

Financial Statements

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

December 31, 2020
with Independent Auditor's Report

São Paulo, March 30, 2021

Dear Shareholders,

The management of Aché Laboratórios Farmacêuticos S.A., in compliance with legal and statutory provisions, submit its Management Report and the related Individual and Consolidated Financial Statements, accompanied by the independent auditor's report for the year ended December 31, 2020 for your consideration. All comparisons in this report consider consolidated data in relation to the same period in 2019, in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS), established by the International Accounting Standards Board (IASB).

Message from management

Aché's 54-year history has proven the Company's great ability to respond to such an adverse scenario as that brought about by the Coronavirus pandemic. Despite the economic challenges faced by the country and the world, the Company took advantage of its strength, innovation capacity and management skills and reported a 3.8% increase in Net Revenue over 2019 and R\$1.047 billion in EBITDA, with a 30.1% margin.

These results were allowed by the Company's quick and steadfast actions, having instated a Pandemic Response Committee in early February, with members of Aché's leadership to make quick and assertive decisions, aiming to protect the health of employees, their families and other people in the Company's community.

We started implementing the initiatives resulting from the new 2020-2025 Strategic Planning cycle based on sustainable growth drivers with increased competitiveness and enhancing businesses through quicker innovation, performance excellence and digital transformation.

In 2020 Aché launched 46 new products, including medicines and line extensions, following its innovation investment plan and expanding its diversified portfolio.

R\$104 million (10% of EBTIDA) was allocated to renew the portfolio and build a differentiated pipeline with 173 projects in progress. Also as a result of the innovation initiatives, the Company opened the InSPIRe Lab (In Silico Prediction, Information & Research Lab) being one of the first in the country to use algorithms and artificial intelligence to identify properties of molecules and inspire the development of new products, streamlining processes and decision-making that are strategic for Aché's incremental and radical innovation.

We launched Intralogística, a project to consolidate warehouses and internal movements, which resulted in greater efficiency in the factory's just-in-time supply processes, management of finished products, exports, clinical trial logistics, reverse logistics and centralized receipt of indirect materials. We completed the automated logistics and vertical warehouse at the new plant in Pernambuco and the merger of Melcon, acquired in 2019 and which is now the subsidiary Aché Goiás, with operations in the hormones segment, which will allow the company to achieve relevant gains in operational productivity.

We hired more than 300 new employees for the Demand Generation Force, expanding our scientific promotion capacity among doctors throughout the Brazilian territory. As a result, the company achieved significant records of medical prescriptions during the year. Digital transformation was present in all initiatives implemented throughout the year, being established as our main resource for talking to and interacting with our stakeholders.

As a solidary and citizen company and always aligned with the purpose of bringing more life to people, Aché has allocated more than R\$5 million in donations of protective equipment to health professionals, in the production and distribution of hand sanitizers and other initiatives aimed at fighting the Coronavirus pandemic. In addition, the Company supported research conducted by Coalizão Covid Brasil (Brazilian Covid Coalition) on the use of the drug Decadron (dexamethasone) to treat patients infected with the coronavirus. The research resulted in the confirmation that the use of corticosteroids is effective.

Aché remains committed to its business development and to adding value to shareholders, customers, health care professionals and business partners.

Highlights

- **Net Revenue of R\$3.5 billion**, a 3.8% increase compared to 2019
- **EBITDA of R\$1.0 billion**, with a 30.1% margin
- Net Income of R\$631.4 million and Earnings per Share of R\$9.9 for the year
- Net leverage of 0.59 x EBITDA
- **AAA Rating** with a stable outlook
- **173** projects in the pipeline and **46** products launched
- **15.9 million patients registered in the Cuidados pela Vida Benefit Program**

Key financial indicators – Consolidated

| (R\$ Million) | 4Q19 | 4Q20 | Var (%) | 2019 | 2020 | Var (%) |
|---------------------------|-------|---------|-----------|---------|---------|-----------|
| Sales Revenue, net | 987.5 | 1,014.8 | 2.8% | 3,350.5 | 3,477.3 | 3.8% |
| Gross Profit | 698.7 | 642.8 | -8.0% | 2,322.2 | 2,343.2 | 0.9% |
| Sales Revenue | 70.8% | 63.3% | 7.5 p.p | 69.3% | 67.4% | -1.9 p.p |
| EBITDA | 441.9 | 358.6 | -18.9% | 1,083.4 | 1,046.8 | -3.4% |
| Margin EBITDA | 44.8% | 35.3% | -9.5 p.p. | 32.3% | 30.1% | -2.2 p.p. |
| Net Income | 302.3 | 262.6 | -13.1% | 721.3 | 631.4 | -12.5% |
| % Net Revenue | 30.6% | 25.9% | -4.7 p.p. | 21.5% | 18.2% | -3.3 p.p. |
| Earnings per share | 4.7 | 4.1 | | 11.3 | 9.9 | |

Business profile

Aché is among the five largest pharmaceutical corporations in Brazil according to the PPP (Pharmacy Purchase Price) methodology and has one of the largest sales forces and demands in Brazil. This gives us excellent capillarity to promote our products, share scientific knowledge with healthcare professionals and offer the final customers a full portfolio of products with proven quality and safety. The continuous growth of the business and the consistent attainment of results year after year are possible due to the competence and commitment of our 5,000+ employees.

The work performed by our teams was recognized by the market with the Lupa de Ouro award for Best Sales Force in the Pharmaceutical Industry and the Adalmiro Baptista Marketing Excellence award - Best Business Performance (Digital).

Diversity is one of the key characteristics of the Aché Generation. The combination of the different competencies, experiences, thoughts, beliefs, ethnicities, ages, genders, cultures and knowledge make Aché a successful company.

Operations in Brazil

The Company has five industrial plants located in São Paulo (SP), Guarulhos (SP), Anápolis (GO), Londrina (PR), and Cabo de Santo Agostinho (PE). It also holds interests in the biotechnology company Bionovis, whose plant is under construction in the city of Valinhos (SP).

All the plants have a strict Quality System, which follows international criteria and standards. The plant in Guarulhos (SP) is one of the plants chosen for qualification inspections by the National Health Surveillance Agency (Anvisa) as a permanent member of the PIC/S - Pharmaceutical Inspection Co-operation Scheme, a group created to harmonize the work of regulatory agencies worldwide.

In 2020, the Company adapted the Quality System to the new legislation on good manufacturing practices, by standardizing procedures, processes, quality manuals. It also invested more than R\$7 million in technological improvements, such as changing equipment, improving the area and layout.



achē
mais vida para você

melcon
Tecnologia

NORTIS
Tecnologia

bionovis

Balanced portfolio

With solid and consistent investments in innovation and quality, Aché offers the market new therapeutic options every year, meeting the expectations of healthcare professionals and consumer needs.

Refreshing the portfolio is one of the Company's main strategic priorities. In addition to benefiting consumers and healthcare professionals with effective, safe and innovative therapeutic solutions, it drives the Company's growth and longevity.



The Company has a close relationship with its customers. Accordingly, for more than ten years, it has benefited patients in the pharmaceutical industry through Cuidados Pela Vida, a complete relationship program. It has more than 15.9 million registered patients, 28 thousand accredited drugstores in the country, and 112 participating products in 2020.

Aché in expansion

The new plant in Pernambuco has had its logistics automation completed and the vertical warehouse certified by Anvisa. The model includes the most modern automation and robotics technologies imported from Switzerland and Germany, and will provide digital integration throughout the plant, from the receipt of inputs, storage and packaging to shipping.

The warehouse, which had a R\$45 million financial contribution, will bring together the active pharmaceutical ingredients used by Aché and the finished products manufactured in the Pernambuco unit. The objective is to optimize the production process seeking continuous improvements in operational excellence.

The manufacturing plant operations follow the principles of the operational excellence program, focusing on high performance, efficiency gains, productivity and loss minimization. This plant starts based on the 4.0 industry concept, integrating the Company's digital transformation journey.

Not only does the plant have leading-edge technologies and robotics equipment, but it also integrates these innovations, i.e., the plant can communicate with utilities, logistics and the automated warehouse.

Following the acquisition of 100% of Indústria Farmacêutica Melcon do Brasil Ltda. in 2019, the Company consolidated its platform of hormonal products, and in 2020 completed the merger of Melcon, which has now become the Aché Goiás subsidiary.

Awards and Recognition in 2020

Aché's delivery of value to each of its stakeholders and the excellence in everything it does are recognized by the market every year. In 2020, the Company stood out in several rankings and awards that assessed its capacity for innovation, corporate governance, marketing and sales strategies, financial results and management results and customer service.

- 🏆 Valor Inovação
- 🏆 As melhores da Dinheiro
- 🏆 Estadão Empresa Mais
- 🏆 Prêmio Reclame Aqui
- 🏆 Época Negócios 360°
- 🏆 Prêmio Lupa de Ouro
- 🏆 Global Pharma Study
- 🏆 Valor 1000
- 🏆 Melhores & Maiores da Exame
- 🏆 Forbes

Economic and financial performance

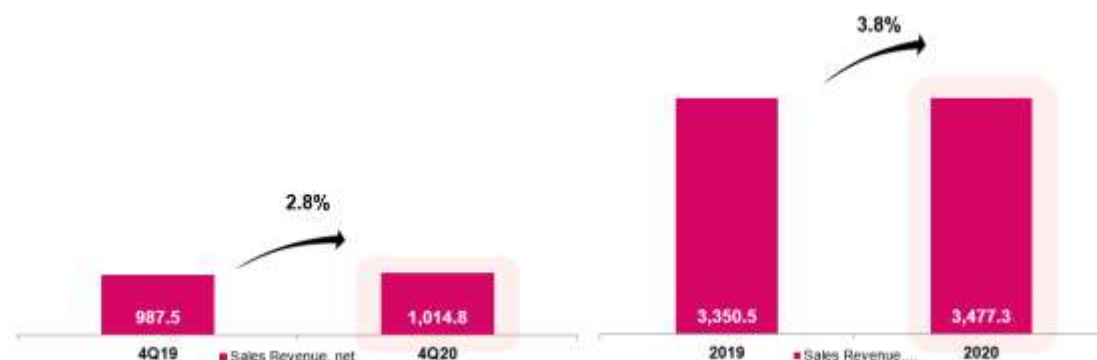
Aché grew 3.8% when compared to the previous year, with Net Revenue of R\$3.5 billion, showing business sustainability and Strategic Planning assertiveness.

Consolidated Profit or Loss

| (R\$ million) | 4Q19 | on NR | 4Q20 | on NR | 2019 | on NR | 2020 | on NR |
|---|--------------|--------------|--------------|--------------|----------------|--------------|----------------|--------------|
| Net revenue | 987.5 | | 1,014.8 | | 3,350.5 | | 3,477.3 | |
| Gross profit | 698.7 | 70.8% | 642.8 | 63.3% | 2,322.2 | 69.3% | 2,343.2 | 67.4% |
| Selling and administrative expenses | -287.3 | -29.1% | -355.8 | -35.1% | -1,330.1 | -39.7% | -1,343.7 | -38.6% |
| Other operating expenses | 3.9 | 0.4% | 38.1 | 3.8% | -11.4 | -0.3% | -85.7 | -2.5% |
| Operating income (EBIT) | 415.3 | 42.1% | 325.1 | 32.0% | 980.7 | 29.3% | 913.8 | 26.3% |
| Finance income/costs, net | -10.7 | -1.1% | -17.1 | -1.7% | 17.4 | 0.5% | -96.6 | -2.8% |
| Income before income and social contribution taxes (IRPJ and CSLL) | 404.6 | 41.0% | 308.0 | 30.4% | 998.1 | 29.8% | 817.2 | 23.5% |
| Net Income | 302.3 | 30.6% | 262.6 | 25.9% | 721.3 | 21.5% | 631.4 | 18.2% |
| EBITDA | 441.9 | 44.8% | 358.6 | 35.3% | 1,083.4 | 32.3% | 1,046.8 | 30.1% |
| Earnings per share | 4.7 | | 4.1 | | 11.3 | | 9.9 | |

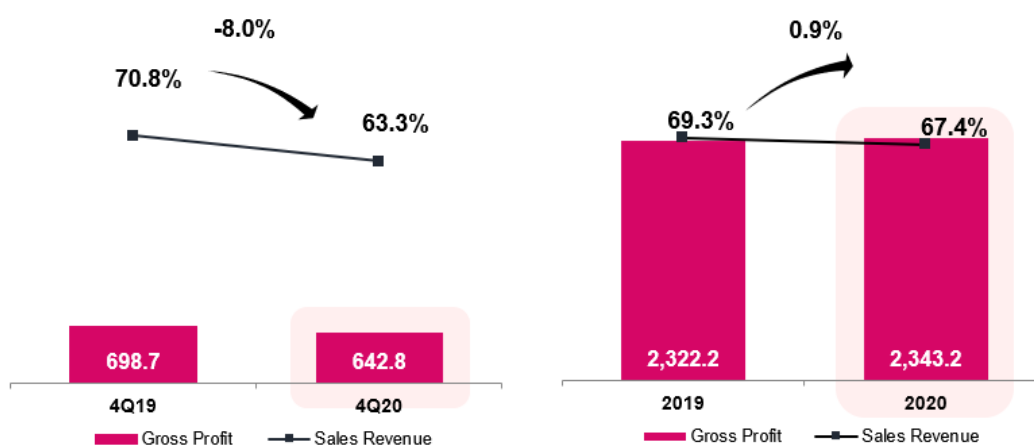
Net revenue

In 2020, even in the face of a pandemic scenario that impacted the products of the respiratory franchise, which represents 17% of our demand, the Company's Net Revenue grew 3.8% when compared to the previous year, mainly driven by the mix of greater value added products and the new product launches. The performance of the Prescription Unit was key to this growth, relying on a strategy to speed up launches and to leverage on the contribution from chronic disease products associated with Covid-19. The Dermatology Unit also contributed to Aché's development, mainly due to the Pant product.



Gross profit

In 2020, Gross Profit was R\$2.3 billion, 0.9% higher than the previous year, reaching a margin of 67.4% on Net Revenue.



