

CM HOSPITALAR S.A.
Parent Company and Consolidated
Financial Statements for the
financial year ended December 31,
2020

CM HOSPITALAR S.A. AND SUBSIDIARIES

Financial statements

At December 31, 2020

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Independent Auditors' Report in the parent company and consolidated financial statements

To the shareholders, directors and officers of
CM Hospitalar S.A.
Ribeirão Preto – SP

Opinion

We have audited the parent company and consolidated financial statements of CM Hospitalar S.A. ("Company"), identified as the parent company and consolidated respectively, which comprise the statement of financial position as of December 31, 2020, statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information..

In our opinion, the accompanying parent company and consolidated financial statements present fairly, in all material respects the financial position of CM Hospitalar S.A. as of December 31, 2020, and of its parent company and consolidated financial performance and its respective parent company and consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and the international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and international auditing standards (ISAs). Our responsibilities under those standards are described in the "Auditor's Responsibilities for the Audit of the parent company and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements that are relevant to our audit of the parent company and consolidated financial statements set forth in the Professional Code of Ethics of the Accountant and the professional standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Business combinations	
See Notes 4.2 and 12 to the individual and consolidated financial statements	
Key audit matter	How the matter was addressed in our audit
<p>The Company acquired equity interests in 2020, providing it with control over multiple entities, as described in note 4.2, which resulted in the application of the acquisition method to initially account for these entities. The use of the acquisition method requires, among other procedures, that the Company determine the fair value of the assets acquired and the liabilities assumed, and the goodwill or gain on a bargain purchase. These procedures typically involve a high degree of judgment to determine the fair value calculation methodology for different types of assets, and require fair-value estimates to be made based on calculations and assumptions related to the future performance of the acquired business, which are subject to a high degree of uncertainty.</p> <p>Due to the high degree of judgment involved, and the impact that any changes in assumptions could have on the financial statements, we consider this to be a key audit matter.</p>	<p>Our audit procedures in this area included, among others: reviewing the documents formalizing the transaction, such as agreements and minutes, and obtaining evidence underlying the acquisition of control and the determination of the fair value of assets acquired and the liabilities assumed calculated by Independent experts engaged by the Company.</p> <p>With the assistance of our corporate finance specialists, we reviewed the methodology used to measure the fair value of the assets acquired and the liabilities assumed, and evaluated the reasonableness of the assumptions used and the calculations made by comparison with market data, to the extent available, and we evaluated the sensitivity analysis of the key assumptions used and the impacts of any changes in those assumptions on fair-value determinations and their relevance to the financial statements as a whole.</p> <p>We also assessed the adequacy of the disclosures regarding the nature and financial effects of the business combinations made by the Company.</p> <p>Based on the evidence obtained through the aforesaid procedures, we consider the recognition, measurement and disclosure of the business combination within the context of the individual and consolidated financial statements for the financial year ended December 31, 2020 to be acceptable.</p>

Recoverable value of goodwill	
See Notes 3.3.1(f), 4.2, 4.9 and 14 to the individual and consolidated financial statements	
Key audit matter	How the matter was addressed in our audit
<p>The Company has significant Goodwill as a result of the acquisitions made in the financial year and previously, which is indefinitely-lived and subject to annual impairment testing. The goodwill impairment test involves uncertainties inherent in the process of determining the estimate used to calculate the future cash flows and to discount them to present value, which is the basis for assessing the recoverable value, especially in respect of</p>	<p>With the assistance of our corporate finance specialists, we reviewed all assumptions and methodologies used by the Company to prepare the studies supporting the impairment analyses, especially those regarding revenue growth, profit margins and discount rates. We compared the Company's assumptions against external data, such as projected economic growth, inflation and discount rates, and conducted a sensitivity analysis on these assumptions.</p>

<p>assumptions such as revenue growth, profit margins and discount rates.</p> <p>Due to the relevance of goodwill estimates, the element of judgment involved in estimating future cash flows discounted to present value and the impact that any changes in assumptions could have on the amounts recorded in the consolidated financial statements, and the potential impacts affecting the value of the investment recorded using the equity method in the individual financial statements, we consider this be a key audit matter.</p>	<p>We compared the sum of the discounted cash flows against the value of the assets to assess the impairment. We also analyzed whether the disclosures made in the financial statements are adequate.</p> <p>Based on the evidence obtained through the aforesaid procedures, we consider the intangible assets within the context of the individual and consolidated financial statements taken as a whole to be acceptable.</p>
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Tax, labor and contingent liabilities

See Notes 3.3.1(a) 4.11, 18, 19 and 22 to the individual and consolidated financial statements

Key audit matter	How the matter was addressed in our audit
<p>With the support of its legal advisers, the Company assessed potential labor, tax and contingent liabilities arising from the course of its operations.</p> <p>To determine the potential liabilities and measure the accounting impacts, the matters are assessed based on the assessments and judgments of the legal advisers, the nature and complexity of the issues and interpretations of the applicable legislation.</p> <p>Due to the use of significant judgment in assessing matters related to tax, labor and contingent liabilities used by the Company, or the possibility of changes in external conditions, including the positions of authorities, could significantly impact the disclosures and amounts recognized in the individual and consolidated financial statements, we consider this to be a key audit matter.</p>	<p>With the support of our tax specialists, our audit procedures in this area included, among others, assessing the criteria and judgment used by the Company to classify the risk of tax liabilities, including measuring the potential impacts to be recorded in the financial statements. We also obtained the assessments conducted by the Company's legal advisers through letters of confirmation, and legal opinions and reports, when applicable, for the tax, labor and other contingent liabilities.</p> <p>We also assessed whether the disclosures in the notes include all material matters.</p> <p>As a result of the procedures summarized above, we consider that the provisions and disclosures are acceptable within the context of the individual and consolidated financial statements taken as a whole.</p>

