign exchange difference	**109,816**	42,722	**111,042**	44,998
Provision for contingencies	**53,970**	18,094	**55,829**	19,130
Tax incentive gains	**-**	(4,613)	**-**	(4,613)
Proceeds from disposal of property, plant and equipment	**1,211**	218	**1,210**	(838)
Interest and present value adjustment	**1,189**	(363)	**1,189**	(1,209)
Fair value adjustment of unsettled financial instruments	**(31,272)**	(3,362)	**(31,272)**	(3,362)
Amortization of supply agreement	**-**	-	**(14,903)**	(16,072)
Unrealized profits in inventories	**3,250**	2,638	**-**	-
Income from tax credits	**(27,636)**	(43,719)	**(27,636)**	(43,719)
Reversal of manufacturing agreement	**-**	-	**(865)**	(2,081)
Depreciation and amortization	**33,196**	30,818	**67,521**	70,270
	426,166	232,887	**475,072**	259,334
Changes in current and noncurrent assets and liabilities:				
Accounts receivable	**(178,630)**	(60,904)	**(150,062)**	(85,267)
Inventories	**(225,150)**	(103,944)	**(277,095)**	(119,773)
Taxes recoverable	**9,155**	14,417	**(18,695)**	4,366
Other assets	**22**	(5,489)	**(935)**	(4,442)
Prepaid expenses	**(372)**	(790)	**3,155**	4,674
Trade accounts payable	**86,209**	76,546	**123,145**	87,502
Labor and tax obligations	**75,410**	20,099	**76,741**	16,328
Other liabilities	**(1,395)**	(8,954)	**(4,485)**	(8,179)
Income and social contribution taxes paid	**(11,755)**	(27,642)	**(18,274)**	(29,431)
Net cash flow from (used in) operating activities:	**179,660**	136,226	**208,567**	141,470

União Química Farmacêutica Nacional S.A.

Statement of cash flows
Years ended December 31, 2020 and 2019
(In thousands of reais)

Cash flow from investing activities:				
Acquisition of property, plant and equipment	**(91,192)**	(38,932)	**(133,490)**	(62,206)
Acquisition of intangible assets	**(1,593)**	(3,422)	**(1,643)**	(4,209)
Long-term financial investments	**(19)**	1,512	**(19)**	1,512
Proceeds from sales of property, plant and equipment	**365**	4,080	**368**	4,080
Intercompany loan receivable	**(10,040)**	(26,315)	**346**	(4,467)
Net cash used in investing activities:	**(102,479)**	(63,077)	**(134,438)**	(65,290)
Cash flow from financing activities:				
Loans and financing raised	**588,038**	261,126	**597,748**	267,038
Repayment of principal of loans and financing	**(328,522)**	(249,442)	**(330,510)**	(256,137)
Payment of interest on loans and financing	**(31,649)**	(32,540)	**(32,016)**	(32,751)
Interest on equity	**(14,409)**	(12,499)	**(17,412)**	(14,940)
Payment of lease liabilities	**(31,256)**	-	**(31,256)**	-
Dividends paid to shareholders	**(5,823)**	(10,001)	**(5,823)**	(10,001)
Related parties	**-**	-	**(449)**	(146)
Net cash from (used in) financing activities:	**176,379**	(43,356)	**180,282**	(46,937)
Net increase in cash and cash equivalents	**253,560**	29,793	**254,411**	29,243
Cash and cash equivalents at beginning of year	**89,676**	59,883	**95,735**	66,492
Cash and cash equivalents at end of year	**343,236**	89,676	**350,146**	95,735
	253,560	29,793	**254,411**	29,243

See accompanying notes.

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) Union Química Farmacêutica Internacional S.A. v) UQ Indústria Gráfica e de Embalagens Ltda.

On October 13, 2020, União Química and LIMITED LIABILITY COMPANY “HUMAN VACCINE” (HV), a company that belongs to the Russian Direct Investment Fund (RDIF), entered into an agreement for transfer of technology for the complete production of the Sputnik V vaccine indicated to fight the Corona Virus (COVID 19). This agreement does not provide for payment of royalties and União Química will be solely responsible for all investments in equipment and people.

The entire process of technology transfer and sale is under analysis by the sector's regulatory agencies, and production will begin as soon as authorized.

As of the date of issue of the financial statements, no financial commitment has been made, with no impact on this statement.

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 4, 2021.

b) 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.

(In thousands of reais, unless otherwise stated)

2. Significant accounting policies (Continued)

c) 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 99.9% 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**		**UQ Gráfica**	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**	**12/31/2020**	**12/31/2019**	**12/31/2020**	**12/31/2019**
Current assets	**140,463**	100,085	**119,699**	90,311	**870**	1,214	**16,483**	11,097
Noncurrent assets	**142,639**	123,220	**115,061**	96,591	**-**	-	**26,132**	19,030
Current liabilities	**162,503**	114,439	**60,164**	30,088	**-**	-	**23,038**	14,296
Noncurrent liabilities	**16,661**	11,774	**30,916**	28,001	**73**	522	**4,821**	7,032
Equity	**103,938**	97,092	**143,680**	128,813	**797**	692	**14,756**	8,799
Interest	**99.99%**	99.99%	**99.99%**	99.99%	**99.99%**	99.99%	**99.99%**	99.99%
Net operating revenue	**286,158**	220,984	**255,856**	182,214	**-**	-	**59,056**	44,448
Net income (loss) for the year	**6,846**	(4,884)	**14,867**	(2,065)	**10**	(41)	**5,957**	1,956

2. Significant accounting policies (Continued)

c) 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.

d) Summary of significant accounting practices

General principles and criteria for revenue recognition

Sales revenue is recognized in the statement of profit and loss upon billing and adjusted to reflect the timing of compliance with respective performance obligations 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.

Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

2. Significant accounting policies (Continued)

d) 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 27.

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.

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.

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.

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 12. 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.

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.

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.

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 105 days, which follows the Company’s usual conditions and the arm’s length principle; consequently, no present-value adjustment was applied.

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.

2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

Leases

The Company and its subsidiaries assess, on the commencement date, whether the agreement is or contains a lease, that is, if the agreement transfers the right to control the use of an identified asset over a period of time in exchange for consideration.

The Company and its subsidiaries apply a recognition and measurement approach for all leases, except short-term leases and leases of low-value assets. The Company and its subsidiaries recognize lease liabilities to make lease payments and right-of-use assets that represent the right to use the underlying assets.

Right-of-use assets

The Company and its subsidiaries recognize right-of-use assets on the lease commencement date (that is, the date on which the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any new remeasurements of lease liabilities. The cost of right-of-use assets includes the amount of recognized lease liabilities, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shortest period between the lease term and the estimated useful life of the assets, as follows:
- Properties: from 3 to 4 years
- Vehicles: 2 years

In certain cases, if the ownership of the leased asset is transferred to the Group at the end of the lease term or if the cost represents the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Right-of-use assets are also subject to impairment.

2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

Leases (Continued)

Lease liabilities

At the commencement date of the lease, the Company and its subsidiaries recognize lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Company and its subsidiaries exercising the option to terminate.

Variable lease payments that do not depend on an index or rate are recognized as expenses (unless incurred to produce inventories) in the period in which the event or condition that generates these payments occurs.

In calculating the present value of lease payments, the Company and its subsidiaries use the incremental borrowing rates at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of the lease liability is increased to reflect the increase in interest and reduced for lease payments made. In addition, the book value of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company and its subsidiaries apply the short-term lease recognition exemption to their short-term leases of machinery and equipment (that is, leases whose lease term is equal to or less than 12 months from the commencement date and that do not contain a purchase option).

2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

Leases (Continued)

Short-term leases and leases of low-value assets (Continued)

The low-value asset recognition exemption is also applied to leases of office equipment considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

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.

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.

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.

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).

Payment of dividends and interest on equity

Dividends paid to the Company shareholders are recognized as liabilities in the financial statements at the year end, pursuant to the articles of incorporation. Shareholders may declare interim dividends to the income reserve account existing in the last annual statement of financial position. In addition, dividends can be paid using the profit earned based on the Company's quarterly information. These quarterly interim dividends cannot exceed the amounts recorded in the capital reserve accounts. Any payment of interim dividends will be offset against the amount of the mandatory distributions for the year in which the interim dividends have been paid. Furthermore, shareholders may decide on the payment or credit of interest on equity to the shareholders, calculated in accordance with applicable legislation, which will be considered as prepayment of the mandatory dividends.

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.

