

Financial Statements

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

December 31, 2019
with Independent Auditor's Report



**Building a better
working world**

São Paulo, March 31, 2020

Dear Shareholders,

Aché Laboratórios Farmacêuticos S.A. management, 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, 2019 for your appreciation. All comparisons in this report consider consolidated data in relation to the same period in 2018, 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

The year 2019 was challenging for the pharmaceutical sector, with significant changes in the expectation of economic growth impacted by the pace of approvals of structural reforms in the country, changing conditions of demand for pharmaceutical products.

Even in this scenario, the Company used its solidity and innovation and management capacity to carry out transformative actions and continue investments, thus expanding its competitiveness to take advantage of market growth in the coming years.

The new Strategic Planning cycle was carried out, contemplating the vision for 2024, based on the pillars that will ensure the Company's sustainable growth: innovation, medical promotion, operational excellence, customer engagement, digital transformation and enhancement of adjacent businesses.

Aché allocated 8% of its EBITDA for portfolio renewal, launched 35 new products, double the previous year, and continued in the construction of a robust pipeline, currently with 190 projects, to meet needs not yet met.

We expanded the Demand Generation Force with 220 new professionals and our virtual medical visitation platform has also been reinforced with new members, as we believe that the continuous investment in scientific updating strengthens the relationship with health professionals, whom Aché deeply respects for their knowledge and affinity with our purpose of bringing more life to people.

In order to expand the Company's operational excellence, we inaugurated phase 1 of the new Aché plant in Pernambuco, where we will produce solid medicines, in addition to having a modern vertical fully automated warehouse, with a total investment of R\$430 million in this first stage. It is expected that by 2021, when all operations will be fully operational, this investment will reach approximately R\$660 million. Continuing with the expansion plans, we completed the acquisition of 100% of Indústria Farmacêutica Melcon, specialized in the development and production of hormonal drugs. Lastly, we completed the implementation of the new general warehouse of finished products in Guarulhos, also fully automated, which will ensure an increase in storage and shipping capacity and offer more agile services to customers and to the Forces of Generation of Demand and Sales. All these investments attest to Aché's confidence in the growth of the Brazilian economy.

The Company continued to act strongly in customer relationships and engagement, expanding its numerical distribution by 9%, reaching 93% of sales points throughout Brazil. In 2019, the *Cuidados pela Vida* Benefit Program completed 10 years, one of the most complete in the pharmaceutical sector, reaching more than 14 million registered patients, with 30 thousand accredited pharmacies in about 3.000 cities, expanding access and providing continuity of treatment for thousands of people.

We implemented a new organizational structure, creating the Consumer Health Division aimed at consumers of Non-Prescription Drugs, Dermatology and Generic Drugs, for expansion of the focus and execution in the work with the consumer and point of sale.

New ERP systems and new digital solutions have been implemented in order to fully integrate the Company's business processes and master data. Working with real-time intelligence, they allowed more flexible operations and greater control in the operation.

We thank everyone who was by our side in 2019, preparing the Company for a new growth cycle, committed to the evolution of the business and the generation of value for shareholders, consumers, health professionals, and business partners.

Aché increases Net Revenue by 5.3%, EBITDA by 15.4%, and Net Income by 18.7% in 2019

Highlights

- **Net Revenue of R\$3.4 billion**, a 5.3% increase compared to 2018
- **EBITDA of R\$1.1 billion**, with a 32.3% margin
- **Net Income of R\$721.3 million and Earnings per Share of R\$11.3 for the year**, a 18.7% increase compared to 2018
- **Net leverage of 0.34 x EBITDA**

Key financial indicators - Consolidated

(R\$ million)	4Q18	4Q19	Var (%)	2018	2019	Var (%)
Net revenue	883.7	987.5	11.8%	3,183.2	3,350.5	5.3%
Gross profit	610.5	698.7	14.5%	2,243.8	2,322.2	3.5%
<i>% Net revenue</i>	<i>69.1%</i>	<i>70.8%</i>	<i>-1.7 p.p.</i>	<i>70.5%</i>	<i>69.3%</i>	<i>-1.2 p.p.</i>
EBITDA	287.7	441.9	53.6%	939.2	1,083.4	15.4%
<i>% Net revenue</i>	<i>32.6%</i>	<i>44.7%</i>	<i>12.2 p.p.</i>	<i>29.5%</i>	<i>32.3%</i>	<i>2.8 p.p.</i>
Net Income	204.7	302.3	47.7%	607.5	721.3	18.7%
<i>% Net revenue</i>	<i>23.2%</i>	<i>30.6%</i>	<i>7.4 p.p.</i>	<i>19.1%</i>	<i>21.5%</i>	<i>2.4 p.p.</i>
Earnings per share	3.2	4.7		9.5	11.3	

Source: The Company's accounting information

Business profile

Aché is a 100% Brazilian-owned Corporation, founded 53 years ago, and ranks among the five largest pharmaceutical corporations in Brazil according to the PPP (Pharmacy Purchase Price) methodology. The continuous growth of the business and the consistent attainment of results year after year are possible due to the competence and commitment of its 4,900 employees.

One of the greatest forces of generation of demand and sales is in the domestic market, providing ample capillarity for the disclosure of products and dissemination of scientific knowledge to health professionals, in addition to access to a complete quality portfolio to end consumers.

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.



Balanced portfolio

Aché's sustainability is directly linked to its diversified portfolio and the speed of launches, and no medicine represents more than 6.1% of the Company's Net Revenue. Aché offers products in the most varied therapeutic classes, largely meeting the expectations of health professionals and consumer needs. Each year, new therapeutic options are offered to the market, so that the purpose of bringing more life to people is fulfilled.

The internationalization process advances through licensing agreements and a network of 16 international partners. New opportunities in the foreign market were developed this year, allowing the expansion of Aché's presence in 28 covered countries.



Portfolio comprising:

- 899** Presentations
- 357** Brands
- 142** Therapeutic classes
- 18** Medical Specialties Visited

Prescription drugs, generic drugs, non-prescription drugs (OTC), nutraceuticals, dermocosmetics, probiotics and biotechnology are available in multiple channels: Trade, Government and Private.

Aché in expansion

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 interest in the biotechnology company Bionovis, whose plant is under construction in the city of Valinhos.



On October 2, 2019, the first phase of the new plant in Pernambuco was inaugurated, strategically located in Cabo de Santo Agostinho, enabling Aché to be close to customers in the region and further expand the borders reaching a greater number of consumers. The plant is built in a plot of land of 250,000 m², with an installed production capacity of approximately 700 million units of medicines per year. By 2021, the expected date for completion of all works and the beginning of production, R\$660 million will be invested in the physical structure, in addition to the resources provided in equipment and technology. Logistics facilities such as the Suape Industrial Port Complex will boost exports of finished products and imports of raw materials. This plant was already devised under the 4.0 industry concept, the Company's kick-off to a digital transformation journey.

Also as a result of the expansion initiatives, Aché completed the acquisition of 100% of the pharmaceutical industry Melcon do Brasil Ltda. With such acquisition, it consolidates its hormonal product platform.

Distribution with efficiency

In line with the expansion of the business, the Company began operating its general warehouse of finished products and promotional materials. The new warehouse, located in Guarulhos, consolidates the Company's logistics operations, with automation of separation and shipping processes and a 10% increase in storage capacity, bringing more agility in the delivery of products to distributors and customers and in sending free samples to employees of the Demand and Sales Forces.

Present in 93% of the points of sale throughout the country, Aché establishes a relationship of mutual growth and expansion, acting in a segmented manner to offer each customer products and services fully aligned with their business profile and needs.

Awards and Recognition in 2019

The achievements throughout the year, including through awards, inspire the Company daily to fulfill the purpose of bringing more life to people, wherever they are.

- 🏆 Valor Innovation
- 🏆 Exame Best & Biggest
- 🏆 Época Business 360° yearbook
- 🏆 Ranking Valor 1000
- 🏆 Top 100 companies in customer satisfaction
- 🏆 Estadão Companies Plus
- 🏆 The best of Dinheiro magazine
- 🏆 Bumerangue 2019 Award
- 🏆 43rd Lupa de Ouro - 8 awards
- 🏆 Época Complain Here Award
- 🏆 14th Destaque Ascoferj Award
- 🏆 Whow Innovation Award
- 🏆 Automação GS1 Brasil Award
- 🏆 17th Award "Companies that most respect the consumer"
- 🏆 7th Health Leader Award
- 🏆 13th Grandes Cases de Embalagem Award
- 🏆 13th Novas Conquistas 2019 Award
- 🏆 Valor Grandes Grupos Yearbook

Economic and financial performance

Aché grew 5.3% when compared to the previous year, with Net Revenue of R\$3.4 billion, and EBITDA of R\$1.1 million, with a 32.3% margin, showing business sustainability and Strategic Planning assertiveness.

