# Elfa Medicamentos S.A.

**Parent Company and consolidated interim financial statements as of June 30, 2020**

KPDS 722782

# Content

KPMG Auditores Independentes
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# Independent auditor's report on the individual and consolidated interim financial statements

To the Board of Directors and Shareholders of
Elfa Medicamentos S.A.
Brasília- DF

## Opinion

We have audited the individual and consolidated interim financial statements of Elfa Medicamentos S.A. ("the Company"), respectively referred as Parent Company and Consolidated, which comprise the statement of financial position as at June 30, 2020, the statements of profit and loss and other comprehensive income for the three and six month period then ended and changes in equity and cash flows for the three and six month period then ended, and notes, comprising significant accounting policies and other explanatory information.

### Opinion on the interim individual financial statements

In our opinion, the accompanying interim individual financial statements abovementioned present fairly, in all material respects, the financial position of Elfa Medicamentos S.A. as at June 30, 2020, and its financial performance for the three and six month period then ended and its cash flows for the six month period then ended in accordance with Accounting Practices Adopted in Brazil.

### Opinion on the interim consolidated financial statements

In our opinion, the accompanying interim consolidated financial statements abovementioned present fairly, in all material respects, the consolidated financial position of Elfa Medicamentos S.A. as at June 30, 2020, and its consolidated financial performance for the three and six month period then ended and its consolidated cash flows for the six month period then ended in accordance with Accounting Practices Adopted in Brazil and with 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 Auditors' Responsibilities for the audit of the interim individual and consolidated financial statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters (KAM) are those matters that, in our professional judgment, were of most significance in our audit of the interim individual and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the interim individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Business combination - Acquisition of Grupo Medcom and Grupo Atrial

See Notes 3, 8 and 14 to the interim individual and consolidated financial statements

| Why it is a KAM | How our audit addressed the matter |
|---|---|
| In 2020, the Company acquired control of Grupo Medcom and Grupo Atrial, respectively. The determination of the consideration transferred and the net value, on the acquisition date, of the identifiable assets acquired and the liabilities assumed at fair value involves assumptions such as net cash flows expected from customer relations, excluding any cash flow related to tax assets and evaluating the period of time that would otherwise be required to obtain licenses.<br><br>This matter was considered significant for our audit due to the relevance of the amounts recorded by the Company and the uncertainties related to assumptions and estimates that have a significant risk of resulting in a material adjustment to the balances of the financial statements in the next fiscal year. | - Our audit procedures carried out with the assistance of our corporate finance specialists included, but were not limited to:<br>- We analyzed the relevant documents related to these transactions and the methodologies used (present value of cash flows and Multi period excess earnings method - MPEEM) by the Company in the process of identifying and measuring intangibles, based on our knowledge of the industry and markets in which the acquiree operates.<br>- We analyzed the databases used in the respective measurement and compared the main assumptions applied in the projections with the historical data of the acquiree and / or with market data.<br>- We evaluated the competence, objectivity and technical capacity of the external specialists hired by the Company to determine the net value, on the acquisition date, of the identifiable assets acquired and the liabilities assumed at fair value and the respective goodwill for expected future profitability.<br>- We also assessed whether the disclosures made in the individual and consolidated financial statements consider the relevant information.<br><br>- Based on the audit procedures summarized above, we consider the accounting resulting from the business combination, as well as the related disclosures, to be acceptable in the context of the individual and consolidated financial statements, taken as a whole, for the period ended June 30, 2020. |

| Assessment of the recoverable amount of goodwill due to expected future benefits arising from business combinations | |
|---|---|
| See Notes 8 and 14 to the interim individual and consolidated financial statements | |
| **Why it is a KAM** | **How our audit addressed the matter** |
| As of June 30, 2020, the Company recorded goodwill which represents the expected future benefits arising from the acquisition of businesses as a component of investments in the individual balance sheet and intangible assets in the consolidated balance sheet.<br><br>Annually, the Company performs the impairment test of this asset. The determination of the value in use of the cash generating unit involves the use of assumptions, such as discount rate (Weighted Average Cost of Capital -WACC-), growth in perpetuity and estimated growth in Earning Before Tax, Interest, Depreciation and Amortization -EBITDA- (average for the next 5 years)<br><br>This matter was considered significant for our audit due to the significance of the recorded goodwill amounts and the uncertainties related to the assumptions and estimates that have a significant risk of resulting in a material adjustment to the balances of the financial statements in the next fiscal year. | Our audit procedures included, among others, the assessment, with the assistance of our corporate finance specialists, of the main assumptions used (WACC, growth in perpetuity and estimated EBITDA) to estimate, based on future cash flows discounted at present value, the value of the cash-generating unit.<br><br>We also assess whether the disclosures made in the individual and consolidated financial statements consider the information relevant.<br><br>Based on the evidence obtained through the procedures summarized above, we consider that the balance of intangible assets related to the goodwill generated in a business combination is acceptable, in the context of the consolidated financial statements taken as a whole, for the period ended June 30, 2020. |

## Other matters- Statement of value added (DVA)

The individual and consolidated statements of value added (DVA) for the period ended June 30, 2020, prepared under the responsibility of the Company's management, and presented herein as supplementary information for IFRS purposes, have been subject to audit procedures jointly performed with the audit of the Company's interim financial statements. In order to form our opinion, we assessed whether those statements are reconciled with the interim financial statements and accounting records, as applicable, and whether their format and contents are in accordance with criteria determined in the Technical Pronouncement 09 (CPC 09) - Statement of Value Added issued by the Committee for Accounting Pronouncements (CPC). In our opinion, the statements of value added have been fairly prepared, in all material respects, in accordance with the criteria determined by the aforementioned Technical Pronouncement and are consistent with the overall interim individual and consolidated financial statements.

## Responsibilities of management for the interim individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the interim individual financial statements in accordance with Accounting Practices Adopted in Brazil and the interim consolidated financial statements in accordance with Accounting Practices Adopted in Brazil and with 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 interim individual and consolidated financial statements, management is responsible for assessing the Group´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 Group or to cease operations, or has no realistic alternative but to do so.

## Auditors' responsibilities for the audit of the interim individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the interim individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 interim financial statements.

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

– Identify and assess the risks of material misstatement of the interim individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the interim 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 auditors' report. However, future events or conditions may cause the Company and subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the interim financial statements, including the disclosures, and whether the interim individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the interim individual and 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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

São Paulo, August 13, 2020

KPMG Auditores Independentes
CRC 2SP014428/O-6

Alexandre Yoiti Fujimoto
Accountant CRC 1SP209444/O-7

# Elfa Medicamentos S.A.

## Parent Company and consolidated statement of financial position as of June 30 2020 and December 31 2019

*(In thousands of Reais)*

| | | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | **Note** | **06/30/2020** | **12/31/2019** | **06/30/2020** | **12/31/2019** |
| **Current Non-current** | | | | | |
| Cash and cash equivalents | 9 | 179,554 | 50,357 | 252,697 | 120,560 |
| Marketable securities | 9 | - | - | 181,700 | - |
| Trade and other receivables | 10 | 293,803 | 254,403 | 593,508 | 447,476 |
| Inventories | 11 | 130,460 | 109,536 | 380,679 | 214,992 |
| Recoverable taxes | 12 | 12,185 | 19,577 | 56,232 | 48,286 |
| Income tax and social contribution | 12 | 16,813 | 13,720 | 25,336 | 19,516 |
| Other assets | | 20,226 | 21,502 | 50,411 | 43,073 |
| **Total current assets** | | **653,041** | **469,095** | **1,540,563** | **893,903** |
| **Non-current** | | | | | |
| Marketable securities | | 98 | 96 | 129 | 127 |
| Derivatives | 17 | 34,665 | - | 34,665 | - |
| Advance for increase in capital share | 15 | 98,967 | 40,023 | - | - |
| Deferred income tax and social contribution | 24 | 80,577 | 67,391 | 115,975 | 88,411 |
| Other assets | | 208 | 224 | 3,549 | 2,150 |
| **Total long-term assets** | | **214,515** | **107,734** | **154,318** | **90,688** |
| Investments | 13 | 1,597,241 | 595,005 | - | - |
| Fixed assets | | 26,909 | 26,323 | 67,387 | 36,421 |
| Intangible assets | 14 | 4,621 | 4,376 | 981,044 | 252,848 |
| **Total non-current assets** | | **1,843,286** | **733,438** | **1,202,749** | **379,957** |
| **Total assets** | | **2,496,327** | **1,202,533** | **2,743,312** | **1,273,860** |

The accompanying notes are an integral part of these Parent Company and consolidated interim financial statements.

# Elfa Medicamentos S.A.

## Parent Company and consolidated statement of financial position as of June 30 2020 and December 31 2019
*(In thousands of Reais)*

| | | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 06/30/2020 | 12/31/2019 | 06/30/2020 | 12/31/2019 |
| **Liabilities and equity** | | | | | |
| **Current** | | | | | |
| Trade and other payables | 16 | 180,077 | 201,608 | 439,510 | 380,269 |
| Loans and borrowings | 17 | 205,937 | 201,922 | 251,461 | 208,093 |
| Employee benefits | | 7,157 | 8,390 | 29,716 | 11,123 |
| Tax liabilities | | 8,503 | 7,111 | 27,971 | 16,778 |
| Dividends payable | | - | 665 | - | 665 |
| Accounts payable for the acquisition of investments | 18 | 11,686 | 11,666 | 25,581 | 16,176 |
| **Total current liabilities** | | **413,360** | **431,362** | **774,239** | **633,104** |
| Loans and borrowings | 17 | 210,168 | 111,835 | 216,711 | 111,835 |
| Tax liabilities | | 1,329 | 1,329 | 3,187 | 2,108 |
| Trade and other payables | 16 | 180,737 | 133,606 | 4,392 | - |
| Provision | 19 | - | 352 | 389 | 523 |
| Deferred income tax | | - | - | 527 | - |
| Accounts payable for the acquisition of investments | 18 | 115,646 | 61,838 | 163,506 | 64,079 |
| **Total non-current liabilities** | | **507,880** | **308,960** | **388,712** | **178,545** |
| **Equity** | 20 | | | | |
| Share capital | | 803,910 | 312,016 | 803,910 | 312,016 |
| Capital reserve | | 655,189 | 49,986 | 655,189 | 49,986 |
| Profit reserve | | 115,988 | 100,209 | 115,988 | 100,209 |
| **Shareholders' equity** | | **1,575,087** | **462,211** | **1,575,087** | **462,211** |
| **Non-controlling interests** | | | | 5,274 | |
| **Total shareholders' equity** | | **1,575,087** | **462,211** | **1,580,361** | **462,211** |
| **Total liabilities and shareholders' equity** | | **2,496,327** | **1,202,533** | **2,743,312** | **1,273,860** |

The accompanying notes are an integral part of these Parent Company and consolidated interim financial statements.

# Elfa Medicamentos S.A.

## Parent Company and consolidated statement of profit and loss as of June 30 2020 and December 31 2019

***(In thousands of Reais)***

| | | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 01/01/2020 to 06/30/2020 | 01/01/2019 to 06/30/2019 | 01/01/2020 to 06/30/2020 | 01/01/2019 to 06/30/2019 |
| Net operating revenue | 21 | 589,960 | 540,229 | 1,009,172 | 795,674 |
| Cost of sales | 22 | (535,563) | (496,807) | (897,213) | (722,713) |
| **Gross profit** | | **54,397** | **43,422** | **111,959** | **72,961** |
| **Operating income (expenses)** | 22 | | | | |
| Selling and distribution expenses | 8 e 22 | (9,034) | (7,794) | (36,234) | (31,419) |
| Provision for impairment losses | 22 | (4,662) | (6,156) | (7,490) | (9,915) |
| Administrative expenses | 13 | (48,467) | (36,056) | (69,091) | (35,064) |
| Equity results | 22 | 10,798 | 2,159 | - | - |
| Other income | 22 | 10,166 | 2,233 | 12,434 | 4,019 |
| Other expenses | 22 | (4,800) | (1,357) | (6,565) | (2,549) |
| **Operating profit (loss) before financial result** | | **8,398** | **(3,549)** | **5,013** | **(1,967)** |
| **Financial income (expenses)** | | | | | |
| Financial income | 23 | 1,130 | 478 | 1,529 | 1,127 |
| Financial expenses | 23 | (8,192) | (5,758) | (8,347) | (5,982) |
| **Financial expenses, net** | | **(7,062)** | **(5,280)** | **(6,818)** | **(4,855)** |
| **Profit before taxes** | | **1,336** | **(8,829)** | **(1,805)** | **(6,822)** |
| **Income tax and social contribution** | 24 | | | | |
| Current | | - | - | (3,935) | (4,815) |
| Deferred | | 14,444 | 10,169 | 21,520 | 12,977 |
| | | 14,444 | 10,169 | 17,585 | 8,162 |
| **Net income for the year** | | **15,780** | **1,340** | **15,780** | **1,340** |
| | | | | 0,05 | 0,01 |
| **Earnings per share - R$** | | | | 0,05 | 0,01 |
| **Earnings per share diluted - R$** | | | | | |

The accompanying notes are an integral part of these Parent Company and consolidated interim financial statements.

# Elfa Medicamentos S.A.

## Parent Company and consolidated statement of other comprehensive income as of June 30 2020 and December 31 2019

***(In thousands of Reais)***

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 01/01/2019 to 06/30/2019 | 01/01/2019 to 06/30/2019 | 01/01/2020 to 06/30/2020 | 01/01/2019 to 06/30/2019 |
| **Net income for the year** | 15,780 | 1,340 | 15,780 | 1,340 |
| **Total comprehensive income** | 15,780 | 1,340 | 15,780 | 1,340 |

The accompanying notes are an integral part of these Parent Company and consolidated interim financial statements.