2. Significant accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

2.1. New or amended pronouncements with first-time adoption in 2020

The Company and its subsidiaries adopted certain standards and amendments for the first time, which are effective for annual periods beginning on or after January 1, 2020. The Company and its subsidiaries decided against the early adoption of any other standard, interpretation or amendment issued but not yet effective.

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

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

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

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

Review of CPC 00 (R2) – Conceptual Framework for Financial Reporting
The reviewed pronouncement provides updated definitions and criteria for recognition of assets and liabilities and clarifies important concepts.

These amendments did not impact the Company's individual and consolidated financial information.

2. Significant accounting policies (Continued)

2.1. New or amended pronouncements with first-time adoption in 2020 (Continued)

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

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

As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under CPC 06 (R2), if the change were not a lease modification.

This amendment did not impact the Company's individual and consolidated financial statements.

Amendments to CPC 15 (R1): Definition of business

Amendments to CPC 15 (R1) clarify that, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output.

Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

These amendments did not impact the Company's individual and consolidated financial statements, but may affect future periods should the Company or its subsidiaries carry out a business combination.

2.2. Standards issued but not yet effective

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

2. Significant accounting policies (Continued)

2.2. Standards issued but not yet effective (Continued)

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

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

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

2.3. Use of accounting estimates

The individual and consolidated financial statements were prepared in accordance with various measurement bases used in accounting estimates. The accounting estimates involved in the preparation of the financial statements were based on objective and subjective factors, considering management's judgment to determine the appropriate amount to be recorded in the financial statements.

Settlement of transactions involving these estimates could result in amounts significantly different from those recorded in the financial statements due to uncertainties inherent in the estimation process. The Company and its subsidiaries review their estimates at least annually.

Significant assumptions regarding sources of uncertainty in future estimates and other major sources of uncertainty in estimates at the reporting date, involving a significant risk that a material adjustment to the book value of assets and liabilities may be required in the next financial year are discussed below:

- Note 5 – Allowance for expected credit losses.
- Notes 12 and 13 - Useful lives of property, plant and equipment and period of amortization of intangible assets with defined useful lives.
- Note 6 – Provision for inventory losses.
- Note 14 - Analysis of indications of impairment of nonfinancial assets.
- Note 18 – Recognition, measurement and realization of deferred tax assets.

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.

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, 2020 is related to loans in foreign currency, amounting to US$ 50,747 thousand (2019 - US$74,705 thousand), and imports of raw materials and/or services amounting to US$26,234 thousand (2019 - US$13,895 thousand), with instruments (NDF and SWAP) taken out to hedge a part of this exposure as at December 31, 2020, totaling US$77,400 thousand (2019 - US$46,922 thousand).

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 5.

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 27.

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.

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 81% of the consolidated financial liabilities at December 31, 2020. In addition, 8% of bank loans are pegged to fixed interest rates, 9% 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 39, 40 and 48 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, 2020, three different scenarios were estimated, considering the volume of total financing. Based on these consolidated amounts at December 31, 2020, 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 2020 and thereafter. The reporting date used was December 31, 2020, with projection of restatement indexes for each contract for the next 12 months and assessment of their sensitivity under each scenario.

(In thousands of reais, unless otherwise stated)

3. Financial risk management (Continued)

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

	Probable scenario	Scenario II	Scenario III
Risk	**Dec/20**	**Dec/20**	**Dec/20**
Foreign exchange difference	**86,825**	**86,825**	**86,825**
Projected finance costs	3,310	8,845	31,159
Difference %	3.81%	10.19%	35.89%
CDI	**762,525**	**762,525**	**762,525**
Projected finance costs	32,577	35,123	39,083
Difference %	4.27%	4.61%	5.13%
Fixed	**76,174**	**76,174**	**76,174**
Projected finance costs	3,490	3,490	3,490
Difference %	4.58%	4.58%	4.58%
Other	**10,151**	**10,151**	**10,151**
Projected finance costs	550	658	719
Difference %	5.42%	6.48%	7.08%
Total bank indebtedness	**935,675**	**935,675**	**935,675**
Total projected finance costs	39,927	48,116	74,451
Total difference %	4.27%	5.14%	7.96%

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, 2020, 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
Investments - CDI	**342,987**	**342,987**	**342,987**
Rate subject to variation	2.12%	2.65%	3.18%
Projected finance income	7,274	9,089	10,907
Difference %		**1.815**	**3,633**

The financial assets of the Company and its subsidiaries at December 31, 2020 are pegged to the daily yield equivalent to a percentage of the CDI variation, with daily liquidity. Part of the investments characterize as automatic investments, based on the final balance available in the checking account. Part of the investments were invested in CDBs with daily liquidity through specific amounts/lots traded and distributed in the main institutions with which the Company and its subsidiaries do business.

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

(In thousands of reais, unless otherwise stated)

3. Financial risk management (Continued)

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

Scenario I - considered a benchmark by the Company and its subsidiaries: derived from the R$/US$ exchange rate and CDI rates, based on the compilation of market projections obtained from reports of leading consulting firms, national and international financial institutions and the 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		
	12/31/2020			12/31/2019		
	Scenario (I) - Probable	Scenario (II) 25% decrease	Scenario (III) 50% decrease	Scenario (I) - Probable	Scenario (II) 25% decrease	Scenario (III) 50% decrease
NDF (banks)	**(2,542)**	**(1,907)**	**(1,271)**	1,527	13,428	28,358
Swap	**15,947**	**11,960**	**7,974**	4,567	3,425	2,284
Total	**13,405**	**10,053**	**6,703**	6,094	16,853	30,642

4. Cash and cash equivalents

	Individual		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Cash and banks	**1,138**	434	**1,799**	676
Sort-term investments				
Santander	**86,900**	36,242	**90,584**	39,619
Bradesco	**50,666**	185	**50,666**	185
Banco do Brasil	**86,966**	30,596	**87,162**	31,734
Itaú Unibanco	**51,326**	357	**52,333**	1,522
Safra	**1,050**	16,394	**1,050**	16,394
Alfa	**3,007**	5,048	**3,007**	5,048
BRB	**54**	53	**54**	53
Citibank	**12,242**	367	**13,604**	504
BTG	**49,887**	-	**49,887**	-
	343,236	89,676	**350,146**	95,735

Short-term investments in Bank Deposit Certificates (CDB) have an average yield of 100% (98.10% in 2019) 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.

(In thousands of reais, unless otherwise stated)

5. Trade accounts receivable

	Individual		Consolidated	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Domestic customers	**479,440**	375,145	**543,973**	436,503
Foreign customers	**897**	546	**897**	546
Related parties (Note 10)	**228,765**	156,063	**120,086**	79,839
	709,102	531,754	**664,956**	516,888
(-) Expected credit loss	**(3,010)**	(3,212)	**(3,641)**	(5,221)
	706,092	528,542	**661,315**	511,667

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 2020 and 2019 are as follows:

	Individual	Consolidated
Balance at 12/31/2018	(4,236)	(4,728)
Provision	(9,081)	(14,415)
Reversal	6,164	9,538
Write-off (effective loss)	3,941	4,384
Balance at 12/31/2019	(3,212)	(5,221)
Provision	**(4,266)**	**(4,644)**
Reversal	**3,186**	**3,365**
Write-off (effective loss)	**1,282**	**2,859**
Balance at 12/31/2020	**(3,010)**	**(3,641)**

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.