Consolidated Profit or Loss

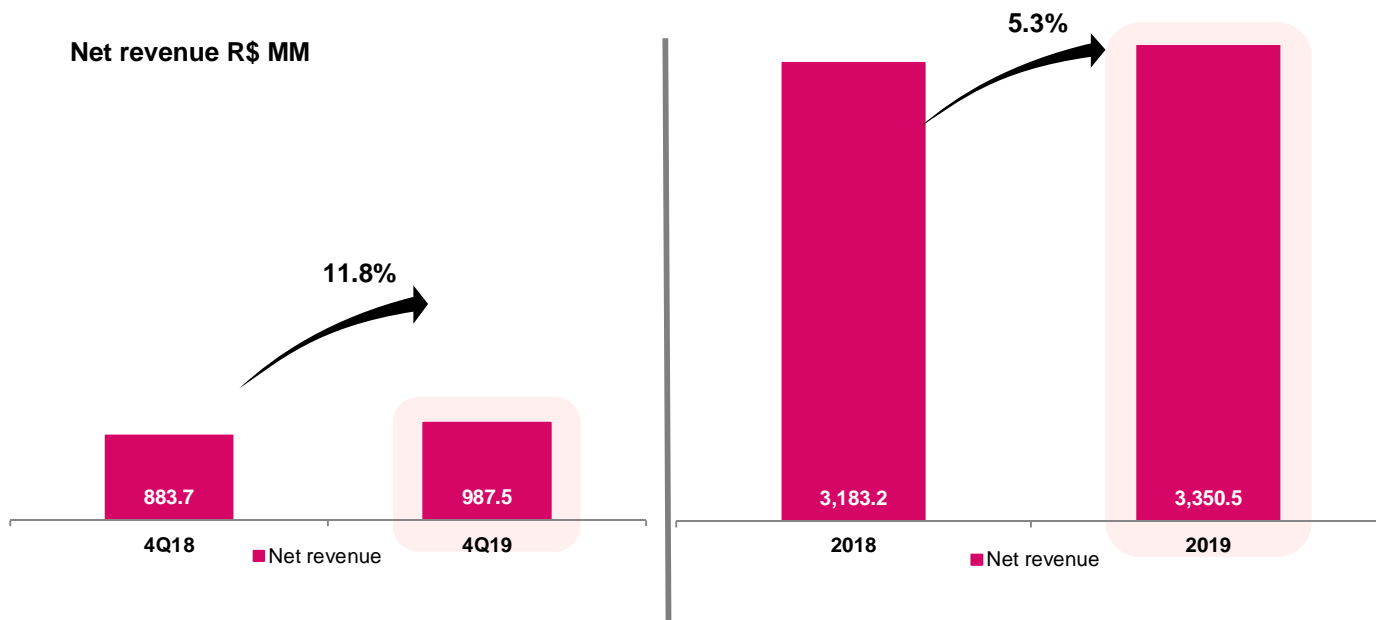
(R\$ million)	4Q18	on NR	4Q19	on NR	2018	on NR	2019	on NR
Net revenue	883.7		987.5		3,183.2		3,350.5	
Gross profit	610.5	69.1%	698.7	70.8%	2,243.8	70.5%	2,322.2	69.3%
Selling and administrative expenses	(335.5)	-38.0%	(287.3)	-29.1%	(1,308.6)	-41.1%	(1,330.1)	-39.7%
Other operating expenses	(5.5)	-0.6%	3.9	0.4%	(64.3)	-2.0%	(11.4)	-0.3%
Operating income (EBIT)	269.5	30.5%	415.3	42.1%	870.9	27.4%	980.7	29.3%
Finance income/costs, net	(11.0)	-1.2%	(10.7)	-1.1%	(39.9)	-1.2%	17.4	0.5%
Income before income and social contribution taxes (IRPJ and CSLL)	258.5	29.3%	404.6	41.0%	831.0	26.1%	998.1	29.8%
Net Income	204.7	23.2%	302.3	30.6%	607.5	19.1%	721.3	21.5%
EBITDA	287.7	32.6%	441.9	44.7%	939.2	29.5%	1,083.4	32.3%
Earnings per share	3.2		4.7		9.5		11.3	

Source: The Company's accounting information

Net revenue

In 2019, the Company's Net Revenue grew 5.3% when compared to the previous year, totaling R\$3.4 billion. This increase results mainly from a growth in sales volume, mix of higher added value and launches, combined with the Company's investments. The performance of the Prescription Unit was fundamental for this growth, with the strategy of accelerating launches, adjusting prices of certain brands for greater competitiveness in the market, and expanding the Demand Generation Force. The Dermatology and OTC Units also contributed to the growth of Aché, driven mainly by the products Pant and Decongel, respectively.

A strong, broad and diversified portfolio contributed to the Company's revenues in a sustainable way.

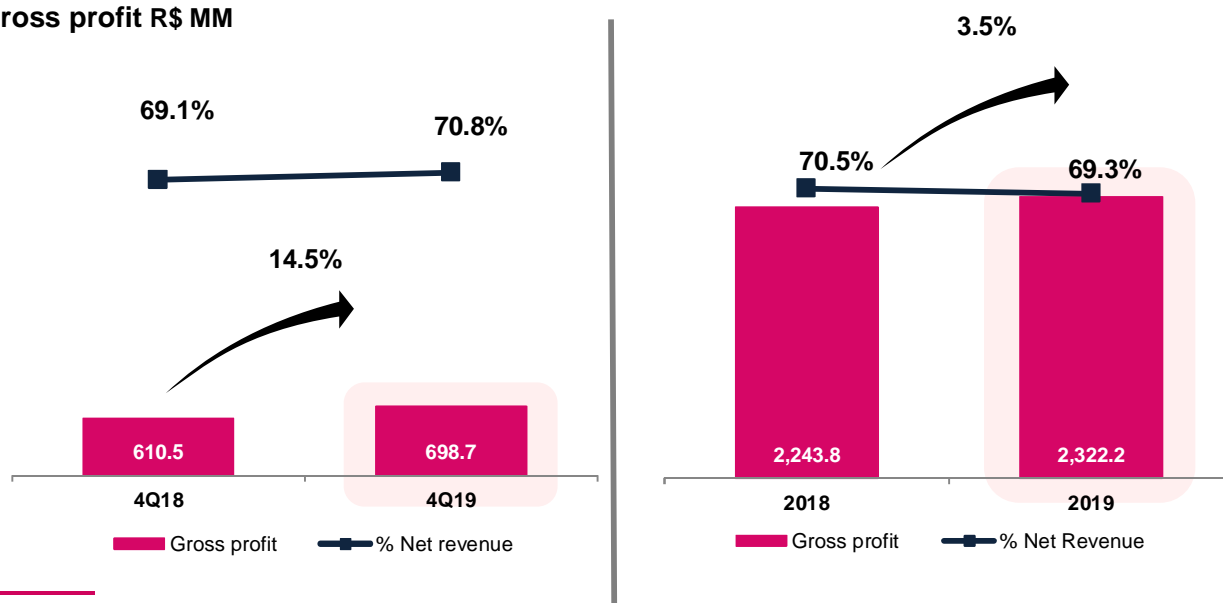


Source: The Company's accounting information

Gross profit

In 2019, Gross Profit was R\$2.3 billion, 3.5% higher than the previous year, reaching a margin of 69.3% on Net Revenue. This result already considers the price reduction efforts regarding 20 important brands.

Gross profit R\$ MM



Source: The Company's accounting information

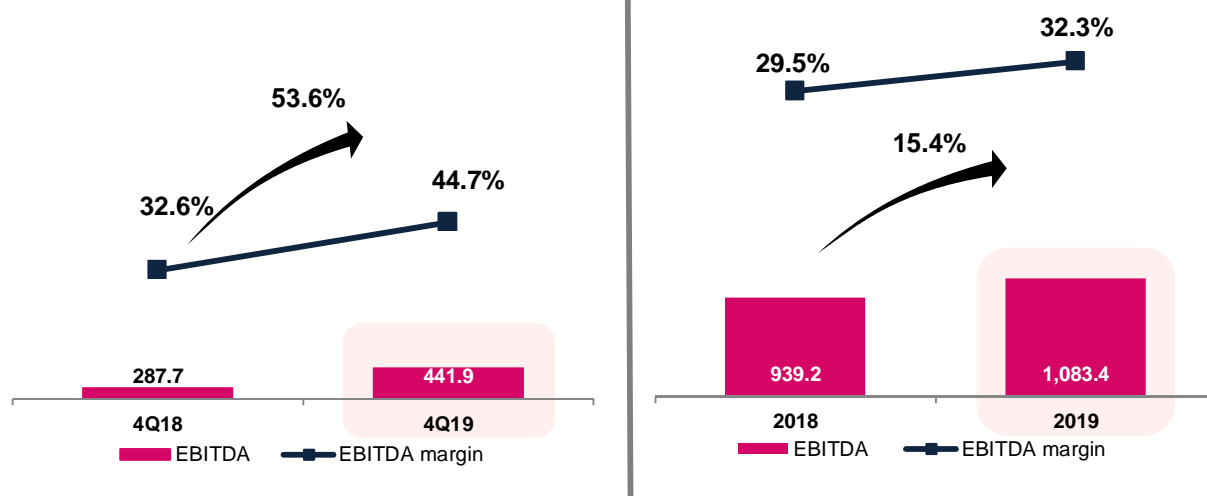
EBITDA

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) reached R\$1.1 billion in 2019, 15.4% higher when compared to the same prior-year period. This variation is mainly the result of the 3.5% increase in gross profit and the recognition of credits related to exclusion of ICMS from the PIS and COFINS tax base, of R\$79.5 million, partially offset by higher selling and administrative expenses from initiatives to increase competitiveness.

(R\$ million)	4Q18	4Q19	Var (%)	2018	2019	Var (%)
Net income	204.7	302.3	47.7%	607.5	721.3	18.7%
Provision for income and social contribution taxes	54.0	102.3	89.4%	223.1	275.4	23.4%
Finance income/costs, net	11.0	10.7	-2.7%	39.9	(17.4)	-143.7%
Depreciation and amortization	18.0	26.6	47.8%	68.7	104.1	51.5%
EBITDA	287.7	441.9	53.6%	939.2	1,083.4	15.4%

Source: The Company's accounting information

EBITDA and EBITDA margin R\$ MM



Source: The Company's accounting information.

By efficiently managing the portfolio, with inclusion of innovative products that add value to the broad pipeline, Aché has shown sustainable growth reflected in an ever-increasing EBITDA, which enables continuous investments in people, technology, quality, innovation and operational excellence.

Finance income (costs)

Net finance income for 2019 totaled R\$17.4 million, with a positive variation of R\$57.3 million when compared to the same prior-year period, mostly due to the monetary restatement of the credit related to exclusion of ICMS from the PIS and COFINS tax base in 2019, totaling R\$55.4 million.

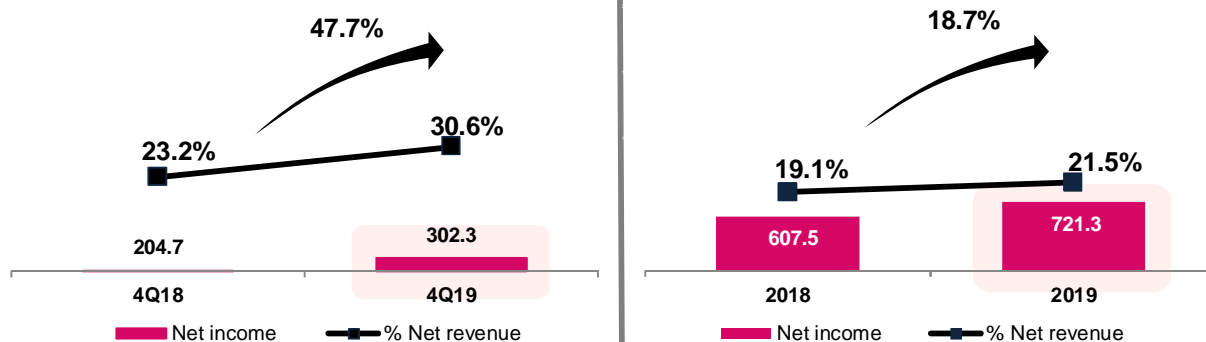
(R\$ million)	4Q18	on NR	4Q19	on NR	2018	on NR	2019	on NR
Finance income (costs)	(15.2)	-1.7%	(13.6)	-1.4%	(29.9)	-0.9%	23.1	0.7%
Exchange differences	4.2	0.5%	2.9	0.3%	(10.0)	-0.3%	(5.7)	-0.2%
Finance income (costs)	(11.0)	-1.2%	(10.7)	-1.1%	(39.9)	-1.2%	17.4	0.5%

Source: The Company's accounting information

Net income

Net income for 2019 totaled R\$721.3 million, up 18.7% when compared to 2018. This positive variation is a result of the 15.4% rise in EBITDA, impacted by the increase in gross profit, especially the Prescription Unit, reduction in contingency expenses, and recognition of credits related to exclusion of ICMS from the PIS and COFINS tax, totaling R\$134.9 million, of which R\$79.5 million was recorded in other operating income and R\$55.4 million, in finance income.