Other matters - Statements of value added

The parent company and consolidated statements of added value (DVA) for the year ended December 31, 2020, prepared under the responsibility of the Company's management, and presented as supplementary information for IFRS purposes, were subject to audit procedures carried out jointly with the audit of the Company's financial statements. For the purposes of forming our opinion, we assess whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria set forth in Technical Pronouncement CPC 09 - Statement of Added Value. In our opinion, these statements of value added have been adequately prepared in all material respects in accordance with the criteria set forth in the aforementioned Technical Pronouncement, and are consistent with parent company and consolidated financial statements taken as whole.

Responsibilities of Management and Those Charged with Governance for the parent company and consolidated financial statements

Management is responsible for the preparation and fair presentation of the parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the parent company and consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the parent company and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the parent company and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company and consolidated financial statements, including the disclosures, and whether the parent company and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Joinville, February 2, 2021

KPMG Auditores Independentes
CRC SC-000071/F-8



Felipe Brutti da Silva
Accountant CRC RS-083891/O-0 T-SC

CM HOSPITALAR S.A. AND SUBSIDIARIES

Statements of financial position

December 31, 2020 and 2019

(In thousands of reais)

Assets	Note	Parent company		Consolidated	
		2020	2019	2020	2019
Current					
Cash and cash equivalents	6	569,121	111,042	937,334	273,685
Short-term investments	7	97,500	5,044	97,500	5,044
Trade and other receivables	8	525,137	424,481	978,549	515,383
Inventory	9	332,006	253,837	715,925	378,900
Recoverable taxes	10	22,962	17,321	80,380	42,052
Right to reimbursement	21	1,998	27,829	1,998	27,829
Dividends receivable	21	27,944	21,080	-	-
Derivative financial instruments	5.3	-	-	11,737	723
Other assets	11	8,646	3,758	46,423	29,716
Related-party transactions	21	134,250	-	449	-
Total current assets		1,719,564	864,392	2,870,295	1,273,332
Noncurrent					
Trade and other receivables	8	867	1,212	9,155	1,222
Recoverable taxes	10	395	203	152,433	4,357
Judicial deposits	22	5	60	280,589	5,309
Deferred tax assets	20.a	-	-	38,927	37,734
Right to reimbursement	21	1,093	15,879	1,093	15,879
Other assets	11	84	3,508	891	3,508
Investments	12	1,182,410	600,335	4,397	-
Property, plant and equipment	13	36,063	35,460	223,035	131,585
Intangible assets	14	13,525	5,255	880,391	498,198
Right-of-use asset	15.a	49,468	45,834	134,013	119,819
Total non-current assets		1,283,908	707,746	1,724,924	817,611
Total assets		3,003,472	1,572,138	4,595,219	2,090,943

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

Liabilities	Note	Parent company		Consolidated	
		2020	2019	2020	2019
Current					
Trade payables	16	576,193	399,145	955,882	477,951
Trade payables – reverse factoring	16.1	17,265	-	64,763	9,891
Loans and borrowings	17.a	219,947	3,422	599,285	84,055
Debentures	17.b	135,175	68,806	135,175	140,534
Payroll and related charges payable	18	43,963	51,473	77,494	72,054
Taxes payable	19	33,458	40,265	60,327	48,059
Taxes payable – financed		207	-	2,873	-
Customer advances	11	3,015	729	14,925	729
Dividends payable	21	37,753	8,856	49,081	8,856
Lease liability	15.b	13,993	4,529	50,785	29,342
Provision for tax, labor and civil risks	22	2,513	-	2,551	-
Other liabilities		7,764	4,124	51,459	15,023
Total current liabilities		1,091,246	581,349	2,064,600	886,494
Noncurrent					
Loans and borrowings	17.a	20,083	21,889	164,362	159,774
Debentures	17.b	247,011	310,133	247,011	310,133
Obligations for investment acquisitions	4.2.5	362,231	179,818	362,231	179,818
Taxes payable	19	-	1,148	405	2,389
Taxes payable – financed		874	-	12,704	-
Deferred taxes	20.b	29,271	41,875	29,271	41,875
Provision for tax, civil and labor risks	22	8,325	9,333	336,290	28,149
Lease liability	15.b	41,258	44,439	101,125	99,799
Other liabilities	10	2,145	301	76,192	659
Total non-current liabilities		711,198	608,936	1,329,591	822,596
Equity					
Share capital	23	979,957	253,629	979,957	253,629
Capital reserves		(30,963)	(30,963)	(30,963)	(30,963)
Profit reserve		252,034	159,187	252,034	159,187
Total equity		1,201,028	381,853	1,201,028	381,853
Total liabilities		3,003,472	1,572,138	4,595,219	2,090,943