(In thousands of reais, unless otherwise stated)

5. Trade accounts receivable (Continued)

The aging list of accounts receivable is summarized below:

	Individual					
	12/31/2020			12/31/2019		
	Private	Governmen	Total	Private	Governmen	Total
Falling due	**584,652**	**11,057**	**595,709**	436,035	14,203	450,238
Overdue up to 30 days	**26,401**	**3,929**	**30,330**	10,508	7,161	17,669
Overdue from 31 to 60 days	**17,763**	**5,794**	**23,557**	2,780	2,938	5,718
Overdue from 61 to 120 days	**19,884**	**5,891**	**25,775**	20,911	1,432	22,343
Overdue from 121 to 180 days	**10,574**	**5,785**	**16,359**	15,584	1,641	17,225
Overdue from 181 to 360 days	**7,811**	**3,326**	**11,137**	12,074	1,769	13,843
Overdue above 361 days	**1,171**	**5,064**	**6,235**	746	3,972	4,718
	668,256	**40,846**	**709,102**	498,638	33,116	531,754

	Consolidated					
	12/31/2020			12/31/2019		
	Private		Total	Private		Total
Falling due	**609,273**	**11,057**	**620,330**	469,254	14,203	483,457
Overdue up to 30 days	**9,696**	**3,929**	**13,625**	8,426	7,161	15,587
Overdue from 31 to 60 days	**2,059**	**5,794**	**7,853**	682	2,938	3,620
Overdue from 61 to 120 days	**1,045**	**5,891**	**6,936**	622	1,432	2,054
Overdue from 121 to 180 days	**42**	**5,785**	**5,827**	632	1,641	2,273
Overdue from 181 to 360 days	**276**	**3,326**	**3,602**	1,641	1,769	3,410
Overdue above 361 days	**1,719**	**5,064**	**6,783**	2,515	3,972	6,487
	624,110	**40,846**	**664,956**	483,772	33,116	516,888

6. Inventories

	Individual		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Finished products	**345,360**	177,870	**368,525**	205,727
Work in process	**35,651**	28,279	**54,619**	34,603
Raw materials	**165,865**	140,261	**222,203**	164,558
Packaging material	**36,915**	32,640	**66,585**	47,415
Maintenance and safety materials	**23,221**	20,446	**40,034**	36,753
Advance for acquisition of supplies (i)	**4,395**	20,651	**6,834**	28,981
Other (ii)	**21,423**	13,900	**22,002**	9,924
(-) Provision for losses	**(49,706)**	(26,967)	**(57,994)**	(35,760)
	583,124	407,080	**722,808**	492,201

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

(ii) Substantially represented by promotional material.

(In thousands of reais, unless otherwise stated)

6. Inventories (Continued)

	Individual	Consolidated
Balance at 12/31/2018	(13.900)	(18.926)
Provision/reversal	(22.608)	(28.062)
Write-off (effective loss)	9.541	11.228
Balance at 12/31/2019	(26.967)	(35.760)
Provision/reversal	**(49.106)**	**(54.449)**
Write-off (effective loss)	**26.367**	**32.215**
Balance at 12/31/2020	**(49.706)**	**(57.994)**

7. Taxes recoverable

	Individual		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
State Value-added Tax (ICMS) (i)	**12,021**	24,050	**51,122**	46,624
Contribution Tax on Gross Revenue for Social Integration Program (PIS)	**708**	13,265	**3,872**	15,006
Contribution Tax on Gross Revenue for Social Security Financing (Cofins)	**2,785**	61,375	**16,855**	68,700
Income tax	**2,814**	6,644	**5,609**	7,797
Social contribution tax on net profit	**1,038**	4,133	**2,863**	5,160
Federal Value-added Tax (IPI)	**193**	1,022	**8,594**	8,953
Other	**1,776**	896	**2,221**	1,114
(-) Provision for credits	**-**	(25,692)	**-**	(25,692)
	21,335	85,693	**91,136**	127,662
Current	**16,976**	71,764	**60,979**	103,305
Noncurrent	**4,359**	13,929	**30,157**	24,357

(i) Related mainly to ICMS credits arising from the acquisition of goods for property, plant and equipment, offset at the rate of 1/48 per month and credits granted in the acquisition of imported and national raw materials and 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. Credits referring to the period from 2011 to 2018 were recognized by the Company in December 2019. For the period from 2002 to 2010, for being an older period, the Company made a survey of sufficient information for credit approval. This work was completed in September 2020 and the provision of R$25,692 was fully reversed.

8. Other accounts receivable

	Individual		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Advances to suppliers	**2,914**	3,266	**3,764**	3,292
Advances to employees	**4,732**	6,249	**7,611**	8,967
Pledges and collaterals	**1,120**	3,038	**1,121**	3,039
Other	**4,901**	3,094	**5,344**	3,341
Related parties (Note 11)	**50,793**	39,884	**8,193**	8,539
	64,460	55,531	**26,033**	27,178
Current	**9,001**	10,618	**12,829**	13,416
Noncurrent	**55,459**	44,913	**13,204**	13,762

(In thousands of reais, unless otherwise stated)

9. Derivative financial instruments

	Individual and Consolidated	
	12/31/2020	**12/31/2019**
Assets		
NDF (banks)	**-**	1,527
Swap	**15,947**	4,567
	15,947	6,094
Liabilities		
NDF (banks)	**(2.542)**	-
	(2,542)	-
Financial instruments, net	**13,405**	6,094

10. Related parties

Related party transactions and balances are as follows:

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Revenues				
Sales to Anovis (i)	**100,870**	61,236	**-**	**-**
Sales to F&F Distribuidora (ii)	**318,117**	207,878	**318,117**	207,878
Sales to Inovat (i)	**-**	8	**-**	-
Sales to UQ Indústria Gráfica (i)	**2,035**	1,037	**-**	-
	421,022	270,159	**318,117**	207,878
Purchases				
Purchases from Anovis (i)	**59,562**	16,145	**-**	-
Purchases from Inovat (i)	**49,033**	-	**-**	-
Purchases from UQ Gráfica (i)	**60,133**	47,942	**-**	-
Purchases from Laboratil (ii)	**7,325**	10,257	**7,325**	10,257
Purchases from Union Agener (vi)	**150,179**	35,299	**187,072**	35,299
	326,232	109,643	**194,397**	45,556

(In thousands of reais, unless otherwise stated)

10. Related parties (Continued)

	Individual		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Current assets				
Receivables from Anovis (i)	**107,954**	75,802	**-**	-
Receivables from F&F Distribuidora (ii)	**120,086**	79,839	**120,086**	79,839
Receivables from Inovat (i)	**115**	59	**-**	-
Receivables from UQ Indústria Gráfica (i)	**610**	363	**-**	-
	228,765	156,063	**120,086**	79,839
Noncurrent assets				
Receivables from Inovat (iii)	**29,450**	25,477	**-**	-
Receivables from Union Agener (v)	**7,945**	6,904	**7,945**	8,380
Receivables from F&F Distribuidora (iii)	**248**	159	**248**	159
Loans - UQ Indústria Gráfica (iii)	**608**	495	**-**	-
Loans - Anovis (iii)	**12,542**	6,849	**-**	-
	50,793	39,884	**8,193**	8,539
Current liabilities				
Payables to Anovis (i)	**3,874**	144	**-**	-
Payables to UQ Gráfica (i)	**5,627**	3,858	**-**	-
Payables to Laboratil (ii)	**-**	29	**-**	29
Payables to Inovat (i)	**860**	-	**-**	-
Payables to Union Agener (ii)	**63,063**	-	**63,063**	
	73,424	4,031	**63,063**	29
Noncurrent liabilities				
Loan - indirect parent (iv)	**-**	-	**73**	522
	-	-	**73**	522

(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 purchase and sale of medicines at market prices and conditions. The Company, F&F Distribuidora, Union Agener and Laboratil have the same controlling shareholder;

(iii) Balances deriving from shared and mutual services presented at nominal value, the latter increased by 100% of CDI 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	
	2020	2019	2020	2019
Payroll and related charges	**6,945**	5,554	**6,945**	5,873
Executive board fees	**2,368**	2,304	**2,368**	2,304
Board of director fees	**431**	435	**431**	435
	9,744	8,293	**9,744**	8,612

(In thousands of reais, unless otherwise stated)

11. Investments

11.1. Information on investments

	Capital	Interest held %	Equity	P&L
Bionovis S.A. (joint venture)				
December 31, 2019	24,000	25.00	75,764	38,556
December 31, 2020	**24,000**	**25.00**	**135,744**	**67,328**
Anovis Industrial Farmacêutica Ltda.				
December 31, 2019	105,524	99.99	97,092	(4,884)
At December 31, 2020	**105,524**	**99.99**	**103,938**	**6,846**
Union Química Farmacêutica Internacional S.A.				
December 31, 2019	176	99.99	692	(110)
December 31, 2020	**176**	**99.99**	**797**	**105**
Inovat Indústria Farmacêutica Ltda.				
December 31, 2019	128,027	99.99	128,813	(2,065)
December 31, 2020	**128,027**	**99.99**	**143,680**	**14,867**
UQ Indústria Gráfica e de Embalagens Ltda.				
December 31, 2019	7,031	99.99	8,799	1,956
December 31, 2020	**7,031**	**99.99**	**14,756**	**5,957**

(In thousands of reais, unless otherwise stated)

11. Investments (Continued)

11.2. Changes in investments

	Bionovis (i)	Anovis (ii)	Union Química (iii)	Inovat (iv)	UQ Gráfica (v)	Claris Brasil (vi)	Total
Balance at December 31, 2018	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	-	13,525	-	2,547	-	-	16,072
Inventory profits	-	(2,638)	-	-	-	-	(2,638)
Dividends receivable	(2,261)	-	-	-	-	-	(2,261)
Merger of Claris by União	-	-	-	-	-	(345)	(345)
Translation gains (losses) on foreign transactions	-	-	(69)	-	-	-	(69)
Balance at December 31, 2019	18,941	84,708	692	151,958	8,799	-	265,098
Equity pickup	**16,832**	**6,846**	**10**	**14,867**	**5,957**	**-**	**44,512**
Depreciation - surplus of assets	**-**	**(3,541)**	**-**	**(9,504)**	**-**	**-**	**(13,045)**
Amortization of supply	**-**	**12,354**	**-**	**2,549**	**-**	**-**	**14,903**
Inventory profits	**-**	**(128)**	**-**	**-**	**-**	**-**	**(128)**
Dividends receivable	**(1,837)**	**-**	**-**	**-**	**-**	**-**	**(1,837)**
Translation gains (losses) on foreign transactions	**-**	**-**	**95**	**-**		**-**	**95**
Balance at December 31, 2020	**33,936**	**100,239**	**797**	**159,870**	**14,756**	**-**	**309,598**

(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$16,832 refers to 2020 (R$9,639 in 2019).