EBITDA

EBITDA (earnings before interest, taxes, depreciation and amortization) once again exceeded R\$1.0 billion in 2020. The 2019 results had positive and non-recurring impacts arising from (i) the recognition of R\$79.5 million in credits related to the exclusion of ICMS from PIS and COFINS tax bases, and (ii) R\$35.4 million in reversals of contingencies as a result of the update of provisions for labor claims.

| EBITDA (R\$ million) | 4Q19 | 4Q20 | Var (%) | 2019 | 2020 | Var (%) |
|-------------------------------|--------------|--------------|---------------|----------------|----------------|--------------|
| Net Income | 302.3 | 262.6 | -13.1% | 721.3 | 631.4 | -12.5% |
| Provision for IRPJ and CSLL | 102.3 | 45.4 | -55.6% | 275.4 | 185.8 | -32.5% |
| Finance income/costs, net | 10.7 | 17.1 | 59.8% | (17.4) | 96.6 | -655.2% |
| Depreciation and amortization | 26.6 | 33.5 | 26.1% | 104.1 | 133.0 | 27.8% |
| EBITDA | 441.9 | 358.6 | -19.8% | 1,083.4 | 1,046.8 | -3.4% |



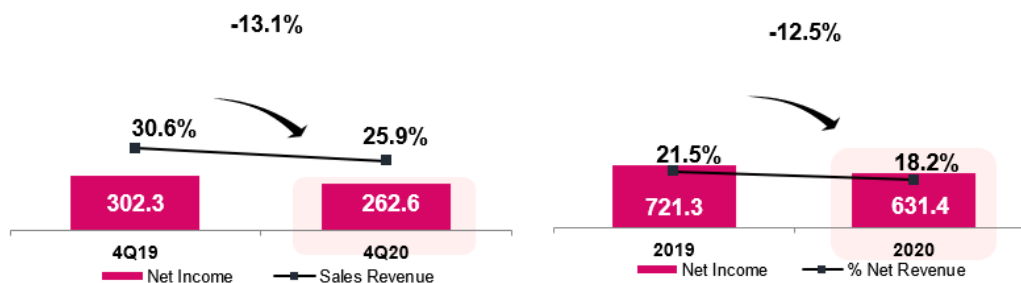
Finance income (costs)

The net financial result for 2020 is represented by finance costs of R\$96.6 million, with a negative variation of R\$114 million when compared to the same prior-year period, mostly due to (i) incremental effect of R\$26 million in the devaluation exchange rate account in 2020, (ii) positive and non-recurring monetary update in 2019 of R\$55.4 million related to the credit from the ICMS amount excluded from the PIS and COFINS tax bases, and (iii) R\$37 million increase in interest expenses on loans mainly arising from new borrowings in 2020 to preventively strengthen working capital.

| (R\$ million) | 4Q19 | on NR | 4Q20 | on NR | 2019 | on NR | 2020 | on NR |
|-------------------------------|---------------|--------------|---------------|--------------|-------------|-------------|---------------|--------------|
| Finance income (costs) | (13.6) | -1.4% | (26.9) | -2.7% | 23.1 | 0.7% | (65.0) | -1.9% |
| Exchange differences | 2.9 | 0.3% | 9.8 | 1.0% | (5.7) | -0.2% | (31.6) | -0.9% |
| Finance income (costs) | (10.7) | -1.1% | (17.1) | -1.7% | 17.4 | 0.5% | (96.6) | -2.8% |

Net Income

Net income for 2020 was R\$631.4 million, down 12.5% from 2019. The change refers to the non-recurring effects of 2019 and the increase in finance costs in 2020, mainly due to exchange rate fluctuations and new borrowings in 2020.



Net debt

The Company ended 2020 with a net debt of R\$612.6 million. Gross debt totals R\$897.1 million and has short-term characteristics.

| (R\$ million) | Balance in Dec/19 | Balance in Dec/20 | Var (%) |
|----------------------------|-------------------|-------------------|--------------|
| Loans and financing | | | |
| Current | 111.5 | 515.7 | 362.5% |
| Noncurrent | 397.3 | 381.4 | -4.0% |
| Gross debt | 508.8 | 897.1 | 76.3% |
| Cash and cash equivalents | (145.4) | (284.5) | 95.7% |
| Net debt | 363.4 | 612.6 | |

The change in net debt and in the debt, ratio substantially refers to preventive borrowings of short-term funds to strengthen working capital due to the pandemic.

Debt ratio

The Company has financing instruments that are subject to covenants. In 2020, the Company is in compliance with these contractual commitments.

| (R\$ million) | Balance in Dec/19 | Balance in Dec/20 |
|---------------------------|-------------------|-------------------|
| Loans/financing | 508.8 | 897.1 |
| Cash and cash equivalents | (145.4) | (284.5) |
| Net debt | 363.4 | 612.6 |
| (/) EBITDA | 1,083.4 | 1,046.8 |
| Debt ratio | 0.34 | 0.59 |

Statement of value added

Value added, which is an indicator of the wealth added to the Company in its economic activity, totaled R\$2.3 billion. The complete statement is part of the financial statements.

| (R\$ million) | 2019 | 2020 |
|--|----------------|----------------|
| Revenues | 4,012.7 | 3,995.4 |
| Gross value added | 2,444.9 | 2,397.1 |
| Total value added to be distributed | 2,430.9 | 2,315.7 |
| Economic value distributed | | |
| Employees' salaries and benefits | 738.9 | 775.8 |
| Government payments (taxes) | 892.2 | 754.7 |
| Debt remuneration | 15.6 | 153.7 |
| Equity remuneration | 721.3 | 631.4 |
| Distribution of value added | 2,430.9 | 2,315.7 |

Investments in property, plant and equipment

In 2020, capital expenditures totaled R\$164.9 million, including R\$100.5 million allocated to the implementation of the new plant and the modern vertical warehouse in Cabo de Santo Agostinho - Pernambuco (R\$145.7 million in 2019).

Dividends and interest on equity

The Company's Articles of Incorporation ensure mandatory minimum dividend of 25% of the net income for each year, less a legal reserve of 5% of net income, and allow dividend payment based on semiannual or interim statements of financial position.

| (R\$ million) | 2020 |
|--|--------------|
| Net income for the year | 631.4 |
| Tax incentive reserve - Sudene | (18.7) |
| Mandatory minimum dividends - 25% | 153.2 |
| (-) IOE – Interest on Equity | (57.0) |
| (-) Prepaid dividends | (16.6) |
| Mandatory minimum dividends balance | 79.6 |
| Realization of reserves | 2.0 |
| Tax incentive reserve - Sudene | (18.7) |
| Dividends | 461.5 |

Rating

| Ratings | Global Scale | Nationwide |
|---|--------------------------------------|---|
| | Foreign currency | Domestic currency |
| Fitch Ratings (Outlook) | Long Term BB (Negative) | Long Term AAA (bra) (Stable) |
| Standard and Poor's (Outlook) | BB+ (Stable) | (br) AAA (Stable) |

The unchanged Ratings assigned by Fitch and Standard & Poor's agencies reflect the resilience of Aché's business to economic cycles, with strong cash generation, financial flexibility and unlevered capital structure. Aché's operational performance remained robust during the pandemic, substantiating the quality and flexibility of the product portfolio.

Acknowledgments

We thank our shareholders for their confidence, our employees for their dedication and commitment, especially in this challenging year marked by the pandemic, our customers and consumers for their preference, and our suppliers and partners for their support.

The Management

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

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 with the International Financial Reporting Standards (IFRS), issued by the International Financial Standards Board (IASB)

Independent auditor's report on individual and consolidated financial statements

The Shareholders, Board of Directors and Officers
Aché Laboratórios Farmacêuticos S.A
São Paulo - SP

Opinion

We have audited the accompanying individual and consolidated financial statements of Aché Laboratórios Farmacêuticos S.A. ("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 individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of the Company as at December 31, 2020, and its individual and consolidated financial performance and individual and consolidated 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, and the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Other matters

Statements of value added

The individual and consolidated statements of value added for the year ended December 31, 2020, prepared under the responsibility of the Company management, and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by CPC 09 - Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned accounting pronouncement, and are consistent in relation to the overall individual and consolidated financial statements.

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with 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 individual and consolidated financial statements

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

As part of the audit conducted 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 substantial doubt as to the Company's and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.



- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represented the underlying transactions and events in a manner that achieves fair presentation.
- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

São Paulo, March 30, 2021.

ERNST & YOUNG
Auditores Independentes S.S.
CRC 28P034519/0-6

A handwritten signature in black ink, appearing to read 'Héitor Fabrício de Sousa Teles', is written over the printed name and registration information.

Héitor Fabrício de Sousa Teles
Accountant CRC 1SP331215/O-1

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Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of financial position
December 31, 2020
(In thousands of reais - R\$)

| | Note | Individual | | Consolidated | |
|---|------|------------------|------------|------------------|------------|
| | | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 3 | 271,781 | 132,891 | 284,487 | 145,400 |
| Trade accounts receivable | 4 | 880,503 | 589,581 | 611,211 | 592,879 |
| Inventories | 5 | 739,940 | 583,670 | 802,150 | 588,182 |
| Taxes and social contributions recoverable | 6 | 78,391 | 181,754 | 157,123 | 183,609 |
| Related parties | 16 | 4,098 | 2,438 | 4,098 | 2,261 |
| Prepaid expenses | | 120,222 | 84,191 | 120,727 | 84,876 |
| Other receivables | | 17,512 | 8,615 | 15,871 | 8,713 |
| Total current assets | | 2,112,447 | 1,583,140 | 1,995,667 | 1,605,920 |
| Noncurrent assets | | | | | |
| Short-term investments | 3 | 3,579 | 1,587 | 3,579 | 1,587 |
| Judicial deposits | 19 | 111,418 | 120,464 | 111,424 | 120,471 |
| Taxes and social contributions recoverable | | 35,126 | 28,792 | 35,280 | 29,011 |
| Deferred income and social contribution taxes | 7 | 11,387 | - | 11,387 | - |
| Investments | 9 | 108,553 | 107,154 | 33,936 | 18,941 |
| Property, plant and equipment | 10 | 1,333,939 | 1,267,858 | 1,374,611 | 1,310,995 |
| Right of use - lease | 13 | 37,991 | 64,637 | 97,191 | 123,391 |
| Intangible assets | 11 | 256,898 | 265,838 | 295,764 | 304,319 |
| Other receivables | | 14,250 | 4,088 | 14,334 | 4,104 |
| Total noncurrent assets | | 1,913,141 | 1,860,418 | 1,977,506 | 1,912,819 |
| | | | | | |
| Total assets | | 4,025,588 | 3,443,558 | 3,973,173 | 3,518,739 |

| | Note | Individual | | Consolidated | |
|---|------|------------|------------|--------------|------------|
| | | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Liabilities and equity | | | | | |
| Current liabilities | | | | | |
| Loans and financing | 12 | 512,471 | 109,517 | 515,715 | 111,536 |
| Lease liabilities | 13 | 38,195 | 38,654 | 45,573 | 43,140 |
| Trade accounts payable | 14 | 338,532 | 281,889 | 337,424 | 280,468 |
| Tax obligations | 15 | 133,364 | 129,864 | 137,431 | 130,538 |
| Labor and social security obligations | 17 | 124,067 | 112,807 | 125,641 | 114,119 |
| Related parties | 16 | 128,378 | 145,880 | 128,378 | 145,880 |
| Accounts payable | | 86,494 | 42,064 | 47,981 | 45,552 |
| Other obligations | 18 | 63,225 | 85,191 | 64,247 | 85,192 |
| Total current liabilities | | 1,424,726 | 945,866 | 1,402,390 | 956,425 |
| Noncurrent liabilities | | | | | |
| Loans and financing | 12 | 375,112 | 389,437 | 381,406 | 397,311 |
| Lease liabilities | 13 | 9,115 | 40,477 | 65,724 | 94,745 |
| Deferred income and social contribution taxes | 7 | - | 90,795 | - | 90,795 |
| Provision for tax, civil, and labor contingencies | 19 | 247,375 | 231,357 | 247,513 | 231,443 |
| Other obligations | 18 | 45,022 | 48,397 | 45,029 | 50,791 |
| Provision for investment loss | 9 | 93,127 | - | - | - |
| Total noncurrent liabilities | | 769,751 | 800,463 | 739,672 | 865,085 |
| Equity | | | | | |
| Capital | 21 | 440,959 | 440,959 | 440,959 | 440,959 |
| Capital reserves | 21 | 120,246 | 120,246 | 120,246 | 120,246 |
| Revaluation reserve | 21 | 2,293 | 2,741 | 2,293 | 2,741 |
| Equity adjustment | 21 | 126,083 | 127,628 | 126,083 | 127,628 |
| Income reserves | 21 | 1,141,530 | 1,005,655 | 1,141,530 | 1,005,655 |
| Total equity attributable to controlling shareholders | | 1,831,111 | 1,697,229 | 1,831,111 | 1,697,229 |
| Total equity | | 1,831,111 | 1,697,229 | 1,831,111 | 1,697,229 |
| Total liabilities and equity | | 4,025,588 | 3,443,558 | 3,973,173 | 3,518,739 |

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of profit or loss

December 31, 2020

(In thousands of reais - R\$, except earnings per share)

| | Note | Individual | | Consolidated | |
|--|------|--------------------|-------------|--------------------|-------------|
| | | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Operating revenue, net | 22 | 3,593,473 | 3,334,622 | 3,477,273 | 3,350,532 |
| Cost of sales | 23 | (1,166,683) | (1,031,326) | (1,134,076) | (1,028,323) |
| Gross profit | | 2,426,790 | 2,303,296 | 2,343,197 | 2,322,209 |
| Operating income (expenses) | | | | | |
| Selling expenses | 23 | (1,122,186) | (1,194,911) | (1,126,437) | (1,195,704) |
| General and administrative expenses | 23 | (207,231) | (123,149) | (217,293) | (134,418) |
| Employee and management profit sharing | 28 | (53,723) | (51,970) | (54,408) | (52,032) |
| Equity pickup | 9 | (89,361) | 12,310 | 16,832 | 9,639 |
| Other operating income (expenses), net | 24 | (47,820) | 31,194 | (48,086) | 30,901 |
| Operating income before finance income (costs) | | 906,469 | 976,770 | 913,805 | 980,595 |
| Finance income (costs) | | | | | |
| Finance income | 25 | 34,401 | 80,189 | 34,751 | 80,545 |
| Finance costs | 25 | (93,500) | (55,753) | (99,775) | (57,409) |
| Exchange differences, net | 25 | (31,032) | (5,669) | (31,566) | (5,690) |
| Income before income and social contribution taxes | | 816,338 | 995,537 | 817,215 | 998,041 |
| Income and social contribution taxes | | | | | |
| Current | 8 | (287,139) | (225,695) | (288,016) | (226,829) |
| Deferred | 8 | 102,182 | (48,575) | 102,182 | (48,575) |
| Net income for the year | | 631,381 | 721,267 | 631,381 | 722,637 |
| Attributable to | | | | | |
| Controlling interests | | 631,381 | 721,267 | 631,381 | 721,267 |
| Noncontrolling interests | | - | - | - | 1,370 |
| Earnings per share for the year - R\$ | | | | | |
| Basic and diluted | 29 | 9.88 | 11.29 | 9.88 | 11.29 |

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of comprehensive income
December 31, 2020
(In thousands of reais - R\$)

| | Individual | | Consolidated | |
|---|----------------|------------|----------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Net income for the year | 631,381 | 721,267 | 631,381 | 722,637 |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income for the year | 631,381 | 721,267 | 631,381 | 722,637 |
| Attributable to: | | | | |
| Controlling interests | 631,381 | 721,267 | 631,381 | 721,267 |
| Noncontrolling interests | - | - | - | 1,370 |
| | 631,381 | 721,267 | 631,381 | 722,637 |