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

CM HOSPITALAR S.A. AND SUBSIDIARIES
 Statements of profit or loss
 Years ended December 31, 2020 and 2019
(In thousands of reais, except for earnings per share)

	Note	Parent company		Consolidated	
		2020	2019	2020	2019
Revenue	25	2,681,129	2,331,274	4,413,421	3,003,198
Cost of goods and products sold	26	(2,397,022)	(2,073,408)	(3,774,950)	(2,533,751)
Gross profit		284,107	257,866	638,471	469,447
Sales expenses	26	(59,991)	(55,839)	(162,338)	(137,567)
Impairment loss on trade receivables	5.1.d	(2,124)	(1,905)	(2,216)	(1,982)
General and administrative expenses	26	(165,061)	(133,444)	(258,004)	(177,451)
Share of profit (loss) of equity-accounted investees	12	106,260	32,294	(251)	-
Other income	27	7,363	18,596	96,905	27,914
Other expenses	27	(24,904)	(85,767)	(115,546)	(118,459)
Net income before net financial costs and taxes		145,650	31,802	197,021	61,902
Finance income	28	14,200	8,452	344,009	42,146
Finance costs	28	(40,213)	(56,991)	(351,445)	(121,405)
		(26,013)	(48,539)	(7,436)	(79,259)
Net income before taxes		119,637	(16,737)	189,585	(17,357)
Current income and social contribution tax	20	(10,475)	(7,696)	(38,845)	(25,565)
Deferred income and social contribution tax	20	12,604	60,180	(28,974)	78,669
Net income for the year		121,766	35,747	121,766	35,747
Profit attributable to:					
Owners of the company				121,766	35,747
Noncontrolling shareholders				-	-
				121,766	35,747
Earnings per share:					
Basic earnings per share (in R\$)	24			0.54	0.23
Diluted earnings per share (in R\$)	24			0.54	0.23

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

CM HOSPITALAR S.A. AND SUBSIDIARIES

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

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net income for the year	121,766	35,747	121,766	35,747
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	<u>121,766</u>	<u>35,747</u>	<u>121,766</u>	<u>35,747</u>

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

CM HOSPITALAR S.A. AND SUBSIDIARIES

Statements of changes in equity
 Financial years ended December 31
 (In thousands of reals)

	Note	Share capital	Parent and consolidated Profit reserve		Capital reserve	Retained earnings	Total
			Legal	Retention			
Balances at December 31, 2018		253,629	11,700	120,230	(30,963)	-	354,596
Net income for the year		-	-	-	-	35,747	35,747
Profit distribution:							
Recognition of the legal reserve		-	1,787	-	-	(1,787)	-
Dividends		-	-	-	-	(8,490)	(8,490)
Profit retention reserve		-	-	25,470	-	(25,470)	-
Balances at December 31, 2019		253,629	13,487	145,700	(30,963)	-	381,853
Capital increase	23.a	726,328	-	-	-	-	726,328
Net income for the year		-	-	-	-	121,766	121,766
Profit distribution:							
Recognition of the legal reserve	23.b	-	6,088	-	-	(6,088)	-
Dividends	23.c	-	-	-	-	(28,919)	(28,919)
Profit retention reserve		-	-	86,759	-	(86,759)	-
Balances at December 31, 2020		979,957	19,575	232,459	(30,963)	-	1,201,028

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

CM HOSPITALAR S.A. AND SUBSIDIARIES
Statements of cash flows - indirect method
December 31, 2020 and 2019
(In thousands of reais)

