

Hypera S.A.

Balance sheets at December 31

In thousands of Reais

(A free translation of the original in Portuguese)

	Parent company		Consolidated			Parent company		Consolidated	
	2019	2018	2019	2018		2019	2018	2019	2018
Assets					Liabilities and equity				
Current					Current				
Cash and cash equivalents (Note 10)	2,117,668	1,578,684	2,246,436	1,646,869	Suppliers (Note 20)	344,357	416,478	333,829	198,119
Accounts receivable (Note 11)	1,313,767	1,460,045	1,313,671	1,457,265	Suppliers' assignments of receivables (Note 21)	291	1,349	124,019	161,200
Inventory (Note 12)	108,887	146,726	664,643	596,683	Loans, financing and debentures (Note 22)	77,571	74,805	108,622	106,548
Recoverable taxes (Note 13)	236,278	284,422	300,826	338,166	Salaries payable	126,984	84,622	205,996	150,352
Derivative financial instruments (Note 4 (f))	-	-	1,409	7,292	Income tax and social contribution payable	-	-	337	17
Dividends receivable (Note 16 (a))	6,925	6,272	2,261	-	Taxes payable (Note 24)	31,640	33,126	47,857	54,250
Other assets (Note 14)	176,852	183,891	206,966	214,811	Notes payable	7,802	18,070	7,802	18,070
	<u>3,960,377</u>	<u>3,660,040</u>	<u>4,736,212</u>	<u>4,261,086</u>	Dividends and interest payable on shareholders' equity	612,143	560,295	612,143	560,295
Assets held for sale	1,115	1,060	1,115	1,330	Derivative financial instruments (Note 4 (f))	-	-	3,820	2,327
					Accounts payable (Note 25)	88,310	113,485	135,710	155,388
						<u>1,289,098</u>	<u>1,302,230</u>	<u>1,580,135</u>	<u>1,406,566</u>
Non-current					Liabilities held for sale	5,058	7,443	5,173	7,611
Long-term receivables					Non-current				
Deferred income tax and social contribution (Note 23)	-	-	26,551	27,745	Loans, financing and debentures (Note 22)	1,204,481	352,150	1,293,983	457,761
Recoverable taxes (Note 13)	622,409	21,957	662,183	58,558	Taxes payable (Note 24)	8,360	8,941	8,360	8,941
Other assets (Note 14)	184,270	175,530	220,994	215,633	Deferred income tax and social contribution (Note 23)	20,661	149,114	92,543	231,185
	<u>806,679</u>	<u>197,487</u>	<u>909,728</u>	<u>301,936</u>	Provision for contingencies (Note 26)	168,101	155,372	191,763	166,106
					Derivative financial instruments (Note 4 (f))	7,577	4,480	7,577	4,480
					Accounts payable (Note 25)	19,836	1,607	29,841	6,660
						<u>1,429,016</u>	<u>671,664</u>	<u>1,624,067</u>	<u>875,133</u>
Investments (Note 16)	1,738,263	1,505,956	19,123	11,931	Total liabilities	<u>2,723,172</u>	<u>1,981,337</u>	<u>3,209,375</u>	<u>2,289,310</u>
Investment properties (Note 17)	157,955	162,170	150,240	154,263	Equity				
Property, plant and equipment (Note 18)	129,067	84,923	1,167,946	963,906	Share capital (Note 27 (a))	4,448,817	4,448,817	4,448,817	4,448,817
Intangible assets (Note 19)	4,639,816	4,637,374	4,935,111	4,862,531	Capital reserves (Note 27)	1,270,401	1,285,171	1,270,401	1,285,171
	<u>6,665,101</u>	<u>6,390,423</u>	<u>6,272,420</u>	<u>5,992,631</u>	Equity valuation adjustments	(254,994)	(254,680)	(254,994)	(254,680)
					Profit reserves	3,280,079	2,794,824	3,280,079	2,794,824
					Treasury shares	(34,203)	(6,459)	(34,203)	(6,459)
	<u>7,471,780</u>	<u>6,587,910</u>	<u>7,182,148</u>	<u>6,294,567</u>		<u>8,710,100</u>	<u>8,267,673</u>	<u>8,710,100</u>	<u>8,267,673</u>
Total assets	<u>11,433,272</u>	<u>10,249,010</u>	<u>11,919,475</u>	<u>10,556,983</u>	Total liabilities and equity	<u>11,433,272</u>	<u>10,249,010</u>	<u>11,919,475</u>	<u>10,556,983</u>

The accompanying notes are an integral part of the financial statements.

Hypera S.A.

Statements of income Years ended December 31

In thousands of Reais, unless stated otherwise

(A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2019	2018	2019	2018
Continuing operations				
Net revenue (Note 28)	3,394,165	3,844,463	3,294,749	3,724,309
Cost of sales (Note 29 (a))	(1,526,769)	(1,468,457)	(1,209,057)	(1,059,032)
Gross profit	1,867,396	2,376,006	2,085,692	2,665,277
Selling and marketing expenses (Note 29 (a))	(1,282,873)	(1,224,223)	(1,401,629)	(1,299,472)
General and administrative expenses (Note 29 (a))	(148,702)	(134,613)	(209,262)	(181,754)
Other operating income (expenses), net (Note 29 (b))	640,058	71,769	601,234	40,346
Equity accounting (Note 16 (a))	(9,910)	79,969	9,639	5,377
Income before financial income and expenses	1,065,969	1,168,908	1,085,674	1,229,774
Financial income (Note 29 (c))	86,989	72,168	96,169	85,843
Financial expenses (Note 29 (d))	(59,943)	(57,632)	(81,752)	(85,758)
Net financial income	27,046	14,536	14,417	85
Income before income tax and social contribution	1,093,015	1,183,444	1,100,091	1,229,859
Income tax and social contribution (Note 23 (c))	95,970	(48,045)	88,894	(94,460)
Net income from continuing operations	1,188,985	1,135,399	1,188,985	1,135,399
Discontinued operations				
Net income from discontinued operations (Note 15)	(24,945)	(5,798)	(24,945)	(5,798)
Net income for the year	1,164,040	1,129,601	1,164,040	1,129,601
Earnings per share (Note 30)				
Basic earnings per share (in R\$)			1.84391	1.78735
Diluted earnings per share (in R\$)			1.81900	1.76639
Earnings per share - Continuing operations (Note 30)				
Basic earnings per share (in R\$)			1.88342	1.79652
Diluted earnings per share (in R\$)			1.85798	1.77545

The accompanying notes are an integral part of the financial statements.

Hypera S.A.

Statements of comprehensive income Years ended December 31

In thousands of Reais, unless stated otherwise

(A free translation of the original in Portuguese)

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net income for the year	<u>1,164,040</u>	<u>1,129,601</u>	<u>1,164,040</u>	<u>1,129,601</u>
Other comprehensive income				
Items that will be reclassified to income				
Cash flow hedge - effective portion of the changes in fair value	(476)	448	(476)	448
Income tax and social contribution on other comprehensive income	<u>162</u>	<u>(153)</u>	<u>162</u>	<u>(153)</u>
Other comprehensive income, net of income tax and social contribution	<u>(314)</u>	<u>295</u>	<u>(314)</u>	<u>295</u>
Comprehensive income for the year	<u>1,163,726</u>	<u>1,129,896</u>	<u>1,163,726</u>	<u>1,129,896</u>

The accompanying notes are an integral part of the financial statements.

Hypera S.A.

Statements of changes in equity

In thousands of Reais

(A free translation of the original in Portuguese)

	Capital reserves					Profit reserves					Total	
	Capital	Premium on share issuance	Share purchase options	Debentures subscription bonus options	Treasury shares	Equity valuation adjustments	Legal reserve	Government grant reserve	Profit retention reserve	Supplemental dividends proposed		Retained earnings
Balance at January 1, 2018	4,448,817	1,160,829	65,905	50,244	(12,981)	(254,975)	180,592	2,099,319	9	-	-	7,737,759
Expected credit losses per CPC 48/IFRS 9	-	-	-	-	-	-	-	-	-	-	(2,859)	(2,859)
Expected returns per CPC 47/IFRS 15	-	-	-	-	-	-	-	-	-	-	(1,238)	(1,238)
Related taxes	-	-	-	-	-	-	-	-	-	-	1,392	1,392
Share purchase options	-	-	7,296	-	-	-	-	-	-	-	-	7,296
Results on sales of treasury shares	-	897	-	-	-	-	-	-	-	-	-	897
Sale of shares (Note 27(d))	-	-	-	-	10,804	-	-	-	-	-	-	10,804
Acquisitions of shares (Note 27(d))	-	-	-	-	(4,282)	-	-	-	-	-	-	(4,282)
Net income for the year	-	-	-	-	-	-	-	-	-	-	1,129,601	1,129,601
Government grant reserve (Note 27(f))	-	-	-	-	-	-	-	371,176	-	-	(371,176)	-
Interest on shareholders' equity (Note 27 (i))	-	-	-	-	-	-	-	-	-	-	(611,992)	(611,992)
Capital budget reserve (Note 27(i))	-	-	-	-	-	-	-	-	143,728	-	(143,728)	-
Other comprehensive income	-	-	-	-	-	295	-	-	-	-	-	295
Gains or losses on derivatives, net of tax	-	-	-	-	-	-	-	-	-	-	-	-
Balances at December 31, 2018	4,448,817	1,161,726	73,201	50,244	(6,459)	(254,680)	180,592	2,470,495	143,737	-	-	8,267,673
Recognition of leases per CPC 06/IFRS 16	-	-	-	-	-	-	-	-	-	-	(3,546)	(3,546)
Share purchase options	-	-	5,336	-	-	-	-	-	-	-	-	5,336
Results on sales of treasury shares	-	(20,106)	-	-	-	-	-	-	-	-	-	(20,106)
Sale of shares (Note 27(d))	-	-	-	-	44,444	-	-	-	-	-	-	44,444
Acquisitions of shares (Note 27(d))	-	-	-	-	(72,188)	-	-	-	-	-	-	(72,188)
Net income for the year	-	-	-	-	-	-	-	-	-	-	1,164,040	1,164,040
Government grant reserve (Note 27(f))	-	-	-	-	-	-	-	368,118	-	-	(368,118)	-
Interest on shareholders' equity (Note 27 (i))	-	-	-	-	-	-	-	-	-	-	(675,270)	(675,270)
Capital budget reserve (Note 27(i))	-	-	-	-	-	-	-	-	117,106	-	(117,106)	-
Dividends prescribed and unclaimed	-	-	-	-	-	-	-	-	31	-	-	31
Other comprehensive income	-	-	-	-	-	(314)	-	-	-	-	-	(314)
Gains or losses on derivatives, net of tax	-	-	-	-	-	-	-	-	-	-	-	-
Balances at December 31, 2019	4,448,817	1,141,620	78,537	50,244	(34,203)	(254,994)	180,592	2,838,613	260,874	-	-	8,710,100

The accompanying notes are an integral part of the financial statements.

Hypera S.A.

Statements of cash flows Years ended December 31

In thousands of Reais

(A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2019	2018	2019	2018
Cash flow from operating activities				
Income before income tax and social contribution, including discontinued operations	1,055,421	1,165,842	1,062,612	1,224,852
Adjustments				
Depreciation and amortization	44,135	20,739	120,373	88,931
Impairment of assets	694	1,228	15,628	8,357
Results on the sale of fixed assets	38,156	44,878	38,826	10,534
Equity accounting	9,879	(109,350)	(12,077)	(12,309)
Foreign exchange (gains) losses	178	240	5,514	7,519
Interest and related expenses (income)	(27,224)	(14,714)	(19,931)	(7,542)
Share-based compensation expenses	20,044	15,374	24,408	19,098
Provisions	20,769	43,133	69,379	58,181
Adjusted income	<u>1,162,052</u>	<u>1,167,370</u>	<u>1,304,732</u>	<u>1,397,621</u>
Changes in assets and liabilities				
Accounts receivable	151,642	(240,479)	148,973	(241,298)
Inventory	11,261	(33,994)	(127,468)	(192,562)
Recoverable taxes	(544,489)	93,974	(544,312)	107,501
Deposits with courts and others	(3,403)	3,030	(3,368)	6,672
Other accounts receivable	(3,281)	73,851	(2,542)	94,232
Suppliers	(72,117)	11,322	144,663	12,474
Suppliers' assignment of receivables	(1,058)	(2,556)	(37,182)	35,195
Derivative financial instruments	-	143	12,435	17,286
Taxes payable	(1,582)	3,684	(5,880)	2,831
Salaries/wages payable	26,263	(11,797)	36,119	(23,556)
Income tax and social contribution paid	-	-	(15,871)	(26,127)
Accounts payable	(54,949)	(90,446)	(50,627)	(95,890)
Interest on transactions	5,508	6,756	(14,605)	(14,148)
Other accounts payable	(16,963)	(10,409)	(21,185)	(13,737)
Net cash provided by operating activities	<u>658,884</u>	<u>970,449</u>	<u>823,882</u>	<u>1,066,494</u>
Cash flow from investment activities				
Capital increase in subsidiaries	(252,200)	(95,020)	(1,000)	(270)
Purchases of property, plant and equipment	(21,937)	(11,423)	(245,955)	(127,797)
Purchases of intangible assets	(8,004)	(6,295)	(115,671)	(91,126)
Proceeds from sale of fixed assets	(1,577)	(21,352)	3,978	(1,936)
Interest and others	47,188	43,480	52,120	50,601
Dividends received	6,272	84,039	-	-
Loans receivable	(267)	(63)	-	-
Net cash used in investment activities	<u>(230,525)</u>	<u>(6,634)</u>	<u>(306,528)</u>	<u>(170,528)</u>
Cash flow from financing activities				
Purchases of treasury shares	(72,188)	(4,282)	(72,188)	(4,282)
Sales of treasury shares	24,338	11,701	24,338	11,701
Proceeds from borrowing	904,850	219,253	904,850	219,253
Payment of loans – principal	(97,518)	(303,608)	(123,395)	(328,741)
Payment of loans – interest	(22,785)	(35,769)	(27,970)	(40,767)
Derivatives related to loans	-	4,599	-	4,599
Dividends paid	(623,422)	(632,995)	(623,422)	(632,995)
Loans payable	(2,650)	1,250	-	-
Net cash generated by (used in) financing activities	<u>110,625</u>	<u>(739,851)</u>	<u>82,213</u>	<u>(771,232)</u>
Net increase in cash and cash equivalents	<u>538,984</u>	<u>223,964</u>	<u>599,567</u>	<u>124,734</u>
Cash and cash equivalents at beginning of year	1,578,684	1,354,720	1,646,869	1,522,135
Cash and cash equivalents at end of year	<u>2,117,668</u>	<u>1,578,684</u>	<u>2,246,436</u>	<u>1,646,869</u>
Change in cash and cash equivalents	<u>538,984</u>	<u>223,964</u>	<u>599,567</u>	<u>124,734</u>
Transactions not involving cash				
Acquisitions of property, plant and equipment	3,919	1,290	17,269	15,818

The accompanying notes are an integral part of the financial statements.

Hypera S.A.

Statements of added value (*)

Years ended December 31

In thousands of Reais

(A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2019	2018	2019	2018
Gross income				
Sales of goods and products, including discontinued operations	3,548,175	4,012,644	3,548,367	4,013,145
Other income	708,746	81,622	675,705	96,847
Income related to construction of own assets	10,173	4,009	144,457	70,016
Allowance for doubtful accounts	5,388	92	3,572	(5,893)
	4,272,482	4,098,367	4,372,101	4,174,115
Inputs acquired from third parties				
Costs of materials, goods and services sold	(1,496,831)	(1,418,839)	(786,970)	(700,287)
Materials, power, third-party services and others	(975,886)	(933,607)	(1,300,501)	(1,134,444)
Impairment of assets	(59,821)	(55,105)	(107,336)	(64,720)
	(2,532,538)	(2,407,551)	(2,194,807)	(1,899,451)
Gross added value	1,739,944	1,690,816	2,177,294	2,274,664
Depreciation and amortization	(44,135)	(20,739)	(120,373)	(88,931)
Net added value generated by the Company	1,695,809	1,670,077	2,056,921	2,185,733
Transfers of value added received				
Equity accounting	(9,879)	109,350	12,077	12,309
Financial income	86,989	72,168	96,169	85,843
	77,110	181,518	108,246	98,152
Total added value to be distributed	1,772,919	1,851,595	2,165,167	2,283,885
Distribution of added value				
Personnel and charges	505,722	415,124	903,920	762,616
Salaries and wages	419,155	341,180	729,444	606,460
Benefits	60,590	51,769	128,669	115,101
Government severance indemnity fund for employees (FGTS)	25,977	22,175	45,807	41,055
Taxes, fees and contributions	37,787	213,267	2,523	262,993
Federal	(57,939)	84,051	26,367	230,915
State	94,346	127,963	(25,856)	30,101
Municipal	1,380	1,253	2,012	1,977
Interest	60,148	58,243	81,209	86,138
Rentals	5,222	35,360	13,475	42,537
Retained earnings	1,164,040	1,129,601	1,164,040	1,129,601
Value added distributed	1,772,919	1,851,595	2,165,167	2,283,885

(*) The statement of value added is not an integral part of the financial statements under IFRS.

The accompanying notes are an integral part of the financial statements.

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Notes to the financial statements

(In thousands of Reais, unless stated otherwise)

1 General information

Hypera S.A. (the "Company"), headquartered in São Paulo-SP, is a Brazilian pharmaceutical company and is a leader in the various markets in which it operates (according to IQVIA data). Its mission is "providing access to healthcare for the Brazilian population, offering safe, high quality products, continually investing in innovation and growing in a sustainable way, so that people can live longer and better".

The Company's main products are:

- a) Under the umbrella brand Mantecorp Farmasa; the Company operates in various medical specialty areas within the Primary Care segment, including several of the top 30 products in Brazil, according to data from Close-Up International, including Predsim, Celestamine, Maxsulid, Diprospan, Mioflex-A and Addera D3. Under the brand Mantecorp Skincare, it offers dermo-cosmetics recommended by dermatologists throughout Brazil, as per information from Close-Up International;
- b) The Company is a lead supplier in the Brazilian market of prescription-free products, as per IQVIA, including brands such as Apracur, Benegrip, Coristina d, Engov, Epocler and Estomazil, among others. It also offers nutrition, sweeteners and vitamin supplement lines, with brands such as Tamarine, Vitasay 50+, Biotônico Fontoura and Zero-Cal, which was the Top of Mind brand for 16 years in Brazil, according to Datafolha;
- c) Through the Neo Química brand, the Company is a leader in the markets for similar / generic medicines, as per IQVIA data. The brand is present in 96% of Brazilian pharmaceutical point of sales, according to IQVIA, consistent with its mission of providing access to health for the Brazilian population.

Products are manufactured mainly by the subsidiaries Brainfarma Indústria Química e Farmacêutica S.A. ("Brainfarma") and Cosmed Indústria de Cosméticos e Medicamentos S.A. ("Cosmed") located in the State of Goiás (GO). The main distribution center is in Anápolis - GO.

The Company's research and development activities for pharmaceuticals, dermo-cosmetics and nutritional products are centered in the Brainfarma innovation facility in Barueri - SP. Operating since 2017, the facility houses technologies for development of various forms of pharmaceutical products across the six laboratories that make up the complex.

The Company also operates an extensive sales and distribution structure, with national coverage. Its products are distributed throughout Brazil, either directly to retailers or indirectly, via distributors and wholesalers.

2 Summary of significant accounting policies

The main accounting policies applied in the preparation of these individual and consolidated financial statements are as below. These policies have been applied consistently to all the periods presented, unless otherwise indicated.

2.1. Preparation basis

The financial statements have been prepared considering on a historical cost basis, except for certain financial assets and liabilities, which have been measured at fair value through profit or loss.

The preparation of financial statements requires the use of critical accounting estimates and the exercise of judgment on the part of management in applying the accounting policies. Those areas that require a greater level of judgment and have greater complexity, and areas where assumptions and estimates are material to the financial statements, are disclosed in Note 3.

The financial statements have been prepared and disclose all (and only) the applicable significant information related to the financial statements, which is consistent with the information utilized by management in the performance of its duties.

The Company's Board of Directors approved the financial statements for issue on March 6, 2020.

a. Individual and consolidated financial statements

The individual and consolidated financial statements have been prepared and are being presented in accordance with the accounting practices adopted in Brazil, including the pronouncements issued by the Accounting Pronouncements Committee (CPC) and in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

b. Discontinued operations

The discontinued operations arising from components that have been sold, discontinued or classified as held for sale are disclosed in the financial statements, separately from the rest of the Company's operations:

- i) Statement of income - Income and expenses from discontinued operations, including the adjustments in the current period that are directly related to discontinued operations and gains and losses arising from the write-off of assets held for sale are presented under a single heading "Net income from discontinued operations", net of the effects of income tax and social contribution.
- ii) The assets and liabilities related to discontinued operations are separately from other assets and liabilities in the balance sheet.