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of changes in equity
December 31, 2020
(In thousands of reais - R\$)

| | Capital reserves | | | Equity adjustment | | | | Income reserves | | | | Retained earnings | Total attributable to controlling interests | Controlling interests in subsidiaries' equity | Total |
|---|------------------|--------------------------|-----------------------|---------------------|----------------|-------------------------|---------------|-----------------------|----------------------------------|--------------------------------|------------------------|-------------------|---|---|------------------|
| | Capital | Special goodwill reserve | Share premium reserve | Revaluation reserve | On own assets | On subsidiaries' assets | Legal reserve | Tax incentive reserve | Reserve for new products and R&D | Reserve for investments in PPE | Unpaid profits reserve | | | | |
| Balances at December 31, 2018 | 440,959 | 167,767 | 6,445 | 3,190 | 129,185 | - | 43,807 | 982 | 93,353 | 205,410 | 457,658 | - | 1,548,756 | 8,828 | 1,557,584 |
| Realization of revaluation reserve | - | - | - | (449) | - | - | - | - | - | - | - | 449 | - | - | - |
| Realization of adjustments at deemed cost | - | - | - | - | (1,557) | - | - | - | - | - | - | 1,557 | - | - | - |
| Allocation of profit to investment in PPE as per AGM held on Apr 30, 2019 | - | - | - | - | - | - | - | - | - | 119,147 | (119,147) | - | - | - | - |
| Dividends for 2018 as per AGM held on April 30, 2019 | - | - | - | - | - | - | - | - | - | - | (338,511) | - | (338,511) | - | (338,511) |
| Net income for the period | - | - | - | - | - | - | - | - | - | - | - | 721,267 | 721,267 | - | 721,267 |
| Transfer to income reserves | - | - | - | - | - | - | - | - | - | - | 540,950 | (540,950) | - | - | - |
| Realization of reserves | - | - | - | - | - | - | - | - | - | - | 2,006 | (2,006) | - | - | - |
| Interest on equity according to SGM held on Dec 17, 2019 | - | - | - | - | - | - | - | - | - | - | - | (64,379) | (64,379) | - | (64,379) |
| Prepaid dividends | - | - | - | - | - | - | - | - | - | - | - | (10,278) | (10,278) | - | (10,278) |
| Mandatory minimum dividends | - | - | - | - | - | - | - | - | - | - | - | (105,660) | (105,660) | - | (105,660) |
| Capital transaction with members (Note 1.3) | - | (53,966) | - | - | - | - | - | - | - | - | - | - | (53,966) | (8,828) | (62,794) |
| Balances at December 31, 2019 | 440,959 | 113,801 | 6,445 | 2,741 | 127,628 | - | 43,807 | 982 | 93,353 | 324,557 | 542,956 | - | 1,697,229 | - | 1,697,229 |
| Realization of revaluation reserve | - | - | - | (448) | - | - | - | - | - | - | - | 448 | - | - | - |
| Realization of adjustments at deemed cost | - | - | - | - | (1,545) | - | - | - | - | - | - | 1,545 | - | - | - |
| Additional dividends proposed for 2019 as per AGM held on Apr 28, 2020 | - | - | - | - | - | - | - | - | - | - | (344,340) | - | (344,340) | - | (344,340) |
| Net income for the period | - | - | - | - | - | - | - | - | - | - | - | 631,381 | 631,381 | - | 631,381 |
| Transfer to income reserves | - | - | - | - | - | - | - | - | - | - | 459,474 | (459,474) | - | - | - |
| Realization of reserves | - | - | - | - | - | - | - | - | - | - | 1,993 | (1,993) | - | - | - |
| Interest on equity according to Minutes of Meeting held on Feb 15, 2020 | - | - | - | - | - | - | - | - | - | - | - | (56,997) | (56,997) | - | (56,997) |
| Prepaid dividends | - | - | - | - | - | - | - | - | - | - | - | (16,553) | (16,553) | - | (16,553) |
| Mandatory minimum dividends | - | - | - | - | - | - | - | - | - | - | - | (79,609) | (79,609) | - | (79,609) |
| Allocation of profit to investment in PPE as per AGM held on Mar 30, 2020 | - | - | - | - | - | - | - | - | - | 198,616 | (198,616) | - | - | - | - |
| Tax incentive - Sudene | - | - | - | - | - | - | 18,748 | - | - | - | - | (18,748) | - | - | - |
| Balances at December 31, 2020 | 440,959 | 113,801 | 6,445 | 2,293 | 126,083 | - | 43,807 | 19,730 | 93,353 | 523,173 | 461,467 | - | 1,831,111 | - | 1,831,111 |

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of cash flows
December 31, 2020
(In thousands of reais - R\$)

| | Individual | | Consolidated | |
|--|------------------|------------|------------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Cash flow from operating activities | | | | |
| Income before income and social contribution taxes | 816,338 | 995,537 | 817,215 | 998,041 |
| Adjustments to reconcile income before income and social contribution taxes to net cash from operating activities: | | | | |
| Depreciation and amortization | 121,969 | 101,158 | 132,992 | 104,137 |
| Loss on disposal of property, plant and equipment items | 12,652 | - | 14,835 | 82 |
| Provision for tax, civil and labor contingencies | 27,408 | (51,685) | 27,460 | (51,652) |
| Provision for inventory losses | 37,511 | 44,751 | 37,613 | 44,932 |
| Equity pickup | 89,361 | (12,310) | (16,832) | (9,639) |
| Other provisions | (25,341) | (21,583) | (26,707) | (21,333) |
| Accrued interest, and monetary and exchange differences | 59,189 | 22,398 | 65,315 | 23,779 |
| Impairment of assets | 2,587 | - | 2,587 | - |
| Allowance for doubtful accounts | (477) | 490 | (436) | 539 |
| Discount obtained on leases | (2,866) | | (2,866) | |
| | 1,138,331 | 1,078,756 | 1,051,176 | 1,088,886 |
| (Increase) decrease in operating assets: | | | | |
| Trade accounts receivable | (290,445) | 23,855 | (17,896) | (11,108) |
| Inventories | (193,781) | (80,864) | (251,581) | (81,466) |
| Taxes and social contributions recoverable | 21,125 | (161,043) | (55,708) | (159,720) |
| Prepaid expenses and other receivables | (46,044) | 58 | (44,192) | 731 |
| Increase (decrease) in operating liabilities: | | | | |
| Trade accounts payable | 56,643 | 56,826 | 56,956 | 55,747 |
| Labor and social security obligations | 11,260 | 8,737 | 11,522 | 8,882 |
| Taxes and contributions payable | (10,616) | 16,890 | (6,812) | 16,746 |
| Income and social contribution taxes paid | (197,121) | (203,978) | (198,386) | (204,691) |
| Provision for tax, civil and labor contingencies paid | (11,390) | (11,989) | (11,390) | (11,989) |
| Interest paid on loans and financing | (24,866) | (20,664) | (25,118) | (22,044) |
| Other liabilities | 44,430 | 5,149 | 2,429 | 5,743 |
| Net cash from operating activities | 497,526 | 711,733 | 511,000 | 685,717 |
| Cash flow from investing activities | | | | |
| Dividends received | 708 | 300 | - | - |
| Acquisition of shares from subsidiary | - | (64,164) | - | (64,164) |
| Capital increase in subsidiaries | - | (36,738) | - | - |
| Acquisition of PPE and intangible assets | (44,555) | (186,152) | (44,555) | (187,012) |
| Advances on PPE items | (117,915) | (135,644) | (120,352) | (135,735) |
| Short-term investments - noncurrent | (1,992) | (1,587) | (1,992) | (1,557) |
| Net cash used in investing activities | (163,754) | (423,985) | (166,899) | (388,468) |
| Cash flow from financing activities | | | | |
| Loans and financing taken out | 819,639 | 855,045 | 819,639 | 855,849 |
| Repayment of loans and financing | (459,420) | (741,762) | (460,506) | (745,324) |
| Amortization of lease and interest | (40,101) | (23,688) | (49,147) | (23,688) |
| Dividends and interest on equity paid | (515,000) | (483,857) | (515,000) | (484,157) |
| Net cash used in financing activities | (194,882) | (394,262) | (205,014) | (397,320) |
| Increase (decrease) in cash and cash equivalents | 138,890 | (106,514) | 139,087 | (100,071) |
| Cash and cash equivalents at beginning of year | 132,891 | 239,405 | 145,400 | 245,471 |
| Cash and cash equivalents at end of year | 271,781 | 132,891 | 284,487 | 145,400 |

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of value added
December 31, 2020
(In thousands of reais - R\$)

| | Individual | | Consolidated | |
|--|------------------|------------------|------------------|------------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Revenues | | | | |
| Sales of goods, products and services | 4,122,603 | 3,825,101 | 3,909,691 | 3,842,483 |
| Allowance for doubtful accounts | 5,252 | (490) | 5,227 | (539) |
| Other revenues | 80,290 | 170,606 | 80,449 | 170,787 |
| | 4,208,145 | 3,995,217 | 3,995,367 | 4,012,731 |
| Inputs acquired from third parties | | | | |
| Raw materials consumed | 942,311 | 845,009 | 882,468 | 810,947 |
| Cost of sales and services | - | 148 | 15,773 | 20,299 |
| Materials, energy, third-party services and other expenses | 698,207 | 731,809 | 698,474 | 738,072 |
| Loss of asset values | (1,018) | (1,428) | (994) | (1,443) |
| Impairment of assets | 2,587 | - | 2,587 | - |
| | 1,642,087 | 1,575,538 | 1,598,308 | 1,567,875 |
| Gross value added | 2,566,058 | 2,419,679 | 2,397,059 | 2,444,856 |
| Depreciation and amortization | (121,969) | (101,158) | (132,992) | (104,137) |
| Net value added produced by the Company | 2,444,089 | 2,318,521 | 2,264,067 | 2,340,719 |
| Value added received in transfer | | | | |
| Equity pickup | (89,361) | 12,310 | 16,832 | 9,639 |
| Finance income | 34,401 | 80,189 | 34,751 | 80,545 |
| | (54,960) | 92,499 | 51,583 | 90,184 |
| Total value added to be distributed | 2,389,129 | 2,411,020 | 2,315,650 | 2,430,903 |
| Distribution of value added | 2,389,129 | 2,411,020 | 2,315,650 | 2,430,903 |
| Personnel | 761,783 | 725,721 | 775,848 | 738,911 |
| Direct compensation | 643,550 | 592,402 | 654,861 | 603,018 |
| Benefits | 75,320 | 93,749 | 77,301 | 95,619 |
| Unemployment Compensation Fund (FGTS) | 42,913 | 39,570 | 43,686 | 40,274 |
| Taxes, fees and contributions | 849,489 | 888,947 | 754,677 | 892,217 |
| Federal | 481,296 | 555,347 | 462,062 | 558,605 |
| State | 356,040 | 326,807 | 280,046 | 326,352 |
| Local | 9,733 | 4,442 | 9,771 | 4,543 |
| Other taxes | 2,420 | 2,351 | 2,798 | 2,717 |
| Debt remuneration | 146,476 | 75,085 | 153,744 | 78,508 |
| Interest | 124,533 | 59,193 | 131,339 | 60,869 |
| Rent | 21,943 | 15,892 | 22,405 | 16,269 |
| Noncontrolling interests | - | - | - | 1,370 |
| Equity remuneration | 631,381 | 721,267 | 631,381 | 721,267 |
| Interest on equity paid | 153,158 | 180,317 | 153,158 | 180,317 |
| Retained earnings for the period | 478,223 | 540,950 | 478,223 | 540,950 |

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. e Controladas

Notes to individual and consolidated financial statements

December 31, 2020

(In thousands of reais - R\$, unless otherwise stated)

1. Operations

Aché Laboratórios Farmacêuticos S.A. (“Company”) is a privately-held corporation headquartered in the capital city of São Paulo, São Paulo state, engaged in the manufacturing, sale, import and export of pharmaceutical products for human consumption and operating in the main pharmaceutical segments, such as respiratory, muscular-skeletal, female health, central nervous system, cardiology, dermatology, vitamins, oncology and dermocosmetics, through its prescription, generic, over-the-counter (OTC) medicine, derma and special care business units.

The Company holds ownership interests in the following companies:

| Business name | Core activity | Country | Interest | 12/31/2020 | 12/31/2019 |
|--|---|------------------------|--------------------------|------------|------------|
| Aché International Ltd. | (a) Maintenance of partnerships with other international companies for the technical and operational development of its products. | British Virgin Islands | Direct | 100% | 100% |
| Raposo Participações Ltda. (“Raposo”) | (b) Ownership interest in other companies as associate, member or shareholder. | Brazil | Direct | 99.99% | 99.99% |
| Indústria Farmacêutica Melcon do Brasil S.A. (“Melcon”) | (c) Manufacturing, trade, import and export of hormones. | Brazil | Direct | 100% | 100% |
| Labofarma Produtos Farmacêuticos Ltda. (“Labofarma”) | (d) Distribution and sale of medicines. | Brazil | Direct | 100% | 100% |
| Bionovis S.A. (“Bionovis”) | (e) Research, development, production, distribution and sale of biotechnological medicines. | Brazil | Jointly owned subsidiary | 25% | 25% |
| Nortis Farmacêutica Ltda. (“Nortis”) | (f) Manufacturing of cephalosporin antibiotics for human consumption, non-prescription drugs and nutraceuticals. | Brazil | Direct | 100% | 100% |
| Innovatech Solutions Ltda. (“Innovatech”) | (g) Provision of services in research and development of pharmaceutical products (medicines, cosmetics, food and medical devices); activities related to industrial analysis, design, development, solution and innovation of projects focused on technology. | Brazil | Direct | 99.93% | 99.93% |
| Laboratório Químico Farmacêutico Tiaraju Ltda. (“Tiaraju”) | (h) Holder of registrations of phytomedications and functional foods. | Brazil | Direct | 100% | 100% |

(a) Aché International Ltd. remains inactive, that is, no financial, accounting and corporate activities were conducted.

(b) Raposo remains inactive, that is, no financial, accounting and corporate activities were conducted.

(c) On September 17, 2019, the Company acquired the totality of shares of the non-controlling shareholders of Indústria Farmacêutica Melcon based on the options established in the purchase and sale agreement. Accordingly, ownership interest in the subsidiary increased from 50% to 100%.

(d) The subsidiary Labofarma was established on November 24, 2005. In 2019, the Company consolidated its logistics operations in a single distribution center in Guarulhos, SP.

(e) On March 22, 2012, the Company acquired 25% ownership interest in Bionovis, located in Valinhos - SP, a company engaged in the research and development of biotechnological medicines.

(f) On March 14, 2016, the Company acquired Nortis, a laboratory founded in 2002 specialized in the manufacture of cephalosporin antibiotics and sale of functional foods.

(g) The subsidiary Innovatech remains inactive, that is, no financial, accounting and corporate activities were conducted.

(h) On March 4, 2016, the Company acquired 12 phytomedicine registrations from Laboratório Químico Farmacêutico Tiaraju Ltda, in the total amount of R\$7,500. Aché recognized 10 of these registrations that are classified under intangible assets in the amount of R\$3,500, under CPC 04 (R1).

Aché Laboratórios Farmacêuticos S.A. e Controladas

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais - R\$, unless otherwise stated)

1. Operations (Continued)

1.1. The Covid-19 pandemic

The Company created a Crisis Committee on February 3, 2020 to monitor risks in relation to the Coronavirus and establish preventive guidelines in order to contribute to the safety, health and integrity of all its employees, the public with which it relates, and society as a whole.

The Company continues to operate regularly, and its production, logistics and supply chain activities are operating as usual. By the date of publication of this financial information, the Company's inventory levels are still capable of keeping its output capacity.

The Company is exposed to operational and market risks mainly due to foreign exchange differences on exposed liabilities. As an internal hedging policy, the Company uses derivative instruments to mitigate this kind of financial risks and expects to keep adopting the methodology it has been using to date.

A structured credit granting policy is in place aiming to hedge Accounts Receivable through guarantees and continuous monitoring of the default risk. Even in the current scenario, the characteristics of the business and the customer profile mitigate the risk of default, however, the Company continues to monitor these indicators in order to maintain the sustainable level of business relations.

2. Basis of preparation and summary of significant accounting policies

These individual and consolidated condensed financial statements were approved for disclosure at the Board of Directors' Meeting held on March 30, 2021.