	Note	Parent company		Consolidated	
		2020	2019	2020	2019
Cash flows from operating activities					
Net income for the year		121,766	35,747	121,766	35,747
Adjustments for:					
Income taxes		(2,129)	(52,484)	67,819	(53,104)
Depreciation and amortization	26	12,763	17,132	82,265	55,021
Gain (loss) on sale of property, plant and equipment and intangible		(1,730)	3,334	4,404	8,043
Impairment loss on trade receivables	26	2,124	1,904	2,216	5,126
Interest of investment acquisitions	4.2.5	6,518	9,695	6,518	9,695
Interest and exchange variance, net	28	32,269	35,719	88,262	59,011
Interest on lease liabilities	28	4,043	4,052	9,852	10,331
Reversal of rights to reimbursement, net of provisions		14,491	59,070	14,491	59,070
Provision for contingencies	27				
Provision for contingencies	27	1,240	(538)	8,414	6,491
Derivative financial instruments	28	(5)	961	(29,340)	449
Share of profit (loss) of equity-accounted investees	12	(106,260)	(32,294)	251	-
Gain on tax lawsuits	10	-	-	(146,992)	-
Contractual obligation	10	-	-	73,891	-
Provision for inventory losses	9	4,000	221	5,494	208
		89,090	82,519	309,311	196,088
Changes in assets and liabilities					
Trade and other receivables		(102,435)	(47,223)	(159,131)	(60,790)
Inventory		(82,169)	7,043	(136,409)	(2,253)
Recoverable taxes		(5,833)	(10,935)	(9,208)	(2,326)
Judicial deposits		55		(420)	
Properties held for sale		-	-	-	57,835
Other accounts receivable		1,465	(693)	56,382	(20,200)
Trade payables		187,463	49,432	185,860	50,407
Payroll and labor obligations		1,032	5,273	(14,024)	7,619
Tax obligations		(170)	3,217	(13,090)	6,332
Customer advances		2,286	258	14,196	(24,742)
Other liabilities		(1,261)	1,478	10,526	9,245
		89,523	90,369	243,993	217,215
Cash produced by (used in) operating activities					
Interest paid on loans and debentures	17	(19,652)	(7,484)	(51,098)	(29,034)
Income and social contribution taxes paid		(357)	(7,696)	(7,284)	(25,565)
Cash flows from operating activities		69,514	75,189	185,611	162,216
Cash flows provided by investment activities					
Acquisition of investments, net of cash	4.2.5	(322,254)	-	(263,888)	-
Acquisition of property, plant and equipment	13	(6,439)	(4,467)	(49,358)	(20,530)
Acquisition of intangible assets	14	(11,044)	(3,075)	(4,026)	(5,523)
Receipt on PP&E sale		1,977	-	3,324	-
Dividends received	21	21,080	-	-	-
Dividends paid		(22)	-	-	-
Short-term investments		(92,456)	10,384	(92,456)	7,364
Withdraw (deposits) of restricted securities		-	-	(2)	-
Cash flow (used in) provided by investment activities		(409,158)	2,842	(406,406)	(18,689)
Cash flows from financing activities					
Proceeds from issue of share capital	23	725,833	-	725,833	-
Loans and borrowing obtained	17	214,825	17,000	505,844	91,633
Debenture issue	17	65,000	-	65,000	-
Repayment of loans and borrowings	17	(3,890)	(32,059)	(261,988)	(115,476)
Payment of debentures	17	(64,000)	(41,783)	(120,000)	(113,783)
Payment of lease liabilities	15	(5,795)	(5,041)	(29,796)	(24,433)
Loan awarded to subsidiaries/investees	21	(134,250)	-	(449)	-
Net cash flow (used in) provided by financing activities		797,723	(61,883)	884,444	(162,060)
Net change in cash and cash equivalents		458,079	16,148	663,649	(18,133)
Cash and cash equivalents at start of year		111,042	94,894	273,685	291,818
Cash and cash equivalents at the end of the year		569,121	111,042	937,334	273,685
Net change in cash and cash equivalents		458,079	16,148	663,649	(18,133)

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

CM HOSPITALAR S.A. AND SUBSIDIARIES

Statements of added value
December 31, 2020 and 2019
(In thousands of reais)

	Note	Parent company		Consolidated	
		2020	2019	2020	2019
Revenue		3,138,296	2,747,136	5,186,895	3,581,473
Sales of merchandise, goods and services		3,139,430	2,748,943	5,187,165	3,583,364
Other income		990	98	1,946	91
Impairment loss on trade receivables	8	(2,124)	(1,905)	(2,216)	(1,982)
Inputs acquired from third parties		(2,729,767)	(2,383,365)	(4,285,806)	(2,926,612)
Cost of goods, merchandise and services sold		(2,611,657)	(2,245,751)	(3,970,628)	(2,871,003)
Materials, energy, third-party services and others		(118,110)	(137,614)	(315,178)	(55,609)
Gross value added		408,529	363,771	901,089	654,861
Depreciation and amortization	26	(12,763)	(17,132)	(82,265)	(55,021)
Net added value produced by the entity		395,766	346,635	818,824	599,840
Transferred added value		120,460	40,747	343,758	42,146
Share of profit (loss) of equity-accounted investees	12	106,260	32,294	(251)	-
Finance income	28	14,200	8,452	344,009	42,146
Others		-	-	-	-
Total value added to distribute		516,226	387,381	1,162,582	641,986
Distribution of value added		516,226	387,381	1,162,582	641,986
Personnel		88,560	81,925	197,626	161,608
Direct compensation		62,954	60,804	140,295	121,640
Benefits		20,004	15,597	44,963	29,458
F.G.T.S		5,602	5,524	12,368	10,510
Taxes, fees and contributions		262,214	210,716	486,063	317,856
Federal		17,153	(34,182)	113,659	18,331
State		242,262	244,023	366,471	297,048
Municipal		2,799	875	5,933	2,477
Return on debt capital		43,686	58,993	357,127	126,775
Interest		39,003	56,008	343,778	117,910
Rentals		3,647	1,926	10,350	5,731
Other		1,032	1,059	3,053	3,134
Return on equity capital		121,766	35,747	121,766	35,747
Dividends		28,919	8,490	28,919	8,490
Retained earnings		92,847	27,257	92,847	27,257

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

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1. Reporting entity

CM Hospitalar S.A. (“Company” or “Parent Company”) was founded on August 16, 2010 as CM Hospitalar Ltda. and transformed into a closely held company on December 7, 2015. Its registered office is in the municipality of Ribeirão Preto, São Paulo state, and it has branches in the cities of Londrina (Paraná), Catalão (Goiás), Marília (São Paulo), Cajamar (São Paulo), Curitiba (Paraná), São Paulo (São Paulo), Brasília (Distrito Federal), Jaboatão dos Guararapes (Pernambuco) and Recife (Pernambuco). The Company's financial statements embrace the Company and its subsidiaries (jointly referred to as the “Group”, “Consolidated” or “Mafra Group”).