The detailed description of these discontinued operations is presented in Note 15.

c. *Changes in accounting policies and disclosures*

Changes adopted by the Company and its subsidiaries

In 2019, the Company and its subsidiaries implemented new standards:

IFRS 16 Leases

The Company initially adopted CPC 06 (R2)/IFRS 16 - "Leases" from January 1, 2019, using the cumulative effect method, with the initial application of the standard from the starting date (i.e. January 1, 2019). As a result, the Company will not apply the requirements of CPC 06 (R2)/IFRS 16 to restate comparative periods presented.

The application of the requirements of CPC 06 (R2)/IFRS 16 - "Leases" resulted in the recording of a right-of-use asset in the amount of R\$ 50,583, lease liabilities in the amount of R\$ 55,955, and an adjustment to the opening balance of retained earnings of R\$ 3,546 at January 1, 2019.

The balances of the lease liabilities are presented based on the flow of payments discounted to present value using the incremental rate of the borrowing agreements. The weighted average discount rate upon initial adoption was 10.24% p.a..

IFRIC 23/ ICPC 22 - "Uncertainty over Income Tax Treatment"

This interpretation provides clarification on how to measure and recognize current and deferred income tax and social contribution assets and liabilities, in light of IAS 12/CPC 32 in cases where there is uncertainty over treatments applied to the calculation of the respective taxes. Management assessed the main tax treatments adopted by the Company in the periods open for review by the tax authorities and concluded there is no material impact to be recorded in the financial statements.

d. *New standards and interpretations not yet effective*

Hedge accounting

IFRS 9 requires the Company and its subsidiaries to ensure that hedge accounting relationships are aligned with the Company's risk management goals and strategies and that the Company applies a more qualitative forward-looking approach to evaluating hedge effectiveness. IFRS 9 also introduces new requirements for re-balancing hedge relationships and prohibits voluntary discontinuation of hedge accounting. According to the new model, it is likely that more risk management strategies, particularly those of hedging a risk component (other than foreign currency risk) of a non-financial item, can qualify for hedge accounting. Specifically, regarding hedge accounting, the Company has not yet adopted the new IFRS 9 rule. As permitted by the standard, the Company decided not to adopt the accounting practice of hedge accounting for the outstanding transactions on January 1, 2018.

The Company and its subsidiaries use forward exchange contracts to hedge against the variability of cash flows arising from changes in foreign exchange rates on loans and purchases of inventories in foreign currency.

With the adoption of IFRS 9, the Company and its subsidiaries may elect to record changes in the fair value. In this case, these changes would be recognized in Other Comprehensive Income (OCI) and accumulated in a hedge cost reserve as a separate component within shareholders' equity and subsequently recorded as accumulated gains and losses in the cash flow hedge reserve.

In accordance with IAS 39, for all the cash flow hedges, the accumulated amounts in the cash flow hedge reserves are reclassified to the income statement in the same period in which the expected cash flows of the hedged object affect the results. However, according to IFRS 9, for cash flow hedges for the foreign currency risk associated with the purchases forecast for non-financial assets, the accumulated amounts in the cash flow hedge reserve and the hedge cost reserve will be included directly in the initial cost of the non-financial asset when it is recognized.

2.2. Consolidation

The following accounting policies are applied in the preparation of the consolidated financial statements.

Investments are substantially held in subsidiaries, which are entities over which the Company has the power to determine the financial and operating policies (Note 16). The subsidiaries are fully consolidated as from the date on which the control is transferred to the Company. Consolidation ceases from the date on which control ends.

The Company does not have investments in associates; however, it has investments in a joint venture, which is accounted for under the equity accounting method in conformity with CPC 19/IFRS 11.

Transactions between the Company and its subsidiaries, balances and unrealized gains on transactions are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of a loss (impairment) of the transferred asset. The accounting policies of the subsidiaries are changed when necessary to ensure consistency with the policies adopted by the Company.

2.3. Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured by the sum of the consideration transferred, measured based on the fair value at the date of acquisition. Costs directly attributable to the acquisition are recorded as an expense when incurred.

On purchasing a business, the Company evaluates the financial assets and liabilities assumed in order to classify them and allocate them according to the contractual terms, the economic circumstances and the relevant conditions at the date of acquisition. The goodwill is measured as being the surplus of the consideration transferred in relation to the net assets acquired (net identifiable assets acquired, and the liabilities assumed).

2.4. Foreign currency conversion

a. Functional currency and presentation currency

The items included in the financial statements of each of the companies in which the Company holds investments are measured using the currency of the main economic environment in which the Company operates (the functional currency). The individual and consolidated financial statements are presented in Real/Reais (R\$), which is also the functional currency of the Company and of its invested companies, all located in Brazil.

b. *Transactions and balances*

Transactions with foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction or evaluation dates, on which the items are remeasured. Foreign exchange gains and losses resulting from the settlement of these transactions and from the translation at the exchange rates at the end of the year, referring to monetary assets and liabilities in foreign currencies, are recognized in the income statement as financial income or expenses.

2.5. *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and financial investments with original maturity of three months or less as from the date of their investment, which are subject to an immaterial risk of change in fair value, and which are used by the Company in the management of short-term liabilities.

2.6. *Classification, recognition and measurement*

The Company and its subsidiaries classify its financial assets into the following categories: (a) measured at amortized cost, (b) measured at fair value through other comprehensive income, and (c) measured at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired.

Regular purchases and sales of financial assets are recognized on the trade date, which is the date on which the Company undertakes to buy or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred, in the latter case, as long as the Company has transferred substantially all risks and rewards of ownership of the asset.

a. *Financial assets measured at amortized cost*

These are financial assets held by the Company (i) with the objective to receive their contractual cash flows and not for sale with recognition of gains or losses and (ii) whose contractual terms give rise, on specified dates, to cash flows that are solely payment of principal and interest on the principal amount outstanding. This comprises the balances of cash and cash equivalents, accounts receivable and certain other assets. Their changes are recognized in profit or loss for the period, under Financial income or Financial expenses, depending on the result obtained.

b. *Financial assets measured at fair value through other comprehensive income (FVTOCI)*

These are financial assets held by the Company (i) both to receive their contractual cash flows and for sale with recognition of gains or losses and (ii) whose contractual terms give rise, on specified dates, to cash flows that are solely payment of principal and interest on the principal amount outstanding.

This category is comprised by hedge transactions aimed at covering the risks associated with cash flows. The differences between the yield curve of the hedge instrument and the fair value is considered in the Company's shareholders' equity, so that both the hedge instruments and the hedged items affect the income by the amount on the curve.

c. *Financial assets measured at fair value through profit or loss (FVTPL)*

This category includes the financial assets that are not measured at amortized cost or at fair value through other comprehensive income. This comprises the balance of derivative financial instruments, including any embedded derivatives and other securities. Its changes are recognized in profit or loss for the period, under Financial income or Financial expenses, depending on the result obtained, for non-derivative instruments and, in Financial expenses for derivative instruments.

2.6.1 Offsetting of financial instruments

Financial assets and liabilities are offset, and the net amount is presented in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is the intention of settling them on a net basis or realizing the assets and settling the liabilities simultaneously.

2.6.2 Impairment of financial assets

The Company assesses on a prospective basis the expected credit losses associated with debt securities measured at amortized cost and at FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in the credit risk.

For trade receivables, the Company applies the simplified approach, as permitted by IFRS 9/CPC 48, and recognizes expected losses over the useful life from the initial recognition of the receivables.

The criteria used by the Company to determine whether there is objective evidence of an impairment loss include:

- (i) Material financial difficulty of the issuer or obligor;
- (ii) A breach of contract, such as a default or delay in the payment of interest or principal;
- (iii) The Company, for economic or legal reasons with respect to the financial difficulty of the borrower, grants the borrower a concession that the lender would not otherwise consider;
- (iv) It becomes likely that the borrower will declare bankruptcy or other financial reorganization;
- (v) The disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - Adverse changes in the payment status of the borrowers in the portfolio;
 - National or local economic conditions that correlate with the defaults on the assets in the portfolio.

The amount of the impairment loss is measured as the difference between the carrying amount of the assets and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original rate of interest in force of the financial assets. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement. If a loan has a variable interest rate, the discount rate for measuring any loss through impairment is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment based on the fair value of an instrument using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment is recognized (such as an improvement in the debtor's credit rating), the reversal of the impairment loss recognized previously will be recognized in the income statement.

2.7. Derivative financial instruments and hedge activities

Fair value hedges

Initially, derivatives are recognized at fair value on the date a derivative contract is entered into and they are subsequently remeasured at fair value. The resulting gain or loss is accounted for in the year in the financial results.

Cash flow hedges

Hedge instruments are stated at fair value, and the hedged item is stated at the amount on the curve. The difference between the yield curve of the hedge instrument and the fair value is considered in the Company's shareholders' equity, such that both the hedge instruments and the hedged items affect the income by the amount on the curve.

2.8. Accounts receivable

Trade accounts receivable comprise the amounts receivable from clients for the sale of products or the providing of services in the normal course of the Company's activities. If the receivable term is equivalent to one year or less, the accounts receivable are classified as current assets. Otherwise, they are presented in non-current assets.

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less the provision for doubtful accounts (impairment), if necessary. In practice they are normally recognized at the amount billed, adjusted by the provision for impairment, if necessary.

2.9. Inventory

Inventories are stated at cost or net realizable value, whichever is lower. The method for valuation of inventories is the weighted average. The cost of finished products and products in progress comprises the costs of raw materials, direct labor, other direct costs and the respective direct production expenses (based on normal operating capacity), excluding borrowing costs. The 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. Inventories are presented net of the allowances for losses and, in consolidated, net of eliminations of unrealized profit on inventories.

2.10. Intangible assets

a. Goodwill

Goodwill is represented by the difference between the amount paid and/or payable for the purchase of a business and the net amount of the fair value of the assets and liabilities of the subsidiary that was purchased. The goodwill from acquisitions of subsidiaries is recorded as Intangible Assets in the consolidated financial statements and as an investment in the parent company. The goodwill is tested annually to assess for losses (impairment). Goodwill is recorded at its cost value less accumulated losses through impairment. Impairment losses recognized on goodwill are not reversed. Gains and losses from the sale of an entity include the carrying amount of goodwill related to the entity sold.

b. Trademarks, right-of-use of trademarks and licenses

Trademarks and licenses acquired separately are presented, initially, at the acquisition value.

If part of the amount paid in a business combination is related to trademarks, they are recognized in a specific account of the Intangible Assets and measured at their fair value at the date of acquisition. Subsequently, since the trademarks have indefinite useful lives, they are tested annually to assess for recoverability.

Expenses incurred internally for development and strengthening of a trademark are recognized as expenses.

In addition to the trademarks acquired in a business combination, the Company holds rights of use of trademarks, for a determined period.

These assets are amortized over their useful life, according to a determinable average, as shown below:

	Years
Right-of-use of trademarks and licenses	4.9
Operation licenses	2.5

c. Software

Software licenses acquired are capitalized based on the costs incurred to acquire the software and ensure that they are ready to be used. These costs are amortized over their estimated useful life of five years.

The costs associated with the maintenance of software are recognized as expenses as incurred.

d. Research and development of products

Spending on research, when incurred, is recorded directly in the income statement. Development expenditures are capitalized only if the development costs can be measured reliably, if the product or process is technically and commercially viable, if future economic benefits are likely and if the Company has the intention and sufficient resources to complete the development and use or sell the asset.

Other development expenditures are recognized in the income statement as incurred. After initial recognition, the capitalized development costs are measured at cost, less accumulated amortization and any losses due to impairment.

These costs are amortized over their estimated useful life of 14.1 years.

2.11. Property, plant and equipment

Land and buildings consist mainly of factories and distribution centers. Property, plant and equipment are measured at historical cost of acquisition or construction, less accumulated depreciation and any accumulated loss from impairment. The historical cost includes the costs directly attributable to the acquisition of the items and the financing costs related to the acquisition of qualifying assets.

Subsequent costs are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is likely that there is a flow of future economic benefits associated with the item and that the cost of the item can be measured reliably. The carrying

amount of items or parts that are replaced is written off. All other repairs and maintenance are charged to income, when incurred.

Items of property, plant and equipment are depreciated from the date on which they are available for use or, in the event of assets built in-house, from the day on which the construction is completed and the asset is available for use.

Land is not depreciated. The depreciation of other assets is calculated using the straight-line method, to allocate their costs to their residual values over their estimated useful lives, as follows:

	Years
Buildings	23.5
Machinery and equipment	16.3
Vehicles	8.6
Furniture and fixtures	18.8

The residual values and useful lives of assets are reviewed and adjusted, if appropriate, at the end of each financial year.

The carrying value of an asset is written down immediately to its recoverable value if the asset's carrying value is greater than its estimated recoverable value (Note 2.12).

Gains and losses from disposals are determined by comparison of the results with the carrying amount and are recognized as "Other net operating expenses/ income" in the income statement.

2.12. Impairment of non-financial assets

Assets with an indefinite useful life, such as goodwill and trademarks, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for verification of impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized by the amount at which the carrying amount of the asset exceeds its recoverable amount. The latter is the higher amount between an asset's fair value fewer selling costs and its value in use. For the purposes of assessing impairment, the assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units (CGUs)). Non-financial assets, excluding goodwill, that have suffered impairment are reviewed, subsequently, for the analysis of a possible reversal of the impairment on the reporting date.

Impairment losses are recognized in the income statement. Losses recognized with respect to CGUs are initially allocated to write down any goodwill allocated to the CGU, and then to reduce the carrying amount of other assets on a pro rata basis.

An impairment loss related to goodwill is not reversed. With respect to the other assets, losses through impairment are reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been obtained, net of depreciation or amortization, if the impairment had not been recognized.

2.13. Assets and liabilities held for sale

The non-current assets and liabilities held for sale are classified as held for sale if it is highly likely that they will be recovered primarily through sale rather than their continued use.

The assets, or the group of assets classified as held for sale, are generally valued at the lower amount between the carrying amount and the fair value less selling expenses. Any impairment loss on a group of assets held for sale is initially allocated to goodwill, and, then, for the remaining assets and liabilities on a pro rata basis, except that no loss should be allocated to inventories, financial assets, deferred tax assets, assets of employee benefits and investment property, which continue to be measured in accordance with the Company's other accounting policies. Impairment losses computed in the initial classification as held for sale and gains and losses on subsequent remeasurements are recognized in the income statement, as Discontinued Operations.

Once classified as held for sale, intangible and PP&E assets are not depreciated or amortized.

2.14. Investment property

Investment property is measured using the cost method.

Land is not depreciated. The depreciation of other assets is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

	Years
Buildings	50.0
Machinery and equipment	30.5
Other	5.8

The residual values and useful lives of assets are reviewed and adjusted, if appropriate, at the end of each financial year.

Gains and losses on the disposal of an investment property (calculated as the difference between the net amount received and the carrying amount of the item) are recognized in profit or loss.

2.15. Accounts payable to suppliers

Accounts payable to suppliers are obligations to pay for goods or services that have been acquired from suppliers in the normal course of business, and they are classified as current liabilities if payment is due within a period of one year. Otherwise, the accounts payable are presented as non-current liabilities. They are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. In practice, they are usually recognized at the amount of the corresponding invoice.

2.16. Suppliers' assignment of receivables

Some suppliers have the option of assigning their securities, without right to recourse, to financial institutions. In this operation, the supplier may have a decrease in its financial costs, because the financial institution takes into consideration the credit risk of the Company. The Company has the accounting policy of separating these transactions in the balance sheet as Assignment of Receivables, given that the security will be paid to the financial institution and not the supplier.

2.17. Loans, financing and debentures

These are recognized initially at fair value, net of transaction costs and are subsequently stated at amortized cost. Any difference between the amounts obtained (net of transaction costs) and the settlement amount is recognized in the income statement during the period in which the loans are outstanding, using the effective interest rate method.

Fees paid to financial institutions, by way of funding costs, are deferred until the actual loan occurs. When there is a likelihood of withdrawal of part or the entire loan, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the loan to which it is related.

Loans are classified as current liabilities unless the Company has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date.

2.18. Provision and other liabilities, except loans, financings and debentures

Provision is recognized when the Company has a present legal or implicit obligation as a result of past events, and it is probable that an outflow of funds will be necessary to settle the obligation and a reliable estimate of the amount can be made. Accordingly, the recognition, measurement and disclosure of the provision and contingent liabilities take into consideration the criteria established in CPC 25 and the contractual guarantees of the acquisitions of companies.

The other liabilities are presented at known or estimated amounts including, when applicable, the corresponding charges, the variations in exchange rates and monetary variations incurred. The notes payable indexed by exchange variation and without interest rates, are accounted for at their present values in accordance with CPC 12.

A provision for restructuring is recognized when the Company has approved a formal, detailed restructuring plan and the restructuring has already started or has already been announced publicly. Provision is not recorded for future operating losses. (Note 25)

2.19. Current and deferred income tax and social contribution and other taxes recoverable

a. Current and deferred income tax and social contribution

The expenses for income tax and social contribution for the year comprise current and deferred taxes. Income taxes are recognized in the statement of income, except in the proportion in which they are related to items recognized directly in equity or OCI.

The current income tax and social contribution charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date. Management periodically evaluates the positions taken by the Company in the income tax returns with respect to situations in which the applicable tax regulations gives rise to interpretation and it establishes provision, when appropriate, based on the estimated values for payment to the tax authorities.

Current income tax and social contribution are presented net per taxpaying entity in liabilities whenever there are amounts payable, or in assets when the amounts paid in advance exceed the total due on the reporting date.

Deferred income tax and social contribution are recognized using the liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax and social contribution are not recorded in the accounting if they result from the initial recognition of an asset or liability in an operation that is not a business combination and which, at the time of the transaction, does not affect the accounting income, or the taxable income. Deferred income tax and social contribution are determined using tax rates (and tax laws) enacted at the balance

sheet date and which should be applied when the respective deferred tax asset is realized, or the deferred tax liability is settled.

Deferred income tax and social contribution assets are recognized only in proportion to the likelihood that future taxable profit will be available against which the temporary differences can be used.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities are related to income taxes levied by the same tax authority on the tax entity.

Current and deferred income and social contribution taxes are calculated based on the rates of 15% plus a surcharge of 10% on taxable income in excess of R\$ 240 thousand in the 12 month period for income tax, and 9% on taxable income for the social contribution on net income, and take into consideration the offsetting of tax loss carry-forwards and negative base of social contribution, limited to 30% of taxable income.

b. Recoverable taxes

These refer to recoverable PIS, COFINS, IPI and ICMS. The assets are constituted when there is a legally enforceable right and the intention to offset them upon the calculation of current taxes, or even when there is the right to refund with the tax authorities.

2.20. Employee benefits

a. Share-based remuneration

The fair value at the date of granting the share-based payment agreements granted to employees is recognized as personnel expenses, with a corresponding increase in equity, during the period in which employees unconditionally acquire the right to the premiums. The amount recognized as an expense is adjusted to reflect the number of premiums for which there is an expectation that the service and performance conditions will be met, in such a way that the final value recognized as an expense is based on the number of awards that actually meet the conditions of service and performance on the date of acquisition (the vesting date).

The amounts received, net of any directly attributable transaction costs are credited in the share capital (face value), or sale of Treasury shares when the options are exercised.

b. Profit sharing

The Company recognizes a liability and an expense for profit sharing based on criteria that also consider the profit attributable to shareholders after certain adjustments. The Company recognizes a provision when it is contractually obliged to or when there is a past practice that created a non-formalized obligation.

c. Short-term employee benefits

Obligations of short-term benefits to employees are recognized as personnel expenses as the corresponding service is provided. The liability is recognized at the amount that is expected to be paid if the Company has a legal or constructive present obligation to pay this amount as a result of past service by the employee and the obligation can be estimated reliably.

2.21. Share capital

Common shares are classified in equity. Incremental costs directly attributable to the issuing of new shares or options are presented in shareholders' equity as a deduction from the proceeds, net of taxes.

Treasury shares

The Company can purchase its own of shares, including any directly attributable incremental costs (net of tax effects), discounted from the equity attributable to the Company's shareholders until the shares are canceled or reissued. When these shares are subsequently reissued, any amount received, net of any directly attributable additional transaction costs and the respective effects of income tax and social contribution, is included in equity attributable to the Company's shareholders. Gains or losses resulting from the transactions are presented as a capital reserve.

2.22. Government grants

Government grants are recognized when there is reasonable certainty that the benefit will be received, and all related conditions will be satisfied. When the benefit refers to an expense item, it is recognized as revenue over the benefit period, in a systematic way in relation to the costs whose benefit is intended to be offset.

The Company has an ICMS tax incentive granted by the government of the State of Goiás in the form of Granted Credit. Based on the Special Regime Agreement entered with the Goiás State Finance Department, this credit is used to deduct from ICMS payable.

The effects of this calculation are recognized in profit or loss in the line item "sales deductions" and the credit is made monthly according to the issuance of the invoices taxed by ICMS.