The individual and consolidated financial statements were prepared in accordance with accounting practices adopted in Brazil, which comprise the provisions set forth in the corporation law, provided for by Law No. 6404/76, as amended by Law No. 11638/07, Law No. 11941/09 and Law No. 12973/14, and the accounting pronouncements, interpretations and guidance issued by the Brazilian Financial Accounting Standards Board (CPC) and the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

The individual and consolidated financial statements were prepared based on historical cost, except for certain financial instruments measured at their fair values when so required in the standards.

The preparation of individual and consolidated require the use of accounting estimates based on both objective and subjective factors, in line with management's judgment for determining the appropriate amounts to be recorded in the individual and consolidated financial statements. Areas considered significant and requiring a higher level of judgment include deferred income and social contribution taxes, provision for tax, civil and labor contingencies, allowance for doubtful accounts, provision for inventory losses, and impairment of assets.

Aché Laboratórios Farmacêuticos S.A. e Controladas

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais - R\$, unless otherwise stated)

2. Basis of preparation and summary of significant accounting policies-- (Continued)

The significant accounting policies adopted by the Company are described in the specific notes, related to the presented items. Those generally applicable in different aspects of the financial statements are described below.

a) Functional and presentation currency

For purposes of the consolidated financial statements, P&L and statement of financial position balances of each company are translated into reais, which is the functional and presentation currency of the Company's financial statements.

Foreign currency transactions and balances

Foreign currency transactions are translated into the Company's functional currency using the exchange rates prevailing on the transaction dates and the exchange rate prevailing on the statement of financial position dates. Exchange gains and losses resulting from the settlement of these transactions and from conversion of monetary assets and liabilities denominated in foreign currency are recognized in P&L for the year.

b) Valuation of the recoverable amount of assets (except goodwill)

The Company and its subsidiaries review the net book value of assets in order to evaluate events or changes in economic, operating or technological circumstances that may indicate deterioration or impairment. If such evidence is identified and the net book value exceeds the recoverable amount, a provision for impairment is set up adjusting net book value to the recoverable amount.

c) Financial instruments

The Company classifies its financial assets and liabilities at the time of initial recognition under the following categories:

Financial assets

- **Loans and receivables:** these are non-derivative financial assets, with fixed or determinable payments, not quoted in an active market. After the initial measurement, these financial assets are recorded at amortized cost, using the effective interest method, less impairment. At December 31, 2020 and 2019, in the case of the Company and its subsidiaries, these mainly comprise the balances of cash and cash equivalents, short-term investments, trade accounts receivable, and transactions with related parties.

Aché Laboratórios Farmacêuticos S.A. e Controladas

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais - R\$, unless otherwise stated)

2. Basis of preparation and summary of significant accounting policies (Continued)

c) Financial instruments (Continued)

Financial assets (Continued)

- Investments held to maturity: non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has expressed the intention and financial ability to hold them to maturity. After the initial evaluation, these assets are measured at amortized cost using the effective interest rate method, less impairment losses. At December 31, 2020 and 2019, the Company and its subsidiaries had no financial assets classified in this category other than investments under noncurrent assets, which should be held to maturity.
- Financial assets at fair value through profit or loss: stated in the statement of financial position at fair value, with corresponding gains or losses recognized in the statement of profit or loss. At December 31, 2020 and 2019, the Company and its subsidiaries had no financial assets classified in this category.

Financial liabilities

- Financial liabilities measured at fair value through profit or loss: they are classified under this category when held for trading or designated at fair value through profit or loss. At December 31, 2020 and 2019, the Company and its subsidiaries had no financial liabilities classified in this category.
- Other financial liabilities: at December 31, 2020 and 2019, these are represented by loans and financing, balances payable to suppliers, and lease - right of use, which are measured at amortized cost using the effective interest rate method.

d) Statement of Value Added

The statement of value added is not required by IFRS and is presented as supplementary information in compliance with Brazilian corporation law. Its purpose is to disclose the wealth created by the Company in the year as well as to demonstrate its distribution among the various agents.

Aché Laboratórios Farmacêuticos S.A. e Controladas

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais - R\$, unless otherwise stated)

3. Cash and cash equivalents and short-term investments

| | Individual | | Consolidated | |
|------------------------|------------|------------|--------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Cash and banks | 4,908 | 250 | 13,015 | 12,545 |
| Short-term investments | 266,873 | 132,641 | 271,472 | 132,855 |
| Total | 271,781 | 132,891 | 284,487 | 145,400 |

| | Individual | | Consolidated | |
|------------------------------------|------------|------------|--------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Financial investments - noncurrent | 3,579 | 1,587 | 3,579 | 1,587 |

Short-term investments comprise Bank Deposit Certificates (CBD) bearing interest between 97.5% and 103.3.5% p.a. of the Interbank Deposit Certificate (CDI), with an average duration of 365 days (95.00% to 100.5% p.a. in 2019), and repurchase agreements with an average duration of 30 days and interest of 80% p.a. (75% to 80% p.a. in 2019) of the CDI, distributed among financial institutions with AAA rating (local currency), classified under Cash and cash equivalents, as they are considered financial assets with the possibility of immediate redemption and subject to an insignificant risk of change in value in agreed yield.

The Company has an Investment Reserve Fund as a guarantee of the financing from BNB (Banco do Nordeste) linked to the CDI, bearing interest at 47.7% of the CDI p.a. (94.2% of the CDI p.a. in 2019). Because it is a guarantee for financing, this asset was accounted for as noncurrent investments, and does not qualify as a cash and cash equivalent as it cannot be immediately redeemed.

4. Trade accounts receivable

Trade accounts receivable are recorded at the nominal value of the notes and deducted from the allowance for doubtful accounts.

| | Individual | | Consolidated | |
|-------------------------------------|------------|------------|--------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Domestic | 450,444 | 594,489 | 609,181 | 598,551 |
| Foreign (Note 20 c.2) | 3,360 | 885 | 3,360 | 885 |
| Related parties (Note 16) | 427,625 | 385 | - | - |
| Allowance for doubtful accounts (b) | (926) | (6,178) | (1,330) | (6,557) |
| Total | 880,503 | 589,581 | 611,211 | 592,879 |

Aché Laboratórios Farmacêuticos S.A. e Controladas

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais - R\$, unless otherwise stated)

4. Trade accounts receivable (Continued)

a) Aging list of trade accounts receivable

| | Individual | | Consolidated | |
|----------------------|------------|------------|--------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Falling due | 874,124 | 582,644 | 604,093 | 585,822 |
| Overdue: | | | | |
| From 1 to 60 days | 4,239 | 3,730 | 4,853 | 3,848 |
| From 61 to 120 days | 1,295 | 1,911 | 1,393 | 1,913 |
| From 121 to 180 days | 845 | 1,296 | 872 | 1,296 |
| Above 180 days | 926 | 6,178 | 1,330 | 6,557 |
| Total | 881,429 | 595,759 | 612,541 | 599,436 |

The maximum exposure to credit risk at the date of the financial statements is the book value of each maturity age range as shown in the table above.

Changes in allowance for doubtful accounts

b) Allowance for doubtful accounts

The allowance for doubtful accounts is estimated considering receivables overdue above 180 days and for which collection suits have been filed, and balances of specific customers posing risk of realization.

| | Individual | | Consolidated | |
|-----------------------------------|------------|------------|--------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Balance at beginning of year | (6,178) | (5,688) | (6,557) | (6,018) |
| Additions | (4,569) | (7,040) | (4,632) | (7,105) |
| Write-offs (effective losses) | 4,775 | - | 4,791 | - |
| Reversals due to amounts received | 5,046 | 6,550 | 5,068 | 6,566 |
| Balance at end of year | (926) | (6,178) | (1,330) | (6,557) |

5. Inventories

These are recorded at the lower of the average cost and net realizable value, adjusted by provision for losses, when applicable.

| | Individual | | Consolidated | |
|--------------------------------|------------|------------|--------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Finished products | 316,824 | 269,087 | 371,799 | 268,980 |
| Work-in-process | 100,295 | 78,353 | 101,800 | 79,498 |
| Raw materials | 306,133 | 264,712 | 311,891 | 268,210 |
| Imports in progress | 34,060 | 11,587 | 34,060 | 11,587 |
| Provision for inventory losses | (17,372) | (40,069) | (17,400) | (40,093) |
| Total | 739,940 | 583,670 | 802,150 | 588,182 |

Aché Laboratórios Farmacêuticos S.A. e Controladas

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais - R\$, unless otherwise stated)

5. Inventories (Continued)

Unrealized profits from the purchase of finished products among the group companies are eliminated upon consolidation. At December 31, 2019, unrealized profits on the Company's inventories, net of taxes, was R\$129,948 (R\$1,599 at December 31, 2019).

The Company expects its inventories to be realized in less than 12 months.

a) Changes in provision for inventory losses

The estimate for valuation of the provision for inventory losses is reviewed monthly and takes into account the maturity date of the products, as well as products blocked due to quality deviations, among other aspects.

| | Individual | | Consolidated | |
|-------------------------------|-----------------|------------|-----------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Balance at beginning of year | (40,069) | (30,927) | (40,093) | (31,018) |
| Additions | (50,853) | (77,778) | (50,955) | (77,959) |
| Reversals | 13,342 | 33,027 | 13,342 | 33,027 |
| Write-offs (effective losses) | 60,208 | 35,609 | 60,306 | 35,857 |
| Balance at end of year | (17,372) | (40,069) | (17,400) | (40,093) |

6. Taxes and social contributions recoverable

| | Individual | | Consolidated | |
|--|---------------|------------|----------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Federal VAT (IPI) | 2,924 | 3,590 | 2,928 | 3,595 |
| State VAT (ICMS) | 27,383 | 16,719 | 104,104 | 16,886 |
| Contribution Tax on Gross Revenue for Social Integration Program (PIS) | 10,180 | 28,278 | 10,417 | 28,513 |
| Contribution Tax on Gross Revenue for Social Security Financing (COFINS) | 36,677 | 132,374 | 37,772 | 133,460 |
| Other taxes recoverable | 1,227 | 793 | 1,902 | 1,155 |
| Total | 78,391 | 181,754 | 157,123 | 183,609 |

Aché Laboratórios Farmacêuticos S.A. e Controladas

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais - R\$, unless otherwise stated)

7. Deferred income and social contribution taxes

The balances of deferred tax assets and liabilities are as follows:

| | Individual | | Consolidated | |
|--|----------------|------------|----------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Assets | | | | |
| Deferred income and social contribution taxes on: | | | | |
| Temporarily non-deductible provisions: | | | | |
| Provision for tax, civil, and labor contingencies | 84,108 | 78,661 | 84,108 | 78,661 |
| Profit sharing | 30,361 | 27,988 | 30,361 | 27,988 |
| Allowance for doubtful accounts | 315 | 2,101 | 315 | 2,101 |
| Provision for inventory losses | 6,451 | 13,886 | 6,451 | 13,886 |
| Provision for fleet maintenance | 2,630 | 3,211 | 2,630 | 3,211 |
| Provision for customer bonus | 33,522 | 30,079 | 33,522 | 30,079 |
| Unrealized profit | 44,182 | 544 | 44,182 | 544 |
| Provision for sales not delivered | 1,793 | 3,172 | 1,793 | 3,172 |
| Incinerated materials | 18,770 | 12,659 | 18,770 | 12,659 |
| Provisions for project decommissioning | 3,199 | - | 3,199 | - |
| Provision for hedge | 210 | 356 | 210 | 356 |
| Other | 7,796 | 8,621 | 7,796 | 8,621 |
| Total | 233,337 | 181,278 | 233,337 | 181,278 |
| Liabilities | | | | |
| Deferred income and social contribution taxes on: | | | | |
| Revaluation of assets | 4,659 | 4,941 | 4,659 | 4,941 |
| Deemed cost attributable to PPE and difference between useful life vs. tax depreciation rate | 86,343 | 85,681 | 86,343 | 85,681 |
| Goodwill amortized | 73,232 | 73,232 | 73,232 | 73,232 |
| Borrowing costs | 18,676 | 18,436 | 18,676 | 18,436 |
| Monetary updating of judicial deposits | 14,585 | 17,019 | 14,585 | 17,019 |
| Depreciation | 21,808 | 24,450 | 21,808 | 24,450 |
| Exclusion of ICMS from the PIS and COFINS tax base | - | 45,883 | - | 45,883 |
| Other | 2,647 | 2,431 | 2,647 | 2,431 |
| Total | 221,950 | 272,073 | 221,950 | 272,073 |
| Balance of deferred income and social contribution tax assets (liabilities) | 11,387 | (90,795) | 11,387 | (90,795) |

Deferred taxes arising from temporary differences will be realized as they are settled or realized within a period not exceeding 10 years. The period of settlement or realization of such differences is imprecise and is based on several factors over which management has no control. Based on projections of future taxable profits, management's expectation for realization of tax credits is shown below:

Aché Laboratórios Farmacêuticos S.A. e Controladas

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais - R\$, unless otherwise stated)

7. Deferred income and social contribution taxes (Continued)

| | Consolidated | |
|-------------------|----------------|----------------|
| | 12/31/2020 | 12/31/2019 |
| 2021 | 129,712 | 80,316 |
| 2022 | 12,751 | 13,487 |
| 2023 | 1,192 | 6,925 |
| From 2024 onwards | 89,682 | 80,550 |
| Total | 233,337 | 181,278 |

8. Reconciliation of income and social contribution tax expense

| | Individual | | Consolidated | |
|--|------------------|------------------|------------------|------------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Income before income and social contribution taxes | 816,338 | 995,537 | 817,215 | 998,041 |
| Nominal income and social contribution tax expense - 34% | (277,555) | (338,483) | (277,853) | (339,334) |
| Reconciliation of income and social contribution tax expense at effective rate: | | | | |
| Equity pickup | 13,257 | 4,225 | 5,723 | 3,277 |
| Tax benefit from technology research and development of technology innovation | 31,093 | 28,090 | 31,093 | 28,090 |
| Interest on equity | 19,379 | 21,889 | 19,379 | 21,889 |
| Non-deductible fines | - | (66) | - | (66) |
| Non-deductible donations | (4,533) | (3,374) | (4,536) | (3,378) |
| 'Citizen maternity' allowance | (678) | (678) | (678) | (678) |
| Tax incentives | 9,338 | 11,302 | 9,338 | 11,302 |
| Tax incentive - Sudene | 18,748 | - | 18,748 | - |
| PAT - Workers' Meal Program | 9,552 | 7,181 | 9,552 | 7,181 |
| Incinerated materials | (5,038) | (4,183) | (5,038) | (4,183) |
| Other | 1,480 | (173) | 8,438 | 496 |
| Effective income and social contribution tax expense | (184,957) | (274,270) | (185,834) | (275,404) |
| Current | (287,139) | (225,695) | (288,016) | (226,829) |
| Deferred | 102,182 | (48,575) | 102,182 | (48,575) |
| Effective rate | -23% | 28% | -22% | 28% |

Benefit - Sudene

On December 29, 2020, the Northeast Development Authority (SUDENE) qualified Aché Laboratórios Farmacêuticos, Filial PE (Pernambuco branch), for the tax benefit of a 75% decrease in Income Tax and non-refundable Additional Taxes calculated on profits from activities under a favorable tax treatment (*lucro da exploração*). The benefit is valid for 10 years, and the entity may use it for the period from 01/01/2020 to 12/31/2029. This benefit is accounted for in the statement of profit or loss, less the income tax expense against the tax amount payable. This benefit is treated as an Investment Subsidy and recorded in a Tax Incentive Reserve account within Equity and can only be used to increase Capital or to offset Losses. For the year ended December 31, 2020, the Company recognized the amount of R\$18.7 million as an income tax benefit.