(ii) Anovis Industrial Farmacêutica Ltda. was acquired on February 13, 2015 for R$83,147. This company operates in the medicine distribution and toll manufacturing segments. The equity pickup of R$ 6,846 refers to profit or loss for 2020 (R$(4,884) in 2019). At December 31, 2020, 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$3,541, as well as the amortization of the surplus value of the manufacturing agreement in the amount of R$12,354. The referred to amortization considered the contractual volumes up to December 31, 2020. These amounts represent 54.74% of the expected cumulative volume of the agreement up to 2024. The Company also recognized the amount of R$(128) 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 "Union Química Farmacêutica Internacional", a company based in Uruguay. Equity pickup of R$10 refers to profit or loss for 2020 (R$(41) in 2019).

(In thousands of reais, unless otherwise stated)

11. Investments (Continued)

11.2. 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$14,867 refers to profit or loss for 2020 (R$(2,065) in 2019). At December 31, 2020, 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$9,504, as well as the amortization of the manufacturing agreement in the amount of R$2,549, based on contracted volumes.

(v) UQ Indústria Gráfica e de Embalagens Ltda. operates in the manufacture and sale of paper, metal and other packaging. The equity pickup of R$5,957 refers to profit or loss for 2020 (R$1,956 in 2019).

11.3. Breakdown of investments

	Investment - Equity pickup	Goodwill/bar gain purchase	Surplus value/supply agreement	Exchange differences	Investment balance
Bionovis S.A.	**33,936**	**-**	**-**	**-**	**33,936**
Anovis Industrial Farmacêutica Ltda.	**103,938**	**2,633**	**(6,332)**	**-**	**100,239**
Union Química Farmacêutica Internacional S.A.	**717**	**-**	**-**	**80**	**797**
Inovat Indústria Farmacêutica Ltda.	**143,680**	**(43)**	**16,233**	**-**	**159,870**
UQ Indústria Gráfica e de Embalagens Ltda.	**14,756**	**-**	**-**	**-**	**14,756**
	297,027	**2,590**	**9,901**	**80**	**309,598**

11.4. Changes in the supply agreement

	Consolidated
Balance at December 31, 2018	85,479
Amortization	(16,072)
Balance at December 31, 2019	69,407
Amortization	**(14,903)**
Balance at December 31, 2020	**54,504**
Current	**13,210**
Noncurrent	**41,294**

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Notes to the financial statements (Continued)
December 31, 2020
(In thousands of reais, unless otherwise stated)

12. Property, plant and equipment

As mentioned in Note 16, 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
Cost									
Book balance at 12/31/2018	16,733	122,786	241,907	18,355	26,840	426,621	220	6,824	433,665
Leases IFRS 16	-	13,235	-	-	20,924	34,159	-	-	34,159
Additions	-	1,888	28,236	1,387	2,112	33,623	3,259	2,050	38,932
Write-offs	(1,397)	-	(546)	(46)	(14,164)	(16,153)	-	-	(16,153)
Transfers (i)	-	1,554	6,503	49	-	8,106	(943)	(7,163)	-
Book balance at 12/31/2019	15,336	139,463	276,100	19,745	35,712	486,356	2,536	1,711	490,603
Leases IFRS 16	**-**	**1,840**	**-**	**-**	**4,615**	**6,455**	**-**	**-**	**6,455**
Additions	**-**	**270**	**20,660**	**1,155**	**49,595**	**71,680**	**7,199**	**12,313**	**91,192**
Write-offs	**-**	**-**	**(1,832)**	**(517)**	**(2,480)**	**(4,829)**	**-**	**(8)**	**(4,837)**
Transfers	**-**	**-**	**5,256**	**-**	**-**	**5,256**	**(5,256)**	**-**	**-**
Book balance at 12/31/2020	**15,336**	**141,573**	**300,184**	**20,383**	**87,442**	**564,918**	**4,479**	**14,016**	**583,413**
Depreciation									
Book balance at 12/31/2018	-	(25,997)	(79,668)	(6,647)	(18,201)	(130,513)	-	-	(130,513)
Leases IFRS 16	-	(2,388)	-	-	(9,207)	(11,595)	-	-	(11,595)
Additions	-	(1,981)	(12,440)	(1,099)	(2,196)	(17,716)	-	-	(17,716)
Write-offs	-	-	285	33	9,930	10,248	-	-	10,.248
Book balance at 12/31/2019	**-**	(30,366)	(91,823)	(7,713)	(19,674)	(149,576)	-	-	(149,576)
Leases IFRS 16	**-**	**(3,913)**	**-**	**-**	**(8,640)**	**(12,553)**			**(12,553)**
Additions	**-**	**(2,000)**	**(13,247)**	**(1,127)**	**(2,514)**	**(18,888)**	**-**	**-**	**(18,888)**
Write-offs	**-**	**-**	**551**	**356**	**1,743**	**2,650**	**-**	**-**	**2,650**
Book balance at 12/31/2020	**-**	**(36,279)**	**(104,519)**	**(8,484)**	**(29,085)**	**(178,367)**	**-**	**-**	**(178,367)**
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	15,336	109,097	184,277	12,032	16,038	336,780	2,536	1,711	341,027
Net balance at 12/31/2020	**15,336**	**105,294**	**195,665**	**11,899**	**58,357**	**386,551**	**4,479**	**14,016**	**405,046**
Depreciation rate	-	1.67% to 8.11%	5% to 6.67%	10%	6.6% to 20%	-	-	-	-

(In thousands of reais, unless otherwise stated)

12. 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	Constructio n in progress	Total
Cost									
Book balance at 12/31/2018	62,451	249,239	416,228	22,184	27,541	**777,643**	2,176	32,010	811,829
Leases IFRS 16	-	19,400	2,319	-	20,924	42,643	-	-	42,643
Additions	-	2,054	30,237	2,101	2,118	36,510	5,589	20,107	62,206
Write-offs	(1,397)	-	(9)	(156)	(14,304)	(15,866)	-	(23)	(15,889)
Transfers	-	1,632	24,193	49	-	25,874	(1,854)	(24,020)	-
Book balance at 12/31/2019	61,054	272,325	472,968	24,178	36,279	866,804	5,911	28,074	900,789
Leases IFRS 16	**-**	**1,971**	**379**	**-**	**4,615**	**6,965**	**-**	**-**	**6,965**
Acquisition of subsidiary	**-**	**(1,435)**	**49,425**	**1,717**	**49,595**	**99,302**	**9,700**	**24,488**	**133,490**
Additions	**-**	**-**	**(2,321)**	**(637)**	**(2,563)**	**(5,521)**	**-**	**(8)**	**(5,529)**
Write-offs	**-**	**19,889**	**12,789**	**9**	**-**	**32,687**	**(8,293)**	**(24,393)**	**-**
Transfers	**61,054**	**292,750**	**533,240**	**25,267**	**87,926**	**1,000,237**	**7,318**	**28,161**	**1,035,716**
Book balance at 12/31/2020									
Depreciation									
Book balance at 12/31/2018	-	(49,379)	(121,233)	(9,743)	(18,793)	(199,148)	-	-	(199,148)
Leases IFRS 16	-	(3,159)	(1,428)	-	(9,207)	(13,794)	-	-	(13,794)
Additions	**-**	(10,590)	(36,070)	(2,107)	(2,247)	(51,014)	-	-	(51,014)
Write-offs	**-**	-	1,459	95	10,070	11,624	-	-	11,624
Book balance at 12/31/2019	-	(63,128)	(157,272)	(11,755)	(20,177)	(252,332)	-	-	(252,332)
Leases IFRS 16	**-**	**(5,476)**	**(1,011)**	**-**	**(8,640)**	**(15,127)**	**-**	**-**	**(15,127)**
Additions	**-**	**(9,515)**	**(35,371)**	**(1,847)**	**(2,542)**	**(49,275)**	**-**	**-**	**(49,275)**
Write-offs	**-**	**-**	**904**	**487**	**1,826**	**3,217**	**-**	**-**	**3,217**
Book balance at 12/31/2020	**-**	**(78,119)**	**(192,750)**	**(13,115)**	**(29,533)**	**(313,517)**	**-**	**-**	**(313,517)**
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	61,054	209,197	315,696	12,423	16,102	614,472	5,911	28,074	648,457
Net balance at 12/31/2020	**61,054**	**214,631**	**340,490**	**12,152**	**58,393**	**686,720**	**7,318**	**28,161**	**722,199**
Depreciation rate	-	1.67%a8.11%	5%a6.67%	10%	6.6%a20%	-	-	-	-