Net income R\$ MM



Source: The Company's accounting information

Net debt

The Company closed 2019 with a net debt of R\$363.4 million. The gross debt totals R\$508.8 million, with a long-term characteristic.

(R\$ million)	Balance in Dec/18	Balance in Dec/19	Var (%)
Loans and financing			
Current	45.5	111.5	145.1%
Noncurrent	337.6	397.3	17.7%
Gross debt	383.1	508.8	32.8%
Cash and cash equivalents	(245.5)	(145.4)	-40.7%
Net debt	137.6	363.4	

Source: The Company's accounting information

The variations in net debt and debt ratio are substantially related to the construction of the new plant and vertical warehouse located in Cabo de Santo Agostinho - Pernambuco state.

Debt ratio

(R\$ million)	Balance in Dec/18	Balance in Dec/19
Loans/financing	383.1	508.8
Cash and cash equivalents	(245.5)	(145.4)
Net debt	137.6	363.4
(/) EBITDA	939.2	1,083.4
Debt ratio	0.15	0.34

Source: Company's accounting information

Statement of value added

Value added, which is an indicator of the wealth added to the Company in its economic activity, totaled R\$2.4 billion. The complete statement is part of the financial statements.

(R\$ million)	2018	2019
Revenues	3,691.1	4,012.7
Gross value added	2,248.0	2,444.9
Total value added to be distributed	2,206.3	2,430.9
Economic value distributed		
Employees' salaries and benefits	685.7	738.9
Government payments (taxes)	798.1	892.2
Debt remuneration	115.0	78.5
Equity remuneration	607.5	721.3
Distribution of value added	2,206.3	2,430.9

Source: The Company's accounting information

investments in property, plant and equipment

In 2019, investments in PP&E totaled R\$344.0 million, of which R\$145.7 million was directed to the implementation of the new plant and the modern vertical warehouse in Cabo de Santo Agostinho - Pernambuco, and R\$16.8 million to the new warehouse of finished products and promotional materials located in Guarulhos.

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)	Balance in Dec/19
Net income for the year	721.3
Mandatory minimum dividends - 25%	180.3
(-) IOE – Interest on Equity	(64.4)
(-) Prepaid dividends	(10.3)
Mandatory minimum dividends balance	105.7
Realization of reserves	2.0
Dividends approved	-
Allocation for investment in PP&E	-
Income to be allocated	543.0

Source: The Company's accounting information

Rating agencies

Ratings	Global Scale	Nationwide
	Foreign currency	Domestic currency
Fitch Ratings (Prospect)	Long Term BB (Stable)	Long Term AAA (bra) (Stable)
Standard and Poor's (Prospect)	BB+ (Positive)	(br) AAA (Stable)

Source: Rating agencies.

The investment grade of the Rating in local currency of Aché reflects the sustainability of the business, which translates into a low volatile cash flow and the Company's solid position in the Brazilian pharmaceutical market, with a prominent position in the Prescription drugs unit. Historically, the sector has consistently performed positively and above the growth in the economy. In the last five years, the Brazilian pharmaceutical market has reported average annual growth of 8%, above the Brazilian Gross Domestic Product (GDP), evidencing the resilience of demand even in adverse macroeconomic scenarios. Due to signs of economic recovery in December 2019, Standard and Poor's revised the prospect for the Sovereign rating (Brazil) on a global scale, from stable to positive, directly reflecting on the elevation of Aché's rating prospect.

Acknowledgments

We thank our shareholders for their confidence, our employees for their commitment, 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, 2019

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São Paulo Corporate Towers
Av. Presidente Juscelino Kubitschek, 1,909
Vila Nova Conceição
04543-011 - São Paulo - SP - Brasil

Tel: +55 11 2573-3000
ey.com.br

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, 2019, 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, 2019, 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, 2019, 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 31, 2020

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP034519/O-6

A handwritten signature in blue ink, appearing to read 'Douglas Travaglia Lopes Ferreira', is written over a circular stamp or seal.

Douglas Travaglia Lopes Ferreira
Accountant CRC-1SP218313/O-4

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Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of financial position
December 31, 2019
(In thousands of reais – R\$)

	Note	Individual		Consolidated	
		12/31/2019	12/31/2018	12/31/2019	12/31/2018
Assets					
Current assets					
Cash and cash equivalents	3	132,891	239,405	145,400	245,471
Trade accounts receivable	4	589,581	613,926	592,879	582,310
Inventories	5	583,670	547,557	588,182	551,648
Taxes and social contributions recoverable	6	181,754	40,981	183,609	44,067
Transactions with related parties	16	2,438	300	2,261	-
Prepaid expenses		84,191	79,161	84,876	80,578
Other receivables		8,615	9,828	8,713	9,854
Total current assets		1,583,140	1,531,158	1,605,920	1,513,928
Noncurrent assets					
Short-term investments	3	1,587	-	1,587	30
Judicial deposits	19	120,464	119,486	120,471	119,486
Taxes and social contributions recoverable		28,792	10,138	29,011	10,458
Investments	9	107,154	66,858	18,941	11,563
Property, plant and equipment	10	1,267,858	996,013	1,310,995	1,027,036
Right of use - lease	13	64,637	-	123,391	-
Intangible assets	11	265,838	279,493	304,319	318,044
Other receivables		4,088	8,941	4,104	8,977
Total noncurrent assets		1,860,418	1,480,929	1,912,819	1,495,594
Total assets		3,443,558	3,012,087	3,518,739	3,009,522

	Note	Individual		Consolidated	
		12/31/2019	12/31/2018	12/31/2019	12/31/2018
Liabilities and equity					
Current liabilities					
Loans and financing	12	109,517	42,592	111,536	45,483
Lease liabilities	13	38,654	-	43,140	-
Trade accounts payable	14	281,889	225,063	280,468	224,721
Tax obligations	15	129,864	92,873	130,538	93,279
Labor and social security obligations	17	112,807	104,070	114,119	105,237
Transactions with related parties	16	145,880	110,909	145,880	111,209
Accounts payable		42,064	36,915	45,552	39,809
Other obligations	18	85,191	74,861	85,192	74,864
Total current liabilities		945,866	687,283	956,425	694,602
Noncurrent liabilities					
Loans and financing	12	389,437	327,821	397,311	337,580
Lease liabilities	13	40,477	-	94,745	-
Deferred income and social contribution taxes	7	90,795	42,220	90,795	42,220
Provision for tax, civil, and labor contingencies	19	231,357	295,031	231,443	295,084
Provision for investment loss	9	-	30,666	-	-
Other obligations	18	48,397	80,310	50,791	82,452
Total noncurrent liabilities		800,463	776,048	865,085	757,336
Equity					
Capital	21	440,959	440,959	440,959	440,959
Capital reserves	21	120,246	174,212	120,246	174,212
Revaluation reserve	21	2,741	3,190	2,741	3,190
Equity adjustment	21	127,628	129,185	127,628	129,185
Income reserves	21	1,005,655	801,210	1,005,655	801,210
Total equity attributable to controlling shareholders		1,697,229	1,548,756	1,697,229	1,548,756
Noncontrolling interests in subsidiaries' equity		-	-	-	8,828
Total equity		1,697,229	1,548,756	1,697,229	1,557,584
Total liabilities and equity		3,443,558	3,012,087	3,518,739	3,009,522

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of profit or loss

December 31, 2019

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

	Note	Individual		Consolidated	
		12/31/2019	12/31/2018	12/31/2019	12/31/2018
Operating revenue, net	22	3,334,622	2,821,879	3,350,532	3,183,190
Cost of sales	23	(1,031,326)	(846,598)	(1,028,323)	(939,348)
Gross profit		2,303,296	1,975,281	2,322,209	2,243,842
Operating income (expenses)					
Selling expenses	23	(1,194,911)	(1,053,461)	(1,195,704)	(1,132,169)
General and administrative expenses	23	(123,149)	(152,696)	(134,418)	(176,509)
Employee and management profit sharing	28	(51,970)	(47,010)	(52,032)	(56,581)
Equity pickup	9	12,310	107,571	9,639	5,377
Other operating income (expenses), net	24	31,194	(14,079)	30,901	(13,066)
Operating income before finance income (costs)		976,770	815,606	980,595	870,894
Finance income (costs)					
Finance income	25	80,189	19,533	80,545	21,593
Finance costs	25	(55,753)	(45,392)	(57,409)	(51,463)
Exchange differences, net	25	(5,669)	(7,210)	(5,690)	(10,008)
Income before income and social contribution taxes		995,537	782,537	998,041	831,016
Income and social contribution taxes					
Current	8	(225,695)	(172,330)	(226,829)	(227,681)
Deferred	8	(48,575)	(2,687)	(48,575)	4,639
Net income for the year		721,267	607,520	722,637	607,974
Attributable to					
Controlling interests		721,267	607,520	721,267	607,520
Noncontrolling interests		-	-	1,370	454
Earnings per share for the year - R\$					
Basic and diluted	29	11.29	9.51	11.29	9.51

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of comprehensive income
December 31, 2019
(In thousands of reais – R\$)

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Net income for the year	721,267	607,520	722,637	607,974
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	721,267	607,520	722,637	607,974
Attributable to:				
Controlling interests	721,267	607,520	721,267	607,520
Noncontrolling interests	-	-	1,370	454
	721,267	607,520	722,637	607,974

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of changes in equity
December 31, 2019
(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	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, 2017	440,959	167,767	6,445	3,650	121,627	9,116	43,807	982	93,353	205,410	422,720	-	1,515,836	8,674	1,524,510
Realization of revaluation reserve	-	-	-	(460)	-	-	-	-	-	-	-	460	-	-	-
Realization of adjustments at deemed cost	-	-	-	-	(1,558)	-	-	-	-	-	-	1,558	-	-	-
Valuation adjustment merged - Biosintética	-	-	-	-	9,116	(9,116)	-	-	-	-	-	-	-	-	-
Dividends - Melcon	-	-	-	-	-	-	-	-	-	-	-	-	-	(300)	(300)
Dividends for 2017 as per AGM held on Mar 20, 2018	-	-	-	-	-	-	-	-	-	-	(422,720)	-	(422,720)	-	(422,720)
Net income for the year	-	-	-	-	-	-	-	-	-	-	-	607,520	607,520	454	607,974
Transfer to income reserves	-	-	-	-	-	-	-	-	-	-	455,640	(455,640)	-	-	-
Realization of reserves	-	-	-	-	-	-	-	-	-	-	2,018	(2,018)	-	-	-
Interest on equity according to SGM held on Feb 8, 2018	-	-	-	-	-	-	-	-	-	-	-	(69,919)	(69,919)	-	(69,919)
Prepaid dividends	-	-	-	-	-	-	-	-	-	-	-	(11,272)	(11,272)	-	(11,272)
Mandatory minimum dividends	-	-	-	-	-	-	-	-	-	-	-	(70,689)	(70,689)	-	(70,689)
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 3, 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