Aché Laboratórios Farmacêuticos S.A. e Controladas

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais - R\$, unless otherwise stated)

9. Investments

| | Individual | | Consolidated | |
|------------------------|----------------|------------|---------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Subsidiaries | 70,154 | 68,755 | 33,936 | 18,941 |
| Goodwill - Asta Médica | 11,446 | 11,446 | - | - |
| Goodwill - Melcon | 17,533 | 17,533 | - | - |
| Goodwill - Nortis | 9,420 | 9,420 | - | - |
| Total | 108,553 | 107,154 | 33,936 | 18,941 |

Goodwill is classified as part of the investments that gave rise to it, since it is part of the investment acquired. In the consolidated statement of financial position, goodwill is reclassified to intangible assets as it refers to the expected profitability of each subsidiary acquired.

Aché Laboratórios Farmacêuticos S.A. e Controladas

Notes to individual and consolidated financial statements

December 31, 2020

(In thousands of reais - R\$, unless otherwise stated)

9. Investments (Continued)

| Individual | Information on Subsidiaries | | | | | 12/31/2020 | | 12/31/2019 | |
|----------------------|-----------------------------|-------------------|--------------|-------------------|--------------------|--------------------|---------------|--------------------|---------------|
| | Total assets | Total liabilities | Total equity | Unrealized profit | P&L for the period | Investment balance | Equity pickup | Investment balance | Equity pickup |
| Melcon (a) | 41,970 | 16,439 | 25,531 | (1,530) | 4,964 | 25,531 | 6,494 | 19,567 | 1,908 |
| Bionovis (b) | 857,945 | 722,201 | 135,744 | - | 67,327 | 33,936 | 16,832 | 18,941 | 9,639 |
| Nortis | 11,729 | 1,042 | 10,687 | - | (863) | 10,687 | (863) | 11,550 | 2,292 |
| Total | | | | | | 70,154 | 22,463 | 50,058 | 13,839 |
| Provision for losses | | | | | | | | | |
| Labofarma | 535,317 | 498,494 | 36,823 | 129,879 | 18,055 | (93,127) | (111,824) | 18,697 | (1,529) |
| | | | | | | (22,973) | (89,361) | 68,755 | 12,310 |

(a) The investment balance referring to the subsidiary Melcon is now 100% of the subsidiary's equity balance, as per transaction described in Note 1.1.

(b) As described in Note 1, the Company holds interest in the joint venture Bionovis.

The equity interest percentages are disclosed in Note 1.

Changes in investments in subsidiaries and joint ventures

| Subsidiaries and joint ventures | 12/31/2019 | Equity pickup | Dividends (a) | 12/31/2020 |
|----------------------------------|------------|---------------|---------------|------------|
| Melcon | 19,567 | 6,494 | (530) | 25,531 |
| Bionovis | 18,941 | 16,832 | (1,837) | 33,936 |
| Nortis | 11,550 | (863) | - | 10,687 |
| | 50,058 | 22,463 | (2,367) | 70,154 |
| Provision for losses - Labofarma | 18,697 | (111,824) | - | (93,127) |
| Total | 68,755 | (89,361) | (2,367) | (22,973) |

The activities of subsidiaries and joint ventures are described in Note 1.

(a) Mandatory minimum dividends received/receivable.

Aché Laboratórios Farmacêuticos S.A. e Controladas

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December 31, 2020

(In thousands of reais - R\$, unless otherwise stated)

10. Property, plant and equipment

Property, plant and equipment items are measured at historical cost, less accumulated depreciation on a straight-line basis and accumulated impairment losses.

| | Useful life (years) | Individual | | | | | |
|------------------------------|---------------------|------------------|--------------------------|------------------|------------------|--------------------------|------------------|
| | | 12/31/2020 | | | 12/31/2019 | | |
| | | Cost | Accumulated depreciation | Net amount | Cost | Accumulated depreciation | Net amount |
| Land | | 130,801 | - | 130,801 | 120,501 | - | 120,501 |
| Buildings | 42 | 756,106 | (178,942) | 577,164 | 522,425 | (167,061) | 355,364 |
| Facilities | 10 | 168,796 | (70,586) | 98,210 | 104,197 | (60,232) | 43,965 |
| Machinery and equipment | 6 | 656,822 | (270,129) | 386,693 | 456,591 | (241,059) | 215,532 |
| Furniture and fixtures | 10 | 22,890 | (12,261) | 10,629 | 20,245 | (11,467) | 8,778 |
| Vehicles | 5 | 1,586 | (1,586) | - | 2,587 | (2,587) | - |
| IT equipment | 4 | 81,681 | (50,120) | 31,561 | 64,398 | (40,632) | 23,766 |
| Molds and dies/other | 10 | 37,370 | (15,620) | 21,750 | 40,839 | (22,280) | 18,559 |
| | | 1,856,052 | (599,244) | 1,256,808 | 1,331,783 | (545,318) | 786,465 |
| Advances | | 18,830 | - | 18,830 | 32,199 | - | 32,199 |
| Construction in progress (a) | | 60,888 | - | 60,888 | 449,194 | - | 449,194 |
| (-) Impairment losses (b) | | (2,587) | - | (2,587) | - | - | - |
| Total | | 1,933,183 | (599,244) | 1,333,939 | 1,813,176 | (545,318) | 1,267,858 |

(a) This refers mostly to investments in the second phase of the new plant in the region of Cabo de Santo Agostinho - Pernambuco.

(b) This refers mainly to the loss related to the discontinuance of strategic projects.

| | Useful life (years) | Consolidated | | | | | |
|--------------------------|---------------------|------------------|--------------------------|------------------|------------------|--------------------------|------------------|
| | | 12/31/2020 | | | 12/31/2019 | | |
| | | Cost | Accumulated depreciation | Net amount | Cost | Accumulated depreciation | Net amount |
| Land | | 132,966 | - | 132,966 | 122,666 | - | 122,666 |
| Buildings | 42 | 779,031 | (185,477) | 593,554 | 545,344 | (172,679) | 372,665 |
| Facilities | 10 | 177,372 | (73,727) | 103,645 | 112,655 | (62,571) | 50,084 |
| Machinery and equipment | 6 | 682,460 | (281,318) | 401,142 | 480,732 | (250,041) | 230,691 |
| Furniture and fixtures | 10 | 23,948 | (12,830) | 11,118 | 21,339 | (11,985) | 9,354 |
| Vehicles | 5 | 1,706 | (1,706) | - | 2,705 | (2,705) | - |
| IT equipment | 4 | 83,879 | (51,040) | 32,839 | 66,542 | (41,148) | 25,394 |
| Molds and dies/other | 10 | 37,400 | (15,623) | 21,777 | 40,869 | (22,282) | 18,587 |
| | | 1,918,762 | (621,721) | 1,297,041 | 1,392,852 | (563,411) | 829,441 |
| Advances | | 18,830 | - | 18,830 | 32,199 | - | 32,199 |
| Construction in progress | | 61,327 | - | 61,327 | 449,355 | - | 449,355 |
| (-) Impairment losses | | (2,587) | - | (2,587) | - | - | - |
| Total | | 1,996,332 | (621,721) | 1,374,611 | 1,874,406 | (563,411) | 1,310,995 |

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10. Property, plant and equipment (Continued)

Changes in property, plant and equipment are as follows:

| | Individual - Cost | | | | 12/31/2020 |
|--------------------------|-------------------|--------------|------------|---------------|------------|
| | 12/31/2019 | Acquisitions | Write-offs | Transfers (a) | |
| Land | 120,501 | - | - | 10,300 | 130,801 |
| Buildings | 522,425 | - | - | 233,681 | 756,106 |
| Facilities | 104,197 | 11,586 | (789) | 53,802 | 168,796 |
| Machinery and equipment | 456,591 | 88,247 | (8,399) | 120,383 | 656,822 |
| Furniture and fixtures | 20,245 | 1,675 | (688) | 1,658 | 22,890 |
| Vehicles | 2,587 | - | (1,001) | - | 1,586 |
| IT equipment | 64,398 | 4,002 | (2,887) | 16,168 | 81,681 |
| Molds and dies/other | 40,839 | 1,589 | (10,064) | 5,006 | 37,370 |
| Subtotal | 1,331,783 | 107,099 | (23,828) | 440,998 | 1,856,052 |
| Advances on PPE items | 32,199 | 44,555 | - | (57,924) | 18,830 |
| Construction in progress | 449,194 | 8,749 | (11,208) | (385,847) | 60,888 |
| (-) Impairment losses | - | (13,783) | 11,196 | - | (2,587) |
| Total | 1,813,176 | 146,620 | (23,840) | (2,773) | 1,933,183 |

(a) Certain items that had been classified as construction in progress, totaling R\$2,773, were reclassified to the group of intangible assets, according to their nature. See Note 11.

| | Consolidated - Cost | | | | 12/31/2020 |
|--------------------------|---------------------|--------------|------------|---------------|------------|
| | 12/31/2019 | Acquisitions | Write-offs | Transfers (a) | |
| Land | 122,666 | - | - | 10,300 | 132,966 |
| Buildings | 545,344 | 7 | - | 233,680 | 779,031 |
| Facilities | 112,655 | 11,704 | (789) | 53,802 | 177,372 |
| Machinery and equipment | 480,732 | 89,590 | (8,404) | 120,542 | 682,460 |
| Furniture and fixtures | 21,339 | 1,692 | (741) | 1,658 | 23,948 |
| Vehicles | 2,705 | - | (999) | - | 1,706 |
| IT equipment | 66,542 | 4,086 | (2,917) | 16,168 | 83,879 |
| Molds and dies/other | 40,869 | 1,590 | (10,066) | 5,007 | 37,400 |
| Subtotal | 1,392,852 | 108,669 | (23,916) | 441,157 | 1,918,762 |
| Advances on PPE items | 32,199 | 44,555 | - | (57,924) | 18,830 |
| Construction in progress | 449,355 | 9,188 | (11,209) | (386,007) | 61,327 |
| (-) Impairment losses | - | (13,783) | 11,196 | - | (2,587) |
| Total | 1,874,406 | 148,629 | (23,929) | (2,774) | 1,996,332 |

(a) Certain items that had been classified as construction in progress, totaling R\$2,774 and R\$1 of depreciation, were reclassified to the group of intangible assets, according to their nature. See Note 11.

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(In thousands of reais - R\$, unless otherwise stated)

10. Property, plant and equipment (Continued)

Changes in property, plant and equipment depreciation are as follows:

| | Individual | | | | 12/31/2020 |
|-------------------------|------------------|-----------------|---------------|-----------|------------------|
| | 12/31/2019 | Additions | Write-offs | Transfers | |
| Buildings | (167,061) | (11,883) | - | 2 | (178,942) |
| Facilities | (60,232) | (11,130) | 778 | (2) | (70,586) |
| Machinery and equipment | (241,059) | (37,336) | 8,248 | 18 | (270,129) |
| Furniture and fixtures | (11,467) | (1,536) | 760 | (18) | (12,261) |
| Vehicles | (2,587) | - | 1,001 | - | (1,586) |
| IT equipment | (40,632) | (12,331) | 2,843 | - | (50,120) |
| Molds and dies/other | (22,280) | (3,403) | 10,063 | - | (15,620) |
| Total | (545,318) | (77,619) | 23,693 | - | (599,244) |

| | Consolidated | | | | 12/31/2020 |
|-------------------------|------------------|-----------------|---------------|------------|------------------|
| | 12/31/2019 | Additions | Write-offs | Transfers | |
| Buildings | (172,679) | (12,800) | - | 2 | (185,477) |
| Facilities | (62,571) | (11,932) | 778 | (2) | (73,727) |
| Machinery and equipment | (250,041) | (39,547) | 8,255 | 15 | (281,318) |
| Furniture and fixtures | (11,985) | (1,615) | 786 | (16) | (12,830) |
| Vehicles | (2,705) | - | 999 | - | (1,706) |
| IT equipment | (41,148) | (12,766) | 2,874 | - | (51,040) |
| Molds and dies/other | (22,282) | (3,407) | 10,066 | - | (15,623) |
| Total | (563,411) | (82,067) | 23,758 | (1) | (621,721) |

At the year ended December 31, 2020, there was no change in the useful life of property, plant and equipment items.

Assets pledged as collateral

The Company and its subsidiaries have property, plant and equipment items pledged as collateral for loans and financing, as described in Note 12 - Loans. There are also assets listed in the defense of legal proceedings, including property, vehicles and trademarks, as described in Note 19.

11. Intangible assets

| | Individual | | Consolidated | |
|----------------------------------|----------------|----------------|----------------|----------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Brands | 32,178 | 33,485 | 32,190 | 33,498 |
| Software | 20,778 | 28,411 | 21,233 | 28,480 |
| Goodwill - Asta Médica Ltda. (a) | - | - | 11,446 | 11,446 |
| Goodwill - Biosintética (b) | 203,942 | 203,942 | 203,942 | 203,942 |
| Goodwill - Melcon (c) | - | - | 17,533 | 17,533 |
| Goodwill - Nortis (d) | - | - | 9,420 | 9,420 |
| Total | 256,898 | 265,838 | 295,764 | 304,319 |

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11. Intangible assets (Continued)

- (a) Goodwill arising from the acquisition of subsidiary Asta Médica Ltda., merged into the Company in 2003, amortized through December 31, 2008 based on expected future profitability.
- (b) Includes the goodwill of subsidiary Biosintética, merged in July 2018; goodwill arises from the downstream merger of the then parent company Delta Participações Ltda., on March 31, 2006, after which both companies became wholly-owned subsidiaries of the Company. Goodwill is based on expected future profitability.
- (c) Goodwill arising from the acquisition of subsidiary Melcon in August 2010.
- (d) Goodwill arising from the acquisition of subsidiary Nortis in August 2016.

Changes in intangible assets are as follows:

| | Individual | | Consolidated | |
|------------------------------|-----------------|------------|-----------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Balance at beginning of year | 265,838 | 279,493 | 304,319 | 318,044 |
| Advances | - | (633) | - | (633) |
| Additions | 2,067 | 844 | 2,495 | 844 |
| Write-offs | (1,309) | - | (1,309) | (21) |
| Amortization - software | (12,471) | (13,866) | (12,516) | (13,915) |
| Transfers of PPE | 2,773 | - | 2,775 | - |
| Balance at end of year | 256,898 | 265,838 | 295,764 | 304,319 |

For the year ended December 31, 2020, there was no change in the useful life of intangible assets as compared to the previous year.

Impairment test of goodwill based on expected future profitability

The impairment test of goodwill used the cash-generating unit ("CGU") and the discounted cash flow method. The following assumptions were taken into consideration:

- Growth percentage of revenue from sale of medicines aligned with the Company's business plan;
- Projections of operational costs considering the operation growth and macroeconomic variables;
- Investment needs aligned with the Company's business plan; and
- The discount rate for projected cash flows was 7% p.a. (12% p.a. in 2019).

The results of the impairment test conducted as of December 31, 2020 indicated no need to record provision for losses.