# Elfa Medicamentos S.A.

## Consolidated statement of changes in equity as of June 30 2020 and December 31 2019

***(In thousands of Reais)***

| | Nota | Capital reserves | | | Profit Reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Nota | Subscribed capital | Capital Reserves | Options granted | Legal reserve | Retained profit | Tax incentive reserve | Accumulated income (looses) | Deposits for future subscription of capital | Total | non-controlling interests | Total |
| **Balance as of January 1, 2019** | | **312,016** | **25,994** | **18,421** | **3,734** | **9,286** | **48,277** | **-** | **2,700** | **420,428** | | **420,428** |
| Net income for the year | | - | - | - | - | - | - | 1,340 | - | 1,340 | | 1,340 |
| Additional paid dividends | | - | - | - | - | (2,683) | - | - | - | (2,683) | | (2,683) |
| Share based compensation | | - | - | 2,788 | - | - | - | - | - | 2,788 | | 2,788 |
| Transference to retained profit | | - | - | - | - | 1,340 | - | (1,340) | - | - | | - |
| **Balance as of June 30 2019** | | **312,016** | **25,994** | **21,209** | **3,734** | **7,943** | **48,277** | **-** | **2,700** | **421,873** | | **421,873** |
| | | | | | | | | | | | | |
| **Balance as of January 1, 2020** | | **312,016** | **25,994** | **23,993** | **5,712** | **9,303** | **85,193** | **-** | **-** | **462,211** | | **462,211** |
| Net income for the year | | - | - | - | - | - | - | 15,780 | - | 15,780 | | 15,780 |
| Share based compensation | | | - | 2,371 | - | - | - | - | - | 2,371 | | 2,371 |
| share capital increase | **17** | 250,000 | - | - | - | - | - | - | - | 250,000 | | 250,000 |
| Transference to retained profit | | - | | | - | 15,780 | - | (15,780) | - | - | | - |
| Share capital issued due to the acquisition of Medcom and related capital surplus | **20** | 2,674 | 214,665 | | | | | | | 217,339 | | 217,339 |
| Share issued due to the acquisition of Atrial and capital surplus | 20 | 239,220 | 384,156 | 4,010 | - | - | - | - | - | 627,386 | 5,274 | 632,660 |
| **Balance as of June 30 2020** | | **803,910** | **624,815** | **30,374** | **5,712** | **25,083** | **85,193** | **-** | **-** | **1,575,087** | **5,274** | **1,580,361** |

The accompanying notes are an integral part of these Parent Company and consolidated interim financial statements.

# Elfa Medicamentos S.A.

## Parent Company and consolidated statement of cash flows as of June 30 2020 and December 31 2019

### *(In thousands of Reais)*

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 06/30/2020 | 06/30/2019 | 06/30/2020 | 06/30/2019 |
| **Operating activities** | | | | |
| **Net income for the year** | 15,780 | 1,340 | 15,780 | 1,340 |
| Adjustment for: | | | | |
| Depreciation and amortization | 3,028 | 2,969 | 17,182 | 9,012 |
| Deferred income tax and social contribution | (14,444) | (10,169) | (17,585) | (8,162) |
| Provision for impairment loss | 4,662 | 6,156 | 7,490 | 9,915 |
| Others | 545 | - | (92) | - |
| Contingency provisions | (352) | 421 | (263) | ---- |
| Impairment loss (reversal) on inventories | 22 | (1) | 102 | 439 |
| Share based compensation | 2,371 | 2,788 | 2,371 | 2,788 |
| Loss of investments | 330 | ---- | ---- | ---- |
| Interest and monetary variation, net - loans and borrowings | 6,563 | 5,758 | 6,660 | 5,982 |
| Equity results and fair value amortization | (10,798) | (2,159) | ---- | ---- |
| **Changes in:** | | | | |
| Trade and other receivables | (43,395) | (34,962) | (26,129) | (15,969) |
| Inventories | (20,946) | (9,891) | (22,581) | (27,092) |
| Recoverable taxes | 7,392 | (239) | 1,042 | (8,863) |
| Related parties | 47,131 | 44,094 | 4,392 | ---- |
| Other assets | 1,289 | (4,116) | 1,839 | (888) |
| Trade and other payables | (22,540) | (19,898) | (84,190) | (45,346) |
| Employee benefits | (1,233) | 565 | 2,114 | 1,592 |
| Tax liabilities | (1,862) | (6,676) | (7,741) | 3,875 |
| **Cash generated from (used in) operating activities** | **(26,457)** | **(24,020)** | **(99,609)** | **(71,376)** |
| Interest paid- loans and borrowings | (9,189) | (5,653) | (9,358) | (6,304) |
| Income tax and social contribution paid | ---- | ---- | (4,183) | (1,249) |
| **Net cash from (used in) operating activities** | **(35,646)** | **(29,673)** | **(113,150)** | **(78,929)** |
| **Investing activities:** | | | | |
| Acquisition of fixed and intangible assets | (2,440) | (1,778) | (2,516) | 5,005 |
| Installment payments related to subsidiaries acquisitions | (82,184) | (72,638) | (76,348) | - |
| Cash from acquisition of subsidiaries | - | - | 42,741 | (73,168) |
| Dividends received | - | 3,406 | - | - |
| Deposits for future subscription of capital | (58,944) | (22,513) | - | - |
| **Net cash used in investing activities** | **(143,568)** | **(93,523)** | **(36,123)** | **(68,163)** |

# Elfa Medicamentos S.A.

## Parent Company and consolidated statement of cash flows as of June 30 2020 and December 31 2019

### *(In Thousand of Reais)*

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2020** | **06/30/2019** | **06/30/2020** | **06/30/2019** |
| **Financing activities** | | | | |
| Increase in share capital | 250,000 | ---- | 250,000 | ---- |
| Acquisition of loans and borrowings | 265,205 | 195,279 | 265,205 | 195,279 |
| Payment of loans and borrowings - principal | (195,101) | (134,097) | (219,244) | (134,097) |
| Payment of installments relating to prior acquisitions | (11,029) | ---- | (13,887) | ----- |
| Dividends paid | (664) | (3,135) | (664) | (3,135) |
| **Cash flows from financing activities** | 308,411 | 58,047 | 281,410 | 58,047 |
| **Increase (decrease) in cash and cash equivalents** | **129,197** | **(65,149)** | **132,137** | **(89,045)** |
| **Net (decrease) increase in cash and cash equivalents** | | | | |
| Cash and cash equivalents as of January 1 | 50,357 | 102,684 | 120,560 | 154,039 |
| Cash and cash equivalents as of December 31 | 179,554 | 37,535 | 252,697 | 64,994 |
| **Net increase (decrease) in cash and cash equivalents** | **129,197** | **(65,149)** | **(132,137)** | **(89,045)** |

The accompanying notes are an integral part of these Parent Company and consolidated interim financial statements.

# Elfa Medicamentos S.A.

## Parent Company and consolidated statements of value added as of June 30 2020 and December 31 2019

### *(In thousands of Reais)*

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2020** | **06/30/2019** | **06/30/2020** | **06/30/2019** |
| *Revenues* | **633,535** | **588,116** | **1,085,220** | **865,538** |
| Sales of goods and services | 638,197 | 594,272 | 1,092,710 | 875,453 |
| Allowance for expected credit losses | (4,662) | (6,156) | (7,490) | (9,915) |
| *Bought-in inputs* | **(578,567)** | **(509,311)** | **(962,542)** | **(740,021)** |
| Cost of goods and services | (567,538) | (496,807) | (933,589) | (722,713) |
| Materials, energy, third-party services and other | (5,496) | (6,902) | (18,904) | (9,167) |
| Freights | (5,533) | (5,602) | (10,049) | (8,141) |
| **Gross value added** | **54,968** | **78,805** | **122,678** | **125,517** |
| Depreciation and amortization | (3,028) | (2,969) | (17,182) | (9,012) |
| **Net value added produced by the Company** | **51,940** | **75,836** | **105,496** | **116,505** |
| *Value added received in transfer* | **19,665** | **15,079** | **19,013** | **15,267** |
| Finance income | 1,130 | 478 | 1,529 | 1,127 |
| Equity results | 10,798 | 2,159 | - | - |
| Others | 7,737 | 12,442 | 17,484 | 14,140 |
| **Total value added to be distributed** | **71,605** | **90,915** | **124,509** | **131,772** |
| **Distribution of value added** | **(71,605)** | **(90,915)** | **(124,509)** | **(131,772)** |
| *Personnel and charges* | **(40,122)** | **(28,502)** | **(59,900)** | **(38,182)** |
| Direct compensation | (31,506) | (18,739) | (45,982) | (25,303) |
| Benefits | (5,391) | (6,185) | (9,750) | (9,045) |
| Unemployment Compensation Fund (FGTS) | (854) | (790) | (1,797) | (1,046) |
| Share based compensation | (2,371) | (2,788) | (2,371) | (2,788) |
| *Taxes, charges, and contributions* | **(2,126)** | **(53,806)** | **(32,942)** | **(83,268)** |
| Federal | 14,393 | 325 | 10,877 | (3,329) |
| State | (16,443) | (54,053) | (43,576) | (79,811) |
| Local | (76) | (78) | (243) | (128) |
| *Interest and rents* | **(13,577)** | **(7,267)** | **(15,887)** | **(8,982)** |
| Interest | (8,192) | (5,758) | (8,347) | (5,982) |
| Rents | - | (782) | (1,139) | (1,254) |
| Fines | (177) | (85) | (425) | (282) |
| Others | (5,208) | (642) | (5,976) | (1,464) |
| *Equity remuneration* | **(15,780)** | **(1,340)** | **(15,780)** | **(1,340)** |
| Appropriation to profit reserve | (15,780) | (1,340) | (15,780) | (1,340) |

The accompanying notes are an integral part of these Parent Company and consolidated interim financial statements.

# Notes to the Parent Company and consolidated financial statements

***(In thousands of Reais)***

## 1 Reporting entity

Elfa Medicamentos S.A. and its subsidiaries (“Elfa” or “the Company”) are privately held group, focusing on the wholesale trade of medicines for human use, headquartered in Brasília, in the Federal District. The Company's financial statements cover the Company and its subsidiaries (collectively referred to as “Elfa”).

Elfa is organized into two segments:

**Specialties:** Segment divided into generics and specialties 2019, composed of private and public institutional clients, hospitals, and clinics, with a diversified portfolio of high value-added products in several specialties, such as oncology, immunosuppressants and antibiotics.

We also have the delivery and access channels within the specialties segment. The access channel has trained attendants, stores for physical purchase, operations with laboratories (Logistics Operations - “OLs”), e-commerce and external representatives.

This channel is also dedicated to health care plans and to final patients. This channel has pharmaceutical assistance and dedicated teams to monitor patients and performance analysis of the plan.

Access is the channel that serves health plans, seeks to provide its customers with options to optimize patient care. Direct delivery to the final patient. or to the health plan through this channel, and the health plan distributes the products to its members. This channel has pharmaceutical assistance and a dedicated team to monitor performance.

**Generic, similar, and material distribution**: The generic, similar distribution unit, as the specialties unit, is composed of private and public institutional clients, hospitals and clinics, has a portfolio based on generic and similar drugs to hospitals, clinics, and doctors.

## 2 List of subsidiaries

The significant consolidated entities are as follows:

| | **2020** | **2019** |
|---|---|---|
| **Direct subsidiary** | | |
| Prescrita Medicamentos Ltda. | 100% | 100% |
| San Log Distribuidora de Medicamentos Ltda. | 100% | 100% |
| Cirúrgica Jaw Comércio de Material Médico Hospitalar Ltda. | 100% | 100% |
| Cristal Pharma Ltda. | 100% | 100% |
| Majela Medicamentos Ltda. | 100% | 100% |
| Central Distribuidora de Medicamentos Ltda. (CDM PE) (a) | 100% | 100% |

| | 2020 | 2019 |
|---|---|---|
| **Direct subsidiary** | | |
| Central Distribuidora de Medicamentos Ltda. (CDM CE) (a) | 100% | 100% |
| Central Distribuidora de Medicamentos Ltda. (CDM Norte) (a) | 100% | 100% |
| Prime Distribuidora de Medicamentos Ltda. (Prime) (a) | 100% | 100% |
| Medcom Comércio de Medicamentos Ltda (b) | 100% | - |
| G.B. Distribuidora de Medicamentos e Produtos Hospitalares Ltda. (b) | 100% | - |
| Salus Latam Holding S.A. (“Atrial”) (c) | 100% | - |
| **Indirect subsidiary:** | | |
| Nacional Comercial Hospitalar S.A(“NCH”). (c) – Controlled by Salus | 100% | - |
| MCM Comercial Ltda. - EPP(c) - Controlled by NCH | 100% | - |
| Tino Participações S.A(c) - Controlled by NCH | 100% | - |
| Makau Participações e Empreendimentos S.A. (c) - Controlled by NCH | 100% | - |
| Comercial Commed Produtos Hospitalares Ltda (c) - Controlled by NCH | 100% | - |
| Kauman Produtos Hospitalares Ltda (c) - Controlled by NCH | 100% | - |
| Medical Alliance Produtos Médico Hospitalares Ltda (c) - Controlled by NCH | 100% | - |
| Logicom Logística e Transporte Ltda (c) - Controlled by NCH | 100% | - |
| Procifar Distribuidora Ltda. (c) - Controlled by NCH | 70,3% | - |
| Vital Materiais Especiais Eireli ME (c) - Controlled by NCH | 70,3% | - |
| Agilfarma Medicamentos Ltda. - Controlled by Prescrita | 100% | 100% |

(a) These entities comprise the Grupo CDMGrupo CDM.
(b) These entities comprise the Grupo MedcomGrupo MEDCOM.
(c) These entities comprise the Grupo Atrial Saude.

At the time a company is formed, Brazilian Corporate Law requires a company to have more than one shareholder, accordingly, even though the Group owns all shares of its subsidiaries, less than 0.01% of interest in each subsidiary is held by another subsidiary of the Group. The shareholders’ interests presented above take this regulation into account.

- **Prescrita Medicamentos Ltda. (“Prescrita”)**

Limited liability company, headquartered in João Pessoa, Paraíba, whose corporate purpose is the retail trade of pharmaceutical products for human use and dermatological products, being able to digital marketing its products through electronic devices, especially Internet, and interest in other companies.

- **San Log Distribuidora de Medicamentos Ltda. (“San Log”)**

San Log Distribuidora was extinguished at June 4th, 2020. San Log had been inactive since 2017 and Management considered it was no longer necessary to keep it operating and absorbed its operations in other companies of the Group.

- **Cirúrgica Jaw Comércio de Material Médico Hospitalar Ltda. (“Cirúrgica JAW”)**

Limited liability company headquartered in the city of Palhoça, Santa Catarina, and it has been distributing medicines and hospital supplies for more than three decades to public and private sectors in the southern region.

- **Cristal Pharma Ltda. ("Cristal")**

  Limited liability company headquartered in Contagem, Minas Gerais. This company has more than 10 years of experience selling and distributing generic medicine to hospitals, clinics, city halls and public agencies in the state of Minas Gerais and southern of Bahia.

- **Majela Medicamentos Ltda. ("Majela")**

  Limited liability company headquartered in Cabedelo, Paraíba. This company is a distributor for the Brazilian pharmaceutical market in the northeast region at the time of its acquisition.

- **Central Distribuidora de Medicamentos Ltda. e Prime Distribuidora de Medicamentos Ltda. ("Grupo CDMGrupo CDM")**

  Grupo CDM concentrates its activities on storage and distribution of medicines throughout Brazil and carries out the wholesale trade in medical and hospital supplies. Grupo CDMGrupo CDM has service units in the states of Pernambuco (PE), Bahia (BA), Ceara (CE) and Pará (PA).