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of cash flows

December 31, 2019

(In thousands of reais – R\$)

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Cash flow from operating activities				
Income before income and social contribution taxes	995,537	782,537	998,041	831,016
Adjustments to reconcile income before income and social contribution taxes to net cash from operating activities:				
Depreciation and amortization	101,158	58,509	104,137	68,680
Loss on disposal of property, plant and equipment items	-	184	82	350
Provision for tax, civil and labor contingencies	(51,685)	15,907	(51,652)	16,495
Provision for inventory losses	44,751	36,124	44,932	41,353
Equity pickup	(12,310)	(107,571)	(9,639)	(5,377)
Other provisions	(21,583)	(7,908)	(21,333)	(4,966)
Accrued interest, and monetary and exchange differences	22,398	15,429	23,779	18,236
Allowance for doubtful accounts	490	1,470	539	1,683
Other	-	121	-	150
	1,078,756	794,802	1,088,886	967,620
(Increase) decrease in operating assets:				
Trade accounts receivable	23,855	58,891	(11,108)	76,675
Inventories	(80,864)	(143,983)	(81,466)	(181,432)
Taxes and social contributions recoverable	(161,043)	(18,649)	(159,720)	(26,650)
Prepaid expenses and other receivables	58	2,392	731	(26)
Increase (decrease) in operating liabilities:				
Trade accounts payable	56,826	36,637	55,747	34,098
Labor and social security obligations	8,737	7,381	8,882	2,969
Taxes and contributions payable	16,890	3,376	16,746	(1,758)
Income and social contribution taxes paid	(203,978)	(203,643)	(204,691)	(279,710)
Provision for tax, civil and labor contingencies paid	(11,989)	(26,639)	(11,989)	(26,891)
Interest paid on loans and financing	(20,664)	(9,831)	(22,044)	(11,052)
Other liabilities	5,149	(1,477)	5,743	(2,857)
Net cash from operating activities	711,733	499,257	685,717	550,986
Cash flow from investing activities				
Dividends received	300	85,400	-	-
Acquisition of shares from subsidiary	(64,164)	-	(64,164)	-
Capital increase in subsidiaries	(36,738)	(481)	-	-
Acquisition of PPE and intangible assets	(186,152)	(109,327)	(187,012)	(128,978)
Advances on PPE items	(135,644)	(40,998)	(135,735)	(83,051)
Short-term investments - noncurrent	(1,587)	-	(1,557)	-
Cash from merger of Biosintética	-	10,219	-	-
Net cash (used in) investing activities	(423,985)	(55,187)	(388,468)	(212,029)
Cash flow from financing activities				
Loans and financing taken out	855,045	188,996	855,849	244,526
Repayment of loans and financing	(741,762)	(37,476)	(745,324)	(43,285)
Amortization of lease	(23,688)	-	(23,688)	-
Dividends and interest on equity paid	(483,857)	(463,691)	(484,157)	(463,691)
Net cash (used in) financing activities	(394,262)	(312,171)	(397,320)	(262,450)
Increase (decrease) in cash and cash equivalents	(106,514)	131,899	(100,071)	76,507
Cash and cash equivalents at beginning of year	239,405	107,506	245,471	168,964
Cash and cash equivalents at end of year	132,891	239,405	145,400	245,471

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of value added
December 31, 2019
(In thousands of reais – R\$)

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Revenues				
Sales of goods, products and services	3,825,101	3,256,559	3,842,483	3,651,182
Allowance for doubtful accounts	(490)	(341)	(539)	(554)
Other revenues	170,606	39,206	170,787	40,513
	3,995,217	3,295,424	4,012,731	3,691,141
Inputs acquired from third parties				
Raw materials consumed	845,009	676,049	810,947	717,696
Cost of sales and services	148	19,450	20,299	30,682
Materials, energy, third-party services and other expenses	731,809	627,951	738,072	694,884
Impairment of assets	(1,428)	1,988	(1,443)	(123)
	1,575,538	1,325,438	1,567,875	1,443,139
Gross value added	2,419,679	1,969,986	2,444,856	2,248,002
Depreciation and amortization	(101,158)	(58,509)	(104,137)	(68,680)
Net value added produced by the Company	2,318,521	1,911,477	2,340,719	2,179,322
Value added received in transfer				
Equity pickup	12,310	107,571	9,639	5,377
Finance income	80,189	19,533	80,545	21,593
	92,499	127,104	90,184	26,970
Total value added to be distributed	2,411,020	2,038,581	2,430,903	2,206,292
Distribution of value added	2,411,020	2,038,581	2,430,903	2,206,292
Personnel	725,721	618,994	738,911	685,659
Direct compensation	592,402	509,487	603,018	563,977
Benefits	93,749	76,713	95,619	85,957
Unemployment Compensation Fund (FGTS)	39,570	32,794	40,274	35,725
Taxes, fees and contributions	888,947	708,646	892,217	798,051
Federal	555,347	422,298	558,605	474,960
State	326,807	279,227	326,352	314,943
Local	4,442	4,135	4,543	4,689
Other taxes	2,351	2,986	2,717	3,459
Debt remuneration	75,085	103,421	78,508	115,062
Interest	59,193	52,602	60,869	61,471
Rent	15,892	50,819	16,269	53,137
Noncontrolling interests	-	-	1,370	454
Equity remuneration	721,267	607,520	721,267	607,520
Interest on equity paid	180,317	151,880	180,317	151,880
Retained earnings for the period	540,950	455,640	540,950	455,640

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements

December 31, 2019

(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 cosmetics, through its prescription, hospital, generic and over-the-counter medicine business units.

The Company holds ownership interests in the following companies:

Business name	Core activity	Country	Interest	12/31/2019	12/31/2018
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%	50%
Labofarma Produtos Farmacêuticos Ltda. ("Labofarma")	(d) Distribution and sale of medicines.	Brazil	Direct	100%	99.99%
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, Aché 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. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

1. Operations (Continued)

1.1. Significant strategic investment – New Aché plant - Pernambuco

On October 2, 2019, the first phase of the new plant in Pernambuco was inaugurated, strategically located in Cabo de Santo Agostinho, enabling Aché to be close to large customers in the region and further expand the borders reaching a greater number of consumers.

The plant is built in a plot of land of 250,000 m², with an installed production capacity of approximately 700 million units of medicines per year. By 2021, the expected date for completion of all works and the beginning of production, R\$660 million will be invested in the physical structure, in addition to the resources provided in equipment and technology. Logistics facilities such as the Suape Industrial Port Complex will boost exports of finished products and imports of raw materials.

1.2. Corporate restructuring

Following management's strategic plan for continuous growth and expansion through corporate restructuring, the events below took place:

Merger of Biosintética Farmacêutica Ltda.

According to the Special General Meeting (SGM) held on July 13, 2018, the Letter of Intent was approved for the merger of Biosintética Farmacêutica Ltda. into the Company, for the purpose of rationalizing and consolidating the administrative activities, as well as winning operational gains and synergy. The appraisal report on the net assets of the merged company was determined based on the accounting books as at July 1, 2018 and was issued on July 10, 2018 by an independent company.

The Company held 99.99% ownership interest in the subsidiary Biosintética. For comparison purposes, the following table shows the amounts of the merged company, with the effect of P&L accumulated until December 31, 2018 had the subsidiary already been merged.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

1. Operations (Continued)

1.2. Corporate restructuring (Continued)

Statements of profit or loss for the years ended December 31, 2019 and 2018

	Individual	Biosintética	Individual	Company after merger
	12/31/2019	12/31/2018	12/31/2018	12/31/2018
Net revenue	3,334,622	417,590	2,821,879	3,239,469
Cost	(1,031,326)	(158,004)	(846,598)	(1,004,602)
Gross profit	2,303,296	259,586	1,975,281	2,234,867
Total operating expenses	(1,326,526)	(103,430)	(1,159,675)	(1,263,105)
Operating income before finance income (costs)	976,770	156,156	815,606	971,762
Total finance income (costs)	18,767	(4,804)	(33,069)	(37,873)
Income before income and social contribution taxes	995,537	151,352	782,537	933,889
Total income and social contribution taxes	(274,270)	(47,868)	(175,017)	(222,885)
Net income for the period	721,267	103,484	607,520	711,004
Attributable to Controlling interests	721,267	103,484	607,520	711,004
Noncontrolling interests	-	-	-	-

1.3. Acquisition of units of interest of the subsidiary Indústria Farmacêutica Melcon do Brasil Ltda.

On September 17, 2019, the Company acquired 5,617,500 units of interest of its subsidiary Indústria Farmacêutica Melcon do Brasil Ltda. in the amount of R\$64.1 million, representing a 50% increase in ownership interest. It now holds 100% of the capital of Melcon. The negotiation is classified as a transaction between the entity and its non-controlling members.

The transaction was recognized according to the standards established in CPC 36, items 22 to 24, and Accounting Instruction ICPC 9, item 66, of which R\$10.2 million under "Investments" (Note 9) and R\$53.9 million directly in equity, under "Capital transaction with members", given that this concerns acquisition of units of interest of a company already controlled by Aché.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

1. Operations (Continued)

1.3. Acquisition of shares of the subsidiary Indústria Farmacêutica Melcon do Brasil Ltda. (Continued)

Founded in 2001, Melcon, similarly to Aché, is a Brazilian company located in Anápolis - Goiás, the second largest pharmaceutical hub in Brazil, and specializes in the development, outsourcing and production of hormonal medicines.

The result of this partnership enabled the expansion and modernization of the facilities and the development of the line of hormonal products, in addition to the launching of non-hormonal medicines, expanding its product portfolio and increasing its stake in the pharmaceutical market.

With the acquisition, the Company continued its business expansion plans through the launch of new medicines, thus strengthening its purpose of bringing more life to people wherever they are.

1.4. Capital increase at the subsidiary Labofarma

According to the Special General Meeting (SGM) held on November 26, 2019, the capital increase at the subsidiary Labofarma was approved, in the amount of R\$50.9 million, of which R\$36.8 million was credited in the same month and R\$14.1 million through fixed assets.

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 31, 2020.

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.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

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

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.

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:

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(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

- 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, 2019 and 2018, 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.
- 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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, the Company and its subsidiaries had no financial liabilities classified in this category.
- Other financial liabilities: at December 31, 2019 and 2018, 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.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

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

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.