(i) Substantially represented by expansion projects in the production areas and distribution center of the parent company, and production areas of the subsidiaries Anovis and Inovat, estimated to be completed by the end of 2021.

(In thousands of reais, unless otherwise stated)

13. Intangible assets

	Individual			
	Trademarks and patents (i)	Goodwill (ii)	Software (iii)	Total
Cost				
Book balance at 12/31/2018	39,186	13,501	14,812	67,499
Additions	-	-	3,422	3,422
Acquisition of subsidiary	3,544	-	-	3,544
Book balance at 12/31/2019	42,730	13,501	18,234	74,465
Additions	**22,500**	**-**	**1,593**	**24,093**
Book balance at 12/31/2020	**65,230**	**13,501**	**19,827**	**98,558**
Amortization				
Book balance at 12/31/2018	**-**	**-**	(9,507)	(9,507)
Additions	(407)	-	(1,100)	(1,507)
Book balance at 12/31/2019	(407)	-	(10,607)	(11,014)
Additions	**-**	**-**	**(1,755)**	**(1,755)**
Book balance at 12/31/2020	**(407)**	**-**	**(12,362)**	**(12,769)**
Net balance at 12/31/2018	39,186	13,501	5,305	57,992
Net balance at 12/31/2019	42,323	13,501	7,627	63,451
Net balance at 12/31/2020	**64,823**	**13,501**	**7,465**	**85,789**

	Consolidated			
	Trademarks and patents (i)	Goodwill (ii)	Software (iii)	Total
Cost				
Book balance at 12/31/2018	44,765	13,501	20,377	78,643
Additions	-	-	4,209	4,209
Write-offs	-	-	(818)	(818)
Book balance at 12/31/2019	44,765	13,501	23,768	82,034
Additions	**22,500**	**-**	**1,643**	**24,143**
Book balance at 12/31/2020	**67,265**	**13,501**	**25,411**	**106,177**
Amortization				
Book balance at 12/31/2018	-	-	(11,818)	(11,818)
Additions	(2,442)	-	(3,019)	(5,461)
Write-offs	-	-	121	121
Book balance at 12/31/2019	(2,442)	-	(14,716)	(17,158)
Additions	**-**	**-**	**(3,119)**	**(3,119)**
Book balance at 12/31/2020	**(2,442)**	**-**	**(17,835)**	**(20,277)**
Net balance at 12/31/2017	44,765	13,501	8,559	66,825
Net balance at 12/31/2018	42,323	13,501	9,052	64,876
Net balance at 12/31/2019	**64,823**	**13,501**	**7,576**	**85,900**

13. Intangible assets (Continued)

(i) This refers to the acquisition cost of trademarks, patents of certain products manufactured and sold by the Company, which are not amortized. In the year ended December 31, 2020, brands and patents were tested for impairment, with no identification of the need for recognition of impairment. In July 2020, the Company acquired the brand Neocopan from Hypera S.A. (Note 19).

(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.

(iii) This refers to acquired software licenses amortized over a five-year period.

14. Impairment test of goodwill paid based on expected future profitability

At December 31, 2020, the Company and its subsidiaries tested goodwill and brands 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 6.51% was calculated using the weighted average cost of capital (WACC) methodology, which corresponds to a pre-tax rate of 9.86%.

(In thousands of reais, unless otherwise stated)

15. 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	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Domestic suppliers	**118,909**	116,554	**185,592**	145,591
Foreign suppliers	**64,408**	53,385	**73,273**	56,238
Suppliers – confirming (i)	**17,371**	9,652	**33,018**	17,943
Related parties (Note 10)	**73,424**	4,031	**63,063**	29
	274,112	183,622	**354,946**	219,801

(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, 2020, the discount rates on assignment transactions conducted by our suppliers with financial institutions in the local market were between 0.75% p.m. and 1.39% p.m. with a weighted average of 0.97% 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	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Overdue up to 15 days (i)	**64,448**	1,312	**84,264**	2,669
Falling due within 30 days	**78,647**	72,894	**109,346**	84,534
Falling due from 31 to 60 days	**53,721**	43,022	**67,054**	52,216
Falling due from 61 to 120	**77,296**	66,394	**94,282**	80,382
	274,112	183,622	**354,946**	219,801

(i) Amounts overdue up to 15 days are substantially represented by notes with Union Agener Inc., a Company under common control and whose amounts are being negotiated for payment in 2021.

(In thousands of reais, unless otherwise stated)

16. Loans and financing

Type		Individual		Consolidated	
Foreign currency:	**Average rate of charges %**	**12/31/2020**	**12/31/2019**	**12/31/2020**	**12/31/2019**
FINIMP	Euro exchange differences plus 1.27% to 3.25% p.a.	**8,648**	7,587	**16,334**	7,587
FINIMP	US dollar exchange rate plus 3.89% to 5.12% p.a.	**70,492**	125,898	**70,492**	125,898
Loan - Resolution 4131 (i)	CDI + 1.84% p.a.	**176,855**	137,167	**176,855**	137,167
		255,995	270,652	**263,681**	270,652
Domestic currency:					
BNDES - FINAME	3% to 5% plus TLP and/or SELIC	**9,107**	2.179	**11,044**	4,402
Loan - Resolution 4131 (i)	CDI + 1.84% p.a	**30,252**	30.463	**30,252**	30,463
Working capital	CDI + 1.93% p.a to 3.90% p.a	**381,429**	70.302	**381,429**	70,302
Finep	3.50% p.a.	**18,974**	27,731	**18,974**	27,731
Debentures (a)	CDI + 1.63% p.a.	**173,095**	205,079	**173,095**	205,079
Leases	From 7.48% to 12.07% p.a.	**53,180**	5,160	**57,200**	8,325
		666,037	340,914	**671,994**	346,302
		922,032	611,566	**935,675**	616,954
Current		**297,188**	214,046	**307,698**	215,802
Noncurrent		**624,844**	397,520	**627,977**	401,152

(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.

Changes in loans:

	Individual		Consolidated	
	31/12/2020	**31/12/2019**	**31/12/2020**	**31/12/2019**
Prior balance	**611,566**	599,119	**616,954**	605,084
Funding	**588,038**	261,126	**597,748**	267,038
Interest incurred	**31,161**	36,779	**31,698**	37,202
Payment of principal	**(352,483)**	(259,874)	**(354,471)**	(266,569)
Payment of interest	**(31,649)**	(32,540)	**(32,016)**	(32,751)
Transaction costs	**498**	1,135	**498**	1,135
Exchange difference	**74,901**	5,821	**75,264**	5,815
Balance	**922,032**	611,566	**935,675**	616,954

Reconciliation with the cash flow from financing activities:

	Individual		Consolidated	
	31/12/2020	**31/12/2019**	**31/12/2020**	**31/12/2019**
Payment of principal	**(352,483)**	(259,874)	**(354,471)**	(266,569)
Financial instruments settled	**23,961**	10,432	**23,961**	10,432
	(328,522)	(249,442)	**(330,510)**	(256,137)

(In thousands of reais, unless otherwise stated)

16. Loans and financing

Aging list of debts:

	Individual		Consolidated	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
2020	**-**	214,046	**-**	215,802
2021	**297,188**	129,480	**307,698**	131,180
2022	**271,962**	128,617	**274,202**	129,673
Above 2023	**352,882**	139,423	**353,775**	140,299
	922,032	611,566	**935,675**	616,954

FINAME and lease agreements are backed by machinery and equipment and financed vehicles, respectively. The other financing agreements are backed by letter of guarantee, chattel mortgage and or mortgage. The letter of guarantee with book value of R$18,945 was given as guarantee for the loan with FINEP.