These benefits, at year-end, is allocated to the government grant reserve.

The Company considers the conditions and obligations that it must fulfill.

2.23. Revenue from sale of products and goods

Revenue comprises the fair value of the consideration received or receivable for the trading of products in the Company's normal course of activities. Revenue is shown net of taxes, returns, rebates and discounts, in the consolidated statement after eliminating sales between subsidiaries.

The Company recognizes revenue when its amount can be measured reliably, it is probable that future economic benefits will flow to the entity and when the control over the products is transferred, that is, when the products are delivered to the buyer, which receives total control over the sale channel and price of products and goods, since there is no continued involvement with the goods sold, or another factor that may affect the acceptance of the products by the buyer.

2.24. Leases

At the beginning of each agreement, the Company assesses whether the arrangement is or contains a lease.

The agreement is or contains a lease if the agreement transfers the right to control the use of an identified asset for a substantial period of time in exchange for a consideration. To assess whether an agreement transfers the right to control the use of an identified asset, the Company uses the definition of lease of CPC 06 (R2)/ IFRS 16.

The Company recognizes a right-of-use asset and a lease liability at the beginning of the lease. The right-of-use asset is initially measured at cost, which comprises the initial measurement of the lease liability, adjusted by any lease payments made through the commencement date, plus any initial direct costs and estimated restoration costs.

The right-of-use-asset is subsequently amortized on a straight-line basis over the lower of the useful life of the asset or the lease term. If the Company is reasonably assured that it will exercise a purchase option, the right-of-use asset is amortized over the useful life of the underlying asset. Below is the average amortization period of the right-of-use asset:

	Years
Buildings	4.1
Vehicles	3.0

The lease liability is initially measured at the present value of the lease payments that are not made at the commencement date, discounted at the interest rate implicit in the lease or, if this rate cannot be readily determined, at the Company's incremental borrowing rate.

The lease liability is subsequently 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 a rate, if there is a change in the amounts expected to be paid according to the guaranteed residual value, if the Company changes its assessment, as to whether it will exercise a purchase, extension or termination option or whether there is any revised fixed in-substance lease payment.

2.25. Earnings per share

The Company calculates the earnings per share using the weighted average number of total common shares outstanding during the period corresponding to the result in conformity with technical pronouncement CPC 41 (earnings per share).

Diluted earnings per share are calculated based on the net profit attributable to holders of common shares and weighted average of common shares outstanding after the adjustments for all potential dilutive common shares.

2.26. Distribution of dividends and interest on capital

The distribution of dividends to the Company's shareholders is recognized as a liability in the financial statements at the end of the year, based on the Company's bylaws. The Board of Directors may declare interim dividends on account of profit reserves existing in the last balance sheet. In addition, dividends can be paid using the profit earned based on the Company's quarterly information. These quarterly interim dividends cannot exceed the amounts in the capital reserve accounts. Any payment of interim dividends is offset against the amount of the mandatory distributions for the year in which the interim dividends have been paid. In addition, the Board of Directors may decide to pay or credit interest on capital to the shareholders, calculated under the terms of the relevant law, which is considered an advance payment of the minimum dividend.

2.27. Statements of added value

The Company has prepared individual and consolidated statements of added value in the terms of technical pronouncement CPC 09 - Statement of Added Value, which are presented as an integral part of the financial statements in accordance with BRGAAP applicable to publicly-held companies, while for IFRS they present as additional financial information.

3 Critical accounting estimates and judgments

Accounting estimates and judgments are evaluated on an ongoing basis and are based on experience and other factors, including expectations of future events that are considered reasonable under the circumstances.

Based on assumptions, the Company makes estimates in relation to the future. By definition, the resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that pose a significant risk, with probability of causing a material adjustment in the carrying amounts of assets and liabilities for the next years, are described below.

a. *Estimated loss (impairment) on goodwill and trademarks and patents*

The Company tests possible losses (impairment) in the accounts of goodwill and trademarks and patents, in accordance with the accounting policy presented in Note 2.12. Management defined the existence of a single CGU and a single business segment (Note 28), whose recoverable amount was determined based on calculation of the value in use, made based on estimates (Notes 18 and 19).

b. *Useful life of items of property, plant and equipment*

Given the business strategy and the investments made, including advertising and publicity for straightening and durability of the trademarks, management assesses that a foreseeable limit estimate for the useful life of the trademarks may not be adequate. Thus, trademarks are not amortized, but are tested for impairment to ensure that their carrying amounts do not exceed the realizable values.

The review of the useful life of items of property, plant and equipment is made annually based on a report prepared internally by the Company's specialists. There were no material changes in the depreciation recorded and no need was identified for a change in the useful life used. (Note 18)

c. *Recognition, measurement and realization of tax credits*

As described in Note 13, the Company has taxes recoverable and gains from a final and unappealable decision on a lawsuit, authorizing the recovery of overpaid PIS and COFINS levied on the ICMS included in billing invoices.

The amount of the tax credits, calculated according to the court decision on the amount of invoices, takes into consideration several estimates involving the timing of the accounting recognition, aspects for adequate and reliable measurement and alternatives available for their realization. The Federal Supreme Court will judge Motions to Clarify filed by the Office of Attorney-General of the National Treasury due to the decisions favorable to the taxpayers, and may indicate the form of calculation of the amount to be redistributed (whether gross or net) and possible modulation of the effects of the decision on the unconstitutionality.

d. *Contingencies*

Note 16 presents information on liabilities and contingencies to which the Company is exposed in the course of its business.

The determination of the likelihood of a favorable outcome in lawsuits in progress as well as the estimate of the expected probable losses involves critical judgment by management since it depends on future events that are not under the Company's control. The evolution of these lawsuits in the various relevant spheres may have outcomes different from those expected by management and its internal and external legal counsel, and any changes in the courts' trends or new case laws may make the estimates suffer significant changes.

4 Financial risk management

a. Financial risk factors

The Company's activities expose it to various financial risks: market risk including currency risk, fair value risk, interest rate risk, cash flow risk, price risk, credit risk and liquidity risk.

The Company has a risk management policy, which orientates transactions and requires diversification of transactions and counterparties. Under the terms of this policy, the nature and general position of the financial risks are regularly monitored and managed in order to evaluate the results and the financial impact on the cash flow. The credit limits and the quality of the hedge of the counterparties are also reviewed periodically.

Under this policy, market risks are hedged when it is considered necessary to support the corporate strategy or when it is necessary to maintain the level of financial flexibility. The Financial Board examines and revises information related to risk management, including significant policies, procedures and practices applied in risk management.

According to the risk management policy, which prohibits speculative negotiations and short sale, the Company manages some of the risks using derivative instruments.

b. Foreign exchange risk

The associated risk arises from the possibility of the Company incurring losses due to fluctuations in exchange rates, which increase the amounts of funds raised in the market.

At December 31, 2019 and 2018, the assets and liabilities denominated in foreign currencies and the financial instruments that mitigate exchange risks were as follows:

	Parent company					
	2019			2018		
	US\$ '000	EUR '000	R\$ '000	US\$ '000	EUR '000	R\$ '000
Liabilities						
Suppliers	44	-	177	60	-	232
Suppliers' assignment of receivables	-	-	-	-	-	-
Loans and financing	-	20,964	94,487	-	20,401	90,761
Derivative instruments that mitigate risks	-	(20,090)	(90,549)	-	(20,090)	(89,378)
Accounts payable	4	-	10	489	-	1,900
Net exposure	<u>48</u>	<u>874</u>	<u>4,125</u>	<u>549</u>	<u>311</u>	<u>3,515</u>
	Consolidated					
	2019			2018		
	US\$ '000	EUR '000	R\$ '000	US\$ '000	EUR '000	R\$ '000
Liabilities						
Suppliers	20,206	-	81,326	11,945	-	46,377
Suppliers' assignment of receivables	30,615	-	123,223	40,967	-	159,063
Loans and financing	-	20,964	94,487	-	20,401	90,761
Derivative instruments that mitigate risks	(62,912)	(20,090)	(343,765)	(50,055)	(20,090)	(283,727)
Accounts payable	158	292	1,989	489	-	1,900
Net exposure	<u>(11,933)</u>	<u>1,166</u>	<u>(42,740)</u>	<u>3,346</u>	<u>311</u>	<u>14,374</u>

c. Cash flow or fair value risk associated with interest rates

The Company's interest rate risk arises from financial investments, securities, debentures and short and long-term loans and financing. Loans issued at variable rates expose the Company to

interest rate risk. Loans issued at fixed rates expose the Company to fair value risk associated with the interest rate.

The Company analyzes its exposure to interest rates dynamically and seeks diversification of indexes in its financial liabilities. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing and hedges.

The exposure to interest rate risk of transactions related to variations in the Interbank Deposit Certificate (CDI) rate, long-term rate (TJLP) and referential rate (TR) is presented in the following table:

	2019	
	Parent company	Consolidated
Loans, financing and swaps - CDI	103,372	103,372
Financing - TLP	326,932	326,932
Financing - TR	40,710	130,512
Debentures - CDI	797,336	797,336
Notes payable - CDI	7,802	7,802
Financial investments - CDI (Note 10)	(2,106,872)	(2,233,113)
Net exposure	(830,720)	(867,159)

d. Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, as well as credit exposure to wholesale and retail customers, and outstanding accounts receivable.

For banks and financial institutions, the Company has a policy of diversifying its financial investments in top-tier institutions with ratings described in Note 9 (Credit quality of the financial assets).

e. Liquidity risk

The Company believes that the cash flows from operating activities, cash and cash equivalents and available lines of credit are sufficient to fund the financial commitments and payments of dividends in the future.

The table below analyzes the Company's financial liabilities per maturity bracket, corresponding to from balance sheet date to contractual date of maturity. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for understanding the cash flows. The amounts disclosed in the table are the contracted non-discounted cash flows. These amounts do not match the balance sheet as they are an estimate.

Parent company

	2019				
	Less than one year	From one to two years	From two to five years	More than five years	Overall total
Debentures	46,515	56,375	662,246	340,585	1,105,721
Loans and financing	38,714	150,084	169,064	61,787	419,649
Notes payable	7,802	-	-	-	7,802
Suppliers	344,357	-	-	-	344,357
Suppliers' assignment of receivables	291	-	-	-	291
Accounts payable	88,310	19,836	-	-	108,146
Derivative financial instruments	-	(4,179)	-	-	(4,179)
	525,989	222,116	831,310	402,372	1,981,787

	2018				
	Less than one year	From one to two years	From two to five years	More than five years	Overall total
Loans and financing	74,597	70,322	292,842	61,280	499,041
Notes payable	18,070	-	-	-	18,070
Suppliers	416,478	-	-	-	416,478
Suppliers' assignment of receivables	1,349	-	-	-	1,349
Accounts payable	113,485	1,607	-	-	115,092
Derivative financial instruments	-	-	(4,792)	-	(4,792)
	<u>623,979</u>	<u>71,929</u>	<u>288,050</u>	<u>61,280</u>	<u>1,045,238</u>

Consolidated

	2019				
	Less than one year	From one to two years	From two to five years	More than five years	Overall total
Debentures	46,515	56,375	662,246	340,585	1,105,721
Loans and financing	87,126	177,513	235,841	96,850	597,330
Notes payable	7,802	-	-	-	7,802
Suppliers	333,829	-	-	-	333,829
Suppliers' assignment of receivables	124,019	-	-	-	124,019
Accounts payable	140,768	24,783	-	-	165,551
Derivative financial instruments	2,522	-4,179	-	-	(1,657)
	<u>742,581</u>	<u>254,492</u>	<u>898,087</u>	<u>437,435</u>	<u>2,332,595</u>

	2018				
	Less than one year	From one to two years	From two to five years	More than five years	Overall total
Loans and financing	103,440	98,441	369,395	113,995	685,271
Notes payable	18,070	-	-	-	18,070
Suppliers	198,119	-	-	-	198,119
Suppliers' assignment of receivables	161,200	-	-	-	161,200
Accounts payable	160,446	1,602	-	-	162,048
Derivative financial instruments	(5,018)	-	(4,792)	-	(9,810)
	<u>636,257</u>	<u>100,043</u>	<u>364,603</u>	<u>113,995</u>	<u>1,214,898</u>

f. Derivatives

In 2019 transactions were conducted involving currency forward derivative financial instruments, (US Dollar vs. Real) and foreign exchange rate swap.

These outstanding transactions were conducted to hedge against fluctuations in liabilities denominated in foreign currency related to loans and financing and suppliers. They are not used for speculative purposes and are characterized by being financial instruments with a high correlation with the liabilities to which they are linked (sensitivity analysis in item (b) below).

At December 31, 2019, derivative instrument operations contracted by the Company totaled R\$ 343,765 (at December 31, 2018 - R\$ 283,727) in the consolidated and R\$ 90,549 (at December 31, 2018 - R\$ 89,378) in the parent company. The results of the transactions not yet settled represented losses of R\$ 9,988 (at December 31, 2018 gains of R\$ 485) in the consolidated and losses of R\$ 7,577 (at December 31, 2018 losses of R\$ 4,480) in the parent company.

At December 31, 2019 and 2018, these transactions can be summarized as follows:

Parent company

Type	Counterparties	Notional value		Fair value receivable (payable)		Realized gains (losses)	
		Dec/19	Dec/18	Dec/19	Dec/18	Dec/19	Dec/18
<i>(In R\$ thousand)</i>							
Foreign currency							
Forward contracts		-	-	-	-	-	143
Long position	BofA, Bradesco,	-	-	-	-	-	139
Short position	Morgan Stanley	-	-	-	-	-	4
Swaps		90,549	89,378	(7,577)	(4,480)	-	3,610
Long position	Itaú	90,549	89,378	(7,577)	(4,480)	-	3,610
Short position		-	-	-	-	-	-
Subtotal		90,549	89,378	(7,577)	(4,480)	-	3,753
Rate of Interest							
Swaps		-	-	-	-	-	989
Asset Position-Pre	Santander	-	-	-	-	-	989
Total		90,549	89,378	(7,577)	(4,480)	-	4,742

Consolidated

Type	Counterparties	Notional value		Fair value receivable (payable)		Realized gains (losses)	
		Dec/19	Dec/18	Dec/19	Dec/18	Dec/19	Dec/18
<i>(In R\$ thousand)</i>							
Foreign currency							
Forward contracts		253,216	194,349	(2,411)	4,965	12,435	17,289
Long position	BR Partners, Bradesco, Citibank, Itaú, BOFA, Original, Safra, Santander, MUFG, Votorantim	261,889	205,741	(2,513)	4,916	12,409	17,209
Short position	Santander, BR Partners	(8,673)	(11,392)	102	49	26	80
Swaps		90,549	89,378	(7,577)	(4,480)	-	3,610
Long position	Itaú	90,549	89,378	(7,577)	(4,480)	-	3,610
Short position		-	-	-	-	-	-
Subtotal		343,765	283,727	(9,988)	485	12,435	20,899
Rate of Interest							
Swaps		-	-	-	-	-	989
Asset Position-Pre	Santander	-	-	-	-	-	989
Total		343,765	283,727	(9,988)	485	12,435	21,888

g. Methodology for calculating the fair value of derivatives

- (i) Foreign currency forward contracts are valued using the interpolation of the market rates of US Dollar future contracts for each base date, as informed by BM&F BOVESPA.
- (ii) Swaps are valued using the interpolation of the exchange coupon market and future interbank deposit rates for each base date, as informed by BM&F BOVESPA.

h. Sensitivity analysis

Presented below is a sensitivity analysis table of the financial instruments, including derivatives that describe the risks that may cause material losses for the Company, with the most likely scenario (scenario I, considering an appreciation of 12% for the US Dollar which corresponds to three standard deviations of the fluctuation of the three months of the fourth quarter of the year) according to the evaluation made by management, considering a range of perception of three months, when the next quarterly financial information containing this analysis should be released. In addition, two other scenarios presented, these are further stressed in order to provide a 25% and 50% deterioration in the exchange rate of the Real against the US Dollar, respectively (scenarios II and III).

Parent company						
Risk	Scenario I		Scenario II		Scenario III	
<i>(In R\$ thousand)</i>			25% fluctuation		50% fluctuation	
	Appreciation	Depreciation	Appreciation	Depreciation	Appreciation	Depreciation
US Dollar quotation	3.551	4.499	3.019	5.031	2.013	6.037
Foreign currency						
Economic hedge	(10,656)	10,656	(22,637)	22,637	(45,275)	45,275
Forward contracts						
Swaps	(10,656)	10,656	(22,637)	22,637	(45,275)	45,275
Object of the economic hedge	10,656	(10,656)	22,637	(22,637)	45,275	(45,275)
Loans, financing and notes payable subject to short-term exchange rate variations	10,656	(10,656)	22,637	(22,637)	45,275	(45,275)
Net effect	-	-	-	-	-	-
Consolidated						
Risk	Scenario I		Scenario II		Scenario III	
<i>(In R\$ thousand)</i>			25% fluctuation		50% fluctuation	
	Appreciation	Depreciation	Appreciation	Depreciation	Appreciation	Depreciation
US Dollar quotation	3.551	4.499	3.019	5.031	2.013	6.037
Foreign currency						
Economic hedge	(40,169)	40,169	(85,334)	85,334	(170,669)	170,669
Forward contracts	(29,513)	29,513	(62,697)	62,697	(125,394)	125,394
Swaps	(10,656)	10,656	(22,637)	22,637	(45,275)	45,275
Object of the economic hedge	38,560	(38,560)	81,916	(81,916)	163,833	(163,833)
Loans, financing and notes payable subject to short-term exchange rate variations	38,560	(38,560)	81,916	(81,916)	163,833	(163,833)
Net effect	(1,609)	1,609	(3,418)	3,418	(6,836)	6,836

The sensitivity analysis considers changes in the US Dollar, but keeping all other variables, associated with other risks, constant.

The scenarios for floating rate interest on the Company's loans, financing, debentures and notes payable projected for the first quarter of 2020 are as follows:

Parent company

Variation scenarios	Likely scenario*	25% change	50% change
Loan - CDI	(611)	1,284	2,569
Financing - TLP	-	4,553	9,105
Debentures - CDI	(4,709)	9,907	19,814
Loan - TR	4	-	-
Notes payable - CDI	(46)	97	194
Financial investments	12,444	(26,178)	(52,356)
Total loss (gain)	7,082	(10,337)	(20,674)

Consolidated

Variation scenarios	Likely scenario*	25% change	50% change
Loan - CDI	(611)	1,284	2,569
Financing - TLP	-	4,553	9,105
Debentures - CDI	(4,709)	9,907	19,814
Loan - TR	13	-	-
Notes payable - CDI	(46)	97	194
Financial investments	13,190	(27,746)	(55,493)
Total loss (gain)	7,837	(11,905)	(23,811)

* Likely scenario assumptions

Forecast CDI of 4.35% p.a.

Forecast TR of 0.01% p.a.

Forecast TLP of 5.57% p.a.

5 Capital management

The Company's objectives when managing its capital are to safeguard the ability to continue to offer a return for its shareholders and benefits for the other interested parties and to maintain an optimal capital structure in order to reduce this cost.

To maintain or adjust the capital structure, the Company can review the dividend payment policy, return capital to shareholders, or even issue new shares or sell assets to reduce, for example, the level of indebtedness.

The Company monitors its capital based on the financial leverage ratio. This ratio is calculated as net debt divided by total capitalization. Net debt is calculated as total borrowings (including short- and long-term borrowings, financing, debentures and notes payable, as presented in the consolidated balance sheet) less cash and cash equivalents. The total capitalization is calculated based on the sum of shareholders' equity, as shown in the consolidated balance sheet, and net debt.

The indexes of financial leverage at December 31, 2019 and 2018 may be summarized as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
Total loans and financing (Note 22)	1,282,052	426,955	1,402,605	564,309
Total notes payable	7,802	18,070	7,802	18,070
Loss (gain) on financial hedge	7,577	4,480	7,577	4,480
Cash and cash equivalents (Note 10)	(2,117,668)	(1,578,684)	(2,246,436)	(1,646,869)
Cash and cash equivalents, net	(820,237)	(1,129,179)	(828,452)	(1,060,010)
Total shareholders' equity	8,710,100	8,267,673	8,710,100	8,267,673
Adjusted shareholders' equity	7,889,863	7,138,494	7,881,648	7,207,663
Net debt to adjusted equity ratio (*)	N.A.	N.A.	N.A.	N.A.

(*) Not applicable because the amount of cash and cash equivalents is higher than the net debt shown above.

6 Estimate of fair value

It is assumed that the balances of accounts receivable and suppliers at book value, less the loss (impairment), are close to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows by the prevailing market interest rate, which is available to the Company for similar financial instruments (Note 22 b).