2.1. New standards, amendments and interpretations of standards

IFRS 16 (CPC 06 (R2)) - Leases

The Company adopted CPC 06 (R2) prospectively as provided for in CPC 23 - Accounting policies, changes in accounting estimates and error, as of January 1, 2019.

The Company and its subsidiaries carried out a study to apply the standard and, upon analysis of the current agreements, they identified that the vehicle fleet rental agreements used by the sales force, administrative managers and the board meet the rules established by the new standard. Additionally, the Company evaluated the logistics operations agreement for the new general warehouse of finished products located in Guarulhos, São Paulo, and recognized the right to use this warehouse. Leases with a term of less than 12 months, leases at insignificant amounts, leases that do not transfer the power of control over the good or service to the Company, or leases whose components are not considered lease or for which the lease value breakdown for application of the standard depends on a variable amount, with no defined value or unknown value, are exempt from application of the new standard.

The new lease agreements are timely analyzed by management, and no impacts from this standard were identified. The average term of the vehicle fleet agreement is 36 months, and can be extended upon execution of an express contractual amendment. The term of the general warehouse lease is of 120 months.

Expenses related to lease agreements are recognized through the expense of amortization of the right to use the assets and the finance cost of interest on lease obligations. Lastly, the Company does not expect impacts on its ability to comply with contractual agreements for maximum leverage limit on loans (covenants) due to the adoption of this new pronouncement, since the covenants provided for in the agreements in effect at December 31, 2019 already exclude the effect of potential changes or new accounting rules after their execution.

The discount rate applied to lease liabilities in 2019 was 11% per year for the vehicle fleet and 7.65% per year for lease of the general store.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

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

2.1. New standards, amendments and interpretations of standards (Continued)

IFRIC 23 – Uncertainty over income tax treatments

The new interpretation became effective on January 1, 2019 and establishes requirements for recognition and measurement in cases where the Company has defined, when calculating income taxes (income and social contribution taxes), the use of uncertain tax treatments that may be challenged by the tax authorities.

In situations where certain treatments are uncertain, the Company should define the probability of tax authorities accepting their presentation separately, determining any contingency if it is concluded that the tax authority will not accept such treatment.

Management assesses in a timely manner the procedures adopted for calculation of current and deferred income and social contribution taxes of the Company and its subsidiaries, and concluded that there is no uncertainty about the tax treatment in accordance with current tax legislation.

3. Cash and cash equivalents and short-term investments

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Cash and banks	250	467	12,545	6,123
Short-term investments	132,641	238,938	132,855	239,348
Total	132,891	239,405	145,400	245,471
	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Financial investments - noncurrent	1,587	-	1,587	30

Short-term investments comprise Bank Deposit Certificates (CBD) bearing interest between 95% and 100.5% p.a. of the Interbank Deposit Certificate (CDI), with an average duration of 365 days (98.00% to 100.00% p.a. in 2019), and repurchase agreements with an average duration of 30 days and interest of 75% to 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 94.2% of the CDI p.a. in 2019. Because it is a guarantee for financing, this asset was accounted for as noncurrent investment.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

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	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Domestic	594,489	581,997	598,551	586,807
Foreign (Note 20 c.2)	885	1,521	885	1,521
Related parties (Note 16)	385	36,096	-	-
Allowance for doubtful accounts (b)	(6,178)	(5,688)	(6,557)	(6,018)
Total	589,581	613,926	592,879	582,310

a) Aging list of trade accounts receivable

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Falling due	582,644	551,380	585,822	518,839
Overdue:				
From 1 to 60 days	3,730	58,917	3,848	59,652
From 61 to 120 days	1,911	3,231	1,913	3,317
From 121 to 180 days	1,296	398	1,296	502
Above 180 days	6,178	5,688	6,557	6,018
Total	595,759	619,614	599,436	588,328

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	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Balance at beginning of year	(5,688)	(2,757)	(6,018)	(5,464)
Merged balance of Biosintética (a)	-	(2,590)	-	-
Additions	(7,040)	(4,339)	(7,105)	(4,933)
Write-offs (effective losses)	6,550	1,129	6,566	1,129
Reversals due to amounts received	-	2,869	-	3,250
Balance at end of year	(6,178)	(5,688)	(6,557)	(6,018)

(a) Merged balances of Biosintética, previously disclosed in the Consolidated figures.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

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	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Finished products	269,087	229,428	268,980	229,675
Work-in-process	78,353	79,788	79,498	81,061
Raw materials	264,712	248,361	268,210	251,023
Imports in progress	11,587	20,907	11,587	20,907
Provision for inventory losses	(40,069)	(30,927)	(40,093)	(31,018)
Total	583,670	547,557	588,182	551,648

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\$1,599 (R\$1,482 at December 31, 2018).

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	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Balance at beginning of year	(30,927)	(6,563)	(31,018)	(17,914)
Merged balance of Biosintética (a)	-	(9,677)	-	-
Additions	(77,778)	(43,433)	(77,959)	(51,469)
Reversals	33,027	7,309	33,027	10,116
Write-offs (effective losses)	35,609	21,437	35,857	28,249
Balance at end of year	(40,069)	(30,927)	(40,093)	(31,018)

(a) Merged balances of Biosintética, previously disclosed in the Consolidated figures.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

6. Taxes and social contributions recoverable

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Federal VAT (IPI)	3,590	6,145	3,595	6,147
State VAT (ICMS)	16,719	6,726	16,886	7,002
Contribution Tax on Gross Revenue for Social Integration Program (IPI) (a)	28,278	3,962	28,513	4,362
Contribution Tax on Gross Revenue for Social Security Financing (COFINS) (a)	132,374	16,920	133,460	19,011
Other taxes recoverable	793	7,228	1,155	7,545
Total	181,754	40,981	183,609	44,067

(a) A favorable final decision was handed down determining the exclusion of ICMS from the PIS and COFINS tax base. Through this decision, the Company estimated and recognized the right to credits for the period from 2005 to 2019 in the amount of R\$134.9 million under Taxes recoverable, of which the principal of R\$79.5 million is recorded under Other operating income (Note 24) and the monetary restatement of R\$55.4 million under the finance income (Note 25). The credits are restated monthly at the Selic rate until their offset.

7. Deferred income and social contribution taxes

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

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Assets				
Deferred income and social contribution taxes on:				
Temporarily non-deductible provisions:				
Provision for tax, civil, and labor contingencies	78,661	100,311	78,661	100,328
Profit sharing	27,988	26,457	27,988	26,457
Allowance for doubtful accounts	2,101	1,934	2,101	2,046
Provision for inventory losses	13,886	10,619	13,886	10,650
Provision for fleet maintenance	3,211	4,429	3,211	4,430
Provision for customer bonus	30,079	25,162	30,079	25,162
Unrealized profit	544	504	544	504
Provision for sales not delivered	3,172	-	3,172	-
Incinerated materials	12,659	-	12,659	-
Provision for hedge	356	110	356	110
Other	8,621	5,628	8,621	5,629
Total	181,278	175,154	181,278	175,316

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

7. Deferred income and social contribution taxes (Continued)

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Liabilities				
Deferred income and social contribution taxes on:				
Revaluation of assets	4,941	5,224	4,941	5,224
Deemed cost attributable to PPE and difference between useful life vs. tax depreciation rate	85,681	84,969	85,681	84,969
Goodwill amortized	73,232	73,471	73,232	73,472
Borrowing costs	18,436	11,418	18,436	11,418
Monetary restatement of judicial deposits	17,019	16,514	17,019	16,514
Depreciation	24,450	25,177	24,450	25,177
Exclusion of ICMS from the PIS and COFINS tax base (a)	45,883	-	45,883	-
Other	2,431	601	2,431	762
Total	272,073	217,374	272,073	217,536
Balance of deferred income and social contribution tax assets (liabilities)	(90,795)	(42,220)	(90,795)	(42,220)

(a) See Note 6.a.

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:

	Consolidated	
	12/31/2019	12/31/2018
2020	80,316	54,984
2021	13,487	11,640
2022	6,925	6,476
From 2023 onwards	80,550	102,216
Total	181,278	175,316

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

8. Reconciliation of income and social contribution tax expense

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Income before income and social contribution taxes	995,537	782,537	998,041	831,016
Nominal income and social contribution tax expense – 34%	(338,483)	(266,063)	(339,334)	(282,545)
Reconciliation of income and social contribution tax expense at effective rate:				
Equity pickup	4,225	36,698	3,277	1,828
Tax benefit from technology research and development of technology innovation	28,090	24,130	28,090	26,208
Interest on equity	21,889	23,773	21,889	23,773
Non-deductible fines	(66)	(1,084)	(66)	(1,103)
Non-deductible donations	(3,374)	(2,720)	(3,378)	(3,351)
'Citizen maternity' allowance	(678)	(534)	(678)	(555)
Tax incentives	11,302	8,688	11,302	10,852
Other	2,825	2,095	3,494	1,851
Effective income and social contribution tax expense	(274,270)	(175,017)	(275,404)	(223,042)
Current	(225,695)	(172,330)	(226,829)	(227,681)
Deferred	(48,575)	(2,687)	(48,575)	4,639
Effective rate	28%	22%	28%	27%

9. Investments

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Subsidiaries	68,755	28,459	18,941	11,563
Goodwill - Asta Médica	11,446	11,446	-	-
Goodwill - Melcon	17,533	17,533	-	-
Goodwill - Nortis	9,420	9,420	-	-
Total	107,154	66,858	18,941	11,563

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. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

9. Investments (Continued)

Individual	Subsidiary information					12/31/2019		12/31/2018	
	Total assets	Total liabilities	Total equity	Unrealized profit	P&L for the period	Investment balance	Equity pickup	Investment balance	Equity pickup
Biosintética (a)	-	-	-	-	-	-	-	-	103,418
Melcon (b)	39,114	18,017	21,097	340	3,618	19,567	1,908	7,638	294
Bionovis (c)	337,378	261,614	75,764	-	38,077	18,941	9,639	11,563	5,377
Nortis	12,831	1,281	11,550	-	2,292	11,550	2,292	9,258	563
Labofarma	21,954	3,188	18,766	(217)	(1,746)	18,697	(1,529)	-	-
Provision for investment loss						-	-	(30,666)	(2,081)
Total						68,755	12,310	(2,207)	107,571

(a) The investment balance of the subsidiary Biosintética was written off due to merger by Aché in July 2018.

(b) The investment balance referring to the subsidiary Melcon is now 100% of the subsidiary's equity balance, as per transaction described in Note 1.3.

(c) 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	12/31/2018	Equity pickup	Increase in investment in subsidiaries (a)	Capital increase (b)	Dividends (c)	12/31/2019
Melcon	7,638	1,908	10,198	-	(177)	19,567
Bionovis	11,563	9,639	-	-	(2,261)	18,941
Nortis	9,258	2,292	-	-	-	11,550
Labofarma	(30,666)	(1,529)	-	50,892	-	18,697
Total	(2,207)	12,310	10,198	50,892	(2,438)	68,755

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

(a) As per Note 1.3.