- **Agilfarma Medicamentos Ltda. ("Agilfarma")**

  Agilfarma is a company that provides medication delivery service related to growth hormones, fertility, and special medications. In addition, Agilfarma also offers pharmaceutical assistance and injection room medication in all units.

  Algifarma is headquartered in Porto Alegre, Rio Grande do Sul and it has operating branches in Florianopolis and Curitiba.

- **Medcom Comércio de Medicamentos Ltda e G.B. Distribuidora de Medicamentos e Produtos Hospitalares Ltda. ("Grupo MedcomGrupo Medcom")**

  At April 9th, 2020, the Company acquired all shares of the Medcom, as detailed in Note 3.1.

  Grupo Medcom operates in the distribution of medicines and hospital products primarily in the Midwest region and has drug stores delivery in the cities of Goiânia, Brasília and Cuiabá.

- **Salus Latam Holding S.A. ("Atrial")**

  Atrial is a private limited liability company headquarters in the city of São Paulo, state of São Paulo. The group is comprised of Salus Latam Holding SA and its subsidiaries.

  Atrial has a portfolio of health products and services for hospital medical distribution in several regions of Brazil. Originating from the union of reference companies in the segment of medical hospital products with branches in São Paulo, Rio de Janeiro, Espírito Santo, Minas Gerais, Federal District, Bahia and Ceará.

# 3 Business combination

## 3.1 Grupo CDMAcquisition of Grupo CDM

On June 4, 2019, the Company acquired all shares of Grupo CDM, the acquisition was made through cash and future installments that will be settled according to the schedule established in the negotiation which may be adjusted or reduced by some events and contingencies that occurred prior to the acquisition date.

The Grupo CDM is specialized in the sale of high-value Generics..

### *Consideration transferred and contingent consideration*

According to the signed contract, the purchase price is R$ 136,479, from which, the amount of R$ 72,637 was paid in cash.

The amount of R$ 63,842 was retained in case of any contingencies arising from the period prior to the closing date as determined in the purchase and sale agreement.

| | |
|---|---|
| Cash payment | 72,637 |
| Retained fund (it includes contingent consideration- earn out) | 63,842 |
| Total consideration transferred | 136,480 |

Retained fund **-** The contract provides for the retention of a portion of the purchase price, for a period of 5 years from the closing date, in order to guarantee the seller's indemnity obligations, which must be released in whole or in part. The amount is recorded at its present value.

The purchase price considers an earn-out clause which is a contingent consideration subject to the achievement of certain metrics of the investee's results. The total amount initially recorded will be paid in June 2022 as established in the contract.

### *Assets acquired and liabilities assumed*

The fair value of the recognized amounts of assets acquired and liabilities assumed at the acquisition date was calculated based on an appraisal report of the Grupo CDM and it is shown below:

| **Assets** | **Fair value in June, 04, 2019** |
|---|---|
| Cash and cash equivalents | 5,445 |
| Trade and other receivables | 37,995 |
| Inventories | 26,364 |
| Intangible – Client portfolio | 51,410 |
| Intangible assets –*non-compete* agreements | 6,034 |
| Intangible assets –licenses | 122 |
| Other assets | 878 |
| | 127,474 |

| | |
|---|---|
| **Liabilities** | |
| Trade and other payables | (34,546) |
| Other payables | (2,540) |
| **Total liabilities** | (37,086) |
| **Total identifiable net assets acquired** | 90,388 |
| Goodwill arising from acquisition | 46,091 |
| **Total consideration transferred** | **136,479** |

Goodwill in the amount of R$ 46,091 relates to expected future economic benefits arising from the acquisition

**Assets acquired and liabilities assumed**

The intangible assets in the amount of $ 57,566 relates mainly to the fair value of client portfolio from the acquired company, non-compete agreements and licenses held by the acquiree. These client relationships give right to the acquirer to the customers where the acquiree operates, also providing a competitive advantage to the acquiree.

The measurement method applied, and the useful life of the intangible assets are presented below:

| Asset | Useful lives (years) | Valuation techniques | Description |
|---|---|---|---|
| Client portfolio | 7,6 | Multi period excess earnings method (MPEEM) | Considers the present value of net cash flows expected from customer relations, excluding any cash flow related to contributory assets |
| Non-compete agreements | 5 | With or without | It considers the difference between the cash flow generated by the asset considering the effect of the existence of the non-compete agreement and as if the same agreement does not exist. |
| Operation licenses | 1 | Replacement cost | It considers the time taken to obtain the license from the regulatory agency and all the direct costs involved |

In the period from Grupo CDM acquisition and December 31, 2019, the Grupo CDM contributed revenue in the amount of R$ 138,918 and net income of R$ 9,404 to the consolidated financial statements. Had the acquisition taken place as at January 1 2019, Management estimates that the consolidated revenue would be R$ 1,918,639 and the consolidated net profit would be R$ 77,763.

## 3.2 Agilfarma acquisition

On May 2 2019, the Company acquired the controlling interest of Agilfarma Ltda through its subsidiary Prescrita Medicamentos Ltda.

The acquisition aims to enhance our product portfolio, strengthening our physical presence in the South region and positioning Elfa as one of the market leaders in specialized pharmacies in Brazil.

### *Consideration transferred and contingent consideration*

According to the signed contract, the purchase price is R$ 12,037, from which, the amount of R$ 6,282 was paid in cash. The amount of R$ 5,755 was retained in case of any contingencies arising from the period prior to the closing date as determined in the purchase and sale agreement.

| | |
|---|---|
| Cash payment | 6,282 |
| Retained fund | 5,755 |
| Total consideration transferred | 12,037 |

Retained fund - The contract provides for the retention of a portion of the purchase price, for a period of 3 years from the closing date, in order to guarantee the seller's indemnity obligations, which must be released in whole or in part. The amount is recorded at its present value.

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition based on an appraisal report:

| | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 306 |
| Trade and other receivables | 2,519 |
| Inventories | 2,270 |
| Intangible – Client portfolio | 4.701 |
| Intangible assets –*non-compete* agreements | 719 |
| Intangible assets –licenses | 123 |
| Other assets | 324 |
| | 10,962 |
| **Liabilities** | |
| Trade and other payables | (3,464) |
| Other payables | (162) |
| | (3,626) |
| **Total identifiable net assets acquired** | 7,336 |
| Goodwill arising from acquisition | 4,001 |
| **Total consideration transferred** | **12,037** |

### *Assets acquired and liabilities assumed*

The goodwill in the amount of R$ 4,701 relates to expected future economic benefits arising from the acquisition.

The intangible assets in the amount of R$ 5,443 relates mainly to the fair value of client portfolio from the acquired company, non-compete agreements and licenses held by the acquiree.

These contracts give right to the acquirer for selling the products (medicines) to customers where the acquiree operates also providing a competitive advantage to the acquiree.

The measurement method applied, and the useful life of the intangible assets are presented below:

| Asset | Useful lives (years) | Valuation techniques | Description |
|---|---|---|---|
| Client portfolio | 7,7 | Multi period excess earnings method (MPEEM) | Considers the present value of net cash flows expected from customer relations, excluding any cash flow related to contributory assets |
| Non-compete agreements | 5 | With or without | It considers the difference between the cash flow generated by the asset considering the effect of the existence of the non-compete agreement and as if the same agreement does not exist. |
| Operation licenses | 1 | Cost basis | It considers the time taken to obtain the license from the regulatory agency and all the direct costs involved |

## 3.3 Grupo Medcom acquisition

On April 9t 2020, the Company acquired all shares of the Grupo Medcom, through cash payments, stock and future installments that will be settled according to the agreed schedule which may be adjusted or discounted by some events and contingencies prior to the acquisition date.

Grupo Medcom brought greater penetration in the Brazil Midwest region, and the possibility of expanding the delivery channel to this region.

### *Consideration transferred and contingent consideration*

The total purchase price was R$ 364,380, from which the amount of R $ 299,523 was paid in cash and in Company shares at fair value at the acquisition date. The amount of R$ 64,857 was withheld to cover any contingencies arising from the period prior to the closing date of the acquisition as determined in the clause of the purchase and sale agreement.

| | |
|---|---|
| Cash paid | 82,184 |
| Fair value of shares transferred (i) | 217,339 |
| Retained fund (ii) | 64,857 |
| Total of da consideration transferred | 364,380 |

(i) Fair value of shares transferred (equity instruments issued) - The fair value of equity instruments issued (common shares) was based on the fair value of the Company's shares at the acquisition date.

(ii) Retained fund - The contract provides for the retention of a portion of the purchase price, for a period of 5 years from the closing date, in order to guarantee the seller's indemnity obligations, which must be released in whole or in part. The amount is recorded at its present value.

The purchase price considers an earn-out clause which is a contingent consideration subject to the achievement of certain metrics of the investee's results.

## *Fair value of acquired assets and liabilities assumed*

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition which were measured on a preliminary basis. If new information about facts and circumstances that existed on the date of acquisition is obtained within one year from the date of acquisition that indicates adjustments to the amounts mentioned below, or any additional provision that existed at the date of acquisition, the purchase price allocation will be reviewed:

| **Assets** | **Fair value at April, 09t 2020** |
|---|---|
| Cash and cash equivalents | 5,836 |
| Trade and other receivables | 47,741 |
| Inventories | 55,942 |
| Recoverable taxes | 5,678 |
| Intangibles – software | 83 |
| Fixed assets | 5,452 |
| Intangibles -goodwill– client portfolio e special authorization | 106,163 |
| Other assets | 5,622 |
| | 232,517 |
| **Liabilities** | |
| Trade and other payables | 68,304 |
| Loans and borrowings | 31,096 |
| Other payables | 9,335 |
| **Total Liabilities** | 108,735 |
| **Total identifiable net assets acquired** | 123,782 |
| Goodwill arising from acquisition | 240,598 |
| **Total consideration transferred** | **346,380** |

## *Fair value of acquired assets and liabilities*

The intangible assets in the amount of R$ 106,163 relates mainly to the fair value of distribution contracts from the acquired company, non-compete agreements and licenses held by the acquiree.

The measurement method applied, and the useful life of the intangible assets are presented below:

| **Description** | **Useful lives (years)** | **Valuation techniques** | **Description** |
|---|---|---|---|
| Client portfolio | 7 | Multi period excess earnings method (MPEEM) | Considers the present value of net cash flows expected from customer relations, excluding any cash flow related to contributory assets |
| Operation licenses | 1 | Replacement cost | It considers the time taken to obtain the license from the regulatory agency and all the direct costs involved |

The Company plans to merge this subsidiary in up to 5 years, therefore it considers that the amounts of goodwill and capital gains will be tax deductible in the future when this event occurs.

From the date of acquisition and June 30t 2020, the Grupo Medcom contributed R$ 103,731 in net operating revenue and R$ 7,017 in net income. If the acquisition had taken place at January 1st, 2020, Management estimates that consolidated net operating revenue and net income would be R$ 193,433 and R$ 12,402, respectively.

## 3.4 Atrial acquisition

On June 30th, 2020, the Company acquired all shares of Salus Latam Holding SA, parent company of the Atrial Group, by issuing 78,166,378 new shares to Atrial shareholders at the fair value of R$ 623,375 onthe acquisition date.

The fair value of the equity instruments issued (common shares) was based on an independent appraisal report hired for the purposes of this acquisition and as required by Brazilian Law.

No other consideration was paid and there is no provision for payments to occur on future dates.

Atrial acquisition aims to offering a complete set of solution to health sector by expanding Elfa group's product portfolio through Atrial's know-how in medical and hospital materials.

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition which were measured on a preliminary basis. If new information about facts and circumstances that existed on the date of acquisition is obtained within one year from the date of acquisition that indicates adjustments to the amounts mentioned below, or any additional provision that existed at the date of acquisition, the purchase price allocation will be reviewed:

| **Assets** | **Fair value June 30t 2020** |
|---|---|
| Cash and cash equivalents | 42,741 |
| Marketable securities | 181,700 |
| Trade and other receivables | 77,540 |
| Inventories | 89,372 |
| Recoverable taxes | 5,255 |
| Intangible assets – software | 5,572 |
| Fixed assets | 25,667 |
| Intangible assets – Client portfolio | 49,261 |
| Other assets | 4,957 |
| | 482,065 |
| **Liabilities** | |
| Trade and other payables | (70,006) |
| Loans and borrowings | (27,434) |
| Leasing | (12,918) |
| Employee benefits | (15,263) |
| Tax liabilities | (12,035) |
| Trade payables from subsidiary acquisition | (57,862) |
| Provision for contingency | (129) |
| Other payables | (527) |
| **Total payables** | **(196,174)** |
| **Total identifiable net assets acquired** | 285,891 |
| Goodwill arising from acquisition | 337,484 |
| **Total consideration transferred** | **623,375** |
| Replacement of share-based compensation | 4,010 |
| Goodwill | **341,494** |

## *Fair value of acquired assets and liabilities*

The goodwill in the amount of R$ 341,494 relates to expected future economic benefits arising from the acquisition.

The fair value of the identified assets is mainly related to customer portfolio in the amount of R$ 49,261. The valuation method applied, and respective useful life of these assets are disclosed below:

| Asset | Useful life in years | Valuation approach | Description |
|---|---|---|---|
| Client portfolio | 7.7 | Multi period excess earnings method (MPEEM) | Considers the present value of net cash flows expected from customer relations, excluding any cash flow related to contributory assets |

### Stock-based payment plan replacement

In accordance with the terms and conditions of the sale and purchase agreement, the Group replaced the share-based payment plan, payable in shares, maintained by Atrial employees (plan of the acquired company) by a share-based payment plan, also payable in shares of the Group (new plan). Details of the acquired company's plan and the new plan follows below:

| **Acquiree Plan** | **New Plan** |
|---|---|
| Granted at January 1, 2019 | Granted at June, 30, 2020 |
| Granted at January 1, 2020 | |
| Vesting date – January 10, 2023 | Vesting date – June 9, 2024 |
| Vesting date – January 10, 2023 | |
| Fair value – R$ 4,010 | Fair value – R$ 4,010 |

Atrial's service conditions are in effect at June 30, 2020.

The Company plans to incorporate the subsidiary within 5 years, which is why it does not recognize deferred tax liabilities arising from this acquisition.

From the date of purchase of the investees to June 30, 2020, Atrial did not contribute with net operating revenue and net income, considering that it was acquired at June 30, 2020. If the acquisition had occurred at January 1, 2020, Management estimates that Atrial's net operating revenue and net loss from January 1 to June 30, 2020 would be R$ 177,434 R$ (4,861), respectively.

# 4 Basis of accounting

## Statement of compliance

The consolidated financial statements (“financial statements”) have been prepared and are presented in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standard Board (“IASB”) and also in accordance with accounting practices adopted in Brazil, issued by the Accounting Pronouncements Committee (“CPC”), approved by the Brazilian Securities and Exchange Commission (“CVM”) and by the Federal Accounting Council (“CFC”).