The Group is primarily engaged in exports, imports, manufacturing, reselling, storage, distribution and shipping of medicines, including prescription medicines; general wholesaling of health products; and investment activities. The Group has a country-wide presence in Brazil and extensive commercial and logistics capabilities. The Group's long-term plans include acquiring companies in its industry and strengthening its commercial capabilities throughout Brazil, expanding its market share in the distribution of drugs and medical supplies.

In line with its medium- and long-term strategy, in financial year 2020 the Group completed six acquisitions as described in notes 2 and 4.2.

Coronavirus (COVID-19)

Since the outbreak of COVID-19, Mafra Group has been wholeheartedly dedicated to supporting the healthcare effort around combating the disease. We continued to deliver on our mission as a provider of medical supplies: we expanded the volumes of products purchased for distribution—including masks, gloves, aprons and alcohol-based hand sanitizers—and ramped up production of nutrition containers, feeding sets, feeding tubes, catheters, gauze pads, cotton, gauze sponges and other products.

As it celebrated its 85th anniversary, our subsidiary Cremer, a manufacturer of medical supplies, operated at full capacity throughout the pandemic to meet the resulting spike in demand.

Since the onset of the pandemic, our manufacturing sites and distribution centers have operated around the clock and have received new investments to maximize production and distribution capacity.

Throughout this period, our more than 3,500 employees have been assured adequate protection as part of our belief that every life counts. First and foremost we worked incessantly to protect the health and well-being of our employees, and implemented stringent hygiene and prevention protocols in accordance with WHO recommendations.

The novel coronavirus crisis has naturally created many uncertainties. The Group has taken steps to prevent risks related to the pandemic and has continuously monitored developments and associated risks.

Impact on Group activities

As previously described, our operations have continued as normal throughout the crisis. There have been no shortages or disruptions in the supply of inputs and raw materials, and segment sales volumes and operating margins have not been significantly affected. We have postponed several investments and payments of certain taxes as permitted by the Federal Government to maintain a strong cash position. Management believes the Group's current liquidity levels are adequate to meet demand from our activities.

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Key risk factors stemming from the pandemic

Management believes the most significant risks to our business from the pandemic are reduced liquidity due to a credit crunch or late payments by customers; a more severe lockdown; and impairment of assets as a result of the above factors. At the reporting date, none of these potential risks had materialized.

Management is alert to new developments and is taking steps to address the crisis. As of the date when these financial statements were authorized for issue, the Company and its subsidiaries were operating normally without any disruptions or shutdowns.

The Company has concluded on the appropriateness of its use of the going concern basis of accounting, as follows. As of the reporting date the pandemic had not caused disruptions in our operations or any potential risk to our continuing as a going concern.

2. List of subsidiaries

In addition to the Company, the Group's consolidated financial statements include:

Subsidiary	Core activity	% interest			
		2020		2019	
		Direct	Indirect	Direct	Indirect
Cremer S.A.	Manufacture of hospital products	100.00	-	100.00	-
Cremer Administradora de Bens Ltda.	Asset manager	-	100.00	-	100.00
Health Logística Hospitalar S.A.	Shipping of medical and hospital products	100.00	-	-	-
Tecnocold Locação de Espaços e Distribuição de Produtos Refrigerados Ltda.	Wholesale of medicines and drugs for human use	99.99	-	99.99	-
Byogene Com. De Prod. Para Laboratório Clínico e Hospitalar Ltda.	Distribution of reagents and materials for laboratories	100.00	-	-	-
Biogenetix Importação e Exportação Ltda.	Distribution of reagents and materials for laboratories	100.00	-	-	-
Vitalab Comércio de Produtos para Laboratórios Ltda.	Distribution of reagents and materials for laboratories	100.00	-	-	-
Expressa Distribuidora de Medicamentos Ltda.	Distribution of medication	100.00	-	-	-
Flexicotoon Ind. e Com. de Produtos de Higiene Pessoal S.A.	Manufacturing of personal hygiene products	100.00	-	-	-
Diagnóstica Serviços Ltda.	Trading and provision of technology services	100.00	-	-	-

All subsidiaries are registered in Brazil.

Description of subsidiaries:

Cremer S.A. (“Cremer”)

Cremer S.A., headquartered in the city of Blumenau, Santa Catarina state, is a supplier of medical supplies including first aid, surgical, therapy and hygiene products. The Company has manufacturing sites in Blumenau (textiles, adhesives and plastics), São Paulo and Minas Gerais (plastic products), and five distribution centers throughout Brazil.

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Cremer Administradora de Bens Ltda. (“CAB”)

Cremer Administradora de Bens Ltda., headquartered in the city of Blumenau, Santa Catarina state, is engaged in the management (lease and sale) of company assets.

Tecnocold Locação de Espaços e Distribuição de Produtos Refrigerados Ltda.

Tecnocold Locação de Espaços e Distribuição de Produtos Refrigerados Ltda., headquartered in the city of São Paulo, São Paulo state, is engaged in the wholesale of medicines and drugs for human use and retailing of pharmaceutical products.