(b) As per Note 1.4.

(c) Mandatory minimum dividends receivable.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(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.

		Individual					
		12/31/2019			12/31/2018		
Useful life (years)		Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount
		Land	120,501	-	120,501	120,501	-
Buildings	42	522,425	(167,061)	355,364	522,425	(158,018)	364,407
Facilities	10	104,197	(60,232)	43,965	99,659	(53,510)	46,149
Machinery and equipment	6	456,591	(241,059)	215,532	433,841	(212,711)	221,130
Furniture and fixtures	10	20,245	(11,467)	8,778	17,555	(10,560)	6,995
Vehicles	5	2,587	(2,587)	-	2,587	(2,573)	14
IT equipment	4	64,398	(40,632)	23,766	54,962	(31,707)	23,255
Molds and dies/other	10	40,839	(22,280)	18,559	34,007	(19,568)	14,439
		1,331,783	(545,318)	786,465	1,285,537	(488,647)	796,890
Advances		32,199	-	32,199	54,344	-	54,344
Construction in progress (a)		449,194	-	449,194	144,779	-	144,779
Total		1,813,176	(545,318)	1,267,858	1,484,660	(488,647)	996,013

		Consolidated					
		12/31/2019			12/31/2018		
Useful life (years)		Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount
		Land	122,666	-	122,666	122,666	-
Buildings	42	545,344	(172,679)	372,665	548,778	(163,806)	384,972
Facilities	10	112,655	(62,571)	50,084	100,791	(54,239)	46,552
Machinery and equipment	6	480,732	(250,041)	230,691	448,755	(220,394)	228,361
Furniture and fixtures	10	21,339	(11,985)	9,354	18,369	(11,016)	7,353
Vehicles	5	2,705	(2,705)	-	2,737	(2,713)	24
IT equipment	4	66,542	(41,148)	25,394	55,577	(32,124)	23,453
Molds and dies/other	10	40,869	(22,282)	18,587	34,013	(19,568)	14,445
		1,392,852	(563,411)	829,441	1,331,686	(503,860)	827,826
Advances		32,199	-	32,199	54,344	-	54,344
Construction in progress (a)		449,355	-	449,355	144,866	-	144,866
Total		1,874,406	(563,411)	1,310,995	1,530,896	(503,860)	1,027,036

(a) This refers mostly to investments for implementation of the new plant and a modern vertical warehouse in the region of Cabo de Santo Agostinho – Pernambuco.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

10. Property, plant and equipment (Continued)

Changes in property, plant and equipment are as follows:

	Individual - Cost				12/31/2019
	12/31/2018	Acquisitions	Write-offs (a)	Transfers	
Land	120,501	-	-	-	120,501
Buildings	522,425	-	-	-	522,425
Facilities	99,659	1,225	(3,391)	6,704	104,197
Machinery and equipment	433,841	11,696	(10,729)	21,783	456,591
Furniture and fixtures	17,555	3,030	(342)	2	20,245
Vehicles	2,587	-	-	-	2,587
IT equipment	54,962	9,467	(31)	-	64,398
Molds and dies/other	34,007	6,586	-	246	40,839
Subtotal	1,285,537	32,004	(14,493)	28,735	1,331,783
Advances on PPE items	54,344	136,278	-	(158,423)	32,199
Construction in progress	144,779	174,727	-	129,688	449,194
Total	1,484,660	343,009	(14,493)	-	1,813,176

(a) The write-off refers to increase in investment at Labofarma in PP&E in the amount of R\$14.1 million (as per Note 1.4).

	Consolidated - Cost				12/31/2019
	12/31/2018	Acquisitions	Write-offs	Transfers	
Land	122,666	-	-	-	122,666
Buildings	548,778	76	-	(3,510)	545,344
Facilities	100,791	1,301	(12)	10,575	112,655
Machinery and equipment	448,755	12,087	(19)	19,909	480,732
Furniture and fixtures	18,369	3,068	(343)	245	21,339
Vehicles	2,737	-	(32)	-	2,705
IT equipment	55,577	9,558	(44)	1,451	66,542
Molds and dies/other	34,013	6,613	-	243	40,869
Subtotal	1,331,686	32,703	(450)	28,913	1,392,852
Advances on PPE items	54,344	136,368	-	(158,513)	32,199
Construction in progress	144,866	174,889	-	129,600	449,355
Total	1,530,896	343,960	(450)	-	1,874,406

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

	Individual				12/31/2019
	12/31/2018	Additions	Write-offs	Transfers	
Buildings	(158,018)	(9,043)	-	-	(167,061)
Facilities	(53,510)	(6,862)	12	128	(60,232)
Machinery and equipment	(212,711)	(28,248)	15	(115)	(241,059)
Furniture and fixtures	(10,560)	(1,209)	302	-	(11,467)
Vehicles	(2,573)	(14)	-	-	(2,587)
IT equipment	(31,707)	(8,935)	10	-	(40,632)
Molds and dies/other	(19,568)	(2,699)	-	(13)	(22,280)
Total	(488,647)	(57,010)	339	-	(545,318)

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

10. Property, plant and equipment (Continued)

	Consolidated				12/31/2019
	12/31/2018	Additions	Write-offs	Transfers	
Buildings	(163,806)	(9,957)	-	1,084	(172,679)
Facilities	(54,239)	(7,388)	12	(956)	(62,571)
Machinery and equipment	(220,394)	(29,549)	16	(114)	(250,041)
Furniture and fixtures	(11,017)	(1,271)	303	-	(11,985)
Vehicles	(2,713)	(25)	33	-	(2,705)
IT equipment	(32,123)	(9,050)	25	-	(41,148)
Molds and dies/other	(19,568)	(2,700)	-	(14)	(22,282)
Total	(503,860)	(59,940)	389	-	(563,411)

At the year ended December 31, 2019, 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, as well as items listed in the defense of legal proceedings, such as properties, vehicles and brands.

11. Intangible assets

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Brands	30,118	30,118	30,131	30,131
CBPF - Nortis (a)	-	707	-	707
Software	28,411	40,726	28,480	40,865
Advances	3,367	4,000	3,367	4,000
Goodwill - Asta Médica Ltda. (b)	-	-	11,446	11,446
Goodwill - Biosintética (c)	203,942	203,942	203,942	203,942
Goodwill - Melcon (d)	-	-	17,533	17,533
Goodwill - Nortis (e)	-	-	9,420	9,420
Total	265,838	279,493	304,319	318,044

(a) Intangible assets arising from the acquisition of subsidiary Nortis in February 2016, related to the Good Manufacturing Practices Certificate (CBPF).

(b) 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.

(c) 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.

(d) Goodwill arising from the acquisition of subsidiary Melcon in August 2010.

(e) Goodwill arising from the acquisition of subsidiary Nortis in August 2016.

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Notes to individual and consolidated financial statements (Continued)

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

11. Intangible assets (Continued)

Changes in intangible assets are as follows:

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Balance at beginning of year	279,493	72,017	318,044	317,520
Merged balance of Biosintética (a)	-	206,640	-	-
Advances	(633)	4,000	(633)	4,000
Additions	844	2,339	844	2,346
Write-offs	-	(4)	(21)	(4)
Amortization - software	(13,866)	(13,615)	(13,915)	(13,934)
Transfers of PPE	-	8,116	-	8,116
Balance at end of year	265,838	279,493	304,319	318,044

(a) Merged balances of Biosintética, previously disclosed in the Consolidated figures.

For the year ended December 31, 2019, 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 12% p.a. (12% p.a. in 2018).

The results of the impairment test conducted as of December 31, 2019 indicated no need to record provision for losses.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

12. Loans and financing

	Annual charges	Maturity	Individual		Consolidated		
			12/31/2019	12/31/2018	12/31/2019	12/31/2018	
Local currency:							
Working capital - Melcon	CDI + 0.88% p.a.	2022	-	-	770	1,250	
Working capital - Aché (a)	CDI + 0.88% p.a.	2022	58,010	-	58,010	-	
FCO and FOMENTAR – Melcon (b)	9.5% to 11.0%	2027	-	-	9,078	11,313	
FINAME - Melcon	3.5% to 6.5%	2021	-	-	45	87	
FINEP (c)	Fixed 5.0% p.a.	2024	5,923	15,373	5,923	15,373	
Profarma - BNDES - Aché (d)	TJLP +1.50% to 2.26%	2026	216,659	205,104	216,659	205,104	
Profarma - BNDES - Aché (d)	6.37% to 7.34%	2026	164,433	128,307	164,433	128,307	
Profarma - BNDES - Aché (e)	Fixed 4.0% to 4.5% p.a.	2023	14,366	21,629	14,366	21,629	
Banco do Nordeste (f)	IPCA + 1.54% p.a.	2032	39,563	-	39,563	-	
Total			498,954	370,413	508,847	383,063	
Current			109,517	42,592	111,536	45,483	
Noncurrent			389,437	327,821	397,311	337,580	
Total			498,954	370,413	508,847	383,063	

- (a) The Company has a revolving credit facility with a limit of 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.
- (b) 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.
- (c) 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.
- (d) 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.
- (e) 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.
- (f) 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 provide for the following 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, 2019, the Company was compliant with these contractual commitments.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

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, according to Note 2.1.