The parent company stand-alone financial statements were prepared in accordance with accounting practices adopted in Brazil

The financial statements were authorized for issue by the Company’s board of directors on August 13, 2020.

Details of the Company's accounting policies are included in Note 8.

All relevant information in the financial statements, and solely them, are being disclosed and it relates to those used by Management in its administration.

## *COVID-19* – Global pandemic outbreak

At March 11, 2020, the World Health Organization declared the pandemic resulting from COVID-19, and it is up to its member countries to establish the best practices for preventive and treatment actions for those infected. As a result, the outbreak of COVID-19 resulted in restrictive measures related to people mobility imposed by the governments of several countries due to the widespread and current spread of the virus, including quarantine and lockdown around the world. As a consequence of such measures, countries imposed restrictions on travel and public transport, closure of workplaces, supply chain disruption, closure of stores and consumption reduction which may lead to raw materials price volatility and other inputs, combined factors that may have a material adverse effect on the global and Brazilian economy.

In March and April 2020, government authorities, in several jurisdictions, imposed confinements or other restrictions to contain the virus. Several companies suspended or reduced their operations. The final impact on the global economy and financial markets is still uncertain, but it is expected to be significant.

The Company is monitoring the developments related to COVID 19 and coordinating its operational response based on existing business continuity plans and guidelines from global health organizations, governments, and best general pandemic response practices. We cannot predict when social distance measures will no longer be necessary. We believe the return to administrative activities in offices should happen gradually once such measures of social distancing are reduced and gradually discontinued.

A summary of the main business impacts is presented below:

Compliance with the determinations established by the Ministry of Health such as the release of work at the office for  employees older than 60 years, pregnant women, and people at risk, in addition to the social protocols, behaviors and other guidelines related to prevention and hygiene.

Establishment of a Crisis Committee to deliberate on actions to contain the disease in both administrative and operational areas.

Cancellation of trip and meetings, events, training sessions in person; strengthening the role of leadership in the face of the demand for productivity and home office, keeping the focus on results..

Intensive internal campaign on Covid-19, involving all employees in home office or in our units (ie. chartered transportation, distance protocol in cafeterias, changing rooms, common and productive areas).

Reinforcement of safety procedures and use of individual protection equipment, provision of alcohol gel sanitizer, anticipation of vaccination campaign, information on physical health and emotional balance.

. The Company's operations are considered essential and, therefore, its operations have not been interrupted and is following the determinations established by the authorities in the regions where it operates.

As a company in the medicine sector, Elfa must guarantee access to medicines to population, maintaining its employees and the communities with which it relates in safety and good health. Accordingly, the Company prepared and put in place a contingency plan covering several preventive measures necessary to ensure the continuity of its business and the safety of its employees and customers.

In view of the difficulties presented, we follow the guidelines established by the Ministries of Health and governmental entities in each country, adapting our routine by protecting and promoting educational actions to employees regarding the threats of the disease. Among the main measures, we highlight: creation of a Crisis Committee for the daily management of the evolution of COVID-19 and the possible impacts and measures necessary to ensure the safety of our employees, in addition to monitoring all determinations of the competent authorities in the regions where it has operations, intense communication, discussion forums and guidance on virus prevention, removal of employees from the risk group, intensification of personal hygiene techniques and reinforcement of the use of sanitary barriers in operational units

In addition, we enhanced the management of inventory level, actions to ensure a safe distance between employees, avoiding agglomerations, we replaced the participation of all internal corporate events, face-to-face meetings, and travel by communication between units. remotely by electronic means, just as we adopted remote work in the corporate office.

Elfa believes that it is taking appropriate measures to prevent the spread of COVID-19, as well as to ensure business continuity during the period that the pandemic lasts. Although the Company's operations, sales or financial situation have not been significantly affected to date, Management cannot estimate or predict the occurrence of future events related to the pandemic, being sure that it continues to constantly assess the impacts on its operations and undertakes to inform possible new scenarios and necessary measures to be adopted.

# 5 Functional and presentation currency

These consolidated financial statements are presented in thousands of Reais, which is the Company’s functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated

# 6 Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Group’s accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

## a. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes:

- Note 10 – measurement of expected credit losses (ECL) allowance for trade receivables: key assumptions in determining the weighted-average loss rate.
- Note 24 - recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized.
- Note 27 – Fair value of options that are part of the share-based payment Assumptions and estimation uncertainties.

Information about assumptions and estimation uncertainties at June 30, 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

Note 3.3 and 3.4 - acquisition of subsidiary: fair value of the consideration transferred (including contingent consideration) and fair value of the assets acquired, and liabilities assumed, measured on a provisional basis Note 11 – impairment loss for inventories to their net realizable value.

- Note 14 - impairment test of intangible assets and goodwill: key assumptions underlying recoverable amounts.

- Note 19 - recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

### b. Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Management regularly reviews significant unobservable inputs and valuation adjustments.
If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the IFRS and CPCs, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

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

# 7 New standards and interpretations

There are no other standards, amendments to standards and interpretations that are not in force that the Company expects to have a material impact from its application on its financial statements.

# 8 Basis of measurement and significant accounting policies

## Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except when mentioned otherwise.

## Significant accounting policies

The Company has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except if mentioned otherwise.

### a. Basis of consolidation

#### *i. Business combinations*

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. Contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If the share-based payment plans held by the employees need to be replaced (replacement of plans), all or part of the fair value the new plan issued by the acquirer will be included as part of the consideration exchanged in a business combination. Such determination is based on the replacement plan fair value compared to the acquiree's share-based payment plan fair value to the extent the replacement plan refers to pre-combination service.

#### *ii. Subsidiaries*

Subsidiaries are entities controlled by the Company. The Company ‘controls’ an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The financial information of subsidiaries is accounted for using the equity method in the parent company financial statements.

#### ii. Non-controlling interests

The Company elected to initially measure any non-controlling interest at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### *iii. Loss of control*

When the Company loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss.

Any interest retained in the former subsidiary is measured at fair value when control is lost.

#### *iv. Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company’s interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

### b. Foreign currency

Transactions in foreign currencies are translated into the respective functional currencies of companies of the Group at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss and presented within finance costs.

### c. Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a good or service to a customer being recognized when performance obligations are met and their respective risks are transferred to the buyer, which usually occurs on delivery. Revenue is measured based on the consideration specified in the contract with the customer.

### d. Employee benefits

#### i. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Such expenses are similar to salaries and other types of remuneration that the employee is entitled to.

### ii. Stock option plan

The fair value at the grant date of share-based payment agreements to employees is recognized as personnel expenses, with a corresponding increase in shareholders' equity, during the period in which employees acquire the right to premiums.

The amount recognized as an expense is adjusted to reflect the number of awards for which there is an expectation that the conditions of service and performance will be met, such that the final amount recognized as an expense is based on the number of awards that effectively meet service and performance conditions at the vesting date.

## e. Government grants

The Company and its subsidiaries benefit from the special tax base reduction tax regime in the states of Paraíba, Goias and the Federal District.

The taxation regimes were recognized as tax benefits by the respective States and reinstated under the terms of Clause One of the ICMS Agreement No. 190/2017, of 12.15.2017.

According to the applicable Brazilian tax legislation, the ICMS tax benefits validated and deposited by the Executive Secretariat of the National Council for Farm Policy (Confaz), are excluded from the calculation basis of the IRPJ and CSLL, as long as they are recorded in the profit reserve, which can only be used for:

(i) offsetting losses, provided that the other profit reserves have already been fully absorbed, with the exception of the legal reserve or;
(ii) increase in share capital. If this allocation is not applied, the Company may be subject to taxation by IRPJ and CSLL.

The Company and its subsidiaries recognize the result of these benefits in income statement and subsequently transfers such results to a special tax incentive reserve in accordance with the respective Income Tax and Social Contribution rules.

## f. Finance income and finance expenses

The Company’s finance income and finance expenses include:

- Interest income.

- Interest expense, net of results from derivatives; and

- the foreign currency gain or loss on financial assets and financial liabilities.

Interest income or expense is recognized using the effective interest method. The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or

- the amortized cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

## g. Income tax and social contribution

Current and deferred income tax and social contribution for the year are calculated based on the rate of 15% plus an additional 10% on taxable income in excess of R$ 240 for income tax and 9% on taxable profit for social contribution and consider the offsetting tax losses and negative social contribution base, limited to 30% of the taxable income for the year.

Income tax and social contribution expense comprise current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in Other Comprehensive Income.

***(ii) Current income tax and social contribution expense***

Current tax expense comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

***(iii) Deferred income tax and social contribution expense***

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Changes in deferred tax assets and liabilities in the year are recognized as deferred income tax and social contribution expenses.

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Company.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

## h. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost and it includes all acquisition costs, as well as other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Estimated losses on slow-moving or obsolete inventories are recognized when considered necessary by management.

## i. Fixed assets

***(i) Recognition and measurement***

Items of property, plant and equipment are measured at acquisition or construction cost, which includes capitalized borrowing costs, less accumulated depreciation, and any accumulated impairment losses.

If significant parts of an item of fixed assets have different useful lives, then they are accounted for as separate items (major components) of fixed assets.

Any gain or loss on disposal of an item of fixed assets is recognized in profit or loss.

***(ii) Subsequent expenditure***

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

***(iii) Depreciation***

Depreciation is calculated to write off the cost of items of fixed assets less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognized in profit or loss. Land is not depreciated.

The estimated useful lives of fixed assets for current and comparative periods are as follows

- Leasehold improvements – According to the contractual term
- Property and equipment – 3-12 years
- Furniture and fixtures – 5-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

## j. Intangible assets and goodwill

### *(i) Recognition and measurement*

### *Goodwill*

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

***Distribution contracts***
Distribution contracts are initially recorded at fair value and are amortized over the contract period.

***Customer portfolio***
Customer portfolio is initially recorded at fair value and are amortized over the expected duration of the customer portfolio, considering the annual turnover of the customer base (“Churn-rate”).

***Non-compete agreements***
Some acquisitions have specific clauses that require the seller not to compete for a certain period in Elfa Group’ segment, these clauses have their fair value attributed by the estimate of the gain due to the absence of the competitor acquired in the market (“With or without”)

***Other intangible assets***
Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

### *(ii) Subsequent expenditure*

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

### *(iii) Amortization*

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognized in profit or loss. Goodwill is not amortized.

The estimated useful lives for current and comparative periods are as follows:

| | |
|---|---|
| Software licenses | 5 years |
| Distribution contracts | 5 years |
| Operating licenses | 1 year |
| Brands and patents | indefinite |

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

## k. Financial instruments

### *(i) Recognition and initial measurement*

Trade receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

### _(ii) Classification and subsequent measurement_
### _Financial assets_

On initial recognition, a financial asset is classified as measured at: amortized cost; at fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at Fair value through other comprehensive income (FVOCI) if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

### _Financial assets – Business model assessment_

The Company assesses the objective of the business model in which financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management’s strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume, and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at Fair value though profit and losses (FVTPL).

***Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest:***

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

***Financial assets – Subsequent measurement and gains and losses***

| | |
|---|---|
| **Financial assets at FVTPL** | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. |
| **Financial assets at amortized cost** | These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. |

***Financial liabilities – Classification, subsequent measurement and gains and losses***

Financial liabilities are classified as measured at amortized cost. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

***(iii) Derecognition***

***Financial assets***

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

***Financial liabilities***

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

***(iv) Offsetting***

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

**l. Impairment**

***(ii) Non-derivative financial assets***

***Financial instruments***

The Company recognizes loss allowances for expected credit losses (ECLs) on financial assets measured at amortized cost.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience and informed credit assessment, that includes forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or

- the financial asset is more than 180 days past due.

- The debtor is from the public sector, its balance is more than 360 days past due and it is unlikely to pay its credit obligations from previous year or it has no decision determining the payment.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

***Measurement of ECLs***
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

***Credit-impaired financial assets***
At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset.

In monitoring assets, customers are grouped according to their credit characteristics, including whether they are public or private customers and are taken into account the history of negotiations with the Group, and the existence of financial difficulties in the past.

The Group does not require guarantees regarding accounts receivable from customers and other receivables. The Group has no accounts receivable from customers and contract assets for which no provision for loss is recognized because of the guarantee.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or being more than 180 days past due;
- restructuring of an amount due under conditions not accepted under normal conditions;
- it is probable that the debtor will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

***Presentation of allowance for ECL in the statement of financial position***
Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

***Write-off***

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company writes off assets when the financial asset is past due for 360 days as the collection possibilities are considered irrecoverable and exhausted based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

### *(ii) Non-financial assets*

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than deferred tax assets and inventories) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, the Company monitors goodwill arising from business combinations at the level of its reportable segments and, therefore, this level was used for impairment testing of goodwill (See Note 28).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

## m. Provisions

A provision is recognized if the Company has a legal or constructive obligation arising from past events that can be estimated reliably, and it is expected to result in an outflow from the Company of resources embodying economic benefits.

Provisions are recorded based on the best estimates of the risk involved. Liabilities related to lawsuits are provisioned at amounts deemed sufficient by management and legal advisors to settle unfavorable outcomes.

## n. Earnings per share – basic and diluted

Earnings per share calculation is based on the profit (loss) for the period attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding and considers the impact of the dilution of the options granted at each reporting date.

## o. Leases

The Company has applied CPC 6(R2) / IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under CPC 6 (R1) / IAS 17 and ICPC 3 / IFRIC 4. The details of accounting policies under CPC 6(R1) / IAS 17 and ICPC 3 / IFRIC 4 are disclosed separately.

### *(i) Determining whether a contract is, or contains, a lease*

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in CPC 6(R2) / IFRS 16.

### *(ii) As a lessee*

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from several external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and

- the exercise price under a purchase option that the Company is reasonably certain to exercise, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Company presents right-of-use assets that do not meet the definition of investment property in 'fixed assets' and lease liabilities in 'loans and borrowings' in the statement of financial position.

### *(iii) Short-term leases and leases of low-value assets*

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

## p. Fair value adjustment

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The chosen valuation technique incorporates all of the factors that market participants would consider in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets at a bid price and liabilities at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is usually the price of the transaction - that is, the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

# 9 Cash and cash equivalents and marketable securities

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2020** | **12/31/2019** | **06/30/2020** | **12/31/2019** |
| Cash | 5 | 5 | 6,860 | 180 |
| Bank balances | 7,219 | 7,966 | 8,980 | 12,558 |
| Short term investments | 172,330 | 42,386 | 236,857 | 107,822 |
| | **179,554** | **50,357** | **252,697** | **120,560** |
| Marketable securities | - | - | 181,700 | - |
| | **179,554** | **50,357** | **434,397** | **120,560** |

As of June 30, 2020, financial investments correspond to operations carried out with financial institutions rated A or higher, which operate in the Brazilian financial market, and were contracted at market conditions and low credit risk rate

As of June 30, 2020 and December 31, 2019, the Company had highly liquid investments mainly related to Bank Deposit Certificates (CDB), buyback securities and investment funds with yields that gradually increases up to 101% of the Brazilian Interbank Deposit Certificate (CDI), depending on the investment period.