The Company applies CPC 40 (R1)/IFRS 7 to financial instruments measured in the balance sheet at fair value, which requires disclosure of the fair value measurements per level of the following fair value measurement hierarchy:

- Prices quoted (unadjusted) in active markets for similar assets and liabilities (level 1);
- Inputs, other than quoted prices included in level 1 that are adopted by the market for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2);
- Inputs for the assets or liabilities that are not based on data adopted by the market (i.e. unobservable inputs) (level 3).

The table below presents the Company's assets and liabilities measured at fair value at December 31, 2019, as well as the financial instruments not measured at fair value but for which the disclosure of the fair value is required.

	Parent company		
	Level 1	Level 2	Total balance
Assets			
Derivative financial instruments	-	-	-
Total assets	-	-	-
Liabilities			
Derivative financial instruments	-	7,577	7,577
Total liabilities	-	7,577	7,577
	Consolidated		
	Level 1	Level 2	Total balance
Assets			
Derivative financial instruments	-	1,409	1,409
Total assets	-	1,409	1,409
Liabilities			
Derivative financial instruments	-	11,397	11,397
Total liabilities	-	11,397	11,397

The table below presents the Company's assets and liabilities measured at fair value on December 31, 2018, as well as the financial instruments not measured at fair value but for which the disclosure of the fair value is required.

	Parent company		
	Level 1	Level 2	Total balance
Assets			
Derivative financial instruments	-	-	-
Total assets	-	-	-
Liabilities			
Derivative financial instruments	-	4,480	4,480
Total liabilities	-	4,480	4,480
	Consolidated		
	Level 1	Level 2	Total balance
Assets			
Derivative financial instruments	-	7,292	7,292
Total assets	-	7,292	7,292
Liabilities			
Derivative financial instruments	-	6,807	6,807
Total liabilities	-	6,807	6,807

The fair values of financial instruments that are not traded in active markets (e.g. derivatives) are determined using valuation techniques. These valuation techniques maximize the use of data derived from the market, when available, and rely to the minimum extent possible on the Company's specific estimates.

7 Hedge accounting

The Company holds derivative financial instruments to hedge its exposure to foreign currency variation and interest rate risk.

According to the characteristics of the hedge, it is the Company's accounting policy to adopt hedge accounting, as established in CPC 38 (IAS 39).

Specifically for hedge accounting, the Company has not yet adopted the new rule of CPC 48 (IFRS 9). For operations that are designated for hedge accounting, the Company formally documents the relationship between the hedge instruments and the hedged items, including the risk management objectives and the strategy for conducting the hedge transaction, together with the methods that will be used to evaluate the effectiveness of the hedge relationship. The Company makes a forward-looking assessment, both at the time of designation of the hedge relationship, and continuously, if it is expected that the hedge instruments will be "highly effective" in offsetting changes in the fair value of the respective hedged items during the period for which the hedge is designated, and if the actual results of each hedge are within the range of 80% to 125%.

Fair value hedges

Currently, the Company adopts fair value hedges for its transactions, so that both the hedge instruments and hedged items are stated at the FVTPL. See below the transactions and accounting effects arising from the adoption of this practice:

Parent company					
2019					
Operation	Indexing	Hedge type	Principal amount	Asset/(liability) balance	Gain/loss in the income
Loan - 4131*	EUR + spread <i>EUR + Spread</i>	Fair value	90,549	94,487	(151)
<i>Swap - 4131*</i>	vs. % <i>CDI</i>	Fair value	90,549	(7,577)	-
* Maturity in Aug/21.					
Parent company					
2018					
Operation	Indexing	Hedge type	Principal amount	Asset/(liability) balance	Gain/loss in the income
Loan - 4131	EUR + spread <i>EUR + Spread</i>	Fair value	89,378	90,761	(171)
<i>Swap - 4131</i>	vs. % <i>CDI</i>	Fair value	89,378	(4,480)	-
* Maturity in Aug/21.					
Consolidated					
2019					
Operation	Indexing	Hedge type	Principal amount	Asset/(liability) balance	Gain/loss in the income
Loan - 4131*	EUR + spread <i>EUR + Spread</i>	Fair value	90,549	94,487	(151)
<i>Swap - 4131*</i>	vs. % <i>CDI</i>	Fair value	90,549	(7,577)	-
* Maturity in Aug/21.					
Consolidated					
2018					
Operation	Indexing	Hedge type	Principal amount	Asset/(liability) balance	Gain/loss in the income
Loan - 4131	EUR + spread <i>EUR + Spread</i>	Fair value	89,378	90,761	(171)
<i>Swap - 4131</i>	vs. % <i>CDI</i>	Fair value	89,378	(4,480)	-
* Maturity in Aug/21.					

The fair value cash flow hedge operation maintained the hedging ratio 1:1 with a weighted average rate of BRL/EUR 4.7287.

If the hedge instrument no longer meets the criteria for hedge accounting, expires or is sold, closed, exercised, or has its designation revoked, then hedge accounting is discontinued prospectively. Hedged items previously recognized at fair value are recorded at amortized cost.

Cash flow hedges

The Company adopts cash flow hedges for most foreign supplier operations. Gains or losses on the effective portion of the hedge are recognized in Equity/Other comprehensive income.

Presented below are the transactions and accounting effects arising from the adoption of this practice:

Parent company					
2019					
Operation	Indexing	Hedge type	Principal amount	Asset/(liability) balance	Gain in comprehensive income
Suppliers	USD	Cash flow	-	-	-
NDF	USD vs BRL	Cash flow	-	-	-

Parent company					
2018					
Operation	Indexing	Hedge type	Principal amount	Asset/(liability) balance	Gain in comprehensive income
Suppliers	USD	Cash flow	-	-	-
NDF	USD vs BRL	Cash flow	-	-	-

Consolidated					
2019					
Operation	Indexing	Hedge type	Principal amount	Asset/(liability) balance	Gain in comprehensive income
Suppliers	USD	Cash flow	169,188	(169,188)	-
NDF Suppliers*	USD vs BRL	Cash flow	169,188	(1,981)	(26)
NDF Future purchases*	USD vs BRL	Cash flow	76,473	(97)	(450)

* Maturities within 1 year.

Consolidated					
2018					
Operation	Indexing	Hedge type	Principal amount	Asset/(liability) balance	Gain in comprehensive income
Suppliers	USD	Cash flow	177,804	(177,804)	-
NDF Suppliers*	USD vs BRL	Cash flow	177,804	5,259	(202)
NDF Future purchases*	USD vs BRL	Cash flow	7,756	497	497

* Maturities within 1 year.

Current cash flow hedge operations maintained the hedging ratio at 1:1 with a weighted average rate of BRL/USD 4.1069 for NDF Suppliers and BRL/USD 4.0427 for NDF future purchases.

The cash flows of these operations are stated in the note on Financial Risk Management - Liquidity Risk (Note 4 (e)).

If the hedge instrument no longer meets hedge accounting criteria, expires or is sold, closed, exercised, then the hedge accounting is discontinued prospectively, and the hedge accounting adjustment deferred in equity is recognized in the income statement for the year.

8 Financial instruments by category

Parent company

	2019					
	Amortized cost	FVOCI	FVTPL	Designated for fair value hedge	Designated for cash flow hedge	Total
Financial assets per the balance sheet						
Accounts receivable (Note 11)	1,313,767	-	-	-	-	1,313,767
Financial investments (Note 10)	2,106,872	-	-	-	-	2,106,872
Cash and banks (Note 10)	10,796	-	-	-	-	10,796
Derivative financial instruments	-	-	-	-	-	-
Other assets (Note 14)	193,471	-	-	-	-	193,471
	<u>3,624,906</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,624,906</u>

	2019					
	FVOCI	FVTPL	Amortized cost	Designated for fair value hedge	Designated for cash flow hedge	Total
Financial liabilities per the balance sheet						
Loans, financing and debentures (Note 22)	-	-	1,282,052	-	-	1,282,052
Suppliers (Note 20)	-	-	344,357	-	-	344,357
Suppliers' assignment of receivables (Note 21)	-	-	291	-	-	291
Accounts payable	-	-	87,658	-	-	87,658
Notes payable	-	-	7,802	-	-	7,802
Derivative financial instruments	-	7,577	-	-	-	7,577
	<u>-</u>	<u>7,577</u>	<u>1,722,160</u>	<u>-</u>	<u>-</u>	<u>1,729,737</u>

	2018					
	Amortized cost	FVOCI	FVTPL	Designated for fair value hedge	Designated for cash flow hedge	Total
Financial assets per the balance sheet						
Accounts receivable (Note 11)	1,460,045	-	-	-	-	1,460,045
Financial investments (Note 10)	1,565,258	-	-	-	-	1,565,258
Cash and banks (Note 10)	13,426	-	-	-	-	13,426
Derivative financial instruments	-	-	-	-	-	-
Other assets (Note 14)	182,041	-	-	-	-	182,041
	<u>3,220,770</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,220,770</u>

	2018					
	FVOCI	FVTPL	Amortized cost	Designated for fair value hedge	Designated for cash flow hedge	Total
Financial liabilities per the balance sheet						
Loans and financing (Note 22)	-	-	426,955	-	-	426,955
Suppliers (Note 20)	-	-	416,478	-	-	416,478
Suppliers' assignment of receivables (Note 21)	-	-	1,349	-	-	1,349
Accounts payable	-	-	76,899	-	-	76,899
Notes payable	-	-	18,070	-	-	18,070
Derivative financial instruments	-	4,480	-	-	-	4,480
	<u>-</u>	<u>4,480</u>	<u>939,751</u>	<u>-</u>	<u>-</u>	<u>944,231</u>

Consolidated

	2019					
	Amortized cost	FVOCI	FVTPL	Designated for fair value hedge	Designated for cash flow hedge	Total
Financial assets per the balance sheet						
Accounts receivable (Note 11)	1,313,671	-	-	-	-	1,313,671
Financial investments (Note 10)	2,233,113	-	-	-	-	2,233,113
Cash and banks (Note 10)	13,323	-	-	-	-	13,323
Derivative financial instruments	-	(97)	325	-	1,181	1,409
Other assets (Note 14)	233,582	-	-	-	-	233,582
	<u>3,793,689</u>	<u>(97)</u>	<u>325</u>	<u>0</u>	<u>1,181</u>	<u>3,795,098</u>

	2019					
	FVOCI	FVTPL	Amortized cost	Designated for fair value hedge	Designated for cash flow hedge	Total
Financial liabilities per the balance sheet						
Loans, financing and debentures (Note 22)	-	-	1,402,605	-	-	1,402,605
Suppliers (Note 20)	-	-	333,829	-	-	333,829
Suppliers' assignment of receivables (Note 21)	-	-	124,019	-	-	124,019
Accounts payable	-	-	134,194	-	-	134,194
Notes payable	-	-	7,802	-	-	7,802
Derivative financial instruments	-	8,235	-	-	3,162	11,397
	<u>-</u>	<u>8,235</u>	<u>2,002,449</u>	<u>-</u>	<u>3,162</u>	<u>2,013,846</u>

	2018					
	Amortized cost	FVOCI	FVTPL	Designated for fair value hedge	Designated for cash flow hedge	Total
Financial assets per the balance sheet						
Accounts receivable (Note 11)	1,457,265	-	-	-	-	1,457,265
Financial investments (Note 10)	1,632,296	-	-	-	-	1,632,296
Cash and banks (Note 10)	14,573	-	-	-	-	14,573
Derivative financial instruments	-	498	127	-	6,667	7,292
Deposits in court (Note 14)	141,046	-	-	-	-	141,046
Other assets (Note 14)	225,493	-	-	-	-	225,493
	<u>3,470,673</u>	<u>498</u>	<u>127</u>	<u>-</u>	<u>6,667</u>	<u>3,477,965</u>

	2018					
	FVOCI	FVTPL	Amortized cost	Designated for fair value hedge	Designated for cash flow hedge	Total
Financial liabilities per the balance sheet						
Loans and financing (Note 22)	-	-	564,309	-	-	564,309
Suppliers (Note 20)	-	-	198,119	-	-	198,119
Suppliers' assignment of receivables (Note 21)	-	-	161,200	-	-	161,200
Accounts payable	-	-	114,589	-	-	114,589
Notes payable	-	-	18,070	-	-	18,070
Derivative financial instruments	-	5,399	-	-	1,408	6,807
	<u>-</u>	<u>5,399</u>	<u>1,056,287</u>	<u>-</u>	<u>1,408</u>	<u>1,063,094</u>

9 Credit quality of financial assets

The credit quality of financial assets (cash and cash equivalents) can be evaluated using historical information on default rates:

	Parent company		Consolidated	
	2019	2018	2019	2018
Current account and short-term bank deposits (*)				
AAA	2,117,663	1,534,450	2,246,430	1,602,631
AA+	-	44,219	-	44,219
A-	4	-	4	-
	<u>2,117,667</u>	<u>1,578,669</u>	<u>2,246,434</u>	<u>1,646,850</u>

The residual balance of "cash and cash equivalents" in the balance sheet mainly represents cash on hand.

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Derivative financial assets				
AAA	-	-	1,316	6,743
A-	-	-	93	549
	<u>-</u>	<u>-</u>	<u>1,409</u>	<u>7,292</u>

(*) Source: Moody's, Standard & Poor's and Fitch rating agencies, on a local scale when available, otherwise on a global scale.

None of the fully performing financial assets was renegotiated in the last financial year. None of the loans with related parties is overdue or impaired.

Accounts receivable - The credit analysis department assesses the credit quality of the customers considering their financial position, payment history, publicly available information and information obtained from credit analysis institutions (Serasa, CISP and Credinfar). Individual risk limits are determined based on regular internal monitoring processes.

A significant portion of the Company's sales are made to large retail chains and distributors with a widespread distribution network in Brazil, which mitigates the Company's consolidated credit risk. Additionally, the credit analysis department uses the aforementioned controls to constantly monitor and assess the Company's portfolio (Note 11).

10 Cash and cash equivalents

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Cash and banks	10,796	13,426	13,323	14,573
Short-term financial investments:				
Repurchase operations	310,230	260,800	363,372	291,929
Bank deposit certificates (CDBs)	1,796,642	1,304,458	1,869,741	1,340,367
	<u>2,106,872</u>	<u>1,565,258</u>	<u>2,233,113</u>	<u>1,632,296</u>
	<u>2,117,668</u>	<u>1,578,684</u>	<u>2,246,436</u>	<u>1,646,869</u>

Financial investments yields between 97.0% and 100.6% (at December 31, 2018 between 94.0% and 102.0%) of the CDI with a weighted average of 99.4% (at December 31, 2018 - 99.0%).

11 Accounts receivable

	Parent company		Consolidated	
	2019	2018	2019	2018
Domestic customers	1,375,127	1,520,546	1,377,891	1,523,966
Related parties (Note 31)	-	3,321	-	-
Expected credit loss	(61,360)	(63,822)	(64,220)	(66,701)
	<u>1,313,767</u>	<u>1,460,045</u>	<u>1,313,671</u>	<u>1,457,265</u>

The amounts of accounts receivable that are overdue, but not impaired, refer to a number of independent customers that have no recent history of default. The aging analysis of these accounts receivable is presented as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
Up to 3 months	14,993	522	14,882	516
From three to six months	4,468	888	4,468	874
Over six months	3,027	516	3,028	516
	<u>22,488</u>	<u>1,926</u>	<u>22,378</u>	<u>1,906</u>

The additions and write-offs of the allowance for doubtful accounts were recorded in the income statement as "Selling and marketing expenses". Amounts charged to the expected credit loss are generally written off from receivables when there is no expectation of recovery of the funds.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The Company holds certain notes as a guarantee (Note 22 (a)).

Changes in the allowance for doubtful accounts for the year ended December 31, 2019 are as follows:

	Parent company	Consolidated
Balances at 12/31/2018	(63,822)	(66,701)
(Additions)/reversals, net	3,557	3,572
Write-offs	(1,095)	(1,091)
Balances at 12/31/2019	<u>(61,360)</u>	<u>(64,220)</u>

12 Inventory

	Parent company		Consolidated	
	2019	2018	2019	2018
Finished goods and resale	144,916	175,180	181,361	222,243
Semi-finished goods	-	47	31,094	36,596
Raw materials	-	5	451,944	323,059
Maintenance and supplies	112	26	70,717	67,036
Allowance for inventory losses	(36,141)	(28,532)	(70,473)	(52,251)
	<u>108,887</u>	<u>146,726</u>	<u>664,643</u>	<u>596,683</u>

The table below presents the changes in the provision:

	Parent company	Consolidated
At December 31, 2018	(28,532)	(52,251)
Additions for the period (a)	(48,760)	(90,753)
Write-offs for the period (b)	41,151	72,531
At 12/31/2019	<u>(36,141)</u>	<u>(70,473)</u>

- (a) Refer to the addition of a provision for losses due to discontinuity, validity, quality and realization of inventories, in accordance with the policy established by the Company.
(b) Composed, mainly, by write-offs and reversals of products discarded by the Company and its subsidiaries.

13 Recoverable taxes

	Parent company		Consolidated	
	2019	2018	2019	2018
PIS/COFINS/IPI and others	761,110	166,027	788,525	183,597
VAT (ICMS)	79,355	75,673	141,221	129,638
Recoverable IRPJ and CSSL	18,222	64,679	33,263	83,489
	<u>858,687</u>	<u>306,379</u>	<u>963,009</u>	<u>396,724</u>
Current	236,278	284,422	300,826	338,166
Non-current	622,409	21,957	662,183	58,558

The lawsuits of the Parent Company were subject to a final and unappealable decision, authorizing the recovery of PIS and COFINS improperly levied on the ICMS included in the billing notes.

14 Other assets

	Parent company		Consolidated	
	2019	2018	2019	2018
Prepaid expenses (a)	141,039	149,530	152,198	162,827
Bills receivable (b)	70,817	67,988	82,808	84,447
Deposits in court (c)	121,932	113,599	150,774	141,046
Advances	21,479	20,837	36,917	34,659
Related parties (Note 31)	722	454	-	-
Others	5,133	7,013	5,263	7,465
	<u>361,122</u>	<u>359,421</u>	<u>427,960</u>	<u>430,444</u>
Current	176,852	183,891	206,966	214,811
Non-current	184,270	175,530	220,994	215,633

- (a) Refer mainly to advance payments for advertising and publicity.
(b) Refer mainly to contingency amounts paid related to former owners, to be reimbursed.
(c) Refer to deposits as guarantees of contingent liabilities (Note 26).