Land and buildings of Inovat Indústria Farmacêutica Ltda. with a book value (cost) of R$48,938 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$93,715 is subject to mortgage as a guarantee of the loan (Resolution 4131).

a) <u>Debentures</u>

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

b) <u>Covenants</u>

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. The contractual provisions establish that for the year ended December 31, 2020, the Company's net debt (defined in contract as the total cash and cash equivalents, subtracted from the total tax installment and loans and financing) divided by the EBITDA for the last twelve months cannot exceed the ratio of 2.30. Therefore, these covenants have been complied with and do not limit the ability to continue as a going concern in the year ended December 31, 2020.

(In thousands of reais, unless otherwise stated)

17. Labor and tax obligations

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

	Individual		Consolidated	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Labor obligations				
Accrued vacation pay and social	**34,755**	30,728	**48,127**	42,865
Social Security Tax (INSS) payable	**8,890**	7,497	**11,857**	9,980
Unemployment Compensation Fund	**2,679**	2,418	**3,527**	3,177
Provision for commissions and	**4,353**	2,355	**4,353**	2,355
Provision for profit sharing and bonus	**25,263**	12,099	**31,534**	18,279
Other labor obligations	**232**	158	**260**	260
	76,172	55,255	**99,658**	76,916
Tax obligations				
ICMS payable	**31,085**	25,528	**32,977**	27,977
PIS and COFINS	**10,154**	3,994	**10,354**	6,658
ICMS – Installment payment (a)	**9,817**	9,027	**9,817**	9,027
IPI – ISS	**352**	307	**471**	415
Withholding Income Tax (IRRF)	**5,911**	5,323	**7,075**	6,461
ICMS IDEAS	**5,793**	271	**5,793**	271
Tax on Financial Transactions (IOF)	**-**	-	**215**	8
	63,112	44,450	**66,702**	50,817
	139,284	99,705	**166,360**	127,733
Current	**127,492**	91,744	**154,568**	119,772
Noncurrent	**11,792**	7,961	**11,792**	7,961

(a) Includes ICMS payment in installment as follows:

Location	Remaining installments	Installment amount (In Reais)	Debt balance
Distrito Federal (i)	49	71,409	3,499
Minas Gerais (ii)	89	58,774	3,962
Minas Gerais (iii)	7	336,523	2,356
			9,817

(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 71 installments payable in 120 months until December 31, 2020.

(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, 2020, amounting to R$3,962, is deducted from the amount of R$1,269, related to present value adjustment, to cover the differences between the rates used by the Company and the Minas Gerais Department of Finance.

(iii) Installment plan related to the complement of the ICMS over internal operations in the State of Minas, in the total amount of R $ 3,327 in 9 installments , the first installment being settled in October 2020. The outstanding balance as of December 31, 2020 , in the amount of R $ 2,356.

(b) Installment by maturity:

	Individual
2021	**3,747**
2022	**1,391**
2023	**1,391**
Above 2024	**3,288**
	9,817

(In thousands of reais, unless otherwise stated)

18. Income and social contribution taxes

18.1. 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	
	2020	**2019**	**2020**	**2019**
Income before income and social contribution taxes	**278,626**	169,462	**274,061**	173,530
Combined statutory rate of taxes - %	**34**	34	**34**	34
Income and social contribution taxes	**(94,733)**	(57,617)	**(93,181)**	(59,000)
Adjustments for calculation at the effective rate:				
Equity pickup	**16,401**	1,540	**5,723**	3,277
Technology innovation	**19,249**	18,440	**19,249**	18,440
Donations and gifts	**(3,305)**	(1,478)	**(3,305)**	(1,478)
Investment grants	**17,435**	12,593	**17,435**	12,593
Interest on equity	**10,627**	-	**10,627**	-
Exclusion of ICMS from PIS/COFINS base	**(15,278)**	14,949	**(15,278)**	14,949
Temporary additions and exclusions	**(26,110)**	(5,796)	**(24,239)**	(6,194)
Permanent additions and exclusions	**(2,197)**	(4,913)	**2,130**	(3,733)
Deferred income and social contribution tax assets not recognized for the	**-**	-	**-**	(4,060)
Tax loss	**-**	-	**(3,732)**	-
Income and social contribution tax expense in P&L	**(77,911)**	(22,282)	**(84,571)**	(25,206)
Deductions (Workers' Meal Program (PAT) and incentives)	**1,915**	737	**1,915**	737
Current taxes	**(75,996)**	(21,545)	**(82,656)**	(24,469)
Deferred taxes	**22,914**	(4,126)	**34,139**	(5,270)
P&L - current/deferred IRPJ/CSLL	**(53,082)**	(25,671)	**(48,517)**	(29,739)

(i) Substantially represented by provision for contingencies, inventory losses and tax credits.

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

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

(In thousands of reais, unless otherwise stated)

18. Income and social contributions taxes (Continued)

18.2. Income and social contribution taxes to offset (payable)

	Individual		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Income and social contribution taxes	**(75,996)**	(19,026)	**(82,656)**	(21,056)
Prepaid income and social contribution taxes	**59,030**	27,642	**67,973**	30,170
	(16,966)	8,616	**(14,683)**	9,114
Current asset balance (note 7)	**3,852**	10,777	**8,472**	12,957
Current liability balance	**(20,818)**	(2,161)	**(23,155)**	(3,843)
	(16,966)	8,616	**(14,683)**	9,114

18.3. 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	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Provisions	**49,052**	33,820	**54,837**	37,801
Sales recorded and not delivered	**3,692**	6,938	**3,692**	6,938
Impairment of assets	**1,067**	1,067	**1,067**	1,067
Tax loss	**-**	-	**13,451**	-
Other	**7,248**	2,056	**7,248**	4,052
	61,059	43,881	**80,295**	49,858
Lease	**(12,293)**	(4,906)	**(11,375)**	(4,906)
Depreciation - R&D assets	**(9,187)**	(4,596)	**(9,187)**	(4,596)
Depreciation - effects of review of new useful life	**(28,956)**	(25,472)	**(38,577)**	(32,141)
Derivative financial instruments	**(4,558)**	(2,072)	**(4,558)**	(2,072)
Tax credits	**-**	(23,684)	**-**	(23,684)
Bargain purchase	**(899)**	(899)	**(899)**	(899)
	(55,893)	(61,629)	**(64,596)**	(68,298)
Deferred income and social contribution tax liabilities, net	**5,166**	(17,748)	**15,699**	(18,440)

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

	Individual	Consolidated
Balance of deferred tax assets/liabilities at December 31, 2018	(13.622)	(13.622)
Changes for the year ended 12/31/2019, net	(4.126)	(4.818)
Deferred tax assets at December 31, 2019	**-**	1.004
Deferred tax liabilities at December 31, 2019	(17.748)	(19.444)
Changes for the year ended 12/31/2020, net	**22.914**	**34.139**
Balance of deferred tax assets at December 31, 2020	**5.166**	**15.699**

(In thousands of reais, unless otherwise stated)

19. Other accounts payable

	Individual		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Novartis Biociências S.A. (i)	**17,293**	27,211	**18,115**	30,428
Hypera S.A. (ii)	**23,553**	-	**23,553**	-
Provision for freight	**4,278**	5,946	**4,850**	6,396
Leases (iv)	**16,899**	23,045	**21,334**	29,475
Deferred income (iii)	**13,604**	1,149	**13,994**	1,331
Related parties (Note 10)	**-**	-	**73**	522
	75,627	57,351	**81,919**	68,152
Current	**35,913**	25,965	**38,248**	28,671
Noncurrent	**39,714**	31,386	**43,671**	39,481

(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, 2020, R$841 (R$881 in 2019) and R$1,025 (R$1.799 in December 2019) were recognized in “Finance income (costs)” referring to interest incurred and present value adjustment, respectively.

(ii) This balance refers to debt arising from acquisition of the brand Neocopan from Hypera S.A., with three installments remaining for full settlement. This amount is restated by reference to the IPCA, and over the year ended December 31, 2020, the amount of R$510 was recognized as Finance income (costs) referring to interest incurred, and R$287 referring to present value adjustment.