As of June 30th, 2020, the marketable securities refer to shares acquired from Santander Argo Cash Management Fixed Income Referenced DI Investment Fund, regarding investments in a private credit multimarket investment fund, exclusively for the Group companies, duly registered with the CVM. Quotas have no maturity and can be redeemed at any time according to the Group's demands. The fund's portfolio consists of Bank Deposit Certificates (“CDB”), repurchase agreements, financial bills, treasury bonds and other funds as provided for in its investment policy.

# 10 Trade and other receivables

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2020** | **12/31/2019** | **06/30/2020** | **12/31/2019** |
| Private Sector Clients | 229,555 | 194,670 | 493,780 | 357,335 |
| Public Sector Clients | 86,473 | 78,328 | 151,194 | 133,394 |
| Related Parties Clients (note 15) | 4,503 | 3,898 | 4,503 | 3,898 |
| | **320,531** | **276,896** | **649,477** | **494,627** |
| (-) Allowance for expected credit losses (a) | (26,728) | (22,493) | (55,969) | (47,151) |
| | **293,803** | **254,403** | **593,508** | **447,476** |

The balances of accounts receivable by maturity age-band are shown below:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 06/30/2020 | 12/31/2019 | 06/30/2020 | 12/31/2019 |
| Current | 211,844 | 202,921 | 421,610 | 353,700 |
| Past due up to 30 days | 24,320 | 19,838 | 63,364 | 39,615 |
| Past due from 31 to 90 days | 23,968 | 18,966 | 57,037 | 27,497 |
| Past due from 91 to 180 days | 24,794 | 9,525 | 40,020 | 20,222 |
| Past due over 181 days | 35,605 | 25,646 | 67,446 | 53,593 |
| **Total** | **320,531** | **276,896** | **649,477** | **494,627** |
| (-) Allowance for expected credit losses | (26,728) | (22,493) | (55,969) | (47,151) |
| | **293,803** | **254,403** | **593,508** | **447,476** |

## Allowance for expected credit losses

The Company assessed the estimated credit losses as required by CPC 48 / IFRS 9. See Note 25 for details on the measurement of the allowance.

Changes in allowance for expected credit losses are presented below:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 06/30/2020 | 12/31/2019 | 06/30/2020 | 12/31/2019 |
| **Beginning balance** | (22,493) | (23,702) | (49,058) | (44,296) |
| Increase/decrease | (4,235) | 1,209 | (6,911) | (2,855) |
| **Ending balance** | (26,728) | (22,493) | (55,969) | (47,151) |

Net losses recorded during the periods are shown below:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| (Provision for)/reversal of expected credit losses | (4,235) | 1,209 | (6,911) | (2,855) |
| Expenses related to the recovery of receivables | (427) | (754) | (579) | (754) |
| | **(4,662)** | **(455)** | **(7,490)** | **(3,609)** |

# 11 Inventories

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 06/30/2020 | 12/31/2019 | 06/30/2020 | 12/31/2019 |
| Goods for resale | 128,045 | 108,195 | 371,481 | 212,397 |
| Consignment goods | 2,415 | 1,513 | 9,198 | 3,062 |
| | 130,460 | 109,536 | 380,679 | 214,992 |

Changes in the provision for inventory losses are presented below:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2020** | **12/31/2019** | **06/30/2020** | **12/31/2019** |
| **Beginning balance** | (172) | (997) | (467) | (1.820) |
| Provision | (170) | (601) | (5,752) | (1.545) |
| Reversal | 148 | 1.426 | 154 | 2.898 |
| **Ending balance** | **(194)** | **(172)** | **(6.065)** | **(467)** |

# 12 Recoverable taxes and Income tax and social contribution

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2020** | **12/31/2019** | **06/30/2020** | **12/31/2019** |
| State Value-Added Tax (ICMS) | 4,417 | 8,899 | 36,997 | 30,149 |
| Contribution Tax on Gross Revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS) | 6,942 | 7,853 | 16,898 | 14,491 |
| Others | 826 | 2,825 | 2,337 | 3,646 |
| **Recoverable taxes** | **12,185** | **19,577** | **56,232** | **48,286** |
| **Income tax and social contribution** | **16,813** | **13,720** | **25,336** | **19,516** |

# 13 Investments (Parent Company)

## a. Investment breakdown

| Investees | Ownership percentage | | Equity | | Increases in Assets | | Goodwill | | Total investment | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 06/30/2020 | 12/31/2019 | 06/30/2020 | 12/31/2019 | 06/30/2020 | 12/31/2019 | 06/30/2020 | 12/31/2019 | 06/30/2020 | 12/31/2019 |
| Prescrita | 100% | 100% | 55,359 | 51,940 | - | - | - | - | 55,359 | 51,940 |
| San Log | Extinct | 100% | - | 332 | - | - | - | - | - | 329 |
| Cirurgica Jaw | 100% | 100% | 108,492 | 102,841 | 2,300 | 2,481 | 5,207 | 5,207 | 115,999 | 110,529 |
| Cristal | 100% | 100% | 41,253 | 41,423 | 4,313 | 5,089 | 8,569 | 8,569 | 54,135 | 54,674 |
| Majela | 100% | 100% | 118,425 | 117,059 | 26,183 | 38,146 | 50,636 | 50,636 | 231,843 | 234,780 |
| Grupo CDM | 100% | 100% | 48,901 | 43,839 | 48,742 | 52,823 | 87,235 | 87,235 | 143,734 | 142,753 |
| Grupo Medcom | 100% | 0% | 25,983 | | 102,205 | | 240,598 | - | 368,786 | - |
| Atrial | 100% | 0% | 237,630 | - | 49,261 | - | 341,494 | - | 628,385 | - |
| | | **Total** | **636,043** | **357,434** | **232,004** | **98,539** | **729,194** | **147,102** | **1,597,241** | **595,005** |

* It refers to the reallocation of goodwill and capital gains for investments (Distribution portfolio, non-compete agreement and licenses),

## b. Financial information summary

| Investees | Current assets | | Non-current Assets | | Current Liabilities | | Non-current Liabilities | | Equity | | Profit/ (Losses) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 06/30/2020 | 12/31/2019 | 06/30/2020 | 12/31/2019 | 06/30/2020 | 12/31/2019 | 06/30/2020 | 12/31/2019 | 06/30/2020 | 12/31/2019 | 06/30/2020 | 12/31/2019 |
| Prescrita | 70,096 | 61,642 | 32,738 | 31,127 | 31,972 | 31,869 | 15,503 | 8,960 | 55,359 | 51,940 | 3,468 | 10,213 |
| San Log | - | 541 | | 129 | - | 65 | - | 273 | - | 332 | - | (130) |
| Cirúrgica Jaw | 106,611 | 122,161 | 58,338 | 43,361 | 46,151 | 55,911 | 10,306 | 6,770 | 108,492 | 102,841 | 5,770 | 11,986 |
| Cristal | 26,442 | 30,719 | 27,880 | 23,042 | 9,510 | 12,338 | 3,559 | - | 41,253 | 41,423 | (546) | (3,465) |
| Majela | 36,301 | 76,847 | 113,753 | 76,462 | 8,905 | 30,011 | 22,724 | 6,239 | 118,425 | 117,059 | (2,901) | 2,771 |
| Grupo CDM | 89,356 | 114,385 | 7,379 | 2,367 | 35,888 | 66,333 | 11,946 | 6,280 | 48,901 | 43,839 | 972 | 6,274 |
| Grupo Medcom | 142,679 | - | 7,007 | | 98,803 | - | 24,900 | | 25,983 | - | 4,404 | |
| Atrial | 400,149 | - | 35,676 | | 127,399 | - | 68,775 | | 241,640 | - | - | |
| **Total** | **871,634** | **406,295** | **282,771** | **176,488** | **358,628** | **196,827** | **157,713** | **28,522** | **640,053** | **357,434** | **11,167** | **27,649** |

## c. Change in investments

| | Prescrita | San Log | Cirúrgica Jaw | Cristal | Majela | Grupo CDM | Grupo Medcom | Atrial | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | - | - | - | |
| **Balance as of January 1 2019** | **24,315** | **(541)** | **98,402** | **60,345** | **219,485** | **-** | **-** | **-** | **402,005** |
| Share capital increase | 17,413 | 1,001 | 141 | 1,200 | 12,055 | - | - | - | 31,810 |
| Paid dividends | - | - | - | (3,406) | - | - | - | - | (3,406) |
| Deferred income tax reclassification | - | - | - | - | 469 | - | - | - | 469 |
| Identifiable net assets acquired | - | - | - | - | - | 90,387 | - | - | 95,674 |
| Goodwill | - | - | - | - | - | 46,091 | - | - | 40,804 |
| Equity method | 10,213 | (130) | 11,986 | (3,465) | 2,771 | 6,275 | - | - | 27,649 |
| **Balance as of December 31 2019** | **51,941** | **330** | **110,529** | **54,674** | **234,780** | **142,753** | **-** | **-** | **595,005** |
| write-off due to merge San Log | - | (330) | - | - | - | - | - | - | (330) |
| Identifiable net assets acquired | - | - | - | - | - | - | 123,783 | 285,892 | 409,675 |
| d Goodwill | - | - | - | - | - | - | 240,599 | 341,494 | 582,093 |
| Equity method | 3,418 | - | 5,470 | (540) | (2,935) | 981 | 4,404 | - | 10,798 |
| **Balance as of June 30 2019** | **55,359** | **-** | **115,999** | **54,134** | **231,843** | **143,734** | **368,786** | **627,386** | **1,597,241** |

# 14 Intangible assets

| | Parent Company | | | |
|---|---|---|---|---|
| | | | 06/30/2020 | 12/31/2019 |
| | Cost | Accumulated amortization | Net | Net |
| **Definite useful life** | | | | |
| Operation licenses | 4,975 | (354) | 4,621 | 4,376 |
| Others | 30 | (30) | - | - |
| **Indefinite useful life** | | | | |
| Brands and patents | | - | - | - |
| | **5,005** | **(384)** | **4,621** | **4,376** |

| | Consolidated | | | |
|---|---|---|---|---|
| | | | 06/30/2020 | 12/31/2019 |
| | Cost | Accumulated amortization | Net | Net |
| **Definite useful life** | | | | |
| Distribution contracts | 295,732 | (64,924) | 230,808 | 88,645 |
| Non-compete agreement | 6,753 | (1,498) | 5,255 | 5,948 |
| Software licenses | 11,658 | (891) | 10,767 | 4,677 |
| Others | 296 | (296) | - | 1,458 |
| **Indefinite useful life** | | | | |
| Goodwill arising from acquisitions | 734,190 | - | 734,190 | 152,098 |
| Brands and patents | 24 | - | 24 | 22 |
| | **1,048,653** | **(67,609)** | **981,044** | **252,848** |

Changes in the ne carrying amount of intangible assets are presented below:

| | Parent Company | |
|---|---|---|
| | 06/30/2020 | 12/31/2019 |
| **Beginning balance** | **4,376** | **2,556** |
| **Additions** | | |
| Software licenses | 248 | 1,925 |
| Special authorizations | - | 5 |
| **Amortization** | | |
| Software licenses | (3) | (110) |
| **Ending balance** | **4,621** | **4,376** |

| | Consolidated | |
|---|---|---|
| | 06/30/2020 | 12/31/2019 |
| **Beginning balance** | **252,848** | **153,175** |
| **Additions** | | |
| *Softwares* | 719 | 1,324 |
| Softwares (Amortization) | (44) | - |
| Brands and patents | 4 | - |
| **Additions due to acquisition of subsidiaries** | | |
| Softwares | 727 | - |
| Operating Licenses | - | 271 |
| Non-compete agreement | - | 6,753 |
| Client portfolio (a) | 159,437 | 56,111 |
| Goodwill (b) | 582,093 | 50,792 |
| Other intangible assets | - | 1,413 |
| **Amortizations** | | |
| *Softwares* | (201) | (286) |
| Distribution contracts | (13,811) | (15,672) |
| Non-compete agreement | (683) | (805) |
| Special authorization | (45) | (228) |
| **Ending balance** | **981,044** | **252,848** |

(a) Changes in the period is comprised of fair value of assets identified related to client portfolio of investee Medcom in the amount of R$ 105,582 and Atrial in the amount of R$ 49,261 according to a preliminary economic appraisal report issued by a specialist.

(b) Changes in period refers to the Atrial and Medcom acquisitions in the amount of R$ 341,494 and R$ 240,598, respectively.

## *a. Goodwill arising from acquisitions*

The goodwill arising from the acquisitions is based on the expected future profitability of acquired operations and amounts to R$ 734,190 at June 30, 2020 (December 31, 2019: R$ 152,098).

Management annually tests the net carrying amount of intangible assets with infinite useful life mainly related to goodwill based on expected future profitability from business combinations by using the value in use model through discounted cash flows that analyze market conditions, characteristics of each segment and economic scenarios that provide for the realization conditions of the evaluated assets.

Future cash flows were discounted by the weighted average cost of capital (WACC). Consistently with valuation techniques, value in use was assessed for a period of five years, and from then on, a growth rate equal to long-term inflation was applied considering the business to continue into perpetuity.

A long-term growth rate into perpetuity has been determined based on the long-term compound annual EBITDA growth rate, which the Board believes is consistent with the assumption that a market participant would use. EBITDA was estimated based on expectations of future outcomes considering past experience, adjusted for the following factors:

- Revenue growth was projected considering the average growth levels experienced over the past five years, and estimated sales volume and price growth for the next five years.
- The estimated cash flows regarding the budget expected for current year were considered in the projections.

The recoverable amount of the CGU was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU.