15 Discontinued operations

a) Analysis of the results of discontinued operations

	Parent company		Consolidated	
	2019	2018	2019	2018
Net revenue	-	-	-	-
Cost of sales	-	-	-	-
Gross profit	-	-	-	-
(Expenses)/income	(37,594)	(17,540)	(37,480)	(4,945)
Income before financial income and expenses	(37,594)	(17,540)	(37,480)	(4,945)
Financial expenses	-	(62)	-	(62)
Income before income tax and social contribution	(37,594)	(17,602)	(37,480)	(5,007)
Income tax and social contribution	12,649	11,804	12,535	(791)
Net income for the period	(24,945)	(5,798)	(24,945)	(5,798)

b) Analysis of the cash flow used in discontinued operations

	Parent company		Consolidated	
	2019	2018	2019	2018
Cash flow from operating activities	(27,124)	(33,204)	(27,786)	(33,113)
Cash flow from investment activities	1,354	(20,921)	6,706	(2,859)
Net cash used in discontinued operations	(25,770)	(54,125)	(21,080)	(35,972)

16 Investments

The investments held by the Company are presented below:

Company	Date of incorporation	Country	Business	Interest in shares/quotas	Type of interest
Cosmed Indústria de Cosméticos e Medicamentos S.A.	12/17/2008	Brazil	Sweeteners/Pharma	100%	Direct
My Agência de Propaganda Ltda.	11/29/1999	Brazil	Advertising agency	100%	Direct
Brainfarma Indústria Química e Farmacêutica S.A.	06/24/2002	Brazil	Pharma	80.43%	Direct
Brainfarma Indústria Química e Farmacêutica S.A.	06/24/2002	Brazil	Pharma	19.57%	Indirect
Bionovis S.A.	07/15/2010	Brazil	Biotechnology	25%	Direct
Neolatina Comércio e Indústria Farmacêutica S.A.	09/15/1966	Brazil	Pharma	100%	Indirect
Mantecorp Participações S.A.	09/28/2016	Brazil	Pharma	100%	Direct

a. Changes in the parent company's investments

	Brainfarma	Cosmed	My	Bionovis	Other investments	Total
Balance at January 1, 2018	825,335	544,629	3,895	6,186	564	1,380,045
Capital increase	88,900	-	6,120	-	-	95,020
Equity accounting	44,692	31,103	(1,202)	5,376	-	79,969
Share of discontinued equity accounting in the investment	(5,561)	20,351	-	-	-	14,790
Stock option	1,169	2	34	-	-	1,205
Equity valuation adjustment	350	47	39	-	-	436
Dividends receivable	(6,759)	(59,119)	-	-	-	(65,878)
Other investments	-	-	-	-	(195)	(195)
Balances at December 31, 2018	948,126	537,013	8,886	11,562	369	1,505,956
Capital increase	221,100	31,100	-	-	-	252,200
Equity accounting	(44,134)	23,771	814	9,639	-	(9,910)
Share of discontinued equity accounting in the investment	1,217	(3,421)	-	-	-	(2,204)
Stock option	(721)	1,638	26	-	-	943
Equity valuation adjustment	(1,239)	570	(2)	-	-	(671)
Dividends receivable	-	(4,665)	-	(2,260)	-	(6,925)
Other investments	-	-	-	-	(187)	(187)
Leases	(713)	(222)	(4)	-	-	(939)
Balances at December 31, 2019	1,123,636	585,784	9,720	18,941	182	1,738,263

The table below shows the Company's interest in the earnings of the main subsidiaries, as well as

in their total assets and liabilities:

2019	Assets	Liabilities	Revenue	Income (loss)	Adjusted net income (loss) (*)
Brainfarma Indústria Química e Farmacêutica S.A.	2,047,673	652,445	1,308,081	(67,118)	(44,134)
Cosmed Indústria de Cosméticos e Medicamentos S.A.	789,764	190,147	332,741	21,073	23,771
My Agência de Propaganda Ltda.	11,680	1,526	4,560	647	814
2018	Assets	Liabilities	Revenue	Income (loss)	Adjusted net income (loss) (*)
Brainfarma Indústria Química e Farmacêutica S.A.	1,835,347	593,520	1,283,074	34,517	44,692
Cosmed Indústria de Cosméticos e Medicamentos S.A.	699,456	148,097	289,406	57,515	31,103
My Agência de Propaganda Ltda.	9,435	550	4,560	(1,202)	(1,202)

(*) This refers to the net income (loss) for the year, for transactions between the investor and its investees.

b. Share in the results of investees

	Number of shares and quotas	Adjusted shareholders' equity at December 31, 2019	Ownership %	Equity accounting at December 31, 2019	Balance of the investment at December 31, 2019	Equity accounting at December 31, 2018	Balance of the investment at December 31, 2018
Cosmed Indústria de Cosméticos e Medicamentos S.A.	1,608,848,478	585,784	100%	23,771	585,784	31,103	537,013
My Agência de Propaganda Ltda.	20,130,000	9,720	100%	814	9,720	(1,202)	8,886
Brainfarma Indústria Química e Farmacêutica S.A.	474,325,386	1,123,636	100%	(44,134)	1,123,636	44,692	948,126
Bionovis S.A.	6,000,000	69,375	25%	9,639	18,941	5,376	11,562
				(9,910)	1,738,081	79,969	1,505,587

17 Investment properties

This balance refers to leased properties, one of which is used as a distribution center that is rented to third parties, and another is a real estate property used by Cosmed Indústria de Cosméticos e Medicamentos S.A. (a Sweetener production facility). According to a technical report from an independent company, the total fair value of these properties is R\$ 255,000.

	Parent company	Consolidated
Balance at January 1, 2018	164,823	156,726
Additions	1,579	1,579
Reclassification of property, plant and equipment	(74)	(74)
Depreciation	(4,158)	(3,968)
Balances at December 31, 2018	162,170	154,263
Total cost	184,046	174,440
Accumulated depreciation	(21,876)	(20,177)
Residual value	162,170	154,263
Balance at January 1, 2019	162,170	154,263
Additions	8	8
Write-off	(26)	(26)
Depreciation	(4,197)	(4,005)
Balances at December 31, 2019	157,955	150,240
Total cost	184,021	174,415
Accumulated depreciation	(26,066)	(24,175)
Residual value	157,955	150,240

18 Property, plant and equipment

Parent company

	<u>Land</u>	<u>Buildings and improvements</u>	<u>Machinery, equipment and facilities</u>	<u>Vehicles</u>	<u>Furniture and fixtures</u>	<u>Others</u>	<u>Total in operation</u>	<u>Fixed assets under construction</u>	<u>Total property, plant and equipment</u>
Own assets									
Balance at January 1, 2018	2,303	30,281	33,303	281	8,425	10,488	85,081	178	85,259
Additions	5,058	-	6,282	-	1,848	-	13,188	2,429	15,617
Write-off	(270)	(5,082)	(1,390)	-	(7)	(8)	(6,757)	-	(6,757)
Depreciation	-	(2,497)	(4,950)	(101)	(639)	(1,009)	(9,196)	-	(9,196)
Transfers	-	-	733	-	(2)	-	731	(731)	-
Balances at December 31, 2018	<u>7,091</u>	<u>22,702</u>	<u>33,978</u>	<u>180</u>	<u>9,625</u>	<u>9,471</u>	<u>83,047</u>	<u>1,876</u>	<u>84,923</u>
							-		
Additions	-	262	4,649	-	862	20	5,793	10,166	15,959
Write-off	-	-	(55)	-	-	-	(55)	-	(55)
Depreciation	-	(199)	(5,376)	(42)	(712)	(1,082)	(7,411)	-	(7,411)
Transfers	-	225	5,520	2	(387)	1,137	6,497	(6,497)	-
Balances at December 31, 2019	<u>7,091</u>	<u>22,990</u>	<u>38,716</u>	<u>140</u>	<u>9,388</u>	<u>9,546</u>	<u>87,871</u>	<u>5,545</u>	<u>93,416</u>
Right-of-use assets - leases									
Balance at January 1, 2019	-	-	-	-	-	-	-	-	-
Initial application of CPC 06 / IFRS 16	-	15,606	-	29,732	-	-	45,338	-	45,338
Additions	-	10,470	-	9,042	-	-	19,512	-	19,512
Write-off	-	(2,542)	-	(1,169)	-	-	(3,711)	-	(3,711)
Amortization	-	(5,864)	-	(19,624)	-	-	(25,488)	-	(25,488)
Balances at December 31, 2019	<u>-</u>	<u>17,670</u>	<u>-</u>	<u>17,981</u>	<u>-</u>	<u>-</u>	<u>35,651</u>	<u>-</u>	<u>35,651</u>
Total cost of own assets and right-of-use assets - leases	7,091	85,753	81,632	61,243	14,396	16,579	266,694	5,545	272,239
Total accumulated depreciation	-	(45,093)	(42,916)	(43,122)	(5,008)	(7,033)	(143,172)	-	(143,172)
Residual value	<u>7,091</u>	<u>40,660</u>	<u>38,716</u>	<u>18,121</u>	<u>9,388</u>	<u>9,546</u>	<u>123,522</u>	<u>5,545</u>	<u>129,067</u>

Consolidated

	<u>Land</u>	<u>Buildings and improvements</u>	<u>Machinery, equipment and facilities</u>	<u>Vehicles</u>	<u>Furniture and fixtures</u>	<u>Others</u>	<u>Total in operation</u>	<u>Fixed assets under construction(*)</u>	<u>Total property, plant and equipment</u>
Own assets									
Balance at January 1, 2018	16,060	273,431	504,007	431	20,927	20,547	835,403	71,367	906,770
Additions	5,059	14	50,530	-	3,759	729	60,091	68,437	128,528
Write-off	(270)	(5,082)	(8,574)	(12)	(16)	(9)	(13,963)	(8)	(13,971)
Depreciation	-	(11,522)	(41,131)	(133)	(1,889)	(3,398)	(58,073)	-	(58,073)
Transfers	-	29,005	59,693	-	696	349	89,743	(89,091)	652
Balances at December 31, 2018	<u>20,849</u>	<u>285,846</u>	<u>564,525</u>	<u>286</u>	<u>23,477</u>	<u>18,218</u>	<u>913,201</u>	<u>50,705</u>	<u>963,906</u>
Additions	-	263	73,377	18	2,122	1,788	77,568	144,427	221,995
Write-off	-	(84)	(684)	-	-	(1)	(769)	(6)	(775)
Depreciation	-	(9,925)	(41,579)	(68)	(1,930)	(3,463)	(56,965)	-	(56,965)
Transfers	-	1,148	73,395	5	(1,120)	1,699	75,127	(75,127)	-
Balances at December 31, 2019	<u>20,849</u>	<u>277,248</u>	<u>669,034</u>	<u>241</u>	<u>22,549</u>	<u>18,241</u>	<u>1,008,162</u>	<u>119,999</u>	<u>1,128,161</u>
Right-of-use assets - leases									
Balance at January 1, 2019	-	-	-	-	-	-	-	-	-
Initial application of CPC 06 / IFRS 16	-	17,526	-	33,058	-	-	50,584	-	50,584
Additions	-	-	-	9,352	-	-	20,151	-	20,151
Write-off	-	(2,550)	-	(1,629)	-	-	(4,179)	-	(4,179)
Amortization	-	(5,097)	-	(21,674)	-	-	(26,771)	-	(26,771)
Balances at December 31, 2019	<u>-</u>	<u>20,678</u>	<u>-</u>	<u>19,107</u>	<u>-</u>	<u>-</u>	<u>39,785</u>	<u>-</u>	<u>39,785</u>
Total cost of own assets and right-of-use assets - leases	20,849	411,322	1,093,134	67,739	44,499	50,206	1,687,749	119,999	1,807,748
Total accumulated depreciation	-	(113,396)	(424,100)	(48,391)	(21,950)	(31,965)	(639,802)	-	(639,802)
Residual value	<u>20,849</u>	<u>297,926</u>	<u>669,034</u>	<u>19,348</u>	<u>22,549</u>	<u>18,241</u>	<u>1,047,947</u>	<u>119,999</u>	<u>1,167,946</u>

(*) Mainly represent purchases for upgrades to the Anápolis-GO plant.

19 Intangible assets

	Parent company		Consolidated	
	2019	2018	2019	2018
Goodwill on acquisitions of investments in merged companies				
Mantecorp Indústria Química Farmacêutica S.A.	1,798,470	1,798,470	1,798,470	1,798,470
Luper Indústria Farmacêutica Ltda.	45,917	45,917	45,917	45,917
Laboratório Neo Química Comércio e Indústria S.A.	967,154	967,154	967,154	967,154
DM Indústria Farmacêutica Ltda.	743,029	743,029	743,029	743,029
Farmasa - Laboratório Americano de Farmacoterapia S.A.	666,808	666,808	666,808	666,808
Barrenne Indústria Farmacêutica Ltda.	33,955	33,955	33,955	33,955
Finn Administradora de Marcas Ltda.	17,857	17,857	17,857	17,857
	<u>4,273,190</u>	<u>4,273,190</u>	<u>4,273,190</u>	<u>4,273,190</u>
Trademarks and patents	<u>337,222</u>	<u>340,529</u>	<u>337,525</u>	<u>340,832</u>
Rights of use and software	<u>16,531</u>	<u>13,208</u>	<u>37,702</u>	<u>46,044</u>
Product development	<u>12,873</u>	<u>10,447</u>	<u>286,694</u>	<u>202,505</u>
	<u><u>4,639,816</u></u>	<u><u>4,637,374</u></u>	<u><u>4,935,111</u></u>	<u><u>4,862,531</u></u>

Goodwill is measured as the surplus of the consideration transferred in relation to the net assets acquired, and is based mainly on the future profitability, supported by appraisal reports prepared by a specialized company, using the cash flow method, discounted to present value. The discount rates used in the calculations were determined by adopting the Weighted Average Cost of Capital (WACC). For acquisitions after 2009, the consideration transferred was allocated to certain assets acquired in the business (inventory, property, plant and equipment, and trademarks, among others).

Changes in the balances

Parent company

	Rights of use trademarks	Rights of use and software	Product development	Goodwill	Total
Balance at January 1, 2018	<u>343,837</u>	<u>12,468</u>	<u>9,715</u>	<u>4,273,190</u>	<u>4,639,210</u>
Additions	-	5,373	924	-	6,297
Write-off	-	(8)	-	-	(8)
Amortization	(3,308)	(4,625)	(192)	-	(8,125)
Balances at December 31, 2018	<u>340,529</u>	<u>13,208</u>	<u>10,447</u>	<u>4,273,190</u>	<u>4,637,374</u>
Total cost	360,620	83,734	11,019	4,273,190	4,728,563
Accumulated amortization	(20,091)	(70,526)	(572)	-	(91,189)
Balance at January 1, 2019	<u>340,529</u>	<u>13,208</u>	<u>10,447</u>	<u>4,273,190</u>	<u>4,637,374</u>
Additions	-	7,721	3,248	-	10,969
Write-off	-	(28)	(549)	-	(577)
Amortization	(3,307)	(4,370)	(273)	-	(7,950)
Balances at December 31, 2019	<u>337,222</u>	<u>16,531</u>	<u>12,873</u>	<u>4,273,190</u>	<u>4,639,816</u>
Total cost	360,620	90,244	13,719	4,273,190	4,737,773
Accumulated amortization	(23,398)	(73,713)	(846)	-	(97,957)
Residual value	<u>337,222</u>	<u>16,531</u>	<u>12,873</u>	<u>4,273,190</u>	<u>4,639,816</u>

Consolidated

	Rights of use trademarks	Rights of use and software	Product development	Goodwill	Total
Balance at January 1, 2018	344,138	46,328	138,658	4,273,190	4,802,314
Additions	-	10,988	85,982	-	96,970
Write-off	-	(8)	(6,868)	-	(6,876)
Amortization	(3,306)	(11,442)	(14,477)	-	(29,225)
Transfers	-	138	(790)	-	(652)
Balances at December 31, 2018	340,832	46,004	202,505	4,273,190	4,862,531
Total cost	360,947	135,902	298,202	4,273,190	5,068,241
Accumulated amortization	(20,115)	(89,898)	(95,697)	-	(205,710)
Balance at January 1, 2019	340,832	46,004	202,505	4,273,190	4,862,531
Additions	-	9,266	111,568	-	120,834
Write-off	-	(48)	(13,981)	-	(14,029)
Amortization	(3,307)	(17,520)	(13,398)	-	(34,225)
Balances at December 31, 2019	337,525	37,702	286,694	4,273,190	4,935,111
Total cost	360,947	143,979	395,825	4,273,190	5,173,941
Accumulated amortization	(23,422)	(106,277)	(109,131)	-	(238,830)
Residual value	337,525	37,702	286,694	4,273,190	4,935,111

Impairment of assets

The Company tests the recoverable value of its intangible assets with indefinite useful lives annually, or when there are indications that the value may not be recovered. These assets are represented mainly by the portion of goodwill for expected future income and trademarks arising from business combinations.

For long-lived assets which are subject to amortization, these are reviewed whenever there are indications that the carrying amount will not be recovered. The recoverable amount is determined based on calculations of the value in use. These calculations use cash flow projections based on financial budgets approved by management for a period of five years. The amounts for the cash flows subsequent to the five-year period were extrapolated based on the estimated rates of growth defined in the initial period of five years.

The projections were based on past performance and expectations for development of the market. The weighted average rates of growth used are consistent with the forecasts included in reports of the sectors in which the Company operates. The discount rates before taxes were reviewed through the interactive calculation based on the calculation of the discount rate after taxes. Thus, the discount rate of 10.3% was calculated through the WACC, which corresponds to a pre-tax rate of 11.98%. As a result of these tests, no loss through impairment needed to be recognized.

If the gross margin used in the calculation was 1 percentage point lower than management's estimates, on December 31, 2019, and, similarly, if the estimated discount rate before tax, by adopting the WACC applied to the discounted cash flows was 1 percentage point higher than management's estimates, there would still be no impairment recorded for these items.

The determination of impairment of assets depends on certain key assumptions as described previously which are influenced by the market conditions prevailing at the time when this impairment is tested and, accordingly, it is not possible to determine if losses through impairment will occur in the future, and if so, if they would be material.

20 Suppliers

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Domestic suppliers	17,946	13,720	252,503	151,742
Foreign suppliers	177	232	81,326	46,377
Related party suppliers (Note 31 (a))	326,234	402,526	-	-
	<u>344,357</u>	<u>416,478</u>	<u>333,829</u>	<u>198,119</u>

21 Suppliers' assignment of receivables

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Local market (overdraft risk)	291	1,349	796	2,137
External market (forfeit)	-	-	123,223	159,063
	<u>291</u>	<u>1,349</u>	<u>124,019</u>	<u>161,200</u>

Some suppliers have the option to assign Company receivables, without right of recourse, to financial institutions. As part of these transactions, the supplier may see a decrease in its financial costs, because the financial institution takes into consideration the credit risk of the buyer.

At December 31, 2019, the discount rate used for assignment operations carried out by the Company's suppliers with financial institutions in the domestic market was 0.57% per month (at December 31, 2018, these rates were between 0.70% and 0.73% with a weighted average of 0.72% per month).

At December 31, 2019, the discount rates for assignment operations carried out by the Company's suppliers with the financial institutions in the foreign market were between 1.50% and 5.00%, with a weighted average of 3.97% per year (at December 31, 2018, these rates were between 3.47% and 5.97% with a weighted average of 4.23% per year).

22 Loans, financing and debentures

	Nominal rate	Parent company		Consolidated	
		2019	2018	2019	2018
Foreign currency					
Loans (i)	€ + 1.61% p.a.	94,487	90,761	94,487	90,761
Local currency					
FCO (i)	Fixed rate from 2.50% to 8.50% p.a.	20,911	25,090	45,949	57,120
Financing	Fixed rate from 2.50% to 8.70% p.a.	1,676	2,277	7,389	9,780
BNDES (i)	Fixed rate from 3.50% to 4.50% p.a.		2,237		2,237
Debentures	CDI + 1.25% p.a.	797,336	-	797,336	-
Finep	TJLP from 1.00% to 1.00% p.a.	326,932	262,242	326,932	262,242
Real estate financing	TR + 9.60% p.a.	40,710	44,348	130,512	142,169
		<u>1,282,052</u>	<u>426,955</u>	<u>1,402,605</u>	<u>564,309</u>
Current		<u>77,571</u>	<u>74,805</u>	<u>108,622</u>	<u>106,548</u>
Non-current		<u>1,204,481</u>	<u>352,150</u>	<u>1,293,983</u>	<u>457,761</u>

(i) Contracts with covenants on debt levels and coverage of interest with respect to certain financial information (EBITDA and net interest expenses), disposals, spin-offs, mergers, amalgamations or any corporate restructuring which, if they occur, require prior approval from the financial agents. If any of these events occur without the consent of the lenders, the outstanding balances will have their maturities accelerated. At December 31, 2019, the covenants were met. The next measurement will be made at June 30, 2020.

The breakdown of long-term loans and financing at December 31, 2019, by year of maturity, is as follows:

	Parent company	Consolidated
2021	160,221	179,742
2022	65,584	84,993
2023	220,446	236,394
2024	370,426	382,042
2025	336,883	348,392
2026	16,883	28,382
2027	11,670	11,670
2028	11,670	11,670
2029	10,698	10,698
	<u>1,204,481</u>	<u>1,293,983</u>

Debentures

On December 5, 2019, 80,000 debentures of the 8th public issuance, single series, were issued, in the amount of R\$ 800,000,000, with par value of R\$ 10,000.00, which interest corresponding to 100% of the cumulative variation of the daily average rates of the Interbank Deposits (DI) plus spread of 1.25% per year. The Unit Nominal Value of Debentures will be amortized in five consecutive semiannual installments, with final maturity on November 28, 2025.