At December 31, 2019, changes in lease liabilities are as follows:

Lease liabilities	Consolidated					
	First-time adoption	Additions/write-offs	Provision for interest	Interest paid	Amortization	12/31/2019
Vehicles	87,622	7,297	7,900	(5,970)	(17,718)	79,131
Properties	-	58,754	-	-	-	58,754
Total	<u>87,622</u>	<u>66,051</u>	<u>7,900</u>	<u>(5,970)</u>	<u>(17,718)</u>	<u>137,885</u>
	Annual charges	Maturity	12/31/2019			
Lease liabilities			137,885			
Vehicles	11%	2022	79,131			
Properties	7.65%	2029	58,754			
Current			43,140			
Noncurrent			94,745			

At December 31, 2019, changes in rights of use are as follows:

	Consolidated			
	First-time adoption	Additions	Write-offs	12/31/2019
Vehicles - cost	87,622	47,784	(45,207)	90,199
Properties - cost	-	58,754	-	58,754
Total - cost	<u>87,622</u>	<u>106,538</u>	<u>(45,207)</u>	<u>148,953</u>
Depreciation	-	(30,282)	4,720	(25,562)
Net amount	<u>87,622</u>	<u>76,256</u>	<u>(40,487)</u>	<u>123,391</u>

14. Trade accounts payable

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Domestic suppliers	122,870	131,860	126,115	132,727
Foreign suppliers	107,482	77,049	108,314	77,049
Reverse factoring (a)	46,039	14,945	46,039	14,945
Related parties (Note 16)	5,498	1,209	-	-
Total	<u>281,889</u>	<u>225,063</u>	<u>280,468</u>	<u>224,721</u>

(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, 2019, discount rates on assignment operations carried out by suppliers with the financial institution in the domestic market varied between 0.48% and 0.57% p.m. (0.66% to 0.78% p.m. in 2018). 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.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

15. Tax obligations

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
ICMS	30,023	17,436	30,011	17,704
PIS	1,677	1,453	1,713	1,453
COFINS	9,658	6,924	9,824	6,924
IRPJ	68,614	54,917	68,955	54,917
CSLL	17,313	10,909	17,382	10,909
Other	2,579	1,234	2,653	1,372
Total	129,864	92,873	130,538	93,279

16. Transactions with related parties

Transactions and balances with related parties are as follows:

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Revenues:				
Sales and manufacturing - Biosintética (a)	-	74,665	-	-
Sales - Melcon (b)	697	1,165	-	-
Sales - Labofarma (b)	3,065	5,617	-	-
Total revenues	3,762	81,447	-	-
Expenses:				
Purchases of goods from Biosintética (a)	-	12,120	-	-
Purchase of goods from Melcon	16,512	14,511	-	-
Purchase of goods from Nortis	11,491	8,100	-	-
Purchase of services from Labofarma	6,196	-	-	-
Total expenses	34,199	34,731	-	-
	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Current assets:				
Accounts receivable - Labofarma (c) (Note 4)	35	36,077	-	-
Accounts receivable - Melcon (c) (Note 4)	336	14	-	-
Accounts receivable - Nortis (c) (Note 4)	14	5	-	-
Dividends receivable (d)	2,438	300	2,261	-
Total current assets	2,823	36,396	2,261	-
Current liabilities:				
Trade accounts payable - Labofarma (c) (Note 14)	775	77	-	-
Trade accounts payable - Nortis (c) (Note 14)	42	610	-	-
Trade accounts payable - Melcon (c) (Note 14)	4,681	522	-	-
Dividends payable	145,880	110,909	145,880	111,209
Associação Brasileira de Assistência ao Deficiente Visual - Laramara	225	97	225	138
Total current liabilities	151,603	112,215	146,105	111,347

(a) Manufacturing of products and rendering of corporate services passed on to subsidiaries at the cost actually incurred in these services. This balance was realized by transactions until June 30, 2018.

(b) Sales of products.

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

(d) Dividends receivable from subsidiary Bionovis of R\$2,261 and from Melcon of R\$177 as of December 31, 2019, and from the subsidiary Melcon of R\$300 as of December 31, 2018.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

16. Transactions with related parties (Continued)

The transactions with related parties are carried out under specific conditions agreed by the parties.

Key management personnel compensation

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

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Overall management compensation and charges	17,999	15,361	17,999	15,478

17. Labor and social security obligations

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Wages and salaries payable	-	-	225	208
Accrued vacation pay, 13 th monthly salary and social charges	25,057	22,837	25,660	23,415
Social Security Tax (INSS) payable	19,184	18,639	19,474	18,885
Unemployment Compensation Fund (FGTS) payable	6,141	6,015	6,224	6,072
Profit sharing	47,393	43,579	47,399	43,579
Withholding Income Tax (IRRF) on payroll	12,630	11,842	12,737	11,916
Other	2,402	1,158	2,400	1,162
Total	112,807	104,070	114,119	105,237

18. Other obligations

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Advanced receipts	1,667	7,838	1,667	7,838
Provision for freight payable	5,070	3,274	5,070	3,276
Other provisions	78,454	63,749	78,455	63,750
Total current	85,191	74,861	85,192	74,864

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Provision for maintenance of leased vehicles	9,445	13,027	9,455	13,028
Profit sharing payable	34,924	34,236	34,924	34,236
Advanced receipts	4,028	29,503	4,028	29,503
Other accounts payable	-	3,544	2,384	5,685
Noncurrent	48,397	80,310	50,791	82,452

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

19. Provision for tax, civil, and labor contingencies

The Company segregates labor proceedings into groups, including the plant, the sales force (depending on the region of operation), third parties and administrative, which allows an accurate analysis of the cases.

In the year ended December 31, 2019, management prospectively reviewed the provision for labor claims in cases for which court decisions had not been handed down for the plant and sales force groups. The review consisted in applying the provision based on the history of payments in the past three years. There were no changes in the provision in relation to cases for which decisions had been handed down. The other groups, third parties and administrative, continue with the individual analyses according to the likelihood of loss.

The impact of such review was reversal of R\$45.1 million, of which R\$35.4 million refers to principal under general and administrative expenses, and R\$9.7 million to monetary restatement under finance costs.

Breakdown of provisions by nature is as follows:

	Individual					12/31/2019
	12/31/2018	Additions	Reversals	Payments	Restatements	
Tax	106,196	6,720	(465)	(429)	2,965	114,987
Labor	161,338	26,191 (b)	(103,022) (c)	(11,172)	21,600 (d)	94,935
Civil	4,609	2,894	(4,047)	(388)	409	3,477
Other provisions (a)	22,888	5,169	(10,108)	-	9	17,958
Total	295,031	40,974	(117,642)	(11,989)	24,983	231,357

	Consolidated					12/31/2019
	12/31/2018	Additions	Reversals	Payments	Restatements	
Tax	106,196	6,720	(465)	(429)	2,965	114,987
Labor	161,342	26,191 (b)	(103,022) (c)	(11,172)	21,600 (d)	94,939
Civil	4,609	2,894	(4,047)	(388)	409	3,477
Other provisions (a)	22,937	5,227	(10,133)	-	9	18,040
Total	295,084	41,032	(117,667)	(11,989)	24,983	231,443

(a) Refer to other provisions for contingencies not related to administrative and/or legal proceedings. The reversal in the period refers to reassessment of the risk by the Company's legal advisors.

(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) Due to favorable decisions for the Company during the year, and R\$45.1 resulting from review of the labor provision criteria for cases without a court decision.

(d) The Company changed the monetary restatement rate from TR to IPCA in December 2019, generating an impact of R\$12 million in finance costs.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

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

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

	Consolidated	
	12/31/2019	12/31/2018
Unemployment Compensation Fund (FGTS) (a)	32,129	31,365
PIS and COFINS (b)	23,177	23,154
IRPJ and CSLL (c)	32,526	30,028
Social Security (d)	8,154	3,541
ICMS (e)	591	549
Other (f)	18,410	17,559
Total	114,987	106,196

(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 restatement 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\$4,521 million (restated until December 31, 2019) was set up.

(e) Tax Enforcement or Administrative Proceedings drawn up by the São Paulo, Pernambuco 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.

Proceedings assessed as risk of possible loss

As of December 31, 2019, 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	
	12/31/2019	12/31/2018
Tax	1,406,089	1,376,245
Labor	279,126	199,124
Civil	21,856	9,889
Total	1,707,071	1,585,258

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

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

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

Major proceedings assessed as risk of possible loss

	Consolidated	
	12/31/2019	12/31/2018
IRPJ and CSLL (a) (b) (c)	1,061,605	1,042,637
PIS and COFINS (d)	308,390	299,914
Social Security	5,726	9,948
ICMS	13,582	12,747
Other	16,786	10,999
Total	1,406,089	1,376,245

- (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\$598,477 restated until December 31, 2019); and (ii) R\$112,409 (R\$131,779 restated until December 31, 2019). 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\$129,300 restated through December 31, 2019), 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\$52,337 restated through December 31, 2019). 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\$232,256 restated through December 31, 2018), 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).

The outside lawyers assess the case as a possible loss, thus not requiring recognition of provision for said proceeding.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

Judicial deposits

Balances of judicial deposits are as follows:

Individual	12/31/2019	12/31/2018
Tax	72,001	78,952
Labor	34,174	29,072
Civil	14,289	11,462
Total	120,464	119,486
Consolidated	12/31/2019	12/31/2018
Tax	72,001	78,952
Labor	34,181	29,072
Civil	14,289	11,462
Total	120,471	119,486

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, 2019 and December 31, 2018 is summarized as follows:

	Consolidated	
	12/31/2019	12/31/2018
Loans and financing (Note 12)	508,847	383,063
Lease liabilities (Note 13)	137,885	-
Cash and cash equivalents (Note 3)	(145,400)	(245,471)
Financial investments - noncurrent (Note 3)	(1,587)	(30)
Derivatives	1,048	892
Net financial position (positive) / negative	500,793	138,454

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

20. Financial instruments (Continued)

b) Financial instruments by category

	Consolidated	
	Book value and market value	
	12/31/2019	12/31/2018
Financial assets:		
Cash and cash equivalents (Note 3)	145,400	245,471
Trade accounts receivable (Note 4)	592,879	582,310
Derivatives	-	1,215
Financial investments - noncurrent (Note 3)	1,587	30
Judicial deposits (Note 19)	120,471	119,486
Financial liabilities:		
Loans and financing (Note 12)	508,847	383,063
Lease liabilities (Note 13)	137,885	-
Trade accounts payable (Note 14)	280,468	224,721
Accounts payable	45,552	39,809
Derivatives	1,048	323

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 restated 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.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

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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)

Sensitivity to interest rates

For analysis of the sensitivity of interest rate of loans and financial investments, 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. 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, 2019. The impact on profit or loss could occur as follows:

	Consolidated		Exposed amounts at 12/31/2019	Probable scenario		Possible scenario (+25%)		Remote scenario (+50%)	
	Risk factor	Average rate p.a.		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	4.40%	134,442	4.40%	134	5.63%	1,647	6.75%	3,159
Loans - domestic	TJLP	5.59%	(508,847)	4.58%	2,101	5.31%	(2,497)	6.03%	(7,095)
Gain (Loss)			(374,405)		2,235		(850)		(3,936)

	Consolidated		Exposed amounts at 12/31/2019	Probable scenario		Possible scenario (-25%)		Remote scenario (-50%)	
	Risk factor	Average rate p.a.		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	4.40%	134,442	4.40%	134	3.38%	(1,378)	2.25%	(2,891)
Loans - domestic	TJLP	5.59%	(508,847)	4.58%	2,101	3.86%	6,699	3.13%	11,297
Gain (Loss)			(374,405)		2,235		5,321		8,406

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, 2019, there are unsettled contracts in force in the amount of USD21,224 or R\$86,545 (USD16,512 or R\$63,281 at December 31, 2018).

Sensitivity of derivatives

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.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(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)

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	Possible scenario	Probable scenario	Possible scenario	Remote scenario
	-50%	-25%		+25%	+50%
Individual	(43,249)	(21,601)	47,223	21,695	43,343
Consolidated	(43,249)	(21,601)	47,223	21,695	43,343
Net impact - individual/consolidated	(43,296)	(21,648)	-	21,648	43,296
Loss/(Gain)	(43,296)	(21,648)	-	21,648	43,296

Probable scenario, FOCUS Bulletin published as of december 27, 2019. The expected rate is R\$/US\$4.08.