Byogene Comércio de Produtos para Laboratório Clínico e Hospitalar Ltda. (“Byogene”)

On April 30, 2020 the Company acquired a controlling interest in Byogene Comércio de Produtos para Laboratório Clínico e Hospitalar Ltda., a company headquartered in the city of Ribeirão Pires, São Paulo state. The company is engaged in the distribution of reagents and materials for diagnostic testing laboratories.

Biogenetix Importação e Exportação Ltda. (“Biogenetix”)

On April 30, 2020 the Company acquired a controlling interest in Biogenetix Importação e Exportação Ltda., a company with headquarters in the city of Campinas, state of São Paulo. The company is engaged in the distribution of reagents and materials for diagnostic testing laboratories.

Vitalab Comércio de Produtos para Laboratórios Ltda. (“Vitalab”)

On April 30, 2020 the Company acquired a controlling interest in Vitalab Comércio de Produtos para Laboratórios Ltda., a company headquartered in the city of Brasília, Federal District. The company is engaged in the distribution of reagents and materials for diagnostic testing laboratories.

Expressa Distribuidora de Medicamentos Ltda. (“Expressa”)

On June 1, 2020 the Company acquired a controlling interest in Distribuidora de Medicamentos Ltda., a company headquartered in the city of Brasília, Federal District. The company is engaged in the distribution of medicines to hospitals and clinics.

Flexicotton Indústria e Comércio de Produtos de Higiene Pessoal S.A. (“Flexicotton”)

On October 2, 2020 the Company acquired a controlling interest in Flexicotton Indústria e Comércio de Produtos de Higiene Pessoal S.A., a company headquartered in the city of Santo Amaro da Imperatriz, Santa Catarina state. The company is engaged in the manufacture of personal hygiene consumer products including cotton and cotton swabs.

Diagnóstica Serviços Ltda. (“Diagnóstica”)

On February 11, 2020 the Company acquired a controlling interest in the company, having its registered office in Ribeirão Pires, São Paulo state. The acquiree is engaged in the reselling and servicing of, and provision of scientific consulting services for, clinical and hospital laboratory equipment and surgical, dental and laboratory supplies in general.

Health Logística Hospitalar S.A. (“Health”)

Founded on April 2, 2013, with its registered office in the city of Ribeirão Preto, state of São Paulo, it operates in municipal, intercity and interstate cargo transportation in general, mainly with the transportation of medical and hospital cargo.

3. Basis of preparation

3.1. Basis of preparation and presentation

The individual and consolidated financial statements have been prepared in accordance with accounting practices adopted in Brazil (BRGAAP), including the pronouncements issued by the Accounting Pronouncements Committee (CPC) and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). They are being presented in accordance with the standards issued by the Brazilian Securities Commission (CVM) and evidence all material information of relevance to the financial statements, and that alone, which is consistent with that used by Management.

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The Executive Board approved the issuance of these financial statements on February 2, 2021.

The financial statements have been prepared on the historical cost basis, with the exception of derivative financial instruments, which have been adjusted to reflect measurement at fair value.

3.2. Functional currency and reporting currency

These financial statements are presented in the Brazilian Real, which is the Company's functional currency. All balances have been rounded to the nearest thousand, except where specified otherwise.

(a) Foreign-currency transactions and balances

Foreign-currency transactions are translated into the functional currency at the exchange rates prevailing on the transaction dates. Exchange gains and losses resulting from the settlement of these transactions and the translation of the monetary assets and liabilities denominated in foreign currency at the exchange rates at the end of the year are recognized in profit or loss. Exchange gains and losses are stated in the income statement as financial revenue or expenses.

3.3. Use of judgments and estimates

The preparation of the Group's individual and consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, as well as the respective disclosures and disclosures of contingent liabilities.

The individual and consolidated financial statements have been prepared in accordance with various valuation techniques used in the accounting estimates. The accounting estimates used to prepare the financial statements were based on objective and subjective factors, according to management's judgment to determine the adequate amount to be recorded in these financial statements.

Settlement of transactions involving these estimates may result in amounts different from those recorded in the financial statements. The Group reviews its estimates on an ongoing basis. Critical assumptions regarding sources of uncertainty in future estimates and other major sources of estimation uncertainty as at the reporting date, involving a significant risk that an adjustment to the carrying amount of assets and liabilities may be required in the next financial year are presented below:

3.3.1 Uncertainty around assumptions and estimates

Based on assumptions, the Company and its subsidiaries make forward-looking estimates. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are addressed below.

(a) Note 22 - Provisions for tax, civil and labor risks

The Group recognizes a provision for tax, civil and labor proceedings. The chance of loss is rated according to the evidence available, the hierarchy of law, available case law, recent court decisions and their relevance in the legal framework, in addition to independent legal advisors' opinions. Provisions are reviewed and adjusted to reflect changes in circumstances, such as the applicable statute of limitations, the conclusions from tax audits or additional exposure identified as a result of new issues or court decisions.

(b) Note 20 - Deferred tax assets

Deferred tax assets are recognized for all tax losses and negative bases not used to the extent it is probable that there will be taxable earnings available to enable said losses and negative bases to be offset. Considerable judgment is required from Management to determine the amount of deferred income tax assets that can be recognized, based on the probable term

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and future taxable earnings, together with future tax planning strategies. Accumulated tax losses can be offset up to a limit of 30% of the taxable earnings generated in a given financial year.