Debentures - Changes

	8th Public Issuance 1st Series
Balance at January 1, 2019	-
Total issuance amount	800,000
Costs to be incurred	(5,806)
Financial charges	3,142
At December 31, 2019	797,336
Current	2,081
Non-current	795,255
Unrealized transaction costs	5,740
Current	995
Non-current	4,745

Long-term amounts of debentures have the following breakdown, by year of maturity:

	12/31/2019
2023	156,486
2024	319,126
2025	319,643
	795,255

a. Guarantee of loans and financing at December 31, 2019

	Parent company	Consolidated
Accounts receivable - Pledged guarantees	14,012	22,019
Letter of guarantee (*)	326,932	326,932
Pledged fixed assets	50,142	164,629
	391,086	513,580

(*) Letter of guarantee for the loan from FINEP (Contract No. 0799/13).

b. Book values and estimated fair value

The carrying amounts and estimated fair values of loans, financing and debentures are as follows:

	Nominal rate	Consolidated		Fair value	
		2019	2018	2019	2018
Foreign currency					
Loans	€ + 1.61% p.a.	94,487	90,761	94,487	90,761
Local currency					
FCO	Fixed rate from 2.50% to 8.50% p.a.	45,949	57,120	45,949	57,120
Financing	Fixed rate from 2.50% to 8.70% p.a.	7,389	9,780	6,752	8,984
BNDES	Fixed rate from 3.50% to 4.50% p.a.		2,237		2,237
Debentures	CDI + 1.25% p.a.	797,336	-	797,336	-
Finep	TJLP from 1.00% to 1.00% p.a.	326,932	262,242	326,932	262,242
Real estate financing	TR + 9.60% p.a.	130,512	142,169	137,899	144,850
		<u>1,402,605</u>	<u>564,309</u>	<u>1,409,355</u>	<u>566,194</u>

The fair value of some of the current loans is equal to their book value, since the impact of the discounting is not material. The fair values are based on the discounted cash flows using a market rate of CDI + 0.22% to CDI + 1.36% p.a. (at December 31, 2018 - CDI + 0.32% to CDI + 1.45% p.a.).

c. Reconciliation of changes in equity with the cash flow from financing activities

	Parent company									
						Liabilities	Derivatives (assets/liabilities) held to hedge long-term loans			
	Loans, financing and debentures	Notes payable	Taxes payable	Related parties	Proposed dividends	Other assets - loans	Derivative financial instruments (assets)	Derivative financial instruments (liabilities)	Equity	Total
Balance at January 1, 2018	507,733	19,669	38,715	1,396	581,299	(65,010)	(8,398)	-	7,737,759	8,813,163
Changes in financing cash flow										
Purchase of shares	-	-	-	-	-	-	-	-	(4,282)	(4,282)
Sale of shares	-	-	-	-	-	-	-	-	11,701	11,701
Loans taken out	219,253	-	-	-	-	-	-	-	-	219,253
Payment of loans - principal	(298,152)	(2,769)	(861)	-	-	(2,445)	619	-	-	(303,608)
Payment of loans - interest	(1,879)	1,170	3,404	-	-	(4,173)	(39,893)	5,602	-	(35,769)
Hedge loans - interest paid	-	-	-	-	-	-	5,660	(1,061)	-	4,599
Borrowings	-	-	-	1,250	-	-	-	-	-	1,250
Dividends paid	-	-	-	-	(632,995)	-	-	-	-	(632,995)
Total changes in cash flows and financing Other changes	(80,778)	(1,599)	2,543	1,250	(632,995)	(6,618)	(33,614)	4,541	7,419	(739,851)
Other assets	-	-	-	-	-	3,640	-	-	-	3,640
Taxes payable	-	-	809	-	-	-	-	-	-	809
Sale of shares	-	-	-	-	-	-	-	-	(897)	(897)
Stock options/matching	-	-	-	-	-	-	-	-	8,193	8,193
Interest	-	-	-	2	-	-	-	-	-	2
Interest on shareholders' equity	-	-	-	-	611,991	-	-	-	-	611,991
Government subsidy reserve	-	-	-	-	-	-	-	-	371,176	371,176
Equity valuation adjustments	-	-	-	-	-	-	-	-	295	295
Capital budget reserve	-	-	-	-	-	-	-	-	143,728	143,728
Supplier hedge	-	-	-	-	-	-	41,917	-	-	41,917
Supplier hedge - interest paid	-	-	-	-	-	-	23	11	-	34
AVJ - Hedge loans	-	-	-	-	-	-	61	(61)	-	-
AVJ - Supplier hedge	-	-	-	-	-	-	13	(13)	-	-
Transfer supplier hedge position	-	-	-	-	-	-	(2)	2	-	-
Total other changes related to liabilities	-	-	809	2	611,991	3,640	42,012	(61)	522,495	1,180,888
At December 31, 2018	426,955	18,070	42,067	2,648	560,295	(67,988)	-	4,480	8,267,673	9,254,200

	Consolidated								
	Liabilities					Derivatives (assets/liabilities) held to hedge long-term loans			
	Loans, financing and debentures	Notes payable	Taxes payable	Proposed dividends	Other assets - loans	Derivative financial instruments (assets)	Derivative financial instruments (liabilities)	Equity	Total
Balance at January 1, 2018	656,329	19,669	60,692	581,299	(65,010)	(10,132)	818	7,737,759	8,981,424
Changes in financing cash flow									
Purchase of shares	-	-	-	-	-	-	-	(4,282)	(4,282)
Sale of shares	-	-	-	-	-	-	-	11,701	11,701
Loans taken out	219,253	-	-	-	-	-	-	-	219,253
Payment of loans - principal	(323,286)	(2,769)	(860)	-	(2,445)	619	-	-	(328,741)
Payment of loans - interest	12,013	1,170	3,405	-	(4,173)	(58,784)	5,602	-	(40,767)
Hedge loans - interest paid	-	-	-	-	-	5,660	(1,061)	-	4,599
Dividends paid	-	-	-	(632,995)	-	-	-	-	(632,995)
Total changes in cash flows and financing	(92,020)	(1,599)	2,545	(632,995)	(6,618)	(52,505)	4,541	7,419	(771,232)
Other changes									
Other assets	-	-	-	-	(12,819)	-	-	-	(12,819)
Taxes payable	-	-	(46)	-	-	-	-	-	(46)
Sale of shares	-	-	-	-	-	-	-	(897)	(897)
Stock options/matching	-	-	-	-	-	-	-	8,193	8,193
Interest on shareholders' equity	-	-	-	611,991	-	-	-	-	611,991
Government subsidy reserve	-	-	-	-	-	-	-	371,176	371,176
Equity valuation adjustments	-	-	-	-	-	-	-	295	295
Capital budget reserve	-	-	-	-	-	-	-	143,728	143,728
Supplier hedge	-	-	-	-	-	41,887	11	-	41,898
Supplier hedge - interest paid	-	-	-	-	-	3,508	11,387	-	14,895
AVJ - Hedge loans	-	-	-	-	-	61	(61)	-	-
AVJ - Supplier hedge	-	-	-	-	-	14,699	(8,094)	-	6,605
Transfer supplier hedge position	-	-	-	-	-	(4,810)	(1,795)	-	(6,605)
Total other changes related to liabilities	-	-	(46)	611,991	(12,819)	55,345	1,448	522,495	1,178,414
At December 31, 2018	564,309	18,070	63,191	560,295	(84,447)	(7,292)	6,807	8,267,673	9,388,606

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	Parent company										
	Liabilities						Derivatives (assets/liabilities) held to hedge long-term loans				
	Loans and financing	Notes payable	Taxes payable	Related parties	Proposed dividends	Leases	Other assets - loans	Derivative financial instruments (assets)	Derivative financial instruments (liabilities)	Equity	Total
Balances at January 1, 2019	426,955	18,070	42,067	2,648	560,295	-	(67,988)	-	4,480	8,267,673	9,254,200
Changes in financing cash flow											
Loans taken out	904,850	-	-	-	-	-	-	-	-	-	904,850
Payment of loans - principal	(60,818)	(10,484)	(933)	-	-	(26,408)	1,125	-	-	-	(97,518)
Payment of loans - interest	(17,949)	(453)	-	-	-	(4,383)	-	-	-	-	(22,785)
Purchases of shares	-	-	-	-	-	-	-	-	-	(72,188)	(72,188)
Sales of shares	-	-	-	-	-	-	-	-	-	24,338	24,338
Borrowings	-	-	-	(2,650)	-	-	-	-	-	-	(2,650)
Dividends paid	-	-	-	-	(623,422)	-	-	-	-	-	(623,422)
Total changes in cash flows and financing	826,083	(10,937)	(933)	(2,650)	(623,422)	(30,791)	1,125	-	-	(47,850)	110,625
Other changes											
Initial application	-	-	-	-	-	49,287	-	-	-	-	49,287
Write-off	-	-	-	-	-	(2,675)	-	-	-	-	(2,675)
Additions	-	-	-	-	-	8,057	-	-	-	-	8,057
Other assets	-	-	-	-	-	-	(990)	-	-	-	(990)
Sales of properties	-	-	-	-	-	-	1,802	-	-	-	1,802
Remeasurement	-	-	-	-	-	4,717	-	-	-	-	4,717
Taxes payable	-	-	(1,556)	-	-	-	-	-	-	-	(1,556)
Stock options/matching	-	-	-	-	-	-	-	-	-	5,336	5,336
Interest	29,014	669	422	2	-	3,598	(4,766)	-	3,097	-	32,036
Interest on shareholders' equity	-	-	-	-	675,270	-	-	-	-	-	675,270
Government subsidy reserve	-	-	-	-	-	-	-	-	-	368,118	368,118
Constitution of capital budget reserve	-	-	-	-	-	-	-	-	-	117,106	117,106
Dividends paid and unclaimed	-	-	-	-	-	-	-	-	-	31	31
Equity valuation adjustments	-	-	-	-	-	-	-	-	-	(314)	(314)
Total other changes related to liabilities	29,014	669	(1,134)	2	675,270	62,984	(3,954)	-	3,097	490,277	1,256,225
At December 31, 2019	1,282,052	7,802	40,000	-	612,143	32,193	(70,817)	-	7,577	8,710,100	10,621,050

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	Consolidated									
	Liabilities						Derivatives (assets/liabilities) held to hedge long-term loans			
	Loans and financing	Notes payable	Taxes payable	Proposed dividends	Leases	Other assets - loans	Derivative financial instruments (assets)	Derivative financial instruments (liabilities)	Equity	Total
Balances at January 1, 2019	564,309	18,070	63,191	560,295	-	(84,447)	(7,292)	6,807	8,267,673	9,388,606
Changes in financing cash flow										
Loans taken out	904,850	-	-	-	-	-	-	-	-	904,850
Payment of loans - principal	(85,578)	(10,484)	(933)	-	(27,525)	1,125	-	-	-	(123,395)
Payment of loans - interest	(22,341)	(453)	-	-	(5,173)	-	-	-	-	(27,967)
Purchases of shares	-	-	-	-	-	-	-	-	(72,188)	(72,188)
Sales of shares	-	-	-	-	-	-	-	-	24,338	24,338
Dividends paid	-	-	-	(623,422)	-	-	-	-	-	(623,422)
Total changes in cash flows and financing	796,931	(10,937)	(933)	(623,422)	(32,698)	1,125	-	-	(47,850)	82,216
Other changes										
Initial application	-	-	-	-	55,955	-	-	-	-	55,955
Write-off	-	-	-	-	(6,727)	-	-	-	-	(6,727)
Additions	-	-	-	-	8,057	-	-	-	-	8,057
Remeasurement	-	-	-	-	8,915	-	-	-	-	8,915
Other assets	-	-	-	-	-	4,323	-	-	-	4,323
Sales of properties	-	-	-	-	-	1,802	-	-	-	1,802
Taxes payable	-	-	(6,464)	-	-	-	-	-	-	(6,464)
Stock options/matching	-	-	-	-	-	-	-	-	5,336	5,336
Interest on shareholders' equity	-	-	-	675,270	-	-	-	-	-	675,270
Interest	41,365	669	423	-	4,362	(5,611)	-	3,097	-	44,305
Government subsidy reserve	-	-	-	-	-	-	-	-	368,118	368,118
Constitution of capital budget reserve	-	-	-	-	-	-	-	-	117,106	117,106
Dividends paid and unclaimed	-	-	-	-	-	-	-	-	31	31
Equity valuation adjustments	-	-	-	-	-	-	-	-	(314)	(314)
Supplier hedge	-	-	-	-	-	-	424	(329)	-	95
Supplier hedge - interest paid	-	-	-	-	-	-	12,784	(13,244)	-	(460)
AVJ - Supplier hedge	-	-	-	-	-	-	(7,325)	15,066	-	7,741
Total other changes related to liabilities	41,365	669	(6,041)	675,270	70,562	514	5,883	4,590	490,277	1,283,089
At December 31, 2019	1,402,605	7,802	56,217	612,143	37,864	(82,808)	(1,409)	11,397	8,710,100	10,753,911

23 Deferred income tax and social contribution

a. Breakdown of deferred tax assets

These are tax loss carried forwards, negative bases of social contribution and temporary differences. These assets are recognized when the likelihood of realization of the related tax benefit against future taxable income is expected. This is based on a study of future realization, using a projection of the generation of taxable income from 2020 onward. The tax losses carried forward and the negative bases of social contribution are generated mainly by the tax deductibility of goodwill from the acquisition of companies (Note 19), which ceased in 2019, and the distribution of interest on shareholders' equity in recent years.

	Parent company		Consolidated	
	2019	2018	2019	2018
Deferred tax assets:				
Tax losses carried forward and negative bases of CSLL	1,470,627	1,204,275	1,491,060	1,219,317
Contingencies	67,330	61,955	76,578	66,876
Amortized goodwill	-	6,440	-	6,440
Expected credit loss	57,718	56,652	60,875	59,816
Allowance for losses on inventory	12,288	9,701	26,824	22,159
Other temporary differences	88,439	79,997	124,506	112,649
Total deferred tax assets	1,696,402	1,419,020	1,779,843	1,487,257
(-) Portion of deferred tax assets recoverable through deferred liabilities of the same company, with the same tax authority (also recoverable against the calculation of the current tax)	(1,696,402)	(1,419,020)	(1,753,292)	(1,459,512)
Remaining balance of deferred tax assets	-	-	26,551	27,745

b. Deferred tax liabilities

This consists mainly of deferred income tax and social contribution tax liabilities, arising from temporary differences between the tax basis of goodwill and its book value in the balance sheet, as the goodwill continues to be amortized for tax purposes, but ceased to be amortized in the accounting records from January 1, 2009. This temporary difference may result in amounts being treated as nondeductible for taxable income for future years when the book value of the asset is reduced (impairment) or settled, thus making it necessary to record a deferred tax liability.

	Parent company		Consolidated	
	2019	2018	2019	2018
Goodwill	1,575,837	1,532,847	1,575,837	1,532,847
Tax debt - PIS/COFINS (*)	101,540	-	101,540	-
Fair value of property, plant and equipment - business combinations	11,620	11,762	42,930	47,170
Others	28,066	23,525	125,528	110,680
Total tax debt	1,717,063	1,568,134	1,845,835	1,690,697
(-) Portion of deferred tax liabilities recoverable through deferred assets of the same company, with the same tax authority (also recoverable against the calculation of the current tax)	(1,696,402)	(1,419,020)	(1,753,292)	(1,459,512)
Remaining balance of deferred liabilities	20,661	149,114	92,543	231,185

(*) The base amount of R\$ 298,647 refers to judicial recovery of tax debts that will be subject to taxation when court-ordered debts are issued (Note 13).

c. Reconciliation of income tax and social contribution expenses

	Parent company		Consolidated	
	2019	2018	2019	2018
<i>Continuing and discontinued operations</i>				
Income before income tax and social contribution	1,055,421	1,165,842	1,062,612	1,224,852
Combined rate - %	34%	34%	34%	34%
Income tax and social contribution expenses at the combined rate	(358,843)	(396,386)	(361,216)	(416,559)
Equity accounting	(3,359)	37,179	4,106	4,185
Interest on shareholders' equity	229,592	208,077	229,592	208,077
Interest/ indexation of indemnity nature on tax assets (*)	102,836	-	102,836	-
Government grants	125,160	126,200	125,160	126,200
Permanent additions/exclusions	13,233	(11,311)	951	(17,154)
Income tax and social contribution expense	<u>108,619</u>	<u>(36,241)</u>	<u>101,429</u>	<u>(95,251)</u>
Current	-	134,111	(17,105)	92,274
Deferred	108,619	(170,352)	118,534	(187,525)
	<u>108,619</u>	<u>(36,241)</u>	<u>101,429</u>	<u>(95,251)</u>
Discontinued operations	12,649	11,804	12,535	(791)
Continuing operations	<u>95,970</u>	<u>(48,045)</u>	<u>88,894</u>	<u>(94,460)</u>
	<u>108,619</u>	<u>(36,241)</u>	<u>101,429</u>	<u>(95,251)</u>
	10%	-3%	10%	-8%

(*) The base amount of R\$ 302,459 refers to interest and indexation of an indemnity nature on tax assets (Note 13).

24 Taxes payable

	Parent company		Consolidated	
	2019	2018	2019	2018
ICMS (value added tax) payable	37,097	39,146	49,219	49,269
IPI/PIS/COFINS payable	1,089	1,106	2,015	6,748
Other taxes payable	1,814	1,815	4,983	7,174
	<u>40,000</u>	<u>42,067</u>	<u>56,217</u>	<u>63,191</u>
Current	31,640	33,126	47,857	54,250
Non-current	<u>8,360</u>	<u>8,941</u>	<u>8,360</u>	<u>8,941</u>

25 Accounts payable

	Parent company		Consolidated	
	2019	2018	2019	2018
Freight payable	12,042	12,039	14,638	14,155
Services provided	23,800	22,978	44,967	40,503
Advertising	7,920	33,028	7,949	33,028
Revenue to elapse	1,602	11,215	1,602	11,215
Purchases of fixed assets	3,919	1,290	13,043	13,761
Payables arising from disposal	12,410	18,297	12,410	18,297
Leases (i)	32,193	-	37,864	-
Accrued taxes on provision for inventory losses	6,387	3,899	17,073	12,993
Related parties (Note 31)	-	2,648	-	-
Others	7,873	9,698	16,005	18,096
	<u>108,146</u>	<u>115,092</u>	<u>165,551</u>	<u>162,048</u>
Current	<u>88,310</u>	<u>113,485</u>	<u>135,710</u>	<u>155,388</u>
Non-current	<u>19,836</u>	<u>1,607</u>	<u>29,841</u>	<u>6,660</u>

(i) Lease liabilities

	Parent company		Consolidated	
	December 31, 2019	January 1, 2019	December 31, 2019	January 1, 2019
Current	17,108	23,813	17,832	24,896
Non-current	15,085	25,474	20,032	31,059
	<u>32,193</u>	<u>49,287</u>	<u>37,864</u>	<u>55,955</u>

The changes in lease liabilities are presented in the table below:

	Parent company	Consolidated
	2019	2019
First-time adoption on January 1, 2019	49,287	55,955
Payment of loans - principal	(26,408)	(27,525)
Payment of loans - interest	(4,383)	(5,173)
Additions	8,057	8,057
Write-off	(2,675)	(6,727)
Remeasurement	4,717	8,915
Interest	3,598	4,362
December 31, 2019	<u>32,193</u>	<u>37,864</u>

a. Maturity of installments

Leases at December 31, 2019 have the following breakdown, by year of maturity:

	Parent company	Consolidated
Less than 1 year	17,108	17,832
From 1 to 2 years	7,479	8,230
From 2 to 5 years	6,470	9,212
More than 5 years	1,136	2,590
	<u>32,193</u>	<u>37,864</u>

b. Tax rights on leases

The table below shows the potential right of PIS/COFINS recoverable embedded in the lease payments, according the periods provided for payment:

	Parent company		Consolidated	
	Nominal	Adjusted to present value	Nominal	Adjusted to present value
Lease liability	36,521	32,193	45,009	37,864
Estimated PIS/COFINS	(1,591)	(1,288)	(2,261)	(1,701)
	<u>34,930</u>	<u>30,905</u>	<u>42,748</u>	<u>36,163</u>

c. Agreements by term and discount rate

The Company estimated the discount rates, based on free risk interest rates observed in the Brazilian market, for the terms of its agreements. The table below shows the rates used taking into consideration the lease terms:

Terms	Parent company	Consolidated
	Rate % p.a.	Rate % p.a.
Up to 2 years	8.46%	6.74%
From 2 to 5 years	7.55%	7.34%
More than 5 years	8.49%	9.46%

The table below shows the comparative balances of the lease liability, right of use, financial expenses and depreciation, considering the effect of the future inflation rate projected in the flows of the lease agreements, discounted at the nominal rate.