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:

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(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)

		Consolidated	
		12/31/2019	12/31/2018
In euros:	EUR		
Assets		9,520	4,327
Liabilities		(6,739)	(1,858)
Net exposure		2,781	2,469
In US dollars:	US\$		
Assets		269	807
Liabilities		(18,978)	(17,202)
Net exposure		(18,709)	(16,395)
In sterling pounds	GBP		
Assets		-	-
Liabilities		-	(28)
Net exposure		-	(28)
In Swiss francs:	CHF		
Assets		-	-
Liabilities		(40)	(440)
Net exposure		(40)	(440)
In Mexican pesos:	MXN		
Assets		-	-
Liabilities		(295)	-
Net exposure		(295)	-
Accounts receivable - foreign currency - in R\$		903	1,519
Exchange difference – accounts receivable – in R\$		(18)	2
Balance receivable - in R\$ (a)		885	1,521
Trade accounts payable - foreign currency - in R\$		(108,806)	(76,246)
Exchange difference - trade accounts payable - in R\$		1,540	(480)
Trade accounts payable hedge – in R\$		(1,048)	(323)
Balance of trade accounts payable - in R\$ (b)		(108,314)	(77,049)
Advance to supplier – in R\$		43,411	20,798
Exchange difference – advance to supplier – in R\$		255	(10)
Balance of advance to supplier – in R\$ (c)		43,666	20,788
Net exposure - (a-b+c) - foreign currency - in R\$		(63,763)	(54,740)

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(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		Exposed amounts at 12/31/2019	Probable scenario		Possible scenario (+25%)		Remote scenario (+50%)	
	Risk factor	Average rate p.a.		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\$	4.03	885	4.08	11	5.10	235	6.12	459
Short position - USD	US\$	4.03	(64,648)	4.08	(791)	5.10	(17,150)	6.12	(33,510)
Net exposure (loss)			(63,763)		(780)		(16,915)		(33,051)

	Consolidated		Exposed amounts at 12/31/2019	Probable scenario		Possible scenario (-25%)		Remote scenario (-50%)	
	Risk factor	Average rate p.a.		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\$	4.03	885	4.08	11	3.06	(213)	2.04	(438)
Short position - USD	US\$	4.03	(64,648)	4.08	(791)	3.06	15,569	2.04	31,929
Net exposure gain (loss)			(63,763)		(780)		15,356		31,491

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	280,468	-	-	-	280,468
Loans and financing	111,536	75,500	139,922	181,889	508,847
Lease liabilities	43,140	42,484	19,639	32,622	137,885

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

21. Equity

a) Capital

Capital amounts to R\$440,959, represented by 63,900,000 common registered shares with no par value, fully subscribed and paid up by three groups of shareholders, each of which holds an equal interest of 33.33%.

b) Capital reserves

	<u>12/31/2019</u>	<u>12/31/2018</u>
Special goodwill reserve	167,767	167,767
Share premium reserve	6,445	6,445
Capital transaction with shareholders (a)	(53,966)	-
Total	<u>120,246</u>	<u>174,212</u>

(a) Refers to acquisition of Melcon, which represents 50% of the increase in ownership interest, recorded directly in equity, as per Note 1.3.

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>12/31/2019</u>	<u>12/31/2018</u>
Legal reserve (a)	43,807	43,807
Reserve for new products, R&D and capital expenditure (b)	417,910	298,763
Tax incentive reserve (c)	982	982
Unpaid profits reserve (d)	542,956	457,658
Total	<u>1,005,655</u>	<u>801,210</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.

(d) The Annual General Meeting will approve distribution of profits and interest on equity related to 2019 in a subsequent period.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(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:

Dividends approved at the AGM held on April 30, 2019

<u>Total dividends paid over 2019</u>	
Dividends paid referring to 2018	409,200
IOE paid referring to 2019	64,379
Prepaid dividends for 2019	10,278
Subtotal - dividends and/or IOE paid over 2019 (cash effect)	<u>483,857</u>
<u>Net income for 2019</u>	721,267

Dividends payable

Mandatory minimum dividends – statutory (income for the year R\$721,267 x 25%)	180,317
IOE paid referring to 2019	(64,379)
Prepaid dividends for 2019	(10,278)
Balance of mandatory minimum dividends	105,660
Balance of dividends referring to 2017	40,220
Balance of total dividends payable for 2019	<u>145,880</u>

e) Equity adjustment

	<u>Individual</u>	
	<u>12/31/2019</u>	<u>12/31/2018</u>
Adjustments to deemed cost of PPE	127,628	129,185
Equity adjustments in subsidiaries' assets	-	-
Total equity adjustments	<u>127,628</u>	<u>129,185</u>

22. Operating revenue, net

	<u>Individual</u>		<u>Consolidated</u>	
	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2018</u>
Gross sales revenue	7,852,084	6,048,617	7,870,478	7,731,734
Returns, discounts and other	(4,026,983)	(2,792,058)	(4,027,995)	(4,080,552)
Sales taxes	(490,479)	(434,680)	(491,951)	(467,992)
Total	<u>3,334,622</u>	<u>2,821,879</u>	<u>3,350,532</u>	<u>3,183,190</u>

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

23. Expenses by nature

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Raw materials consumed	765,524	632,094	747,139	669,470
Materials, energy, third-party services and other expenses	696,751	653,411	707,467	734,366
Personnel and taxes	658,402	563,886	671,133	619,883
Depreciation and amortization (a)	96,425	53,738	99,388	63,904
Lease (a)	9,870	43,167	10,247	45,469
Other taxes	118,803	100,226	119,392	108,453
Other selling and administrative expenses (revenue)	3,611	6,233	3,679	6,481
	2,349,386	2,052,755	2,358,445	2,248,026
Cost of sales	1,031,326	846,598	1,028,323	939,348
Selling expenses	1,194,911	1,053,461	1,195,704	1,132,169
General and administrative expenses (b)	123,149	152,696	134,418	176,509
Total	2,349,386	2,052,755	2,358,445	2,248,026

(a) The variation is mostly due to adoption of CPC 06 (R2).

(b) The variation is mostly due to reversal of provision for labor claims, as explained in Note 19.

24. Other operating income (expenses), net

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Credits referring to product development	36,544	18,347	36,544	18,347
Recovery of taxes	17,275	13,798	17,347	13,798
Revenue from exclusion of ICMS from the PIS and COFINS tax base (a)	79,574	-	79,574	-
Revenue from PIS and COFINS credits	27,616	-	27,616	-
Other revenues	9,597	7,061	9,706	8,368
Total other revenues	170,606	39,206	170,787	40,513
Expenses with strategic projects	(122,975)	(47,785)	(123,467)	(49,067)
Gain (loss) on disposal of PPE items	(32)	(108)	(16)	(235)
Expense referring to product development	(15,821)	(9,302)	(15,821)	(9,302)
Other expenses	(584)	3,910	(582)	5,025
Total other expenses	(139,412)	(53,285)	(139,886)	(53,579)
Total other operating income (expenses)	31,194	(14,079)	30,901	(13,066)

(a) See Note 6a.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

25. Finance income (costs)

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Interest income	6,864	8,724	7,008	10,505
Monetary gains	7,302	3,365	7,331	3,399
Monetary restatement – Exclusion of ICMS from the PIS and COFINS tax base (a)	55,374	-	55,374	-
Income from hedge	10,190	7,249	10,190	7,248
Other finance income	459	195	642	441
Total finance income	80,189	19,533	80,545	21,593
Interest expenses	(23,584)	(13,187)	(25,121)	(16,170)
Monetary losses	(18,595)	(16,529)	(18,595)	(17,344)
Expense from hedge	(5,516)	(7,050)	(5,516)	(7,051)
Sundry charges	(3,315)	(3,407)	(3,370)	(4,472)
Other finance costs	(4,743)	(5,219)	(4,807)	(6,426)
Total finance costs	(55,753)	(45,392)	(57,409)	(51,463)
Exchange losses	(32,399)	(30,599)	(32,535)	(36,380)
Exchange gains	26,730	23,389	26,845	26,372
Total exchange difference, net	(5,669)	(7,210)	(5,690)	(10,008)
Finance income/costs, net	18,767	(33,069)	17,446	(39,878)

(a) See Note 6a.

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.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

26. Supplementary pension plan (Continued)

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, 2019 totaled R\$4,683 (R\$5,824 in 2018).

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, 2019, the insurance coverage was taken out at the amounts indicated below, according to the insurance policies:

<u>Insurance lines</u>	<u>Amounts insured</u>
Property damage to PPE	473,000
Civil liability	105,000
Civil construction - Pernambuco Plant	345,896

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, 2019 amounted to R\$52,032 (R\$56,581 in 2018), as follows:

	<u>Individual</u>		<u>Consolidated</u>	
	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2018</u>
Addition of provision for the year	56,907	47,116	56,973	56,692
Reversal of prior-years' provision	(4,937)	(106)	(4,941)	(111)
Employee and management profit sharing in P&L for the year	51,970	47,010	52,032	56,581

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

29. Earnings per share

	Individual		Consolidated	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Basic and diluted numerator				
Allocation of net income for the year to shareholders	721,267	607,520	721,267	607,520
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\$	11.29	9.51	11.29	9.51

30. Events after the reporting date

The advancement of the new Coronavirus (COVID-19) around the world has caused instability in global markets and, although the Company has a partial reliance on inputs from China, production was maintained ensuring the supply of products to customers and allowing business to continue. 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.

Additionally, management is mapping possible future impacts on the supply of inputs and evaluating the supply of safety stock. Production was not affected until the date of issue of the financial statements and it is not possible to estimate possible disruptions in the production chain.

Aché Laboratórios Farmacêuticos S.A. and Subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

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

Board of Directors

Raul Calfat	Chairman
Geraldo José Carbone	Vice Chairman
Adalberto Panzenboeck Dellape Baptista	Director
Alexandre Gottlieb Lindenbojm	Director
Jonas de Campos Siauly	Director
José Luiz Depiere	Director
José Rogério Luiz	Director
Luiz Antônio Martins Amarante	Director
Luiz Carlos Vaini	Director
Ricardo Panzenboeck Dellape Baptista	Director

Statutory Board

Vânia de Azevedo Nogueira de Alcântara Machado	Chief Executive Officer
Francisco Luiz Malena	Director of Competitive Intelligence and Chief Financial Officer
Adriano Alvim de Oliveira	Chief Operations Officer
Gabriela Mallmann	Chief Quality and Regulatory Matters Officer and PMO
Marcelo Neri	Chief Marketing and Demand Generation Officer

Accountant

Rodrigo Miranda Simões
CRC-1SP250809/O-7