The future cash flows were prepared in nominal local currency, including inflation, and discounted by the WACC rate (after tax), 12.3% per year in 2019. The main assumptions used to estimate the recoverable amount are defined below:

| Percentage | |
|---|---|
| Discount rate | 12.30 |
| Perpetuity growth rate | 3.50 |
| Estimated growth rate for EBITDA (average for the next five years) | 14.30 |

# 15 Related parties' transactions

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2020** | **12/31/2019** | **06/30/2020** | **12/31/2019** |
| **Assets Current** | | | | |
| **Trade accounts receivable** | | | | |
| Med Imagem S/C (subsidiary of Athena Saúde) (Fundo V) | 492 | 314 | 492 | 314 |
| Hospital Memorial Nossa Senhora das Neves | 4,005 | 3,570 | 4,005 | 3,570 |
| Hospital Oftalmológico de Brasília Ltda. (Fundo V) | - | 10 | - | 10 |
| VJ Farma Ltda.(Fundo V) | 2 | - | 2 | - |
| Brazil Senior Living S.A. (Fundo IV) | 4 | 4 | 4 | 4 |
| | **4,503** | **3,898** | **4,503** | **3,898** |
| **Non-current assets** | | | | |
| **Deposit for increase in share capital** | | | | |
| Prescrita. | 17,469 | 9,319 | - | - |
| Cirúrgica Jaw | 11,963 | 8,249 | - | - |
| San Log | - | 60 | - | - |
| Cristal | 2,930 | | - | - |
| Grupo CDM | 15,422 | 7,348 | - | - |
| Agilfarma | 692 | | - | - |
| Medcom | 22,374 | | | |
| GB Distrib. De Med. E Prod. Hosp. | 2,526 | | | |
| Majela | 25,591 | 15,047 | - | - |
| | **98,967** | **40,023** | **-** | **-** |
| | | | | |
| Non-current liabilities | | | | |
| Dividends received in advance | | | | |
| Prescrita | 7,996 | 7,941 | - | - |
| Cristal | 19,409 | 36,454 | - | - |
| Majela | 101,599 | 16,584 | - | - |
| Cirúrgica Jaw | 49,400 | 72,627 | - | - |
| Grupo CDM | 1,600 | - | - | - |
| **Other accounts payable to related parties** | **180,004** | **133,606** | | |
| Cirúrgica Jaw | 213 | 72,627 | - | |
| Prescrita | 216 | | | |
| Cristal | 304 | - | - | |
| **Total accounts payable to related parties** | **180,737** | **206,233** | **-** | **-** |

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| **Statement of Income** | **06/30/2020** | **06/30/2019** | **06/30/2020** | **06/30/2019** |
| **Net operating revenue** | | | | |
| Cirúrgica Jaw | 13,157 | 504 | - | - |
| Cristal | 1,533 | 1,813 | - | - |
| Grupo CDM | 51 | | | |
| Majela | 1,586 | 138 | - | - |
| Med Imagem S/C (subsidiária da Athena Saúde) (Fundo V) | 1,141 | 1,233 | 1,141 | 1,233 |
| Hospital Memorial Nossa Senhora das Neves | 2,896 | 3,735 | 2,896 | 3,735 |
| Hospital Oftalmológico de Brasília Ltda. (Fundo V) | ---- | 8 | ---- | 8 |
| VJ Farma Ltda.(Fundo V) | 6 | 720 | 6 | 720 |
| Brazil Senior Living S.A. (Fundo IV) | - | 1 | - | 1 |
| | **20,370** | **8,152** | **4,043** | **5,697** |

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| **Statement of Income** | **06/30/2020** | **06/30/2019** | **06/30/2020** | **06/30/2019** |
| **Cost of goods sold** | | | | |
| Cirúrgica Jaw | (13.112) | (504) | - | - |
| Prescrita | (211) | (1.258) | - | - |
| Cristal | (1.231) | (1.742) | - | - |
| Grupo CDM | (47) | ---- | | |
| Majela | (1.565) | (140) | - | - |
| | **(16.166)** | **(3.644)** | **-** | **-** |
| **Cost of Leases** | | | | |
| Lle Participações Ltda | (211) | - | (211) | - |
| Egallo Participações Ltda - Epp | (38) | (159) | (38) | (159) |
| Thulio Coelho Moraes Guerra | - | (114) | - | (114) |
| Gestão e Transformação Consultoria S.A | (330) | | (330) | |
| Wilson Gil Filho e Alessandra Moreno de Aguiar | (9) | (18) | (9) | (18) |
| | **(588)** | **(291)** | **(588)** | **(291)** |
| **Cost of services** | | | | |
| Pátria Investimentos Ltda | (2.197) | (531) | (2.197) | (531) |
| Gran Coffee Comércio, Locação e Serviços S/A (Fundo IV) | (1.020) | - | (1.020) | - |
| | **(3.217)** | **(531)** | **(3.217)** | **(531)** |

All outstanding balances with these related parties are priced on an arm’s length basis and are to be settled in cash within two or three months of the reporting date. None of the balances are secured.

No expense has been recognized in the current year or prior year for expected credit losses in respect of amounts owed by related parties

## Key management personnel

Key management personnel include statutory and non-statutory officers. Key management personnel compensation for the six-month period ended June 30, 2020 was R$ 8,308 (December 31, 2019: R$7,880), including share-based compensation plan expense.

# 16 Trade and other payables

Trade and other payables are mainly related to purchase of medical products from domestic and international suppliers.

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2020** | **12/31/2019** | **06/30/2020** | **12/31/2019** |
| Pharmaceutical suppliers | 162,577 | 185,101 | 396,077 | 356,402 |
| Fixed asset suppliers | 183 | 83 | 249 | (2,077) |
| Consumer goods suppliers | 97 | 162 | 192 | 202 |
| Advances received and other accounts payable | 14,191 | 15,217 | 43,309 | 24,401 |
| Trade and other payables to related parties (note 15) | 180,737 | 133,606 | - | - |
| Payable services | 3,029 | 1,045 | 4,075 | 1,341 |
| **Total** | 360,814 | 335,214 | 443,902 | 380,269 |
| **Current** | 180,077 | 201,608 | 439,510 | 380,269 |
| **Non-current** | 180,737 | 133,606 | 4,392 | - |

# 17 Loans and financing, leases payable and derivatives

| | Contract information | | | Parent Company | | Consolidated | |
|---|---|---|---|---|---|---|---|
| | **Indexer** | **Interest rate** | **Currency** | **06/30/2020** | **12/31/2019** | **06/30/2020** | **12/31/2019** |
| **Local currency:** | | | | | | | |
| Working capital | CDI | CDI + range 1,5% to 1,92 p.a. | Real | 404,596 | 302,453 | 439,759 | 303,300 |
| Leases payable | IPCA | none | Real | 11,509 | 11,304 | 28,413 | 16,628 |
| **Total Loans and financing** | | | | **416,105** | **313,757** | **468,172** | **319,928** |
| Swap Derivatives | CDI | CDI + range 1,5% to 1,92 p.a. | Real | 34,665 | - | 34,665 | - |
| **Balance of:** | | | | | | | |
| | **Assets Non-Current** | **Derivatives** | | 34,665 | - | 34,665 | - |
| | **Liabilities Current** | **Loans and Financing** | | 205,937 | 201,922 | 251,461 | 208,093 |
| | **Liabilities non-current** | **Loans and Financing** | | 210,168 | 111,835 | 216,711 | 111,835 |

The majority of funding is in accordance with Central Bank Resolution 4131. The Company is hedged from fluctuations in foreign currencies through swaps contracted concurrently with the borrowing, perfectly matching the terms of the loan. Average financial interest is equivalent to approximately 119% of the CDI rate at the parent company and consolidated levels. Derivatives are presented in the balance sheet under the heading “Derivatives”.

Loans and financing are guaranteed by fiduciary assignment of credit rights owned by the Company from the issuance of trade bills that have restrictive clauses mentioned in Note 28.

| Financial institution | Tipe | Financial charge | Due date | Nominal amount | Carrying amount |
|---|---|---|---|---|---|
| Santander | CCB | CDI+ 3.26% p.a | 27/10/2020 | 30,000 | 30,305 |
| Santander | 4131+Swap | CDI+ 1.91% p.a | 26/06/2024 | 100,000 | 102,356 |
| Santander | 4131+Swap | CDI + 1.50% p.a | 23/09/2020 | 20,000 | 20,238 |
| Citi | 4131+Swap | CDI+ 2.70% p.a | 26/06/2023 | 100,000 | 99,773 |
| Votorantim | 4131+Swap | CDI+ 1.20% p.a | 27/07/2020 | 50,000 | 51,022 |
| BB | 4131+Swap | CDI + 2.02% p.a | 27/08/2020 | 55,205 | 56,059 |
| Itau | 4131+Swap | CDI + 2.25% p.a | 04/09/2020 | 10,000 | 10,177 |
| Itau | CCB | TX. 9.25% p.a | 20/03/2023 | 64 | 47 |
| Itau | CCB | TX. 7.44% p.a | 31/10/2022 | 7,100 | 5,522 |
| Itau | CCB | TX. 7.44% p.a | 31/10/2022 | 1,500 | 1,139 |
| Safra | CCB | TX. 11.35% p.a | 03/05/2021 | 3,000 | 1,022 |
| Itaú | Working capital | TX 9.12% p.a | 06/02/2023 | 8,400 | 8,455 |
| Caixa | Progeren | TX 5.38% p.a | 15/04/2022 | 1,000 | 415 |
| Caixa | Progeren | TX 6.03% p.a | 18/04/2022 | 1,000 | 491 |
| Santander | Working capital | CDI + 4% p.a | 19/04/2021 | 10,000 | 10,014 |
| Itaú | Working capital | TX 10.56% p.a | 08/03/2021 | 1,020 | 737 |
| Itaú | 4131+Swap | CDI + 2.25% p.a | 04/04/2022 | 5,352 | 5,106 |
| Lage | Borrowing | TX 13.68% p.a | 20/03/2022 | 64 | 17 |

The movement of loans and financing is shown below:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2020** | **12/31/2019** | **06/30/2020** | **12/31/2019** |
| **Beginning balance** | **302,453** | **238,598** | **303,300** | **238,598** |
| Additions due to the acquisition of new subsidiaries | | | 58,530 | |
| Funding | 265,205 | 390,269 | 265,205 | 391,116 |
| Interest incurred on loans and financing | 6,563 | 17,282 | 6,660 | 17,282 |
| Payment of principal loans and financing | (195,101) | (325,119) | (219,243) | (325,119) |
| Payment of interest on loans and financing | (9,189) | (18,577) | (9,358) | (18,577) |
| **Total loans, financing, and derivatives** | **369,931** | **302,453** | **405,094** | **303,300** |
| Lease payable | 11,509 | 11,304 | 28,413 | 16,628 |
| **Total** | **381,440** | **313,757** | **433,507** | **319,928** |

## a. Guarantees

The Company has R$ 185,063 in customers notes given as guarantees for loans and financing agreements as of June 30, 2020 (December 31, 2019: R$ 214,377).

# 18 Accounts payable for the acquisition of investments

| | Parent Company 06/30/2020 | Parent Company 12/31/2019 | Consolidated 06/30/2020 | Consolidated 12/31/2019 |
|---|---|---|---|---|
| Accounts payable for the acquisition of investments | 127,332 | 73,504 | 191,087 | 80,255 |
| **Current** | **11,686** | **11,666** | **25,581** | **16,176** |
| **Non-Current** | **115,646** | **61,838** | **163,506** | **64,079** |

It refers to installments payable to former partners of the acquisitions performed by the Company, these amounts are adjusted as per each acquisition agreement and the payments will occur up to 6 (six) years after the date of each acquisition. These installments are also retention and guarantee any contingencies from the pre-acquisition period.

As of June 30, 2020, the amortization schedule for the installments payable resulting from the acquisitions performed by the Company are as follows:

| | |
|---|---|
| Less than one year | 60,197 |
| One to three years | 101,124 |
| Three to five years | 27,766 |
| | **189,087** |

# 19 Contingencies

Elfa is exposed to tax, civil and labor contingencies in the ordinary course of business. The provision policy adopted by the Group considers the likelihood of the loss in the lawsuits. If it is probable that an outflow of resources will be required to settle the obligation, a provision is fully provided by the amount of these lawsuits, as assessed by the Company based on the opinions of its legal advisors.

The Group has contingencies which arose prior to the acquisition date of certain subsidiaries, which are reimbursable in full or part by the former shareholders. The Group offsets the reimbursement through the deferred installments of the purchase price as per the sale and purchase agreement. As of June 30, 2020, the installments payable regarding the acquisition of investees (Note 18) was R$ 189,087 (December 31st, 2019: R$ 81,691).

As of June 30, 2020, the Company and its subsidiaries had lawsuits with likelihood of loss considered as possible in the amount of approximately R$ 29,412 (December 31st, 2019: R$ 18,577), from which R$ 12,729 is guaranteed by former shareholders.

| | Consolidated 06/30/2020 | Consolidated 12/31/2019 |
|---|---|---|
| Labor litigations | 351 | 344 |
| Civil litigations | 38 | 179 |
| **Total** | **389** | **523** |

Changes in the provisions civil and labor litigations are shown below:

| | Balance as of 12/31/2019 | additions / (low) | Balance as of 06/30/2020 |
|---|---|---|---|
| Labor litigations | 344 | 2 | 346 |
| Civil litigations | 178 | (135) | 43 |
| | **522** | **(133)** | **389** |

The lawsuits classified as probable loss are mainly related to labor claims, whose main request refers to an employment relationship, filed by commercial representatives, for which former shareholders are liable for the majority portion of the claim, therefore, it is not subject to provision. The civil lawsuits classified as probable loss are the result of indemnity claims or succumbent fees with low value involved in general, and for which former shareholders are liable for the majority portion of the claim. Among legal actions, the likelihood of loss considered as probable, the following worth mentioning:

a) Tax liability that discusses the annulment of IRRF, IRPJ, CSLL, PIS and COFINS entries, due to alleged omissions of revenue in 2007 and alleged payment to an unidentified beneficiary, in the amount of R$ 4,065, for which former shareholders are fully responsible.

b) Labor claim filed by Silas Cerino requesting employment and related benefits, in addition to a guarantee fund for 25 years, in the amount of R$ 8 million. There is no decision on the merits of the action.

c) Execution action filed by the State of Bahia to collect ICMS debt. Guaranteed by Guarantee Insurance, in the amount of R$ 9,194, for which former shareholders are responsible.

# 20 Shareholders' equity

## a. Share capital

As at June 30, 2020, the share capital was R$ 803,910 (2019: R$ 312,016), corresponding to 455,694,714 shares issued and fully paid without par value (2019: 242,875,200), as follow:

| **Shareholders'** | **2020 Share** | **2019 Share** |
|---|---|---|
| Pátria Brazilian Private Equity Fund IV - Fundo de Investment em Participações Multiestratégia | 308,470,651 | 214,511,429 |
| Brazilian Private Equity Fund IV - Fundo de Investimento em Participações Multiestratégia | 6,810,064 | 4,735,739 |
| Brazilian Private Equity V – Fundo de Investimento em Participações Multiestratégia | 78,166,378 | |
| JMV Participações e Gestão de Bens S.A. | 19,558,458 | 13,601,011 |
| Elmo Lopes Fernandes de Assis | 6,865,249 | 4,774,115 |
| Edalmo Leite Fernandes de Assis | 6,338,679 | 4,407,937 |
| Evelyn Leite Fernandes de Assis | 950,801 | 661,190 |
| Luis Renato Guimarães Liveri | 264,277 | 183,779 |
| Karla Ribeiro de Castro Branquinho | 17,456,821 | |
| Guerino Anizelli Neto | 918,781 | |
| Kamila Ribeiro de Castro Branquinho | 4,699,914 | |
| Luiz Felipe de Castro Branquinho | 4,699,914 | |
| Henrique Almeida Anizelli | 494,727 | |
| | **455,694,714** | **242,875,200** |

(i) Increase in capital paid in cash

At March 13, 2020, the shareholders approved increase in capital by issuing 106,382,979 new shares in the total amount of R$ 250,000, from which R$ 239,678 was paid in cash at the same date and R$ 10,322 was paid at March 7, 2020.