(iii) Mostly represented by early receipt of a partnership agreement with a supplier, signed on 07/17/2020, with a term of 60 months.

(iv) For lease liabilities, the Company uses the discount rate of 8.50%.

Maturity of lease agreements:

	Individual	Consolidated
	31/12/2020	31/12/2020
2021	11,490	13,319
2022	3,904	5,606
2023	1,505	2,409
	16,899	21,334

(In thousands of reais, unless otherwise stated)

20. 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	
	12/31/2020	12/31/2019	12/31/2020	12/31/201	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Tax	**21,749**	21,171	**21,749**	21,171	**42,888**	5,121	**42,888**	5121
Labor and social	**3,982**	4,635	**5,004**	5,736	**26,928**	20,277	**29,709**	21,362
Civil	**944**	725	**1,171**	930	**11,275**	8,300	**11,275**	8,300
	26,675	26,531	**27,924**	27,837	**81,091**	33,698	**83,872**	34,783

Changes in provisions:

	Individual	Consolidated
Balance at 12/31/2018	21,444	21,862
Additions	3,696	4,785
Write-off due to losses	(5,840)	(6,209)
Write-off due to reversal	(933)	(1,009)
Restatements and changes in risks	5,726	5,726
Change in prognosis	9,605	9,628
Balance at 12/31/2019	33,698	34,783
Additions	**287**	**287**
Write-off due to losses	**(6,577)**	**(6,758)**
Write-off due to reversal	**(453)**	**(840)**
Restatement of balance	**4,406**	**4,599**
Change in prognosis	**49,730**	**51,801**
Balance at 12/31/2020	**81,091**	**83,872**

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 ISS – São Paulo local government, 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.

(In thousands of reais, unless otherwise stated)

20. Judicial deposits and provision for contingencies (Continued)

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:

	Individual		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Tax	**98,117**	66,389	**98,127**	66,589
Labor and social security	**17,681**	25,589	**21,199**	31,370
Civil	**35,410**	34,287	**35,626**	34,482
	151,208	126,265	**154,952**	132,441

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) Tax notice served by the Minas Gerais State Finance Office claiming an alleged difference in ICMS computed and not paid.

Civil
(i) Collection proceeding referring to indemnity for pain and suffering resulting from contractual termination with a commercial representative, whereby the plaintiff alleges that the termination was without cause, with annulment of a copy of the contract and payment of a commission of 10% on all products sold.

(ii) Suit filed for termination of the logistics services contract, whereby the plaintiff states that the termination was without cause before the minimum period of 5 years established in the contract, causing losses thereto.

(In thousands of reais, unless otherwise stated)

20. Judicial deposits and provision for contingencies (Continued)

Possible losses not provisioned in the financial statements (Continued)

(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) Collection proceeding referring to contractual rental issues at the Distribution Center, whereby the plaintiff alleges payment rights provided for in the contract.

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.

21. Equity

21.1. Capital

At December 31, 2020 and December 31, 2019, the paid-up capital amounted to R$440,077, divided into 379,377,291 common shares, distributed as follows:

	12/31/2020 and 12/31/2019	
	Shares	%
Robferma Administração e Participações Ltda.	305,985,001	80.654538%
MJP Adm. Participações S/S Ltda.	43,175,452	11.380611%
Cleita de Castro Marques	15,108,419	3.982426%
Cleide Marques Pinto	15,108,419	3.982426%
	379,377,291	**100.00%**

21.2. Legal reserve

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

Description	2020	2019
Net income for the year	**225,544**	143,791
(-) Grant reserve	**(51,278)**	(41,652)
Legal reserve base	**174,266**	102,139
Legal reserve (5%)	**8,713**	(5,107)

(In thousands of reais, unless otherwise stated)

21. Equity (Continued)

21.3. Income reserve

The Company allocated from net income for 2020 the amount of R$124,364 (R$91,210 in 2019) to the reserve of profits.

21.4. Tax incentive reserve

The Company has ICMS tax benefits granted in an administrative tax proceeding, supported by a law/decree of the Minas Gerais State Government and the Federal District Government, which required entering into an Agreement. Changes in this reserve is presented in the Statement of Changes in Equity. In 2020, the Company management recognized R$51,278 from the Agreement with the Minas Gerais Government.

21.5. 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	2020	2019
Net income for the year	**225,544**	143,791
(-) Grant reserve	**(51,278)**	(41,652)
Legal reserve base	**174,266**	102,139
Legal reserve (5%)	**(8,713)**	(5,107)
Dividend calculation base	**165,553**	97,032
Proposed dividends (6%)	**(9,933)**	(5,822)
Interest on equity	**(31,256)**	-
Income reserve	**124,364**	91,210

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
Dividend payable - December 31, 2019	**5,823**
Payments in the year	**(5,823)**
Mandatory minimum dividends for the year	**9,933**
Dividend payable - December 31, 2020	**9,933**

21.6. Interest on equity

The Company approved the distribution of interest on equity of R$31,256 at the General Shareholders' Meeting.

(In thousands of reais, unless otherwise stated)

21. Equity (Continued)

21.7. 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:

	2020	2019
Profit attributable to ordinary equity holders	**225,544**	143,791
Denominator		
Weighted average number of	**379,377,291**	379,377,291
Basic and diluted earnings per share (in	**0.5945**	0.3790

22. 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.

	Individual		Consolidated	
	2020	2019	**2020**	**2019**
Gross sales of products	**2,409,500**	1,819,724	**2,419,415**	1,855,821
Gross sales of services	**2,447**	1,944	**383,020**	332,369
(-) Sales taxes	**(306,346)**	(247,553)	**(336,105)**	(262,467)
(-) Sales and service taxes	**(304)**	(247)	**(25,350)**	(21,721)
(-) Promotional discounts	**(9,256)**	(8,462)	**(9,256)**	(8,462)
(-) Unconditional discounts	**(22,226)**	(24,789)	**(22,386)**	(20,311)
(-) Sales returns	**(18,504)**	(17,190)	**(24,718)**	(23,319)
	2,055,311	1,523,427	**2,384,620**	1,851,910

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, 2020 total R$25,363 (R$47,400 at December 31, 2019).

(In thousands of reais, unless otherwise stated)

23. Expenses by nature and function

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Raw material and store and supplies	**(839,423)**	(559,131)	**(868,596)**	(627,797)
Sales commissions	**(55,267)**	(43,306)	**(55,267)**	(43,317)
Payroll and employee benefits	**(371,691)**	(330,426)	**(522,543)**	(451,443)
Social security charges	**(112,812)**	(98,970)	**(147,908)**	(132,415)
Depreciation and amortization	**(33,196)**	(30,818)	**(67,521)**	(70,270)
Transportation expenses	**(38,742)**	(35,808)	**(43,991)**	(40,951)
Advertising expenses	**(18,490)**	(24,428)	**(18,565)**	(24,489)
Research and development	**(13,595)**	(7,333)	**(15,651)**	(8,143)
Services rendered	**(47,401)**	(50,113)	**(59,828)**	(65,979)
Vehicle expenses	**(12,424)**	(13,266)	**(12,795)**	(13,855)
Utilities	**(16,373)**	(15,128)	**(28,998)**	(26,205)
Taxes and charges	**(7,769)**	(6,820)	**(11,887)**	(11,077)
Rental	**(2,179)**	(2,762)	**(2,708)**	(3,216)
Maintenance	**(32,922)**	(26,186)	**(53,869)**	(43,727)
Communications	**(2,148)**	(2,321)	**(2,401)**	(2,572)
Free samples	**(32,746)**	(28,459)	**(34,264)**	(28,565)
Legal costs, net	**(57,080)**	(21,828)	**(59,224)**	(22,710)
Fines	**(996)**	(1,133)	**(1,274)**	(1,174)
Insurance	**(2,453)**	(2,798)	**(3,269)**	(3,406)
Gifts and donations	**(18,174)**	(14,527)	**(18,186)**	(14,544)
Travel and lodging	**(11,374)**	(18,344)	**(11,939)**	(19,388)
Fairs and conferences	**(15,338)**	(18,221)	**(15,962)**	(18,647)
Expected credit loss	**(1,080)**	(2,917)	**(1,279)**	(4,877)
Other expenses	**(2,606)**	(2,016)	**(2,651)**	(1,821)
	(1,746,279)	(1,357,059)	**(2,060,576)**	(1,680,588)
Cost of sales and services	**(1,028,382)**	(743,639)	**(1,209,510)**	(946,811)
General and administrative expenses	**(346,377)**	(260,320)	**(471,383)**	(373,286)
Selling expenses	**(371,520)**	(353,100)	**(379,683)**	(360,491)
	(1,746,279)	(1,357,059)	**(2,060,576)**	(1,680,588)

(In thousands of reais, unless otherwise stated)

24. Other operating income, net

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Recovery of expenses (i)	**5,038**	3,058	**6,264**	6,125
Net gain (loss) on disposal of property, plant and equipment	**(1,211)**	(231)	**(1,210)**	825
Income from tax incentives (ii)	**-**	4,613	**-**	4,613
Income from prior-year tax credits (iii)	**27,636**	49,138	**27,636**	49,138
Other, net	**(1,201)**	(3,894)	**282**	(9,555)
	30,262	52,684	**32,972**	51,146

(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;

(iii) 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 7).