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12. Loans and financing

| | Annual charges | Maturity | Individual | | Consolidated | | |
|------------------------------------|--------------------|----------|----------------|------------|----------------|------------|--|
| | | | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 | |
| Local currency: | | | | | | | |
| Working capital - Melcon | CDI + 0.88% p.a. | 2022 | - | - | - | 770 | |
| Working capital - Aché (a) | CDI + 0.88% p.a. | 2022 | - | 58,010 | - | 58,010 | |
| | CDI + 2.50% to | | | | | | |
| Bank Credit Bills (CCB) - Aché (b) | 2.85% p.a. | 2021 | 408,891 | - | 409,343 | - | |
| FCO and FOMENTAR - Melcon (c) | 9.5% to 11.0% | 2027 | - | - | 9,067 | 9,078 | |
| FINAME - Melcon | 6.5% | 2021 | - | - | 18 | 45 | |
| FINEP (d) | Fixed 5.0% p.a. | 2024 | 4,716 | 5,923 | 4,716 | 5,923 | |
| | TJLP +1.50% to | | | | | | |
| Profarma - BNDES - Aché (e) | 2.26% | 2026 | 193,146 | 216,659 | 193,146 | 216,659 | |
| Profarma - BNDES - Aché (e) | 6.37% to 7.34% | 2026 | 182,775 | 164,433 | 182,775 | 164,433 | |
| | Fixed 4.0% to 4.5% | | | | | | |
| Profarma - BNDES - Aché (f) | p.a. | 2023 | 7,740 | 14,366 | 7,740 | 14,366 | |
| Banco do Nordeste (g) | IPCA + 1.54% p.a. | 2032 | 90,315 | 39,563 | 90,316 | 39,563 | |
| Total | | | 887,583 | 498,954 | 897,121 | 508,847 | |
| Current | | | 512,471 | 109,517 | 515,715 | 111,536 | |
| Noncurrent | | | 375,112 | 389,437 | 381,406 | 397,311 | |
| Total | | | 887,583 | 498,954 | 897,121 | 508,847 | |

- (a) The Company has a revolving credit facility limited to R\$300 million, maturing in April 2022, which can be withdrawn immediately if necessary, through the Working Capital instrument. The amount withdrawn is subject to interest at the CDI rate + 0.88% p.a. A commitment fee of 0.5% p.a. is charged on the unused balance of the credit facility. In December 2020, the line was 100% net of related withdrawal operations.
- (b) The Company entered into two Bank Credit Bill (CCB) transactions in the total amount of R\$400 million, exempt from IOF. These contracts do not have guarantees or covenant clauses. The funds obtained from these loans are intended to increase working capital.
- (c) The financing is intended for construction and expansion of the manufacturing unit located in Anápolis-GO, and acquisition of manufacturing, laboratory and computer equipment, furniture and fixtures. This financing is guaranteed by mortgage of the property located in Anápolis-GO, as well as chattel mortgage of the assets acquired with the credit of this instrument.
- (d) The financing obtained from the Financing Agency for Studies and Projects (FINEP) is intended for the research and development of products and is collateralized by bank guarantee.
- (e) Profarma Financing was obtained from BNDES for the construction and expansion of the industrial unit of Guarulhos - SP, for research and development of products, for the acquisition of Nortis Farmacêutica, a pharmaceutical company specialized in the manufacture of antibiotics, and for the construction of the manufacturing unit in Santo Agostinho-PE. This financing is guaranteed by mortgage of real estate, machinery and equipment owned, located in Guarulhos - SP.
- (f) The financing contracted with BNDES is intended for the Research and Development of Innovative Products within the Profarma Innovation program, guaranteed by the mortgage of the Guarulhos property.
- (g) Banco do Nordeste financing is intended for the construction of the industrial unit of Cabo de Santo Agostinho-PE (Phase I in addition to the financing granted by BNDES and Phase II). This financing is collateralized by bank guarantee and not subject to covenants.

Covenants

BNDES financing agreements include the following financial covenants: (i) General indebtedness equal to or less than 0.75; (ii) Total Net Debt/EBITDA equal to or less than 3.0; (iii) EBITDA margin equal to or greater than 0.18. At December 31, 2020, the Company was compliant with these contractual commitments.

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13. Lease liabilities and right of use

The lease agreements refer to vehicles used by the Executive Board, administrative managers and sales force employees, and to the general warehouse of finished products in Guarulhos.

At December 31, 2020, changes in lease liabilities are as follows:

| Lease liabilities | Consolidated | | | | | | 12/31/2020 |
|-------------------|--------------|--------------------------|---------------------------|---------------|--------------|-----------------------|------------|
| | 12/31/2019 | Additions/ Write-offs | Provision for interest | Interest paid | Amortization | Discounts obtained | |
| Vehicles | 79,131 | 5,233 | 5,913 | (7,623) | (32,478) | (2,866) | 47,310 |
| Total | 79,131 | 5,233 | 5,913 | (7,623) | (32,478) | (2,866) | 47,310 |

| Lease liabilities | Consolidated | | | | | | 12/31/2020 |
|-------------------|--------------|--------------------------|---------------------------|---------------|--------------|-----------------------|------------|
| | 12/31/2019 | Additions/ Write-offs | Provision for interest | Interest paid | Amortization | Discounts obtained | |
| Vehicles | 79,131 | 5,233 | 5,913 | (7,623) | (32,478) | (2,866) | 47,310 |
| Properties | 58,754 | 9,136 | 5,143 | (4,367) | (4,679) | - | 63,987 |
| Total | 137,885 | 14,369 | 11,056 | (11,990) | (37,157) | (2,866) | 111,297 |

| | Annual charges | Maturity | Individual | | Consolidated | |
|-------------------|----------------|----------|------------|------------|--------------|------------|
| | | | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Lease liabilities | | | 47,310 | 79,131 | 111,297 | 137,885 |
| Vehicles | 11% | 2022 | 47,310 | 79,131 | 47,310 | 79,131 |
| Properties | 7.65% | 2029 | - | - | 63,987 | 58,754 |
| Current | | | 38,195 | 38,654 | 45,573 | 43,140 |
| Noncurrent | | | 9,115 | 40,477 | 65,724 | 94,745 |

At December 31, 2020, changes in rights of use are as follows:

| | Individual - Cost | | | |
|-----------------|-------------------|-----------|------------|------------|
| | 12/31/2019 | Additions | Write-offs | 12/31/2020 |
| Vehicles - cost | 90,199 | 9,874 | (10,452) | 89,621 |
| Total | 90,199 | 9,874 | (10,452) | 89,621 |

| | Individual - Amortization | | | |
|-------------------------|---------------------------|-----------|------------|------------|
| | 12/31/2019 | Additions | Write-offs | 12/31/2020 |
| Vehicles - depreciation | (25,562) | (31,879) | 5,811 | (51,630) |
| Total | (25,562) | (31,879) | 5,811 | (51,630) |

| Net amount | 12/31/2019 | Additions | Write-offs | 12/31/2020 |
|------------|------------|-----------|------------|------------|
| | 64,637 | (22,005) | (4,641) | 37,991 |

| | Consolidated - Cost | | | |
|------------|---------------------|-----------|------------|------------|
| | 12/31/2019 | Additions | Write-offs | 12/31/2020 |
| Vehicles | 90,199 | 9,874 | (10,452) | 89,621 |
| Properties | 58,754 | 9,135 | - | 67,889 |
| Total | 148,953 | 19,009 | (10,452) | 157,510 |

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13. Lease liabilities and right of use (Continued)

| | Consolidated - Amortization | | | |
|-------------------|-----------------------------|-----------|------------|------------|
| | 12/31/2019 | Additions | Write-offs | 12/31/2020 |
| Vehicles | (25,562) | (31,879) | 5,811 | (51,630) |
| Properties | - | (8,689) | - | (8,689) |
| Total | (25,562) | (40,568) | 5,811 | (60,319) |
| Net amount | 123,391 | (21,559) | (4,641) | 97,191 |

14. Trade accounts payable

| | Individual | | Consolidated | |
|---------------------------|------------|------------|--------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Domestic suppliers | 121,853 | 122,870 | 124,152 | 126,115 |
| Foreign suppliers | 164,189 | 107,482 | 165,764 | 108,314 |
| Reverse factoring (a) | 47,508 | 46,039 | 47,508 | 46,039 |
| Related parties (Note 16) | 4,982 | 5,498 | - | - |
| Total | 338,532 | 281,889 | 337,424 | 280,468 |

(a) The Company and its subsidiaries have agreements signed with a first-tier financial institution only to structure the reverse factoring operation with its key suppliers. In this operation, suppliers transfer the right to receive notes to the Bank, which, in turn, becomes the creditor of the operation. At December 31, 2020, discount rates on assignment operations carried out by suppliers with the financial institution in the domestic market varied between 0.30% and 0.49% p.m. (0.48% to 0.57% p.m. in 2019). This operation did not substantially change the terms, prices and conditions previously established upon detailed analysis of the suppliers by category, therefore the Company and its subsidiaries present this operation under Trade accounts payable.

15. Tax obligations

| | Individual | | Consolidated | |
|--------|------------|------------|--------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| ICMS | 20,861 | 30,023 | 25,256 | 30,011 |
| PIS | 1,930 | 1,677 | 1,930 | 1,713 |
| COFINS | 9,074 | 9,658 | 9,076 | 9,824 |
| IRPJ | 75,236 | 68,614 | 75,236 | 68,955 |
| CSLL | 24,808 | 17,313 | 24,808 | 17,382 |
| Other | 1,455 | 2,579 | 1,125 | 2,653 |
| Total | 133,364 | 129,864 | 137,431 | 130,538 |

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16. Related parties

Transactions and balances with related parties are as follows:

| | Individual | | Consolidated | |
|--|------------|------------|--------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Revenues: | | | | |
| Sales - Melcon (a) | 422 | 697 | - | - |
| Sales - Labofarma (a) | 1,225,317 | 3,065 | - | - |
| Total revenues | 1,225,739 | 3,762 | - | - |
| Expenses: | | | | |
| Purchase of goods from Melcon | 17,914 | 16,512 | - | - |
| Purchase of goods from Nortis | 7,699 | 11,491 | - | - |
| Purchase of services from Labofarma | 10,586 | 6,196 | - | - |
| Total expenses | 36,199 | 34,199 | - | - |
| Current assets: | | | | |
| Accounts receivable - Labofarma (b) (Note 4) | 427,618 | 35 | - | - |
| Accounts receivable - Melcon (b) (Note 4) | - | 336 | - | - |
| Accounts receivable - Nortis (b) (Note 4) | 7 | 14 | - | - |
| Dividends receivable (c) | 4,098 | 2,438 | 4,098 | 2,261 |
| Total current assets | 431,723 | 2,823 | 4,098 | 2,261 |
| Current liabilities: | | | | |
| Trade accounts payable - Labofarma (b) (Note 14) | 902 | 775 | - | - |
| Trade accounts payable - Nortis (b) (Note 14) | 99 | 42 | - | - |
| Trade accounts payable - Melcon (b) (Note 14) | 3,981 | 4,681 | - | - |
| Dividends payable | 128,378 | 145,880 | 128,378 | 145,880 |
| Associação Brasileira de Assistência ao Deficiente Visual - Laramara | 361 | 225 | 361 | 225 |
| Total current liabilities | 133,721 | 151,603 | 128,739 | 146,105 |

(a) Sales of finished products.

(b) Balance of trade accounts receivable and trade accounts payable, provision of services, and reimbursement of common expenses among the companies.

(c) Dividends receivable from subsidiary Bionovis in the amount of R\$4,098 as at December 31, 2020; and from subsidiary Bionovis in the amount of R\$2,261 and from subsidiary Melcon in the amount of R\$177 as at December 31, 2019.

Transactions with related parties are carried out at arm's length.

Key management personnel compensation

Compensation, including benefits, of officers and management of the Company and its subsidiaries is as follows:

| | Individual | | Consolidated | |
|---|------------|------------|--------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Overall management compensation and charges | 22,617 | 17,999 | 22,617 | 17,999 |

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17. Labor and social security obligations

| | Individual | | Consolidated | |
|--|----------------|----------------|----------------|----------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Wages and salaries payable | - | - | 209 | 225 |
| Accrued vacation pay, 13th monthly salary and social charges | 25,752 | 25,057 | 26,396 | 25,660 |
| Social Security Tax (INSS) payable | 20,712 | 19,184 | 20,984 | 19,474 |
| Unemployment Compensation Fund (FGTS) payable | 6,795 | 6,141 | 6,850 | 6,224 |
| Profit sharing | 54,374 | 47,393 | 54,643 | 47,399 |
| Withholding Income Tax (IRRF) on payroll | 14,116 | 12,630 | 14,230 | 12,737 |
| Other | 2,318 | 2,402 | 2,329 | 2,400 |
| Total | 124,067 | 112,807 | 125,641 | 114,119 |

18. Other obligations

| | Individual | | Consolidated | |
|--------------------------------|---------------|---------------|---------------|---------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Advanced receipts | 1,667 | 1,667 | 1,667 | 1,667 |
| Provision for freight payable | 4,293 | 5,070 | 5,315 | 5,070 |
| Provision for checking account | 48,403 | 78,454 | 48,403 | 78,455 |
| Other provisions | 8,862 | - | 8,862 | - |
| Total current amount | 63,225 | 85,191 | 64,247 | 85,192 |

| | Individual | | Consolidated | |
|--|---------------|---------------|---------------|---------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Provision for maintenance of leased vehicles | 7,737 | 9,445 | 7,744 | 9,455 |
| Profit sharing payable | 34,924 | 34,924 | 34,924 | 34,924 |
| Advanced receipts | 2,361 | 4,028 | 2,361 | 4,028 |
| Other accounts payable | - | - | - | 2,384 |
| Total noncurrent amount | 45,022 | 48,397 | 45,029 | 50,791 |

19. Provision for tax, civil, and labor contingencies

The Company and its subsidiaries are parties to administrative and legal proceedings involving tax, labor and civil matters, which are at different court levels. Based on its assessment and supported by the opinions of its legal advisors, management recognized a provision for contingencies for which an unfavorable outcome was assessed as probable. For labor cases that do not yet have a court decision, the provision is established based on the payment history for the last three years. In the year ended December 31, 2020, Management began to review the most recent decisions on each of its own cases involving recurring claims in order to check whether the initial provisions still reflect the best assertiveness based on the actual award in the final decision. There were no changes in the provision in relation to cases for which decisions had been handed down.

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19. Provision for tax, civil, and labor contingencies (Continued)

Breakdown of provisions by nature is as follows:

| | Individual | | | | | |
|----------------------|------------|------------|--------------|----------|------------|------------|
| | 12/31/2019 | Additions | Reversals | Payments | Updates | 12/31/2020 |
| Tax | 114,987 | 5,368 | (1,127) | (2,555) | 1,587 | 118,260 |
| Labor | 94,935 | 25,911 (b) | (18,131) (c) | (8,835) | 10,330 (d) | 104,210 |
| Civil | 3,477 | 1,761 | (147) | - | 640 | 5,731 |
| Other provisions (a) | 17,958 | 3,790 | (2,587) | - | 13 | 19,174 |
| Total | 231,357 | 36,830 | (21,992) | (11,390) | 12,570 | 247,375 |

| | Consolidated | | | | | |
|----------------------|--------------|------------|--------------|----------|------------|------------|
| | 12/31/2019 | Additions | Reversals | Payments | Updates | 12/31/2020 |
| Tax | 114,987 | 5,368 | (1,127) | (2,555) | 1,587 | 118,260 |
| Labor | 94,939 | 25,952 (b) | (18,170) (c) | (8,835) | 10,331 (d) | 104,217 |
| Civil | 3,477 | 1,761 | (147) | - | 640 | 5,731 |
| Other provisions (a) | 18,040 | 3,837 | (2,587) | - | 15 | 19,305 |
| Total | 231,443 | 36,918 | (22,031) | (11,390) | 12,573 | 247,513 |

(a) Refer to other provisions for contingencies not related to administrative and/or legal proceedings.