	Parent company	Consolidated
	December 31, 2019	December 31, 2019
Lease liabilities		
Carrying amount - IFRS 16/ CPC 06 (R2)	32,193	37,864
Flow with projected inflation	33,838	39,799
Variation	5.11%	5.11%
Net right of use - closing balance		
Carrying amount - IFRS 16/ CPC 06 (R2)	39,807	39,807
Flow with projected inflation	41,841	41,841
Variation	5.11%	5.11%

	<u>Parent company</u>	<u>Consolidated</u>
	<u>2019</u>	<u>2019</u>
Financial expenses		
Carrying amount - IFRS 16/ CPC 06 (R2)	(3,466)	(4,251)
Flow with projected inflation	(3,643)	(4,468)
Variation	5.11%	5.11%
Depreciation expense		
Carrying amount - IFRS 16/ CPC 06 (R2)	(25,466)	(26,749)
Flow with projected inflation	(26,767)	(28,116)
Variation	5.11%	5.11%

26 Contingencies

Provision for contingencies

At December 31, 2019, the Company had the following provision for contingencies and corresponding deposits in court related to the contingencies:

	<u>Parent company</u>							
	<u>2019</u>				<u>2018</u>			
	<u>Forecast of likely loss</u>	<u>Contingencies assumed in the business combination (a)</u>	<u>Deposits in court</u>	<u>Contingencies net of deposits in court</u>	<u>Forecast of likely loss</u>	<u>Contingencies assumed in the business combination (a)</u>	<u>Deposits in court</u>	<u>Contingencies net of deposits in court</u>
Civil	8,218	11,123	-	19,341	1,759	10,300	-	12,059
Labor	104,038	26,597	(29,382)	101,253	91,979	31,039	(26,418)	96,600
Tax	74	43,775	(327)	43,522	44	43,266	(259)	43,051
Administrative/other	3,828	375	(218)	3,985	3,363	471	(172)	3,662
	<u>116,158</u>	<u>81,870</u>	<u>(29,927)</u>	<u>168,101</u>	<u>97,145</u>	<u>85,076</u>	<u>(26,849)</u>	<u>155,372</u>
	<u>Consolidated</u>							
	<u>2019</u>				<u>2018</u>			
	<u>Forecast of likely loss</u>	<u>Contingencies assumed in the business combination (a)</u>	<u>Deposits in court</u>	<u>Contingencies net of deposits in court</u>	<u>Forecast of likely loss</u>	<u>Contingencies assumed in the business combination (a)</u>	<u>Deposits in court</u>	<u>Contingencies net of deposits in court</u>
Civil	8,234	11,123	-	19,357	1,779	10,300	-	12,079
Labor	115,695	26,597	(32,921)	109,371	106,149	31,039	(30,154)	107,034
Tax	76	43,775	(329)	43,522	46	43,266	(261)	43,051
Administrative/other	19,356	375	(218)	19,513	3,643	471	(172)	3,942
	<u>143,361</u>	<u>81,870</u>	<u>(33,468)</u>	<u>191,763</u>	<u>111,617</u>	<u>85,076</u>	<u>(30,587)</u>	<u>166,106</u>

Changes in contingencies

	<u>Parent company</u>					
	<u>2018</u>	<u>Monetary restatements</u>	<u>Additions</u>	<u>Reversals</u>	<u>Payments</u>	<u>2019</u>
Civil	12,059	1,211	7,191	(862)	(258)	19,341
Labor	123,018	9,941	30,981	(16,566)	(16,739)	130,635
Tax	43,310	698	29	(188)	-	43,849
Administrative/other	3,834	274	420	(273)	(52)	4,203
	<u>182,221</u>	<u>12,124</u>	<u>38,621</u>	<u>(17,889)</u>	<u>(17,049)</u>	<u>198,028</u>
Deposits in court	(26,849)	(1,601)	(7,197)	4,965	755	(29,927)
	<u>155,372</u>	<u>10,523</u>	<u>31,424</u>	<u>(12,924)</u>	<u>(16,294)</u>	<u>168,101</u>

	Consolidated					
	2018	Monetary restatements	Additions	Reversals	Payments	2019
Civil	12,079	1,213	7,215	(882)	(268)	19,357
Labor	137,188	10,865	33,313	(20,371)	(18,703)	142,292
Tax	43,312	698	29	(188)	-	43,851
Administrative/other	4,114	945	17,141	(322)	(2,147)	19,731
	<u>196,693</u>	<u>13,721</u>	<u>57,698</u>	<u>(21,763)</u>	<u>(21,118)</u>	<u>225,231</u>
Deposits in court	(30,587)	(1,787)	(7,853)	5,733	1,026	(33,468)
	<u>166,106</u>	<u>11,934</u>	<u>49,845</u>	<u>(16,030)</u>	<u>(20,092)</u>	<u>191,763</u>

The Company and its subsidiaries are parties to approximately 1,136 labor lawsuits discussing overtime, wage and salary differences, compensation due to occupational diseases and/or accidents, health hazard allowances or allowances for hazardous work, and recognition of employment relationship, among other claims, in the total amount of R\$ 115,695.

a. Judicial claims under the responsibility of the Company, assumed in business combinations

Summary of the main contingencies:

	Labor/Civil/Administrative and Other		Tax		Total
	Probable	Possible	Probable	Possible	
Mabesa	1,570	-	8,529	8,492	18,591
Mantecorp	34,070	2,455	-	26,754	63,279
	<u>35,640</u>	<u>2,455</u>	<u>8,529</u>	<u>35,246</u>	<u>81,870</u>

On acquisitions of Mabesa and Mantecorp, the Company assumed some of their contingencies. In addition to the provision for probable losses, the Company also recorded provision for possible losses, as required by CPC 15 (R1) - Business combinations, at fair value.

The amount of the possible and probable loss in the business combination of these processes is estimated at R\$ 81,870, where R\$ 26,597 refers to labor processes, R\$ 11,123 to civil processes, R\$ 43,775 to tax processes and R\$ 375 refers to regulatory and other administrative processes.

(i) Civil

There are nine processes, arising from the acquisition of Mantecorp Indústria Química, where expected loss in the business combination is estimated at R\$ 11,123.

On June 26, 2009, the Medicine Market Chamber (CMED) applied a fine of R\$ 9,108, against Mantecorp for alleged irregular increase in the price of the medicine Desalex. This fine is being discussed in court. Under advice of the external legal counsel, the likelihood of loss is probable.

(ii) Labor

There are 196 processes, where 80 of which resulted from the acquisition of Mabesa, 70 from the acquisition of Mantecorp Logística and 46 from the acquisition of Mantecorp Indústria Química, where the fair value in the business combination was estimated at R\$ 26,597.

(iii) Fiscal and tax

There are approximately 189 processes mainly related to the payment of ICMS on the import of goods, where 91 of which resulted from the acquisition of Mabesa, another 12 from the acquisition of Mantecorp Logística and 86 from the acquisition of Mantecorp Indústria Química, where the fair values in the business combination were estimated at R\$ 43,775.

(iv) Administrative/other

There are 12 processes of a regulatory nature, arising from the acquisition of Mantecorp Indústria Química, where estimated loss in the business combination is R\$ 375.

(v) Contingencies of acquired companies, where the responsibility is of the former owners - possible and probable:

In addition to the amounts provided for in the business combination as described above, there are other contingencies for which there is no provision for contingencies since the probable and possible losses in the cases where the responsibility is of the former owners.

The State of São Paulo filed a public civil action against the Company filing for payment of an indemnity for alleged illegal sale of medicines by Mantecorp in 2008. The amount involved was assessed at R\$ 201,348, and as per advice of the external lawyers, the chance of loss is possible. The process is in the fact-finding phase.

Johnson & Johnson has filed a lawsuit against the company Facilit claiming that Fio Dental Sanifill Premium, Fio Extrafino Sanifill Premium and Fita Dental Sanifill Premium violate the exclusive rights arising from patent PI 9805134-2 entitled "dental floss which features improved resistance to fraying and unraveling". The action was considered to have merit and the calculation of the amounts of damages was determined through calculation of the award. In view of this, the Company changed the estimate of loss to probable for the responsibility of the Selling Partners (R\$ 3,319), and the process is now at the appellate level.

Below is a summary of the contingencies considered as probable and possible losses under the responsibility of the former owners:

<u>Company and/or acquired brands</u>	<u>Possible</u>	<u>Probable</u>	<u>Total</u>
Aprov	264	504	768
Bitufo	-	218	218
Ceil	3,936	1,918	5,854
Cosmed-Pompom	1,645	2,377	4,022
DM	-	3	3
Facilit	-	3,831	3,831
Farmasa	138,397	123	138,520
Inal	-	9	9
Neolatina	-	12,345	12,345
Luper	-	66	66
Mabesa	701	539	1,240
Mantecorp	201,348	-	201,348
Brainf.-NQ	121,086	19,325	140,411
Sapeka	200	1,157	1,357
Sul Química	-	2,718	2,718
York	2,254	175	2,429
	<u>469,831</u>	<u>45,308</u>	<u>515,139</u>

When applicable, the Company makes the payment of the causes and seeks reimbursement from the former owners (Note 14).

b. Possible contingencies - Responsibility of the Company and its subsidiaries

The Company and its subsidiaries are involved in labor, civil, tax and regulatory lawsuits where the current evaluation of the likelihood of success under advice of the legal advisors, as well as the legal aspects, do not require the recording of a provision, either because the expectation of loss is classified as possible, or through the exclusion of a liability arising from a contractual agreement.

	Parent company		Consolidated	
	2019	2018	2019	2018
	Possible loss	Possible loss	Possible loss	Possible loss
Civil	42,720	45,023	43,160	45,023
Labor	439,245	458,327	458,478	500,095
Fiscal and tax	120,641	111,124	153,317	141,782
Administrative/other	2,904	2,550	3,371	2,550
	<u>605,510</u>	<u>617,024</u>	<u>658,326</u>	<u>689,450</u>

The Company is in litigation with competitors, where the registration of trademarks at the National Institute of Industrial Property (INPI), is being discussed. There is no estimable contingency at this time.

(i) Civil

In 2009, The Federal Public Prosecutor of the Judicial District of Bauru, State of São Paulo, filed a public civil action against the Company and several other laboratories, to force them to sell medicines to the Public Administration in accordance with the rules of the CMED. The prosecution also requested the condemnation of the laboratories to pay collective punitive damages in an amount to be fixed by the court.

A decision determined the process to be extinct and currently it is awaiting the hearing of an appeal brought by the public prosecutor. The amount involved is not estimable and, according to the advice of outside counsel, the chance of loss is possible.

In 2014, the city of Caxias do Sul filed a public civil action against the Company and several other laboratories, to oblige them to sell medicines to the Municipality in accordance with the rules of the CMED. The process is in the fact-finding phase. The amount involved is not estimable and, according to the advice of outside counsel, the chance of loss is possible.

(ii) Labor

The Company and its subsidiaries are parties to legal proceedings in labor cases, with regard to the liability of the Company, its subsidiaries and/or selling partners of the acquired and merged companies, where the possible loss that is the liability of the Company and/or its subsidiaries is estimated at R\$ 458,478 (R\$ 500,095 on December 31, 2018).

In these proceedings overtime, wage and salary differences, compensation due to occupational diseases and/or accidents, health hazard allowances or allowances for hazardous work, and recognition of employment relationships, among other claims are being discussed.

A total of 14 of these labor proceedings arise from the acquisition of Laboratório Americano de Farmacoterapia S.A (Farmasa), which was merged by the Company, and present estimated possible losses which is the Company's liability in the amount of R\$ 4 (R\$ 3,643 on December 31, 2018) and another 116 processes arise from the acquisition of Mantecorp Logística Distribuição e Comércio S.A. and Mantecorp Indústria Química e Farmacêutica S.A, which

present a chance of possible loss which is the Company's liability in the amount of R\$ 42,709 (R\$ 74,364 on December 31, 2018), where compensation resulting from illnesses or accidents at work, employment relationships and consequent payment of labor charges, wage differentials, overtime and effects and tenure, among other claims, are being discussed.

(iii) Fiscal and tax

The Company and its subsidiary Cosmed are seeking through Writs of Security (i) the repeal of the increase in the rate of contribution to the SAT/RAT by Decree No. 6,957/09, (ii) the definition of the rate for each establishment of the Company that has its own enrollment in the CNPJ and (iii) the removal of FAP at the rate of the contribution to the SAT/RAT. In view of the existence of divergent jurisprudence in the Superior Court of Justice in part of these claims, the Company and its legal advisors qualify as a risk of possible loss the amount of R\$ 88,028, where there is no risk of future disbursement, since the entire amount inherent to the case is deposited in court. The process is awaiting an examination of admissibility by the Vice Chairmanship of the Federal Regional Court of the 3rd Region due to the lodging of special and extraordinary appeals by the Company.

27 Share capital and reserves

a. Share capital

On December 31, 2019, the Company was authorized to increase the share capital up to the limit of R\$ 5,500,000.00, in accordance with a provision of its bylaws and a decision of the Board of Directors at the Special General Meeting (SGM) on January 24, 2011.

The share capital at December 31, 2019 was R\$ 4,448,817 (at December 31, 2018 - R\$ 4,448,817), represented by 632,238,060 common shares (at December 31, 2018 - 632,238,060).

b. Premium to on issuance of shares

This reserve is formed on the issuing of shares and refers to the part of the issue price of shares with no nominal value, which exceeds the amount for the formation of capital.

c. Share-based payments

(i) Share purchase option

The goal of the share purchase option plans is "attracting and retaining the Company's executives" in a percentage of dilution of up to 6% of the share capital.

Share-based payment transactions may occur between the Company and its subsidiaries.

Option pricing model

For the calculation of the fair value of the options granted, the Company considered the following assumptions:

- The options are exercised on the dates of each closing of the vesting period, especially given the requirement for allocation of the executives' bonuses in the purchase of shares issued by the Company.
- Indifference with respect to distribution of dividends given that the exercise price is adjusted for potential distributions.

- Evaluation of options in accordance with market parameters on the date of each contract with the beneficiaries of the plan.
- Allocation of a reduction of 1.5% per annum in options to be exercised considering potential discharge from professional duties of the beneficiaries.

The evaluation used, therefore, was based on the Black & Scholes pricing model for simple European options, using the Selic rate and the historical monthly volatility in the date of the contracts with the beneficiaries.

The EGMs approved on December 29, 2008 and October 2011 the Plans II and III which comprise the Stock Option Programs, approved at the Board of Directors' Meeting held on the following dates:

Board of Directors' Meeting - BDM

Plan II	
Program 2009	December 17, 2009
Program 2010	August 6, 2010
Program 2011	February 2, 2011
Plan III	
Program 2011	December 26, 2011
Program 2013	May 3, 2013
Program 2014	February 21, 2014
Program 2014-A	December 30, 2014

The vesting period of 1 year for up to 20% of options granted, 2 years for up to 40%, 3 years for up to 60%, 4 years for up to 80%, 5 years for up to 100%.

Total options granted

The percentages of dilution that were eventually submitted to the current shareholders in the case of exercise of all outstanding options at December 31, 2019 is 4.83% in the Plans and Programs were as detailed below:

Consolidated										
At 12/31/2019										
Plan	Program	Grace period	Original exercise price	Corrected exercise price	Granted	Exercised	Canceled	Outstanding contracts	Fair unit value on the date of grant (in Reais)	Total estimated cost
Plan II	2009	12/17/2010	17.055	23.87	560,000	388,115	171,885	-	3.47	-
Plan II	2009	12/17/2011	17.055	23.87	560,000	379,600	180,000	400	4.22	2
Plan II	2009	12/17/2012	17.055	23.87	560,000	360,000	180,000	20,000	4.93	99
Plan II	2009	12/17/2013	17.055	23.87	560,000	360,000	180,000	20,000	5.6	112
Plan II	2009	12/17/2014	17.055	23.87	560,000	360,000	180,000	20,000	6.23	124
					2,800,000	1,847,715	891,885	60,400		337
Plan II	2010	08/06/2011	20.21	28.33	520,000	50,000	330,000	140,000	3.51	492
Plan II	2010	08/06/2012	20.21	28.33	520,000	95,000	270,000	155,000	4.38	679
Plan II	2010	08/06/2013	20.21	28.33	640,000	90,000	390,000	160,000	5.22	835
Plan II	2010	08/06/2014	20.21	28.33	460,000	90,000	210,000	160,000	6.02	963
Plan II	2010	08/06/2015	20.21	28.33	460,000	90,000	210,000	160,000	6.79	1,086
					2,600,000	415,000	1,410,000	775,000		4,055
Plan II	2011	02/01/2012	19.26	25.59	740,000	205,081	280,565	254,354	0.95	241
Plan II	2011	02/01/2013	19.26	25.59	740,000	205,081	280,566	254,355	1.75	446
Plan II	2011	02/01/2014	19.26	25.59	759,482	205,081	300,046	254,355	2.52	641
Plan II	2011	02/01/2015	19.26	25.59	730,258	205,081	270,822	254,355	3.26	830
Plan II	2011	02/01/2016	19.26	25.59	730,258	205,081	270,822	254,355	3.98	1,012
					3,700,000	1,025,405	1,402,821	1,271,774		3,170
Plan III	2014-A	12/30/2019	16.48	16.48	130,000	-	90,000	40,000	4	160
					130,000	-	90,000	40,000		160
Plan III	2017	04/01/2018	28.93	28.93	525,000	-	45,000	480,000	2.39	1,148
Plan III	2017	04/01/2019	28.93	28.93	525,000	-	45,000	480,000	3.78	1,813
Plan III	2017	04/01/2020	28.93	28.93	525,000	-	45,000	480,000	4.82	2,312

Hypera S.A.
Financial statements at
December 31, 2019

Consolidated										
At 12/31/2019										
Plan	Program	Grace period	Original exercise price	Corrected exercise price	Granted	Exercised	Canceled	Outstanding contracts	Fair unit value on the date of grant (in Reais)	Total estimated cost
Plan III	2017	04/01/2021	28.93	28.93	525,000	-	45,000	480,000	5.53	2,654
Plan III	2017	04/01/2022	28.93	28.93	525,000	-	45,000	480,000	5.91	2,838
					2,625,000	-	225,000	2,400,000		10,765
Total Stock Option					11,855,000	3,288,120	4,019,706	4,547,174		18,487

Consolidated										
At 12/31/2018										
Plan	Program	Grace period	Original exercise price	Corrected exercise price	Granted	Exercised	Canceled	Outstanding contracts	Fair unit value on the date of grant (in Reais)	Total estimated cost
Plan II	2009	12/17/2010	17.055	24.89	560,000	288,115	171,885	100,000	3.47	347
Plan II	2009	12/17/2011	17.055	24.89	560,000	279,600	180,000	100,400	4.22	424
Plan II	2009	12/17/2012	17.055	24.89	560,000	260,000	180,000	120,000	4.93	592
Plan II	2009	12/17/2013	17.055	24.89	560,000	260,000	180,000	120,000	5.6	672
Plan II	2009	12/17/2014	17.055	24.89	560,000	260,000	180,000	120,000	6.23	748
					2,800,000	1,347,715	891,885	560,400		2,783
Plan II	2010	08/06/2011	20.21	29.02	520,000	50,000	330,000	140,000	3.51	492
Plan II	2010	08/06/2012	20.21	29.02	520,000	95,000	270,000	155,000	4.38	679
Plan II	2010	08/06/2013	20.21	29.02	640,000	50,000	390,000	200,000	5.22	1,044
Plan II	2010	08/06/2014	20.21	29.02	460,000	50,000	210,000	200,000	6.02	1,205
Plan II	2010	08/06/2015	20.21	29.02	460,000	50,000	210,000	200,000	6.79	1,358
					2,600,000	295,000	1,410,000	895,000		4,778
Plan II	2011	02/01/2012	19.26	26.48	740,000	205,081	280,565	254,354	0.95	241
Plan II	2011	02/01/2013	19.26	26.48	740,002	205,081	280,566	254,355	1.75	446
Plan II	2011	02/01/2014	19.26	26.48	759,482	205,081	300,046	254,355	2.52	641
Plan II	2011	02/01/2015	19.26	26.48	730,258	205,081	270,822	254,355	3.26	830
Plan II	2011	02/01/2016	19.26	26.48	730,258	205,081	270,822	254,355	3.98	1,012
					3,700,000	1,025,405	1,402,821	1,271,774		3,170
Plan III	2011	12/26/2013	8.6	8.6	2,609,998	2,460,911	139,087	10,000	1.25	13
Plan III	2011	12/26/2014	8.6	8.6	2,329,998	2,112,940	207,058	10,000	1.63	16
Plan III	2011	12/26/2015	8.6	8.6	2,329,998	2,035,667	284,331	10,000	1.96	20
Plan III	2011	12/26/2016	8.6	8.6	2,329,998	1,829,304	490,694	10,000	2.27	23
					9,599,992	8,438,822	1,121,170	40,000		72
Plan III	2013	05/03/2018	15.62	15.62	270,000	30,000	190,000	50,000	1.21	60
					270,000	30,000	190,000	50,000		60
Plan III	2014	02/21/2018	15.34	15.34	90,000	-	70,000	20,000	2.7	54
Plan III	2014	02/21/2019	15.34	15.34	90,000	-	70,000	20,000	3.23	65
					180,000	-	140,000	40,000		119
Plan III	2014-A	12/30/2017	16.48	16.48	130,000	-	90,000	40,000	2.64	106
Plan III	2014-A	12/30/2018	16.48	16.48	130,000	-	90,000	40,000	3.34	133
Plan III	2014-A	12/30/2019	16.48	16.48	130,000	-	90,000	40,000	4	160
					390,000	-	270,000	120,000		399
Plan III	2017	04/01/2018	28.93	28.93	525,000	-	45,000	480,000	2.39	1,148
Plan III	2017	04/01/2019	28.93	28.93	525,000	-	45,000	480,000	3.78	1,813
Plan III	2017	04/01/2020	28.93	28.93	525,000	-	45,000	480,000	4.82	2,312
Plan III	2017	04/01/2021	28.93	28.93	525,000	-	45,000	480,000	5.53	2,654
Plan III	2017	04/01/2022	28.93	28.93	525,000	-	45,000	480,000	5.91	2,838
					2,625,000	-	225,000	2,400,000		10,765
Total Stock Option					22,164,992	11,136,942	5,650,876	5,377,174		22,146

(ii) Share granting plan in a matching scheme

In the EGMs on April 19, 2017, April 19, 2018 and April 29, 2019, plans for the granting of shares under a Matching regime were approved, which aim to allow, in the scope and as an alternative form of implementation of payment of PPR 2017, PPR 2018 and PPR 2019 or bonus by result conferred by the companies by the Company and its subsidiaries, directly or indirectly, by the Company (the Performance Bonus).