(ii) Increase in capital – Grupo Medcom acquisition

At April 9, 2020, the shareholders approved increase in capital by issuing 28,270,157 new shares issued in the total amount of R$ 2,321 through the contribution of 32.5% of Grupo Medcom shares as mentioned in Note 3.3.

The fair value of these shares was determined by an independent expert's report issued at the transaction date as required by the Brazilian Corporation Law, which amounted to R $ 217,339. The difference from the nominal value of the shares to the fair value in the amount of R$ 214,665 was allocated in a share premium account within capital reserve.

(iii) Increase in capital – Atrial

At June 30, 2020, the shareholders approved increase in capital by issuing 28,270,157 new shares issued in the total amount of R $ 239,220 through the contribution of all shares of Atrial as mentioned in explanatory Note 3.4.

The fair value of these shares was determined by an independent expert report issued at the transaction as required by the Brazilian Corporation Law, which amounted to R$ 623,376. The difference from the nominal value of the shares to the fair value in the amount of R$ 384,156 was allocated in a share premium account within capital reserve.

***Profit reserves***

*(i)* ***Legal reserve***

According to articles of incorporation, 5% of the annual net income up to 20% of the share capital shall be retained to constitute the legal reserve as per art. 193 of Brazilian Corporate Law (Law 6404/76).

*(ii)* ***Retained profit reserve***

It represents the remaining portion of the profit, after appropriations to legal reserve, tax incentive reserve and mandatory minimum dividend, which must be approved at the shareholders’ meeting when the Financial Statements are approved.

*(iii)* ***Tax incentive reserve***

The Company and its subsidiaries benefit from the special tax regime in Paraíba and the Federal District that reduces the calculation basis.

The taxation regimes were recognized as tax benefits by the respective State authority and reinstated under the terms of Clause One of ICMS Agreement No. 190/2017, of 12.15.2017. In addition, the Group benefits from collecting tax in a differentiated tax regime (tax substitute) in the states of Minas Gerais, Pernambuco, Bahia, Pará and Ceará with different calculation for each regime.

According to the applicable Brazilian tax legislation and confirmed by CONFAZ Council of Treasury Policy), ICMS tax benefit is excluded from the calculation basis of the IRPJ and CSLL, provided that it is recorded in a profit reserve, which can only be used for:

(i) Absorption of losses, provided that profit reserves, other than legal reserve, have already been fully absorbed or;
(ii) Increase in share capital. If this allocation is not observed, the Company may be subject income tax and social contribution.

The Company and its subsidiaries recognize these benefits in a special tax incentive reserve when there is sufficient profit for this allocation, otherwise the excess benefit is recognized against profit in the following years as required by law.

### *(iv)* ***Capital reserve***

Capital reserve results from the reverse merger of its parent company according to article 227 of the Brazilian Corporate Law.

### *(v)* ***Profit distribution***

As per the articles of incorporation, net profit is distributed considering the following:

- 5% of the annual net profit up to 20% of the share capital are appropriated to legal reserve.
- 1% of the annual net profit is appropriated to minimum mandatory dividend, after the adjustments required by the Brazilian Corporation Law.
- Appropriation to tax incentive reserve regarding exclusion of ICMS tax incentives from the income tax and social contribution calculation basis up to the total credit used and outstanding as determined by law.
- The remaining balance, after complying with the provisions contained above, will be allocated as determined by the General Shareholders' Meeting.

# 21 Net operating revenue

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2020** | **06/30/2019** | **06/30/2020** | **06/30/2019** |
| **Gross revenue** | | | | |
| Sales of goods – Private Sector Clients | 558,832 | 502,616 | 985,824 | 733,409 |
| Sales of goods – Public Sector Clients | 87,696 | 99,037 | 123,555 | 152,357 |
| Total Gross revenue | **646,528** | **601,653** | **1,109,379** | **885,766** |
| Sales taxes and other sales deductions | | | | |
| Sales return – Private Sector Clients | (6,495) | (5,984) | (14,112) | (7,454) |
| Sales return – Public Sector Clients | (1,089) | (386) | (1,543) | (1,233) |
| Discounts given | (747) | (1,011) | (1,014) | (1,626) |
| Sales taxes | (48,237) | (54,043) | (83,538) | (79,779) |
| Total revenue deductions | (56,568) | (61,424) | (100,207) | (90,092) |
| Net operating revenue | **589,960** | **540,229** | **1,009,172** | **795,674** |

Revenue is measured based on the consideration specified in a transaction with a customer. The Group recognizes revenue when it transfers control over a good or service to a customer.

Invoices issued must be paid, usually within a 30-day period at the due date. Discounts are not offered in addition to the invoice, loyalty points and returns are only accepted if defect or error in the delivery is proven.

# 22 Costs and expenses by function and by nature

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2020** | **06/30/2019** | **06/30/2020** | **06/30/2019** |
| **By function** | | | | |
| Cost of sales | (535,563) | (496,807) | (897,213) | (722,713) |
| Selling and distribution expenses | (9,034) | (7,794) | (36,234) | (31,419) |
| General and administrative expenses | (48,467) | (36,056) | (69,091) | (35,064) |
| Provision for impairment losses | (4,662) | (6,156) | (7,490) | (9,915) |
| Other operating income | 10,166 | 2,233 | 12,434 | 4,019 |
| Other operating expenses | (4,800) | (1,357) | (6,564) | (2,547) |
| | **(592,360)** | **(545,937)** | **(1,004,158)** | **(797,639)** |
| **By nature:** | | | | |
| Cost of resale of products | (535,563) | (496,807) | (897,213) | (722,713) |
| Personnel and social charges | (26,828) | (18,803) | (45,663) | (25,947) |
| Shared based options | (2,365) | (2,760) | (2,365) | (2,760) |
| Sales commission | (412) | (1,645) | (1,136) | (2,860) |
| Feight and carriage | (5,533) | (5,602) | (10,049) | (8,141) |
| Amortization and depreciation | (3,028) | (2,969) | (17,182) | (9,012) |
| Other occupation expenses | (363) | (67) | (1,813) | (403) |
| Services provided by legal entities | (18,972) | (12,004) | (26,918) | (17,362) |
| (Provision) / reversal of expected credit losses | (4,662) | (6,156) | (7,490) | (9,915) |
| Other operating income | (4,800) | (1,357) | (6,564) | (2,547) |
| Other operating expenses | 10,166 | 2,233 | 12,235 | 4,019 |
| | **(592,360)** | **(545,937)** | **(1,004,158)** | **(797,641)** |

# 23 Financial income (expenses)

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 06/30/2020 | 06/30/2019 | 06/30/2020 | 06/30/2019 |
| **Financial expenses** | | | | |
| Interest on loans and financing | (6,563) | (5,758) | (6,650) | (5,982) |
| Other financial expenses | (1,629) | ---- | (1,697) | ---- |
| | **(8,192)** | **(5,758)** | **(8,347)** | **(5,982)** |
| **Financial income** | | | | |
| Interest income | ---- | ---- | 79 | ---- |
| Financial investment income | 1,130 | 478 | 1,450 | 1,127 |
| | **1,130** | **478** | **1,529** | **1,127** |
| | **(7,062)** | **(5,280)** | **(6,818)** | **(4,855)** |

# 24 Income tax and social contribution

Income tax and social contribution expense on consolidated statement of income is shown below:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| **Current:** | **06/30/2020** | **12/31/2019** | **06/30/2020** | **12/31/2019** |
| Income tax | - | - | (2,893) | (3,540) |
| Social contribution | - | - | (1,042) | (1,275) |
| | - | - | (3,935) | (4,815) |
| **Deferred:** | | | | |
| Income tax | 10,621 | 1,058 | 15,824 | 9,542 |
| Social contribution | 3,823 | 381 | 5,696 | 3,435 |
| | 14,444 | 10,169 | 21,520 | 12,977 |

## Reconciliation of effective tax rate

Income tax and social contribution reconciliation from nominal to effective rate:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2020** | **06/30/2019** | **06/30/2020** | **06/30/2019** |
| Profit before taxes | 1,336 | (8,829) | (1,805) | (6,822) |
| Statutory rates | 34% | 34% | 34% | 34% |
| **Income tax and social contribution at statutory rates** | **(454)** | **3.002** | **614** | **2.319** |
| **Adjustments to taxable income:** | | | | |
| Equity results | 3,671 | 734 | - | - |
| Government grant | 10,872 | 7,234 | 13,808 | 9,470 |
| Other permanent differences | 355 | (801) | 3,163 | (3,627) |
| permanent difference, net | 14,898 | 7,167 | 16,971 | 5,843 |
| **Effective income tax and social contribution benefit** | **14,444** | **10,169** | **17,585** | **8,162** |

### *Deferred income and social contribution taxes*

Based on the expectation of generating future taxable income, the Company and its subsidiaries recognized deferred tax credits on temporary differences and the balance of tax losses and negative basis of social contribution.

Deferred tax assets, net has been calculated based on the following:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **06/30/2020** | **12/31/2019** | **06/30/2020** | **12/31/2019** |
| Provision for impairment | 12,570 | 7,648 | 20,911 | 13,600 |
| Provision for inventory losses | 66 | 58 | 85 | 159 |
| Share-based compensation | 8,962 | 8,158 | 8,962 | 8,158 |
| Goodwill | 12,001 | 10,383 | 12,001 | 10,383 |
| Tax losses for income tax and social contribution | 47,346 | 38,136 | 53,095 | 44,336 |
| Other provisions | (368) | 3,008 | 20,921 | 11,775 |
| | **80,577** | **67,391** | **115,975** | **88,411** |

Technical feasibility studies prepared by Management indicate that the Group´s operations are fully capable of realizing the related tax benefit through the future taxable profits in subsequent years. Such studies correspond to the best Management estimates of the Company and its subsidiaries and the market in which they operate as presented below:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| **Year** | **06/30/2020** | **12/31/2019** | **06/30/2020** | **12/31/2019** |
| 2019 | - | - | - | - |
| 2020 | - | - | - | - |
| 2021 | - | - | 3.325 | 2.777 |
| 2022 | 5,788 | 4,662 | 9,682 | 8,085 |
| 2023 | 16,813 | 13,542 | 16,217 | 13,542 |
| 2024 up to 2025 | 24,745 | 19,932 | 23,871 | 19,933 |
| | **47,346** | **38,136** | **53,095** | **44,337** |

# 25 Earnings per share

## a) Earnings per share

The calculation of net income (loss) per share was based on the net income (loss) attributed to holders of common shares and the weighted average number of shares outstanding after adjustments for potential dilutive common shares.

The calculation of net income (loss) per share for the periods ended June 30, 2020 and 2019 is shown below:

| | **06/30/2020** | **12/31/2019** |
|---|---|---|
| Profit for the year | 15,780 | 1,340 |
| Weighted average outstanding shares | 320,878 | 242,875 |
| Earnings per share - basic - R$ | **0.05** | **0.01** |

**b) Diluted earnings per share**

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding common shares after adjustment for the effects of all dilutive potential shares. The Company has stock options of common shares with dilutive effects. For this category, a calculation is made to determine the number of shares that could have been acquired at fair value. The number of shares is calculated as described above and compared with the number of shares outstanding, assuming stock options are exercised.

| | **06/30/2020** | **06/30/2019** |
|---|---|---|
| Profit for the period | 15,780 | 1,340 |
| Weighted average outstanding shares | 320,878 | 242,875 |
| Adjustments for stock options (Weighted average) | 11,252 | 14,438 |
| Weighted average shares for diluted earnings per share | 332,130 | 257,313 |
| Diluted earnings per share - R$ | **0,05** | **0,01** |

# 26 Financial instruments

Information related to financial instruments and their respective analysis are listed in the items below:

## a. Accounting classifications and fair values

The Company does not present the table of comparability of the fair value with the book value, since the book values approximate the fair values due to the characteristics of the financial instruments.

## b. Financial risk management

The Company has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk.

### *(i) Risk management framework*

The board of directors has overall responsibility for the establishment and oversight of the Company’s risk management framework.

The Company’s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company’s activities. The Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

### *(ii) Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company’s receivables from customers and financial instruments of the Company.

The carrying amounts of financial assets represent the maximum credit exposure. Impairment losses on financial assets and contract assets recognized in profit or loss are presented in Note 10.

### *(iii) Trade receivables*

The Company’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Note 21.

Management has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company’s standard payment and delivery terms and conditions are offered. The Company’s review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. Sale limits are established for each customer and reviewed annually.

The Company limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one and four months for private and public customers, respectively.

Monitoring are performed by grouping customers according to their credit characteristics, including whether they are individual or legal entities, wholesalers, resellers or end customers, their geographic area, industry segment, history of trading, including financial difficulties in the past.

The Company does not require guarantees in relation to trade and other receivables and disregards guarantees when provision for losses is considered applicable.

As of June 30, 2020, the Company has no customer representing more than 5% (five percent) of the balance of trade and other receivables.

### *Expected credit loss assessment for customers as of June 30, 2020 and 2019*

An expected credit loss rate is calculated for each type of client (from private or public sector) based on the characteristics observed historically and on the default condition in the past three years.

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables as of June 30, 2020 and 2019, which is part of the provision for impairment losses:

| | **Weighted average loss rate** | **Gross carrying amount** | **Impairment loss allowance** |
|---|---|---|---|
| **June 30 2020** | | | |
| *In thousands of Reais* | | | |
| Public sector - Clients | 0,47% | 123,555 | 581 |
| Private sector – Clients | 0,46% | 985,824 | 4,561 |
| **Total** | 0,46% | 1,109,379 | 5,140 |

| | **Weighted average loss rate** | **Gross carrying amount** | **Impairment loss allowance** |
|---|---|---|---|
| **June 30 2019** | | | |
| *In thousands of Reais* | | | |
| Public sector - Clients | 1,13% | 152,357 | 1,722 |
| Private sector – Clients | 0,63% | 733,409 | 4,620 |
| **Total** | 0,72% | 885,766 | 6,342 |

### Cash and cash equivalents

The Company held "Cash and cash equivalents" of R$ 252,697 as of June 30, 2020 (December 31, 2019: R$ 120,560). "Cash and cash equivalents" are maintained with banks and financial institutions that are rated between AA- and AA + (low credit risk), based on the main rating agencies. The same rating policy is applied for contracting derivative financial instruments.