(b) This arises from new dispersed labor claims. The procedure adopted is to recognize provision on a case-by-case basis, considering the history of losses of the Company and its subsidiaries.

(c) This refers to favorable decisions for the Company throughout the year.

(d) This refers to updates of the existing case values, according to the indexes defined by the Judiciary.

The main administrative and legal proceedings involving tax matters are as follows:

| | Consolidated | |
|---|--------------|------------|
| | 12/31/2020 | 12/31/2019 |
| Unemployment Compensation Fund (FGTS) (a) | 32,296 | 32,129 |
| PIS and COFINS (b) | 32,508 | 23,177 |
| IRPJ and CSLL (c) | 25,449 | 32,526 |
| Social Security (d) | 1,527 | 8,154 |
| ICMS (e) | 8,151 | 591 |
| Other (f) | 18,329 | 18,410 |
| Total | 118,260 | 114,987 |

(a) Rate increase - challenge of the 0.5% increase in FGTS contribution, calculated on employee payroll. In this suit, the Company states that there is no legal relationship that requires the collection of the increase in FGTS rates, created by Supplementary Law No. 110/2001.

(b) The main process related to these taxes is administrative and refers to disallowance of credits related to expenses with fleets in the commercial area.

(c) The most significant proceedings that discuss the taxes at issue refer to the following: (i) monetary updating of the statement of financial position that generated gains in equity pickup and exclusion from the CSLL tax base; (ii) amortization of goodwill in relation to the merger of Delta Participações, for the years 2006 to 2009.

(d) Social security contribution on fringe benefit (vehicle) and accounts referring to travel allowance. In the year ended December 31, 2019, the likelihood of loss changed from possible to probable for one of the proceedings and a provision of R\$4,566 million (updated until December 31, 2020) was set up.

(e) Tax Enforcement or Administrative Proceedings drawn up by the São Paulo, Pernambuco, Sergipe and Minas Gerais State Departments addressing the collection of ICMS and ICMS-Tax Substitution (ST).

(f) This amount includes: (i) lawyers' fees accrued as a result of success fees contracted; (ii) several actions discussing other taxes not listed above involving less significant amounts.

Management believes that the unfavorable outcome of its lawsuits, whether individually or in aggregate, will not have a material adverse effect on the Company's financial position or business.

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19. Provision for tax, civil, and labor contingencies (Continued)

Proceedings assessed as risk of possible loss

As of December 31, 2020, the Company and its subsidiaries are parties to tax, civil and labor proceedings that are not accrued since they involve risk of loss classified by legal advisors and by management as possible. Contingent liabilities are represented as follows:

| | Consolidated | |
|-------|---------------------|-------------------|
| | 12/31/2020 | 12/31/2019 |
| Tax | 1,533,913 | 1,406,089 |
| Labor | 218,432 | 279,126 |
| Civil | 25,397 | 21,856 |
| Total | 1,777,742 | 1,707,071 |

Concerning tax proceedings assessed as risk of possible loss, the matters are classified as follows:

Major proceedings assessed as risk of possible loss

| | Consolidated | |
|---------------------------|---------------------|-------------------|
| | 12/31/2020 | 12/31/2019 |
| IRPJ and CSLL (a) (b) (c) | 1,145,158 | 1,061,605 |
| PIS and COFINS (d) | 313,748 | 308,390 |
| Social Security | 34,704 | 5,726 |
| ICMS | 26,830 | 13,582 |
| Other | 13,473 | 16,786 |
| Total | 1,533,913 | 1,406,089 |

- (a) This refers substantially to notice served on Biosintética (merged) requiring payment of IRPJ and CSLL from (i) 2006 to 2009; (ii) 2010 to 2011 due to the claim of amortization of undue goodwill, paid upon acquisition of Delta Participações Farmacêuticas S.A. Amounts involved: (i) R\$301,000 (R\$606,540 updated until December 31, 2020); and (ii) R\$112,409 (R\$132,543 updated until December 31, 2020). Progress: (i) the discussion is currently at the tax enforcement phase, for which a motion to stay was filed and is pending judgment. The risk of loss at the administrative level, with respect to the fine increased by 150%, remains remote and, in relation to merits, is possible with a tendency to remote; (ii) upon granting of the appeal by the Finance Office, dismissing the case at the administrative level, the merits will be discussed in court and an insurance will be provided as guarantee for the debt. This risk of loss in connection with the deduction of goodwill is rated as possible tending to remote.
- (b) Tax notice amounting to R\$202,315 requiring alleged IRPJ and CSLL payments related to 2008 and 2009, referring to goodwill amortization charges after the merger of the spun-off assets of Magenta Participações Ltda. As regards collection for 2009, management decided to join the REFIS program. In connection with 2018, estimated at R\$107,928 at the time (R\$131,298 updated through December 31, 2020), a decision on the Voluntary Appeal filed is being awaited. The Company believes that the grounds for defense are solid and should be granted.
- (c) Tax notice drawn for collection of IRPJ and CSLL for calendar year 2011, due to the deduction of expenses with payment of IOE calculated on previous bases, whose historical amount corresponds to R\$44,639 (R\$52,955 updated through December 31, 2020). The Company filed an Appeal to the Higher Court of Justice, which was totally dismissed. Upon publication of the decision, a petition for writ of mandamus will be filed. Management rates the likelihood of loss as possible.
- (d) Required payment of PIS/COFINS under the 'one-phase' regime for the 2011-2012 period, in the historical amount of R\$198,027 (R\$235,000 updated through December 31, 2020), mostly due to disallowance of the PIS/COFINS matching credit under the terms of article 3 of Law No. 10147/00. On July 4, 2019, a partially favorable decision was handed down by the Brazilian IRS Judgment Office (DRJ). Due diligence procedures have been required by CARF; a decision is awaited.

The outside lawyers assess the cases as possible losses, thus not requiring recognition of provision for said proceedings.

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19. Provision for tax, civil, and labor contingencies (Continued)

Judicial deposits

Balances of judicial deposits are as follows:

| | <u>Individual</u> | <u>12/31/2020</u> | <u>12/31/2019</u> |
|-------|---------------------|-------------------|-------------------|
| Tax | | 70,101 | 72,001 |
| Labor | | 26,698 | 34,174 |
| Civil | | 14,619 | 14,289 |
| Total | | 111,418 | 120,464 |
| | <u>Consolidated</u> | <u>12/31/2020</u> | <u>12/31/2019</u> |
| Tax | | 70,101 | 72,001 |
| Labor | | 26,705 | 34,181 |
| Civil | | 14,618 | 14,289 |
| Total | | 111,424 | 120,471 |

20. Financial instruments

a) Capital management

Company management manages its funds in order to ensure business continuity and maximize funds available for research and development of new products, as well as to provide return to shareholders.

From time to time, management reviews the capital structure and its ability to settle liabilities, as well as monitors, on a timely basis, the days purchase outstanding in relation to the average term of inventory turnover. Necessary actions are promptly taken when these balances result in assets in excess of liabilities.

In line with other companies operating in the industry, the Company monitors capital based on its financial leverage ratio, which corresponds to the net debt divided by total capital.

Net financial position at December 31, 2020 and December 31, 2019 is summarized as follows:

| | <u>Consolidated</u> | |
|--|---------------------|-------------------|
| | <u>12/31/2020</u> | <u>12/31/2019</u> |
| Loans and financing (Note 12) | 897,121 | 508,847 |
| Lease liabilities (Note 13) | 111,297 | 137,885 |
| Cash and cash equivalents (Note 3) | (284,487) | (145,400) |
| Financial investments - noncurrent (Note 3) | (3,579) | (1,587) |
| Derivatives | (617) | 1,048 |
| Net financial position (positive) / negative | 719,735 | 500,793 |

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December 31, 2020
(In thousands of reais - R\$, unless otherwise stated)

20. Financial instruments (Continued)

b) Financial instruments by category

| | Consolidated | |
|---|-----------------------------|------------|
| | Book value and market value | |
| | 12/31/2020 | 12/31/2019 |
| Financial assets: | | |
| Cash and cash equivalents (Note 3) | 284,487 | 145,400 |
| Trade accounts receivable (Note 4) | 611,211 | 592,879 |
| Derivatives | (617) | - |
| Financial investments - noncurrent (Note 3) | 3,579 | 1,587 |
| Judicial deposits (Note 19) | 111,424 | 120,471 |
| Financial liabilities: | | |
| Loans and financing (Note 12) | 897,121 | 508,847 |
| Lease liabilities (Note 13) | 111,297 | 137,885 |
| Trade accounts payable (Note 14) | 337,424 | 280,468 |
| Accounts payable | 47,981 | 45,552 |
| Derivatives | (617) | 1,048 |

The balances of cash and cash equivalents (cash, banks and short-term investments), trade accounts receivable and trade accounts payable are equivalent to market value as their maturities are close to the statement of financial position dates.

The balance of loans and financing is monetarily updated based on inflation indices and variable interests in view of market conditions and, therefore, the debt balance recorded at the statement of financial position dates approximates the market value.

c) Risk management

The Company is exposed to market risks, including currency risk, interest rate risk, credit risk and liquidity risk.

c.1) *Interest rate risk*

The Company has agreements in reais at floating interest rates pegged to the Long-term interest rate (TJLP), the Extended Consumer Price Index (IPCA) and fixed rates. Contractual rates are stated in Note 12 - Loans.

Sensitivity to interest rates

For the sensitivity analysis of interest rate on loans and short-term investments, the Company took into account a 25% and 50% decrease and increase in rates for possible and remote scenarios, respectively. The rates estimated by management are reflected in the probable scenario. The calculation is made based on the remaining principal balance of the loan pegged to the TJLP rate and short-term investments at December 31, 2020. The impact on profit or loss could occur as follows:

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(In thousands of reais - R\$, unless otherwise stated)

20. Financial instruments (Continued)

c) Risk management (Continued)

c.1) Interest rate risk (Continued)

| Consolidated | | | Probable scenario | | Possible scenario (+25%) | | Remote scenario (+50%) | |
|------------------------|-------------------|-------------------------------|-------------------|---------------|-----------------------------|---------------|---------------------------|---------------|
| Risk factor | Average rate p.a. | Exposed amounts at 12/31/2020 | Average rate p.a. | Effect on P&L | Average rate p.a. | Effect on P&L | Average rate p.a. | Effect on P&L |
| Short-term investments | CDI | 275,051 | 3.00% | 3,026 | 3.75% | 5,088 | 4.50% | 7,151 |
| Loans - domestic | TJLP-IPCA | (897,121) | 3.73% | (925) | 4.50% | 189 | 5.07% | (5,152) |
| Gain (Loss) | | (622,070) | | 2,101 | | 5,277 | | 1,999 |

| Consolidated | | | Probable scenario | | Possible scenario (-25%) | | Remote scenario (-50%) | |
|------------------------|-------------------|-------------------------------|-------------------|---------------|-----------------------------|---------------|---------------------------|---------------|
| Risk factor | Average rate p.a. | Exposed amounts at 12/31/2020 | Average rate p.a. | Effect on P&L | Average rate p.a. | Effect on P&L | Average rate p.a. | Effect on P&L |
| Short-term investments | CDI | 275,051 | 3.00% | 3,026 | 2.25% | 963 | 1.50% | (1,100) |
| Loans - domestic | TJLP-IPCA | (897,121) | 3.73% | (925) | 3.12% | 13,482 | 2.43% | 20,128 |
| Gain (Loss) | | (622,070) | | 2,101 | | 14,445 | | 19,028 |

c.2) Currency risk

The Company reduces its exposure to exchange rate volatility by entering into forward (long) contracts of NDF in dollars. At December 31, 2020, there are unsettled contracts in force in the amount of USD24,014 or R\$129,070 (USD21,224 or R\$86,545 at December 31, 2019).

Sensitivity of derivatives

For calculating transactions in foreign currencies, a 25% and 50% decrease or increase in exchange rates were taken into consideration for possible and remote scenarios, respectively. The rates estimated by management are reflected in the probable scenario.

Gain or (loss) adjustments to transactions in foreign currency are as follows:

Sensitivity analysis of hedge - Derivatives (Currency term/NDF) - Adjustment (R\$ MM)

| | Remote scenario -50% | Possible scenario -25% | Probable scenario | Possible scenario +25% | Remote scenario +50% |
|--------------------------------------|-------------------------|---------------------------|-------------------|---------------------------|-------------------------|
| Individual | (69,036) | (39,019) | (9,002) | 21,015 | 51,032 |
| Consolidated | (69,036) | (39,019) | (9,002) | 21,015 | 51,032 |
| Net impact - individual/consolidated | (60,034) | (30,017) | - | 30,017 | 60,034 |
| Loss/(Gain) | (60,034) | (30,017) | - | 30,017 | 60,034 |

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December 31, 2020

(In thousands of reais - R\$, unless otherwise stated)

20. Financial instruments (Continued)

c) Risk management (Continued)

c.2) *Currency risk* (Continued)

Sensitivity of derivatives (Continued)

Probable scenario, FOCUS Report published as at December 31, 2020, considering R\$/US\$5.00 as the expected rate.

Amounts payable denominated in foreign currencies (US dollars, euros, Swiss francs, sterling pounds and Mexican pesos) are exposed to risks related to foreign currency fluctuations. Total assets and liabilities subject to foreign exchange exposure and the corresponding currencies are as follows:

| | | Consolidated | |
|---|------|------------------|------------------|
| | | 12/31/2020 | 12/31/2019 |
| In euros: | EUR | | |
| Assets | | 1,147 | 9,520 |
| Liabilities | | (4,599) | (6,739) |
| Net exposure | | <u>(3,452)</u> | <u>2,781</u> |
| In US dollars: | US\$ | | |
| Assets | | 1,484 | 269 |
| Liabilities | | (27,079) | (18,978) |
| Net exposure | | <u>(25,595)</u> | <u>(18,709)</u> |
| In sterling pounds | GBP | | |
| Assets | | - | - |
| Liabilities | | (64) | - |
| Net exposure | | <u>(64)</u> | <u>-</u> |
| In Swiss francs: | CHF | | |
| Assets | | - | - |
| Liabilities | | (210) | (40) |
| Net exposure | | <u>(210)</u> | <u>(40)</u> |
| In Mexican pesos: | MXN | | |
| Assets | | - | - |
| Liabilities | | - | (295) |
| Net exposure | | <u>-</u> | <u>(295)</u> |
| Accounts receivable - foreign currency - in R\$ | | 3,446 | 903 |
| Exchange difference - accounts receivable - in R\$ | | (86) | (18) |
| Balance receivable - in R\$ (a) | | <u>3,360</u> | <u>885</u> |
| Trade accounts payable - foreign currency - in R\$ | | (165,764) | (108,806) |
| Exchange difference - trade accounts payable - in R\$ | | 118 | 1,540 |
| Trade accounts payable hedge - in R\$ | | (617) | (1,048) |
| Balance of trade accounts payable - in R\$ (b) | | <u>(166,263)</u> | <u>(108,314)</u> |
| Advance to supplier - in R\$ | | 11,732 | 43,411 |
| Exchange difference - advance to supplier - in R\$ | | 366 | 255 |
| Balance of advance to supplier - in R\$ (c) | | <u>12,098</u> | <u>43,666</u> |
| Net exposure - (a-b+c) - foreign currency - in R\$ | | <u>(150,805)</u> | <u>(63,763)</u> |

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December 31, 2020

(In thousands of reais - R\$, unless otherwise stated)

20. Financial instruments (Continued)

c) Risk management (Continued)

c.2) Currency risk (Continued)

Sensitivity to exchange rate

For calculating transactions in foreign currencies, decrease and increase in rates of 25% and 50% were considered in the possible and remote scenarios, respectively. The rates estimated by management are reflected in the probable scenario.