(c) Note 8 - Allowance for expected credit losses

The allowance was established based on outstanding balances of certain customers that in management's opinion pose a greater risk of default, based on expected credit losses and individual analysis of them. The expense incurred on the allowance for doubtful accounts is recorded in profit or loss in its entirety. When the allowance is not expected to be recovered, the amounts credited to the item are realized against the definitive write-off of the receivable.

(d) Note 16 - Leases - Estimated incremental loan rate

The Group is unable to promptly determine the interest rate implicit to the lease, and therefore considers the nominal incremental rate on loans to measure its lease liabilities. The incremental rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. This assessment requires Management to use estimates when there are no observable rates available (such as subsidiaries that do not carry out financing operations) or when they need to be adjusted to reflect the terms and conditions of a lease.

(e) Notes 13 and 14 - Nonfinancial asset impairment

Impairment losses are recorded when the carrying amount of an asset or its cash generating unit exceeds its recoverable value, whichever is the higher between the net fair value of selling costs and its value in use. The value in use is calculated based on the discounted cash flow method. The cash flow is derived from the budget for the next five years and does not include reorganization activities which the Group has not yet committed to or material future investments that will enhance the underlying assets of the cash generating units, subject to the test. The recoverable value is sensitive to the discount rate used in the discounted cash flow method and the future expected cash receipts and the growth rate used for extrapolation purposes. The key inputs used to determine the recoverable value of the various cash-generating units are detailed in note 14.

3.3.2 Judgments

(b) Note 15 - Leases - Determination of lease terms

The Group determines the term of a lease as the non-cancellable period of the lease, together with both: (a) periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option, and (b) periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option. The Group has several lease agreements containing extension and termination options. The Group uses its judgment to assess whether it is reasonably certain to exercise options to extend or terminate leases. In making that assessment, it considers all relevant facts and circumstances that create an economic incentive to exercise the option to extend or terminate the lease. Following initial measurement, the Group reassesses the lease term upon the occurrence of either a significant event or a significant change in circumstances that is within the Group's control and affects whether it is reasonably certain to exercise an extension or termination option (e.g. significant improvements or customizations of the underlying asset).

3.3.3 Fair value measurement

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

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 2 fair values, and reports directly to the chief financial officer.

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

Significant valuation issues are reported to the Group's Board of Directors.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market variables (unobservable inputs).

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 4.3 - Derivative financial instruments;
- Note 4.2 - Acquisition of a business.

3.4. Changes in significant accounting policies

The following new and amended standards and interpretations have been issued, effective from January 01, 2020:

(a) Changes to IFRS3 / CPC 15 (R1): Business definition

In October 2018 the IASB issued alterations to the business definition in IFRS 3, with these alterations reflected in review 14 of the CPC, altering CPC 15 (R1) to help entities determine whether an acquired set of activities and assets constitutes a business or not. They clarify the minimum requisites for a company, eliminate the assessment as to whether market participants can substitute any absent element, include guidelines to help entities assess whether an acquired process is substantive, outline better business and products definitions and introduce an optional fair value concentration test. New illustrative cases have been supplied along with the alterations. The introduction of this standard did not have an impact on the Group's individual or consolidated financial statements.

(b) Changes to IAS 1 and IAS 8 / CPC 26 (R1) and CPC 23: Definition of material omission

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which were reflected in CPC revision 14, altering CPC 26 (R1) and CPC 23 to align the definition omitted in all standards, where the information is material if its omission, misstatement or obscuration could reasonably influence decisions that the main users of the financial statements take based on these financial statements, which provide financial information about the entity's specific report. The introduction of this standard did not have an impact on the Group's individual or consolidated financial statements.

(c) Changes to IFRS 16 / CPC06 (R2): Leasing

In May 2020 CPC 06(R2) – Leases (IFRS 16 - Leases) was revised by the Accounting Pronouncements Committee (International Accounting Standards Board) to permit a change to the conditions of a lease contract due to the Covid-19 pandemic, which the lessor may elect not to consider as a modification to the lease contract. The Company and its subsidiaries did not apply the permitted exemption.

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A number of new standards (or alterations to existing standards) came into force on January 1, 2020. None of these standards or alterations had a material effect on the Group's financial statements upon their introduction.

4. Description of significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these financial statements, unless stated otherwise.

4.1. Basis of consolidation

The Group controls an entity if and only if it has: (i) decision-making power over the entity (i.e., existing rights guaranteeing it the current capacity to manage the investor's respective activities); (ii) the exposure or right to variable returns deriving from its involvement in the entity; and (iii) the capacity to use its power over the entity to affect the value of its returns.

(a) Subsidiaries

The Group assesses whether or not it exercises the control of an investee if facts and circumstances indicate changes in one or more of three of the control elements mentioned above. A subsidiary is consolidated when the Group obtains control over it and ends when the Group no longer exercises this control.

Assets, liabilities and income of a subsidiary acquired or sold during the year are included in the consolidated financial statements as from the date on which the Group exercises control until the date the Group no longer exercises control over the subsidiary. The result and each component of other comprehensive income is attributed to the controlling shareholders and noncontrolling shareholders of the Group, even if this results in a loss for the noncontrolling shareholders.