### *(iv) Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Company aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash outflows on financial liabilities (other than trade payables) over the next 60 days. The Company also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

## *Exposure to liquidity risk*

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

| | | Consolidated<br>Contractual cash flows | | | | |
|---|---|---|---|---|---|---|
| **June 30 2020** | **Carrying amount** | **Total** | **1-12 months** | **1-2 years** | **2-5 years** | **More than 5 years** |
| **Non derivatives financial liabilities** | | | | | | |
| Loans and borrowings | 405,094 | 405,094 | 198,161 | 109,575 | 103,542 | |
| Rent | 28,413 | 28,413 | 23,678 | 4,736 | | |
| Trade suppliers and other payables | 443,902 | 443,902 | 443,902 | - | | |
| Personnel and social charges | 29,716 | 29,716 | 29,716 | - | | |
| Taxes payable | 31,158 | 31,158 | 29,050 | 2,108 | | |
| Dividends payable | - | - | - | | | |
| Deferred income and social contribution taxes | 527 | 527 | - | 527 | | |
| Accounts payable for the acquisition of investments | 189,087 | 189,087 | 42,281 | 112,912 | 33,894 | |
| Provision for contingencies | 389 | 389 | - | 389 | | |
| | **1,128,286** | **1,128,286** | **766,788** | **230,247** | **137,436** | |

| | | Consolidated<br>Contractual cash flows | | | | | |
|---|---|---|---|---|---|---|---|
| **December 31, 2019** | **Carrying amount** | **Total** | | **1-12 months** | **1-2 years** | **2-5 years** | **More than 5 years** |
| *In thousands of Reais* | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Loans and borrowings | 319,928 | 323,959 | | 209,093 | 64,574 | 51,292 | - |
| Provisions | 523 | 523 | - | - | 523 | - | - |
| Trade suppliers and other payables | 377,388 | 377,388 | | 377,388 | - | - | - |
| Personnel and social charges | 11,123 | 11,123 | | 11,123 | - | - | - |
| Taxes payable | 18,886 | 18,886 | | 16,780 | 2,106 | - | - |
| Dividends payable | 665 | 665 | | 665 | - | - | - |
| Accounts payable for the acquisition of investments | 80,255 | 80,255 | | 16,176 | 24,254 | 39,047 | 778 |
| | **800,768** | **812,799** | | **63,223** | **91,459** | **90,339** | **778** |

The Group has a bank loan with a guarantee that contains a restrictive contractual clause (covenant). The Group complied with all the clauses on the reporting date. Future failure to comply with this restrictive contractual clause may require the Group to repay the loan before the dates indicated in the table above.

The restrictive contractual clause and the equivalent net financial debt to EBITDA (Earnings before interest, taxes, depreciation and amortization) for the last 12 consolidated financial statements, considering the proforma for the 12 months of acquired subsidiaries, regardless of the date of obtaining control. This indicator is regularly monitored by the treasury department and periodically reported to Management to ensure compliance of the contract.

### *(v) Market risk*

Market risk is the risk that changes in market prices – e.g. foreign exchange rates, interest rates and equity prices – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

### *(vi) Currency risk*

The Company is not significantly exposed to foreign exchange risk. In this way, the Company chose not to present the exchange rate sensitivity analysis framework.

The exchange rate risk arises from future and current commercial operations, generated mainly by the purchase of imported goods denominated in US dollars. The Company currently holds foreign currency liabilities recorded under loans. All loans denominated in foreign currency are protected through derivative contracts that mitigate the Company's exposure to exchange rate variations. The Company does apply hedge accounting.

### *(vii) Interest rate risk*

**Exposure to interest rate risk**

The interest rate profile of the Company's interest-bearing financial instruments as reported to the management of the Company is as follows:

| | Consolidated | |
|---|---|---|
| | Valor nominal | |
| | **06/30/2020** | **12/31/2019** |
| **Fixed-rate instruments** | | |
| Financial assets | 252,697 | 120,560 |
| Financial liabilities | (431,308) | (319,928) |
| **Net exposure** | **(178,611)** | **(199,368)** |

**Fair value sensitivity analysis**

The Company does not have any financial assets or liabilities with fixed interest rate at fair value through profit or loss, and it does not designate derivatives (interest rate swaps) as hedge instruments using the fair value hedge accounting model.

| **June 30 2020** | | **Consolidated** | | | | |
|---|---|---|---|---|---|---|
| | | **Contractual cash flows** | | | | |
| | **Carrying Amount** | **Total** | **25%** | **50%** | **-25%** | **-50%** |
| *In thousands of Reais* | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Loans and borrowings | 405,094 | 405,094 | 514,098 | 616,917 | 308,459 | 205,639 |
| | **405,094** | **405,094** | **514,098** | **616,917** | **308,459** | **205,639** |

| **December 31, 2019** | | **Consolidated** | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Contractual cash flows** | | | | | |
| | **Carrying Amount** | **Total** | **+25%** | **+50%** | **-25%** | **-50%** |
| *In thousands of Reais* | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Loans and borrowings | 302,455 | 323,959 | 404,949 | 485,939 | 242,969 | 161,980 |
| | **302,455** | **323,959** | **404,949** | **485,939** | **242,969** | **161,980** |

# 27 Share based compensation

## a. Description of share-based payment agreements

As of June 30th, 2020, the Company has long-term incentives that grant employees stock options to be paid in shares.

In accordance with this incentive, options can be exercised at pre-established prices at the grant date when the conditions for exercising are met. Exercise conditions are: (i) liquidity event for the controlling shareholder; (ii) minimum expected return to the controlling shareholder and (iii) minimum service period. If an employee decides to leave the Company before the three conditions above are met, the options are canceled.

| **Plan** | **Grant date** | **Quantity of options (in thousands)** | **Total in thousands of Reais** | **Vesting period** |
|---|---|---|---|---|
| Incentive 2014 | December 1st | 6,928 | 12,612 | 48 months from grant date |
| Incentive 2015 | December 1st | 1,106 | 3,139 | 48 months from grant date |
| Incentive 2017 | August 24th | 409 | 746 | 48 months from grant date |
| Incentive 2018 | February 9th | 604 | 5,680 | 48 months from grant date |
| Incentive 2019 | January 9th | 1,423 | 3,009 | 48 months from grant date |
| Incentive 2020 | January 9th | 1,571 | 1,172 | 48 months from grant date |
| Incentive Atrial Fusion | June 30th | 2,274 | 4,010 | 48 months from grant date |
| | **Total stock options** | 14,315 | 30,368 | |

* Recognized in the income for the period in accordance with the respective vesting period against the capital reserve.

## b. Fair value measurement

The stock option plans are payable in shares and the fair value was measured at fair value based on the Black-Scholes formula.

Conditions of service and non-market performance were not considered when measuring fair value.

The information used to measure the fair values at the grant date is

| **Long-term incentive plans** | **2014** | **2015** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|---|
| Fair value at the grant date | 1,78 | 2,85 | 2,52 | 6,54 | 7,15 | 5,93 |
| Stock price at the grant date | 2,61 | 4,09 | 4,37 | 8,79 | 10,37 | 11,58 |
| Exercise price | 1,46 | 2,15 | 2,44 | 2,91 | 3,84 | 6,17 |
| Expected volatility (weighted average) | 23% | 26% | 19% | 22% | 18% | 18% |
| Expiration time (in years) | 4 | 4 | 4 | 4 | 4 | 4 |
| Free risk interest rate (CDI) | 11.57% | 14.14% | 6.9% | 6.4% | 4.4% | 2.15% |

The expected volatility was estimated considering the market metrics historical volatility of the BOVESPA index in a period proportional to the expected maturity. The expected maturity of the instruments was based on the historical experience and the general behavior of the option holder.
The valuation method used was Black-Scholes.

### ***b. Expenses recognized in income statement***

In relation to the plans mentioned above, the Company recognized as salaries and charges expenses in the income statement as shown in the table below:

| **Plan** | **06/30/2020** | **06/30/2019** |
|---|---|---|
| Incentive 2014 | - | - |
| Incentive 2015 | - | 342 |
| Incentive 2017 | 130 | 133 |
| Incentive 2018 | 445 | 1,116 |
| Incentive 2019 | 617 | 1,169 |
| Incentive 2020 | 1,173 | - |
| Total expense recognized in the year | 2,365 | 2,760 |

## 28 Segment information

Segment information below is used by management to evaluate the performance of the operating segments and to make decisions regarding the allocation of resources. The gross margin is the measure used by management to evaluate the performance of operating segments of the Group. Management does not segregate assets and liabilities by segment regularly, instead, such information is analyzed on consolidated basis and by subsidiary. As mentioned in Note 1, the Group has two operating and reportable segments: “Specialties” and “Generic, Similar and Material”, respectively. All Company's operations are carried out in Brazil and there are no customers representing 10% or more of each segment's revenues.

All of the Company's operations are carried out in Brazil and there are no customers that represent 10% or more of each segment's revenue.

| **06/30/2020** | **Specialties** | **Generics, Similar, and Materials** | **Corporate unallocated** | **Consolidated** |
|---|---|---|---|---|
| Net operating revenues | 827,596 | 181,576 | - | 1,009,172 |
| Cost of goods sold | (742,929) | (154,284) | - | (897,213) |
| **Gross profit** | **84,667** | **27,292** | **-** | **111,959** |
| Selling and distribution expenses | **(28,214)** | **(8,020)** | - | **(36,234)** |
| **Contribution margin** | **56,453** | **19,272** | **-** | **75,725** |
| Losses due to impairment of accounts receivable | | - | (7,490) | (7,490) |
| General and Administrative Expenses | - | - | (69,091) | (69,091) |
| Other revenue | - | - | 12,434 | 12,434 |
| Other expenses | - | - | (6,565) | (6,565) |
| **Operating income before financial result and taxes** | **56,453** | **19,272** | **(70,712)** | **5,013** |

| **06/30/2019** | **Specialties** | **Generics, Similar, and Materials** | **Corporate unallocated** | **Consolidated** |
|---|---|---|---|---|
| Net operating revenues | 713,444 | 82,230 | - | 795,674 |
| Cost of goods sold | (649,433) | (73,280) | - | (722,713) |
| **Gross profit** | 64,011 | 8,950 | - | 72,961 |
| **Gross margin%** | *8,97%* | *10,88%* | - | *9,17%* |
| Selling and distribution expenses | (27,412) | (4,007) | - | (31,419) |
| **Contribution margin** | **36,599** | **4,943** | **-** | **41,542** |
| **Contribution margin in relation to Net operating revenue (%)** | *5,13%* | *6,00%* | - | *5,22%* |
| Losses due to impairment of accounts receivable | | | (9,915) | (9,915) |
| General and Administrative Expenses | - | - | (35,064) | (35,064) |
| Other revenue | - | - | 4,019 | 4,019 |
| Other expenses | - | - | (2,549) | (2,549) |
| **Operating income before financial result and taxes** | **36,599** | **4,943** | **(43,509)** | **(1,967)** |

# 29 Insurance coverage

The Company maintains an insurance policy for coverage against fire and miscellaneous risks for its facilities and related assets (i.e.: inventory goods), in amounts considered sufficient by Management to cover possible losses on claims, considering the nature of its activity , the risks involved in operations and advice of insurance advisors.

# 30 Subsequent events

## *Extraordinary General Meeting held at August 7th, 2020 – IPO approval*

As at August 7th, 2020, the extraordinary general meeting approved:

- the listing of the Company;

- the Company’s application for registration as a publicly held company as category "A" in the Brazilian Securities and Exchange Commission ("CVM"), under the CVM Instruction 480 issued at December 7th, 2009;
- the Company’s application for registration at Novo Mercado of B3 - Brasil, Bolsa, Balcão S.A. (“B3”);
- signing the B3 agreement “Differentiated Corporate Governance Practices Agreement - Novo Mercado”; and
- the initial public offering for primary and secondary distribution of common shares in Brazil with efforts to place the Shares abroad, nominative and without par value, issued by the Company ("Shares" and "Offering", respectively), in a non-organized over-the-counter market, under the coordination of institutions that are part of the Brazilian securities distribution system, according to CVM Instruction No. 400, issued at December 29th, 2003, as amended ("CVM Instruction 400"), and other applicable legal provisions. As per CVM Instruction 400, art. 14, par. 2, the volume of shares initially offered may be increased by up to 20%, under the same conditions and at the same price as the shares initially offered.

For the exclusive purpose of meeting any excess demand that may arise during the Offering, according to CVM Instruction 400, art. 24, the volume of shares initially offered may be increased by a supplementary lot of shares equivalent to up to 15% of the total shares initially offered, under the same conditions and at the same price as the shares initially offered. Pursuant to Brazilian Corporation Law, art. 172, item I, there shall be no preemptive rights of the Company's shareholders in the capital increase resulting from the Offering.

### *Mostaert acquisition*

At June 30th, 2020, the Company signed the purchase and sale agreement for the acquisition of all shares of Mostaert. The acquisition was submitted to analysis by the CADE (Administrative Council for Economic Defense) for approval.

Mostaert is a company specialized in the distribution of hospital drugs, antibiotics, injectables and oncology and it is headquartered in Pernambuco.

The purchase price will be disclosed when the precedent conditions and the transaction are completed.

### *Fenergy acquisiton*

At June 28th, 2020, the subsidiary Salus Latam Holding S.A., signed the purchase and sale agreement for the acquisition of all shares of “Fenergy”. The acquisition is subject to conditions precedent usual for this type of transaction.

Fenergy operates in the distribution of medical hospital materials primarily in the South region, focusing its portfolio on consumables for highly complex surgeries. The purchase price will be disclosed when the conditions precedent and the transaction is completed.

## *Surya Dental acquisition*

At June 29th, 2020, an indirect subsidiary of the Company signed the purchase and sale agreement for the acquisition of the controlling interest in Surya Dental. The acquisition was submitted to analysis by CADE (Administrative Council for Economic Defense) for approval.

Surya Dental operates in the distribution of products aimed at dental clinics primarily in the South region, although it has access and capillarity in all regions of Brazil.

The negotiation amounts will be disclosed when the precedent conditions and the transaction are completed.

**New debt**

As at July 13, 2020, the Company entered into a new loan agreement with Banco Santander in the amount of R$50,000,000. The loan was approved by the Company's Board of Directors to extend the Company's debt profile and will be used to pay loans due in the second half of 2020. The interest rate is equivalent to CDI (Brazilian interbank offered rate), plus margin of 2.70% p.a. with due date at June 29, 2023 with a grace period of one year and fiduciary assignment of bank certificates of deposit, credit rights and 100 percent of the security's value as collateral. This loan will have 50% of its value guaranteed by receivables.

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Michael Gordon Findlay
**Chief of Financial Officer**

Rodrigo Luiz Domingues
**Controller/Accountant**
CRC RJ 125935/O-0