(In thousands of reais, unless otherwise stated)

25. Finance income (costs), net

	Individual		Consolidated	
	2020	**2019**	**2020**	**2019**
Finance income				
Short-term investment yield	**4,124**	4,386	**4,148**	4,426
Foreign exchange gains	**94,842**	82,404	**109,349**	84,800
Interest income, discounts received and other	**4,346**	5,532	**5,476**	4,567
Present value adjustment	**1,728**	177	**1,728**	177
Gains - NDF	**64,787**	15,101	**64,787**	15,101
Fair value - Swap	**77,648**	25,069	**77,648**	25,069
	247,475	132,669	**263,136**	134,140
Finance costs				
Monetary difference and financial commissions	**(11,840)**	(9,453)	**(13,078)**	(11,155)
Interest on loans and financing	**(22,863)**	(21,660)	**(23,400)**	(22,083)
Interest on lease	**(1,361)**	(1,384)	**(1,765)**	(1,770)
Interest on debentures	**(8,298)**	(15,119)	**(8,298)**	(15,119)
Foreign exchange losses	**(185,822)**	(98,831)	**(199,401)**	(101,766)
Bank expenses, discounts granted and Tax on	**(10,187)**	(1,233)	**(2,839)**	(1,712)
Present value adjustment	**(539)**	(1,925)	**(539)**	(1,925)
Interest on ICMS payment in installments	**(2,440)**	(379)	**(2,440)**	(379)
Losses - NDF	**(62,027)**	(10,496)	**(62,027)**	(10,496)
Fair value - Swap	**(49,136)**	(26,312)	**(49,136)**	(26,312)
	(354,513)	(186,792)	**(362,923)**	(192,717)
	(107,038)	(54,123)	**(99,787)**	(58,577)

26. Insurance

The insurance coverage at December 31, 2020 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	03/27/2021	2,307,413,931.79
General civil liability	11/08/2021	50,000,000.00
Civil Liability Insurance – D&O	07/30/2021	3,000,000.00
Domestic land transportation	04/30/2021	USD 5,000,000.00
International transportation	04/30/2021	Valor Mercado – FIPE
Vehicles and optional civil liability	08/13/2021	2,307,413,931.79

27. 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, 2020 and 2019:

(In thousands of reais, unless otherwise stated)

27. Financial instruments (Continued)

Capital management (Continued)

a) Classification of financial instruments (Continued)

		Individual		Consolidated	
Assets	**Category**	**12/31/2019**	**12/31/2018**	**12/31/2019**	**12/31/2018**
Current assets					
Cash and cash equivalents	(i)	**343,236**	89,676	**350,146**	95,735
Long-term financial investments	(i)	**889**	870	**889**	870
Trade accounts receivable	(ii)	**706,092**	528,542	**661,315**	511,667
Other accounts receivable	(ii)	**64,460**	55,531	**26,033**	27,178
Derivative financial instruments	(i)	**15,947**	6,094	**15,947**	6,094
Judicial deposits	(ii)	**26,675**	26,531	**27,924**	27,837
		1,157,299	707,244	**1,082,254**	669,381
Liabilities					
Trade accounts payable	(ii)	**274,112**	172,346	**354,946**	210,585
Derivative financial instruments	(i)	**2,542**	-	**2,542**	-
Loans and financing	(ii)	**922,032**	611,566	**935,675**	616,954
Other accounts payable	(ii)	**75,627**	68,626	**81,919**	77,367
		1,274,313	852,538	**1,375,082**	904,906

b) Fair value of financial instruments

The estimated fair values of financial instruments for 2020 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.
- 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 5.
- Derivative financial instruments: are disclosed at fair value and classified as financial assets and liabilities, as described in Note 9.

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 16.

- 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, 2020 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.

(In thousands of reais, unless otherwise stated)

27. 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, 2020, the Company's and its subsidiaries' derivative financial instruments had the following positions:

	Individual and Consolidated					
	12/31/2020				12/31/2019	
	Hedged item	Reference currency	Notional amount	Fair value (R$)	Notional amount	Fair value (R$)
Non-deliverable forwards	Currency	USD	**43,400**	**(2,542)**	13,580	1,476
Non-deliverable forwards	Currency	EUR	**-**	**-**	1,100	51
Swap	Currency	USD	**34,000**	**15,947**	32,242	4,567
Total currency derivatives			**77,400**	**13,405**	46,922	6,094

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, 2020 and 2019.

d) Fair value hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for similar assets and liabilities.

Level 2: inputs, other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).

Level 3: assumptions for the asset or liability that are not based on market observable data (unobservable inputs).

(In thousands of reais, unless otherwise stated)

27. 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							
	12/31/2020				12/31/2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level	Level 3	Total
Derivative financial instruments	-	13,405	-	13,405	-	6,094	-	6,094
	-	13,405	-	13,405	-	6,094	-	6,094

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
	12/31/2020			12/31/2019		
	Current assets	Current liabilities		Current assets	Current liabilities	
Currency risks - NDF	-	(2,542)	2,760	1,527	-	4,605
Swap	15,947	-	28,512	4,657	-	(1,243)
	15,947	(2,542)	31,272	6,184	-	3,362

(In thousands of reais, unless otherwise stated)

27. 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, 2020 and 2019:

	Individual		Consolidated	
	US$ thousand 12/31/2020	US$ 12/31/2019	US$ thousand 12/31/2020	US$ 12/31/2019
Cash and cash equivalents	-	-	7	7
Accounts receivable - foreign market	168	131	168	131
Advances to foreign suppliers	984	5,250	1,436	7,692
Non-deliverable forwards	43,400	14,680	43,400	14,680
Swap	34,000	32,242	34,000	32,242
Total asset exposure	78,552	52,303	79,011	54,752
Loans and financing	(49,267)	(74,705)	(50,747)	(74,705)
Foreign suppliers	(24,528)	(13,246)	(26,234)	(13,895)
Non-deliverable forwards	(489)	-	(489)	-
Total liability exposure	(74,284)	(87,951)	(77,470)	(88,600)
Net exposure	4,268	(35,648)	1,541	(33,848)

(In thousands of reais, unless otherwise stated)

28. Long-term commitments

Anovis and Inovat have future commitments resulting from supply agreements with their customers. At December 31, 2020, the number of items is as follows:

	Consolidated	
Commitments	**12/31/2020**	**12/31/2019**
2020	**-**	44,405,128
2021	**45,269,437**	45,269,437
2022	**46,185,603**	46,185,603
2023	**30,000,000**	30,000,000
2024	**30,000,000**	30,000,000
	151,455,040	195,860,168

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.

28. Impacts from the COVID-19 pandemic

To date, the Company has not identified any significant impacts on its operations resulting from the COVID-19 pandemic. The pharmaceutical segment is considered essential and, therefore, its operations were maintained. The Company follows the determinations of the local, state and federal laws in all of its plants and administrative offices.

Although its operations have not been significantly affected to date, the Company safely spares no efforts to adapt and adopt measures to prevent the spread of COVID-19, as well as to guarantee business continuity during the pandemic.

29. Events after the reporting period

On January 29, 2021, a brand assignment agreement (Xantinon) was entered into between Darwin Prestação de Serviços de Marketing Ltda. (Hypera S.A. affiliate), the assignor, and União Química Farmacêutica Nacional S.A., the assignee. This purchase agreement totaling R$95,000 was approved by CADE without restrictions.

On February 18, 2021, the corporate and administrative control of Laboratil Farmacêutica Ltda. was transferred to União Química Farmacêutica Nacional S.A., through acquisition of 100% of the units of interest, comprising the industrial plant in São Paulo, Robferma Administração e Participações Ltda., and MM&I Administração e Participações Ltda. The deadline for payment of the units of interest is December 31, 2021.