The vesting period of 1 year for up to 25% of options granted, 2 years for up to 50%, 3 years for up to 75%, 4 years for up to 100%, with the obligation of minimum allocation of 50% of the net annual bonus to the officers participating in the Company's stock options plan.

The objective is for the beneficiaries, as defined below, to have the opportunity to become shareholders of the Company, in accordance with certain defined terms and conditions, thereby promoting a greater alignment and integration of their interests with the interests of the Company and the share of capital market risks.

The total of the 2017 Matching Plan Program has an estimated cost of R\$ 9,090 representing four tranches per year, starting in 2019, with a total estimated amount of 235,938 shares, the total of the 2018 Matching Plan Program has an estimated cost of R\$6,272 representing four tranches per year, starting in 2020, with a total estimated amount of 185,772 shares and the total of the 2019 Matching Plan Program has an estimated cost of R\$ 22,741 representing four tranches per year, starting in 2021, with a total estimated amount of 673,534 shares.

(iii) Restricted Stock Option Plan

At the EGMs held on April 19, 2018 and April 24, 2019, a Restricted Stock Option Plan was approved, to allow the granting of rights to Restricted Shares to eligible employees selected by the Board of Directors or the Committee, in order to attract and retain executives of the Company and its direct or indirect subsidiaries (included in the Company's concept for the purposes of this Program), granting to officers, employees and service providers the opportunity of becoming shareholders of the Company, obtaining, as a consequence, a greater alignment of the interests of the shareholders.

The 2018 Grant of Restricted Shares Program, representing four tranches per year, starting 2019, has an estimated cost of R\$ 28,588, with a total estimated amount of 1,102,500 shares.

The 2019 Grant of Restricted Shares Program, representing four tranches per year, starting 2020, has an estimated cost of R\$ 33,646, with a total estimated amount of 1,315,000 shares.

The 2019 Grant of Restricted Shares Program, representing a single tranche, expected for 2023, has an estimated cost of R\$ 9,584, with a total estimated amount of 465,000 shares.

d. Treasury shares

The changes in the number of treasury shares were as shown in the table below:

	<u>Number</u>	<u>Amount</u>
At December 31, 2018	191,438	6,459
Purchases in the period	2,469,000	72,188
Sales in the period	<u>(1,495,481)</u>	<u>(44,444)</u>
At 12/31/2019	<u>1,164,957</u>	<u>34,203</u>

e. Legal reserve

The legal reserve is established annually by allocating 5% of the net income for the year and may not exceed 20% of the share capital. The purpose of the legal reserve is to preserve capital and may only be used to offset losses and increase the capital.

f. Tax incentive reserve

Established in accordance with Article 195-A of the Brazilian Corporation law (amended by law 11,638 in 2007), this reserve receives the portion of tax incentives recognized in income for the financial year, in a tax deducting account, and to it destined from retained earnings, and consequently, does not enter the calculation base of the minimum mandatory dividend.

g. Statutory reserve

This is established in accordance with the terms of Article 194 of the Brazilian corporation law and established in Article 44 of the Company's bylaws.

h. Profit retention reserve

Formed or reversed in accordance with Article 196 of the Brazilian corporation law and established in Article 44 of the Company's bylaws.

i. Proposal for distribution of income

Management's proposal for the distribution of dividends for 2019 is as follows:

	2019
Net income for the period	1,164,040
Portion of adjustments of prior periods	(3,546)
Income to be allocated	1,160,494
Constitution of government grant reserve (I)	(368,118)
Constitution of capital budget reserve (profit retention reserve)	(117,106)
Basis for calculation of the dividends	675,270
Interest on shareholders' equity (II)	(675,270)

I. The subsidiaries do not have investment grants.

II. At the Board of Directors' meetings, the distribution of interest on equity to the Company's shareholders was approved, and this was paid on January 7, 2020, as shown in the table below:

Dates	Amount
March 29, 2019	160,995
June 27, 2019	161,279
September 27, 2019	160,999
December 18, 2019	191,997
	675,270

28 Revenue

The reconciliation of gross and net revenue is as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
Gross revenue from products	4,114,999	4,474,502	4,115,155	4,474,927
Returns	(128,117)	(70,051)	(128,117)	(70,051)
Unconditional discounts	(184,693)	(179,542)	(184,679)	(179,542)
Net revenue from returns and unconditional discounts	<u>3,802,189</u>	<u>4,224,909</u>	<u>3,802,359</u>	<u>4,225,334</u>
Promotional discounts	(253,992)	(212,191)	(253,992)	(212,191)
Taxes	(154,032)	(168,255)	(253,618)	(288,834)
Net revenue	<u><u>3,394,165</u></u>	<u><u>3,844,463</u></u>	<u><u>3,294,749</u></u>	<u><u>3,724,309</u></u>

The Company does not present its revenue disaggregated by product since essentially: (a) the nature and the economic risk factors of the products are similar, (b) the consumers and customers do not have significant distinctions; (c) the Company operates only in the Brazilian market; and (d) the presentations to investors mentioning different types of products reflect only different go-to-market models. Therefore, the Company optimizes synergies between these different models leveraging the single sell-out structure.

In addition, the decisions on the resources to be allocated are not related to business segments but occur individually by products to be launched, resulting in assessments of the general performance of the operating results to all portfolios of products.

29 Breakdown of the statement of income accounts

a. Operating expenses and cost of sales

	Parent company		Consolidated	
	2019	2018	2019	2018
	(1,526,769			
Cost of sales)	(1,468,457)	(1,209,057)	(1,059,032)
Raw materials	-	-	(395,053)	(381,358)
Packaging materials	-	-	(191,403)	(209,699)
Labor	-	-	(328,079)	(255,913)
Depreciation and amortization expenses	-	-	(53,941)	(46,883)
	(1,467,658			
Resale)	(1,413,896)	(121,167)	(106,730)
Changes in inventories/others	(59,111)	(54,561)	(119,414)	(58,449)
	(1,282,873			
Selling and marketing expenses)	(1,224,223)	(1,401,629)	(1,299,472)
Marketing expenses	(879,149)	(842,828)	(843,348)	(820,207)
Advertising and consumer promotion	(304,869)	(359,891)	(300,959)	(355,984)
Trade deals	(82,764)	(69,302)	(82,764)	(69,303)
Medical detailing, promotions, gifts and samples	(491,516)	(413,635)	(459,625)	(394,920)

	Parent company		Consolidated	
	2019	2018	2019	2018
Selling expenses	(403,724)	(381,395)	(558,281)	(479,265)
Sales force	(244,602)	(214,138)	(249,125)	(224,723)
Freight and logistics expenses	(82,016)	(84,046)	(92,168)	(86,511)
Research and development	(9,111)	(9,797)	(128,717)	(73,916)
Depreciation and amortization expenses	(27,691)	(6,822)	(45,318)	(24,774)
Other expenses	(40,304)	(66,592)	(42,953)	(69,341)
Administrative and general expenses	(148,702)	(134,613)	(209,262)	(181,754)
Salaries/wages payable	(93,493)	(71,205)	(149,562)	(118,602)
Lawyers, advisors and auditors	(31,702)	(32,914)	(39,038)	(42,613)
Depreciation and amortization expenses	(11,417)	(9,348)	(16,910)	(13,347)
Other expenses	(12,090)	(21,146)	(3,752)	(7,192)

b. Other operating (expenses) income, net

	Parent company		Consolidated	
	2019	2018	2019	2018
Gains (losses) (*)	638,169	71,688	618,304	44,643
Depreciation of investment properties	(4,204)	(3,927)	(4,204)	(3,927)
Rental income	19,806	19,118	17,182	16,714
Civil and labor contingencies	(13,713)	(15,110)	(30,048)	(17,084)
	<u>640,058</u>	<u>71,769</u>	<u>601,234</u>	<u>40,346</u>

(*) Note 13.

c. Financial income

	Parent company		Consolidated	
	2019	2018	2019	2018
Interest income	27,788	17,631	30,840	21,907
Income from short-term financial investments and others	59,201	54,537	65,329	63,936
	<u>86,989</u>	<u>72,168</u>	<u>96,169</u>	<u>85,843</u>

d. Financial expenses

	Parent company		Consolidated	
	2019	2018	2019	2018
Interest on financing	(16,876)	(16,282)	(28,464)	(34,492)
Interest on loans	(6,601)	(1,828)	(6,602)	(1,828)
Interest on notes payable	(692)	(1,170)	(692)	(1,170)
Interest/indexation on contingencies	(12,124)	(11,979)	(13,721)	(13,132)
Taxes in installments	(422)	(282)	(422)	(282)
Debentures	(3,142)	(4,931)	(3,142)	(4,932)
Interest and commission on letters of guarantee	(4,292)	(3,831)	(4,320)	(3,813)
Bank expenses, discounts granted and others	(11,580)	(16,643)	(12,318)	(17,193)
Cost of hedge and exchange variation of loans	(221)	(182)	(221)	(182)
Cost of hedge and exchange variation of suppliers and customers	44	40	(5,424)	(7,237)
Reversals of present value adjustment	(3,466)	-	(4,251)	-
Others	(571)	(544)	(2,175)	(1,497)
	<u>(59,943)</u>	<u>(57,632)</u>	<u>(81,752)</u>	<u>(85,758)</u>

30 Earnings per share

a. Basic

Basic earnings per share are calculated by dividing the profit attributable to the Company's shareholders by the weighted average number of common shares issued during the period, excluding common shares purchased by the Company and held as Treasury shares.

	2019			2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Profit attributable to the Company's shareholders	1,188,985	(24,945)	1,164,040	1,135,399	(5,798)	1,129,601
Weighted average number of common shares held by shareholders (thousands)	631,290	631,290	631,290	631,998	631,998	631,998
Basic earnings per share	<u>1.88342</u>	<u>(0.03951)</u>	<u>1.84391</u>	<u>1.79652</u>	<u>(0.00917)</u>	<u>1.78735</u>

b. Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potential dilutive ordinary shares. The potential shares are addressed as dilutive when, and only when, their conversion into shares decreases the earnings per share or increases the loss per share from continuing operations.

	2019			2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Profit						
Profit attributable to the Company's shareholders	1,188,985	(24,945)	1,164,040	1,135,399	(5,798)	129,601
Weighted average number of common shares held by shareholders (thousands)	631,290	631,290	631,290	631,998	631,998	631,998
Adjustments for:						
Share-based payments (thousands) (I)	8,645	8,645	8,645	7,501	7,501	7,501
Weighted average number of common shares for diluted earnings per share (thousands)	639,935	639,935	639,935	639,499	639,499	639,499
Diluted earnings per share	<u>1.85798</u>	<u>(0.03898)</u>	<u>1.81900</u>	<u>1.77545</u>	<u>(0.00907)</u>	<u>1.76639</u>

(I) Breakdown of amounts of share-based payments:

	2019
Stock option	4,548
Estimated value Matching Plan	1,095
Restricted Plan	3,002
	<u>8,645</u>

31 Related party transactions

The Company is a publicly traded company with shares traded on the stock exchange. Under a Shareholders' Agreement entered into on June 23, 2010, and subsequently amended on March 16, 2016, October 24, 2016 and July 2017, the following are the parties in the Controlling Interest group: Mr. João Alves de Queiroz Filho, with 21.42% of the share capital and Maiorem, S.A. de C.V., with 14.77% of the share capital; while the other signatories of the Shareholders' Agreement hold 0.97% of the Company's share capital. The remaining 62.84% of the shares are held by various shareholders.

Transactions and balances

The main asset and liability balances as well as the transactions between related parties that impacted the results for the period arise from transactions with the Company and its subsidiaries, which management considers to have been conducted under normal market conditions and within normal timeframes for the respective types of transactions.

Loans with related parties are indexed to the CDI plus a spread.

In commercial relationships with related parties, prices are established based on the characteristics and nature of the transactions. In this case, both Cosmed and Brainfarma manufacture and sell almost all of their production to Hypera to be sold in the market.

Trading transactions involving the sale purchase of products, raw materials, contracting of services and rents, as well as financial transactions involving loans and fundraising between group companies are presented as follows:

- The rental agreement with Brainfarma Indústria Química Farmacêutica S.A. is indexed to the IGPM-FGV, and the maturity date is May 2, 2020, which may be extended as agreed between the parties.
- The rental agreement with Cosmed Indústria de Cosméticos e Medicamentos S.A. (Sweetener) is indexed to the IGPM - FGV index of April 1, 2019 and the maturity date is March 31, 2027, which may be extended as agreed between the parties.
- The service agreement with UOL Diveo Tecnologia Ltda. will be indexed to the IGPM - FGV index every twelve months, beginning on October 30, 2018 and the maturity date is October 29, 2021.

a.1. In assets and liabilities

							Parent company
							2019
Companies	Customers	Other amounts receivable	Loans receivable	Suppliers	Accounts payable	Other amounts payable	Loans payable
Cosmed Indústria de Cosméticos e Medicamentos S.A.	-	244	-	(84,891)	-	-	-
My - Agência Propaganda Ltda.	-	9	-	(17)	-	-	-
Brainfarma Ind. Quim. e Farmacêutica S.A.	-	469	-	(241,326)	(969)	-	-
Universo Online S.A.	-	-	-	-	(667)	-	-
UOL Diveo Tecnologia Ltda.	-	-	-	-	(13)	-	-
Total	-	722	-	(326,234)	(1,649)	-	-

							Consolidated
							2019
Companies	Customers	Other amounts receivable	Loans receivable	Suppliers	Accounts payable	Other amounts payable	Loans payable
Universo Online S.A.	-	-	-	-	(667)	-	-
UOL Diveo Tecnologia Ltda.	-	-	-	-	(13)	-	-
Total	-	-	-	-	(680)	-	-

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							Parent company
							2018
Companies	Customers	Other amounts receivable	Loans receivable	Suppliers	Accounts payable	Other amounts payable	Loans payable
Cosmed Indústria de Cosméticos e Medicamentos S.A.	3,321	449	-	(66,061)	-	-	-
My - Agência Propaganda Ltda.	-	5	-	-	-	-	-
Brainfarma Ind. Quim. e Farmacêutica S.A.	-	-	-	(336,465)	-	(2,644)	(4)
Universo Online S.A.	-	-	-	-	(746)	-	-
UOL Diveo Tecnologia Ltda.	-	-	-	-	(50)	-	-
Total	3,321	454	-	(402,526)	(796)	(2,644)	(4)

							Consolidated
							2018
Companies	Customers	Other amounts receivable	Loans receivable	Suppliers	Other amounts payable	Other amounts payable	Loans payable
Universo Online S.A.	-	-	-	-	(746)	-	-
UOL Diveo Tecnologia Ltda.	-	-	-	-	(50)	-	-
Total	-	-	-	-	(796)	-	-

a.2. In income for the year

							Parent company
							2019
Companies	Transactions		Other (expenses)/income			Interest on loans	
	Purchases of goods/products	Rental income	Advertising	Rents	Services provided	Financial expenses	Financial income
Cosmed Indústria de Cosméticos e Medicamentos S.A.	(332,703)	2,495	-	-	-	-	-
My - Agência Propaganda Ltda.	(4,180)	204	(4,560)	-	-	-	-
TV Serra Dourada Ltda.	-	-	-	-	-	-	-
Brainfarma Ind. Quim. e Farmacêutica S.A.	(1,307,926)	140	-	(2,091)	-	(268)	1
Neolatina Comércio e Ind. Farmacêutica S.A.	-	-	-	-	-	-	-
Universo Online S.A.	-	-	(6,000)	-	-	-	-
UOL Diveo Tecnologia Ltda.	-	-	-	-	(6,401)	-	-
Total	(1,644,809)	2,839	(10,560)	(2,091)	(6,401)	(268)	1

							Consolidated
							2019
Companies	Transactions		Other (expenses)/income			Interest on loans	
	Purchases of goods/products	Rental income	Advertising	Rents	Services provided	Financial expenses	Financial income
TV Serra Dourada Ltda.	-	-	-	(317)	-	(28)	-
Universo Online S.A.	-	-	(6,000)	-	-	-	-
UOL Diveo Tecnologia Ltda.	-	-	-	-	(6,401)	-	-
Total	-	-	(6,000)	(317)	(6,401)	(28)	-

							Parent company
							2018
Companies	Transactions		Other (expenses)/income			Interest on loans	
	Purchases of goods/products	Rental income	Advertising	Rents	Services provided	Financial expenses	Financial income
Cosmed Indústria de Cosméticos e Medicamentos S.A.	(289,341)	2,746	-	-	-	(1)	-
My - Agência Propaganda Ltda.	-	996	(4,560)	-	-	-	-
TV Serra Dourada Ltda.	-	-	(2,002)	-	-	-	-
Brainfarma Ind. Quim. e Farmacêutica S.A.	(1,282,548)	-	-	(2,624)	-	-	10
Neolatina Comércio e Ind. Farmacêutica S.A.	-	-	-	-	-	-	-
Universo Online S.A.	-	-	(7,755)	-	-	-	-
Megatelecom Telecommunications S.A.	-	-	-	-	(173)	-	-
Total	(1,571,889)	3,742	(14,317)	(2,624)	(173)	(1)	10

							Consolidated
							2018
Companies	Transactions		Other (expenses)/income			Interest on loans	
	Purchases of goods/products	Rental income	Advertising	Rents	Services provided	Financial expenses	Financial income
TV Serra Dourada Ltda.	-	-	(2,002)	(450)	-	-	-
Universo Online S.A.	-	-	(7,755)	-	-	-	-
Megatelecom Telecommunications S.A.	-	-	-	-	(173)	-	-
Total	-	-	(9,757)	(450)	(173)	-	-

b. Compensation of key management personnel

The key management personnel comprise the members of the Board of Directors, Supervisory Board, Audit Committee and Statutory Directors. The compensation paid or payable to key management personnel is as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
Salaries and other short-term benefits	18,576	23,191	18,816	23,623
Board members' fees	4,720	1,785	4,720	1,785
Share-based payments	11,287	6,016	11,287	6,016
	34,583	30,992	34,823	31,424

32 Other matters

On April 10, 2018, through an interlocutory injunction, a warrant for search and seizure was issued for the Company's head office and the residences of the then Company's CEO and the Chairman of the Board of Directors, related to facts included in the plea bargain signed by Mr. Nelson José de Mello, former Director of Investor Relations, as part of the investigations conducted by the Federal Public Prosecutors, in the operation called "Tira-Teima". Information was made public in a material fact published on June 28, 2016, as well as other press releases disclosed by the Company.

The then Company's CEO voluntarily presented a letter to the members of the Board requesting his resignation from the position of Chief Executive Officer and from all activities of the Company, for the period required to conclude the internal investigations and the investigations by the Federal Public Prosecutors. Also, the then Chairman of the Company's Board of Directors presented voluntarily a letter to the other members of the Board requesting his resignation as a member of the Board for the same period. The Board of Directors accepted the requests and elected a new CEO and a new Chairman of the Board of Directors.

The Board of Directors also resolved to set up an Independent Special Committee to coordinate an independent investigation of the matters related to the Material Fact published by the Company on April 10, 2018 and the Notice to the Market published by the Company on April 20, 2018. The Committee since then (a) defined the scope of the internal investigation, (b) engaged external advisors, specifically a first-tier law firm and auditing firm; (c) made presentations about the progress to the External Auditor and the Audit Committee; (d) presented its recommendations to the Audit Committee, and (e) subsequently will present to the Board of Directors.

In parallel and in complement to the work developed by the Independent Committee, the Company, through its specialized legal counselors, has supported and collaborated with the investigations conducted by the appropriate authorities.

The Company's Management is committed to adopting the necessary measures and will assess, based on the results and with the support of its specialized legal counselors, the convenience and the opportunity of eventually using legal mechanisms that are adequate to the conclusion of the matter, including the hypotheses of agreements with the appropriate authorities. At this moment, the Company's Management is not able to assess the impacts of the conclusions of the investigations conducted by the Independent Committee.

33 Subsequent events

On January 21, 2020, Boehringer Ingelheim International GmbH & Co. KG informed the Company that the right of first refusal exercise period of another possible party interested in the the acquisition of assets described in the Material Fact disclosed on December 18, 2019 (including the family of trademarks and patents of Buscopan and Buscofem) had expired. The closing of the transaction is still dependent on the fulfillment of certain conditions provided for in the agreement, including the approval by the antitrust agency. The estimated price is R\$ 1.3 billion.

On March 2, 2020, the Company disclosed in a material fact that it signed an agreement with Takeda Pharmaceutical International AG ("Takeda") for the acquisition of the portfolio of brands of prescribed and over-the-counter (OTC) medicines in Brazil and also in Latin America for the price of USD 825 million. The portfolio includes products in therapeutic areas such as cardiology, diabetes, endocrinology, gastroenterology, respiratory system and general practitioner, among them the market leader brand Neosaldina (the third largest OTC medicine brand in Brazil), Dramin (prescription brand, the second largest of the antiemetic medicines), and the patented product Nesina (for treatment of type 2 diabetes). The Company has already obtained credit facilities with banks amounting to R\$ 3.5 billion to finance the transaction.

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