Gain or (loss) adjustments to transactions in foreign currency are as follows:

| | Consolidated | | | Probable scenario | | Possible scenario (+25%) | | Remote scenario (+50%) | |
|----------------------|--------------|-------------------|-------------------------------|-------------------|---------------|-----------------------------|---------------|---------------------------|---------------|
| | Risk factor | Average rate p.a. | Exposed amounts at 12/31/2020 | Average rate p.a. | Effect on P&L | Average rate p.a. | Effect on P&L | Average rate p.a. | Effect on P&L |
| Long position - USD | US\$ | 5.20 | 3,360 | 5.00 | (127) | 6.25 | 681 | 7.50 | 1,489 |
| Short position - USD | US\$ | 5.20 | (154,165) | 5.00 | 5,835 | 6.25 | (31,247) | 7.50 | (68,330) |
| Net exposure (loss) | | | (150,805) | | 5,708 | | (30,566) | | (66,841) |

| | Consolidated | | | Probable scenario | | Possible scenario (-25%) | | Remote scenario (-50%) | |
|--------------------------|--------------|-------------------|-------------------------------|-------------------|---------------|-----------------------------|---------------|---------------------------|---------------|
| | Risk factor | Average rate p.a. | Exposed amounts at 12/31/2020 | Average rate p.a. | Effect on P&L | Average rate p.a. | Effect on P&L | Average rate p.a. | Effect on P&L |
| Long position - USD | US\$ | 5.20 | 3,360 | 5.00 | (127) | 3.75 | (935) | 2.50 | (1,744) |
| Short position - USD | US\$ | 5.20 | (154,165) | 5.00 | 5,835 | 3.75 | 42,918 | 2.50 | 80,000 |
| Net exposure gain (loss) | | | (150,805) | | 5,708 | | 41,982 | | 78,256 |

c.3) Liquidity risk

Management monitors the level of liquidity of the Company and its subsidiaries, considering the expected cash flow and cash and cash equivalents. The table below details the maturity of financial liabilities contracted in the consolidated figures:

| | Within 1 year | Up to 2 years | 3 to 4 years | After 4 years | Total |
|------------------------|---------------|---------------|--------------|---------------|---------|
| Trade accounts payable | 337,424 | - | - | - | 337,424 |
| Loans and financing | 515,715 | 77,180 | 68,686 | 235,540 | 897,121 |
| Lease liabilities | 45,573 | 14,622 | 14,326 | 36,776 | 111,297 |

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(In thousands of reais - R\$, unless otherwise stated)

21. Equity

a) Capital

Capital amounts to R\$440,959, comprising 63,900,000 registered common shares with no par value, fully subscribed and paid up.

b) Capital reserves

| | <u>12/31/2020</u> | <u>12/31/2019</u> |
|---|-----------------------|-------------------|
| Special goodwill reserve | 167,767 | 167,767 |
| Share premium reserve | 6,445 | 6,445 |
| Capital transaction with shareholders (a) | (53,966) | (53,966) |
| Total | <u>120,246</u> | <u>120,246</u> |

(a) Refers to acquisition of Melcon, which represents 50% of the increase in ownership interest, recorded directly in equity.

The share premium reserve refers to the matching entry of the goodwill absorbed by the Company in prior years, less the provision for maintenance of integrity of shareholders' equity, whose net effect corresponds to the tax benefit to be generated on its realization and recognized as deferred income tax asset.

c) Income reserves

| | <u>Consolidated</u> | |
|---|-------------------------|-------------------|
| | <u>12/31/2020</u> | <u>12/31/2019</u> |
| Legal reserve (a) | 43,807 | 43,807 |
| Reserve for new products, R&D and capital expenditure (b) | 616,526 | 417,910 |
| Tax incentive reserve (c) | 19,730 | 982 |
| Unpaid profits reserve (d) | 461,467 | 542,956 |
| Total | <u>1,141,530</u> | <u>1,005,655</u> |

(a) This is set up at 5% of net income for each year, capped at 20% of the capital, except if the legal reserve plus capital reserve exceeds 30% of capital.

(b) Recognized to cover expenditures for launching new products, expenditures on research and development and investments in property, plant and equipment under the terms of the Company's Articles of Incorporation.

(c) Government grants are recognized in profit or loss on a systematic basis over the years in which the Company recognizes as expenses the related costs for which the grants are intended to offset and, subsequently, they are allocated to the tax incentive reserve, in equity. For the year ended December 31, 2020, the Company recognized the amount of R\$18.7 million as Sudene income tax incentive.

(d) The amount of any distribution will be submitted to the approval of the Annual General Meeting.

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Notes to individual and consolidated financial statements

December 31, 2020

(In thousands of reais - R\$, unless otherwise stated)

21. Equity (Continued)

d) Dividends and interest on equity

The Company's Articles of Incorporation ensure mandatory minimum dividend of 25% of the net income for each year, less a legal reserve of 5% of net income, and allow dividend payment based on semiannual or interim statements of financial position.

Changes in dividends and IOE are as follows:

| | |
|--|----------------------|
| <u>Total dividends paid over 2020</u> | |
| Dividends paid referring to 2019 | 450,000 |
| IOE paid referring to 2020 | 48,447 |
| Prepaid dividends for 2020 | 16,553 |
| Subtotal - dividends and/or IOE paid over 2020 (cash effect) | <u>515,000</u> |
| <u>Net income for 2020</u> | 631,381 |
| <u>Tax incentive reserve - Sudene</u> | (18,748) |
| <u>Base profit for calculation of mandatory minimum dividend</u> | 612,633 |
| <u>Dividends payable</u> | |
| Mandatory minimum dividends - statutory (R\$612,633 x 25%) | 153,158 |
| IOE paid referring to 2020 | (48,447) |
| Prepaid dividends for 2020 | (16,553) |
| Balance of dividends + mandatory minimum dividends | <u>88,158</u> |
| Balance of dividends referring to 2017 | 40,220 |
| Balance of total dividends payable for 2020 | 128,378 |

e) Equity adjustment

| | <u>Individual</u> | |
|-----------------------------------|-------------------|-------------------|
| | <u>12/31/2020</u> | <u>12/31/2019</u> |
| Adjustments to deemed cost of PPE | 126,083 | 127,628 |
| Total equity adjustments | 126,083 | 127,628 |

22. Operating revenue, net

| | <u>Individual</u> | | <u>Consolidated</u> | |
|------------------------------|--------------------|-------------------|---------------------|-------------------|
| | <u>12/31/2020</u> | <u>12/31/2019</u> | <u>12/31/2020</u> | <u>12/31/2019</u> |
| Gross sales revenue | 7,705,774 | 7,852,084 | 7,291,516 | 7,870,478 |
| Returns, discounts and other | (3,583,171) | (4,026,983) | (3,381,825) | (4,027,995) |
| Sales taxes | (529,130) | (490,479) | (432,418) | (491,951) |
| Total | 3,593,473 | 3,334,622 | 3,477,273 | 3,350,532 |

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December 31, 2020

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23. Expenses by nature

| | Individual | | Consolidated | |
|--|------------------|------------|------------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Raw materials consumed | 846,873 | 765,524 | 797,970 | 747,139 |
| Materials, energy, third-party services and other expenses | 690,057 | 696,751 | 695,141 | 707,467 |
| Personnel and taxes | 697,463 | 658,402 | 710,509 | 671,133 |
| Depreciation and amortization | 118,910 | 96,425 | 129,932 | 99,388 |
| Other taxes | 133,897 | 118,803 | 134,863 | 119,392 |
| Other selling and administrative expenses (revenue) | 8,900 | 13,481 | 9,391 | 13,926 |
| | 2,496,100 | 2,349,386 | 2,477,806 | 2,358,445 |
| Cost of sales | 1,166,683 | 1,031,326 | 1,134,076 | 1,028,323 |
| Selling expenses | 1,122,186 | 1,194,911 | 1,126,437 | 1,195,704 |
| General and administrative expenses | 207,231 | 123,149 | 217,293 | 134,418 |
| Total | 2,496,100 | 2,349,386 | 2,477,806 | 2,358,445 |

24. Other operating income (expenses), net

| | Individual | | Consolidated | |
|--|------------------|------------|------------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Credits referring to product development | 13,306 | 36,544 | 13,306 | 36,544 |
| Recovery of taxes | 60,128 | 124,465 | 60,247 | 124,537 |
| Other revenues | 6,856 | 9,597 | 6,896 | 9,706 |
| Total other revenues | 80,290 | 170,606 | 80,449 | 170,787 |
| Expenses with strategic projects | (110,888) | (122,975) | (111,287) | (123,467) |
| Expense referring to product development | (15,548) | (15,821) | (15,548) | (15,821) |
| Other expenses | (1,674) | (616) | (1,700) | (598) |
| Total other expenses | (128,110) | (139,412) | (128,535) | (139,886) |
| Total other operating income (expenses) | (47,820) | 31,194 | (48,086) | 30,901 |

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(In thousands of reais - R\$, unless otherwise stated)

25. Finance income (costs)

| | Individual | | Consolidated | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Interest income | 6,207 | 6,864 | 6,501 | 7,008 |
| Monetary gains | 4,603 | 7,302 | 4,621 | 7,331 |
| Monetary update - Exclusion of ICMS from PIS and COFINS tax base | - | 55,374 | - | 55,374 |
| Income from hedge | 23,341 | 10,190 | 23,341 | 10,190 |
| Other finance income | 250 | 459 | 288 | 642 |
| Total finance income | 34,401 | 80,189 | 34,751 | 80,545 |
| Interest expenses | (53,295) | (15,947) | (54,402) | (17,484) |
| Monetary losses | (15,275) | (18,595) | (15,276) | (18,595) |
| Expense from hedge | (11,313) | (5,516) | (11,313) | (5,516) |
| Sundry charges | (4,403) | (3,315) | (4,444) | (3,370) |
| Other finance costs | (3,301) | (4,743) | (3,330) | (4,807) |
| Interest on leases | (5,913) | (7,637) | (11,010) | (7,637) |
| Total finance costs | (93,500) | (55,753) | (99,775) | (57,409) |
| Exchange losses | (82,232) | (32,399) | (82,954) | (32,535) |
| Exchange gains | 51,200 | 26,730 | 51,388 | 26,845 |
| Total exchange difference, net | (31,032) | (5,669) | (31,566) | (5,690) |
| Finance income/costs, net | (90,131) | 18,767 | (96,590) | 17,446 |

26. Supplementary pension plan

The Company sponsors a supplementary pension plan that covers all its employees. This plan, known as PGBL, similar to a 401(k)-type plan, is administered by a private pension entity under a fully-funded system. The amount of the benefit is calculated based on the mathematical reserve for unvested benefits at the retirement date.

The pension plan offered includes the following benefits:

- Retirement by age transferrable to the spouse;
- Retirement to disability transferrable to the spouse;
- Survivors' pension transferrable to children under 21 years old.

The risk benefits (retirement due to disability and survivors' pension) were structured under a defined-contribution plan.

The Company does not have any liability in relation to technical risk related to survival during the capitalization period or mortality after a member begins to receive the benefit or disability risk during the capitalization period.

The Company's contributions to the supplementary pension plan for the year ended December 31, 2020 totaled R\$4,436 (2019 in 2018).

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27. Insurance coverage

The Company adopts an insurance policy that considers risk concentration and its relevance, the nature of its activities and guidance from its insurance advisors. At December 31, 2020, the insurance coverage was taken out at the amounts indicated below, according to the insurance policies:

| Insurance lines | Amounts insured |
|---------------------------------------|-----------------|
| Property damage to PPE | 487,000 |
| Civil liability | 105,000 |
| Civil construction - Pernambuco Plant | 325,250 |

The audit scope does not include an opinion on the reasonableness of insurance coverage.

28. Employee and management profit sharing

The Company and its subsidiaries include in their human resources policy a profit-sharing plan (PPR) and bonuses for officers, not covered by any other variable compensation programs offered by these companies. Goals and criteria for defining and distributing funds awarded are agreed to between the parties, with objectives of gains in productivity and competitiveness and motivation and involvement of participants. The PPR posted to consolidated P&L for the year ended December 31, 2020 amounted to R\$54,408 (R\$52,032 in 2019), as follows:

| | Individual | | Consolidated | |
|--|---------------|------------|---------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Addition of provision for the year | 58,769 | 56,907 | 59,069 | 56,973 |
| Reversal of prior-years' provision | (5,046) | (4,937) | (4,661) | (4,941) |
| Employee and management profit sharing in P&L for the year | 53,723 | 51,970 | 54,408 | 52,032 |

29. Earnings per share

| | Individual | | Consolidated | |
|---|-------------|------------|--------------|------------|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Basic and diluted numerator | | | | |
| Allocation of net income for the year to shareholders | 631,381 | 721,267 | 631,381 | 721,267 |
| Basic and diluted denominator | | | | |
| Outstanding shares (in thousands) - Note 21 | 63,900 | 63,900 | 63,900 | 63,900 |
| Basic and diluted earnings per share - R\$ | 9.88 | 11.29 | 9.88 | 11.29 |

30. Events after the reporting date

Merger of Melcon

According to the Special General Meeting (SGM) held on December 31, 2020, the Letter of Intent was approved for the merger of Indústria Farmacêutica Melcon do Brasil S.A. into the Company, for the purpose of rationalizing and consolidating the administrative activities, as well as winning operational gains and synergy. The effects of the merger were recorded in the Parent Company on January 1, 2021.

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Board of Directors

| | |
|--|---------------|
| Raul Calfat | Chairman |
| Geraldo José Carbone | Vice Chairman |
| Adalberto Panzenboeck Dellape Baptista | Director |
| Alexandre Gottlieb Lindenbojm | Director |
| Jonas de Campos Siaulys | Director |
| José Luiz Depiere | Director |
| José Rogério Luiz | Director |
| Luiz Antonio dos Santos Pretti | Director |
| Luiz Carlos Vaini | Director |
| Ricardo Panzenboeck Dellape Baptista | Director |

Statutory Board

| | |
|--|--|
| Vânia de Azevedo Nogueira de Alcântara Machado | Chief Executive Officer |
| Marcos Paladini Nogueira Simões | Chief Administrative and Financial Officer |
| Marcio Freitas | Chief Operations Officer |
| Gabriela Mallmann | Chief Quality and Regulatory Matters Officer |
| Argemiro Cintra dos Santos | Chief Sales and Business Development Officer |
| Marcelo Neri | Chief Marketing Officer |

Accountant

Rodrigo Miranda Simões
CRC-1SP250809/O-7