When necessary, adjustments are made to the subsidiaries' financial statements to align their accounting policies with the Group's accounting policies. All assets and liabilities, results, revenue, expenses and cash flows of the same group related to transactions between Group members, are completely eliminated upon consolidation.

The change in the subsidiary's equity interest that does not result in control being lost is recorded as an equity transaction. The subsidiaries' financial information is recognized in the parent company's individual financial statements by the equity method of accounting.

(b) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains deriving from transactions with investees recorded by the equity income method are eliminated against the investment in proportion to the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. Capital expenditure is eliminated in proportion to the relevant assets. Recognition of losses of subsidiaries attributed to the parent company exceeding the investment up to the limit of the investment, except when the parent company has the obligation or intention to cover these losses.

(c) Investments in entities under the equity method

The Company's investments in entities accounted under equity method include its interest in affiliates.

Affiliates are those entities in which the Company, directly or indirectly, has significant influence, but not joint control over financial and operating policies. To be classified as a jointly controlled entity, there must be a contractual agreement that allows the Company to share control of the entity and gives the Company the right of the net assets of the jointly controlled entity, and not the right to its specific assets and liabilities.

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4.2. Business combination

Business combinations are accounted for using the acquisition method – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises in the transactions is tested annually for impairment at cash generating unit level, which does not exceed the segment. A gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are recorded in profit and loss as they are incurred, except for costs related to issued debt or equity instruments.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

As part of the Group's mid- and long-term planning, in 2020 it acquired six companies, as shown in note 2.

4.2.1 Identifiable assets acquired and liabilities assumed

Allocation of fair value to identifiable assets and liabilities undertaken

	Biogenetix	Byogene	Vitalab	Expressa	Flexicotton
	4/30/2020	4/30/2020	4/30/2020	06/01/2020	10/02/2020
Net asset at date of acquisition	(675)	(5,759)	408	(118,711)	(45,241)
Fair value of identified assets					
Property, plant and equipment	10,148	7,127	917	7,378	43,719
Inventories	4,230	5,595	1,256	183,241	13,155
Brands	599	968	265	2,404	1,298
Non-compete agreements	358	703	1,144	5,485	6,133
Customer lists	6,060	6,874	5,946	74,318	21,215
Total net assets at fair value	20,720	15,508	9,936	154,115	40,279

Goodwill

	Biogenetix	Byogene	Vitalab	Expressa	Flexicotton	Total
Portion acquired	100.00%	100.00%	100.00%	100.00%	100.00%	
Consideration transferred	26,306	22,638	21,780	335,845	50,000	456,569
Contingent consideration	-	-	-	-	41,580	41,580
Fair value of identifiable net assets	20,720	15,508	9,936	154,115	40,279	240,558
Goodwill	5,586	7,130	11,844	181,730	51,301	257,591

The current tax law allow the deductibility of the acquisition date goodwill and fair value of net assets acquired when a

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non-substantive action is taken after acquisition by the Company (i.e. when the Company merges or spin off the businesses acquired) and therefore the tax and accounting basis of the net assets acquired are the same as of the acquisition date. In this regard, for the acquired businesses where the Company considers that it will with certainty merge the acquiree with the acquirer or another subsidiary and it will be entitled to the deductibility of the amortization or depreciation of the net assets acquired, no deferred income tax was recorded in these financial statements at acquisition date related to subsidiaries mentioned below.

Goodwill is recognized for the workforce of acquired companies and especially for the synergies expected to be gained following the integration of these acquisitions into the Company and its subsidiaries' operations, considering that the acquired businesses are mutually supplementary to the Group's existing businesses. In addition, Management believes the acquisitions will support market-share growth given the added market reach. The Company's goodwill in the amount of R\$ 257,591 is treated as not deductible for tax purpose, until a probable future merger transaction.

(a) Biogenetix Importação e Exportação Ltda. ("Biogenetix")

On April 30, 2020 CM Hospitalar S.A. acquired 100% of the capital of Biogenetix Importação e Exportação Ltda. ("Biogenetix"), consisting of 8,516,460 shares. Biogenetix is an authorized distributor of Roche with 10 years of operation in the state of São Paulo. The acquisition price was R\$ 26,306 to be paid as follows: (i) R\$ 23,786 paid on the acquisition date to the selling shareholders; (ii) R\$ 1,250 paid as a price adjustment; (iii) R\$ 1,270 as a withheld portion, which will be released upon performance of contractual clauses established by the parties over the term of 5 years, to be updated based on the variance of the CDI price index between the closing date and the date payment effectively takes place. The acquisition aims to expand the Company's footprint and reach in the distribution of medical equipment and inputs in south-east Brazil, which is where Biogenetix concentrates its operations.

(b) Byogene – Comércio de Produtos para Laboratório Clínico e Hospitalar Ltda. ("Byogene")

On April 30, 2020 CM Hospitalar S.A. acquired 100% of the capital of Byogene – Comércio de Produtos para Laboratório Clínico e Hospitalar Ltda. ("Byogene"), an authorized distributor of Roche with 25 years of operation in greater São Paulo, Alto do Tiete, Baixada Santista and Sorocaba. All 7,500,000 shares were acquired for the price of R\$ 22,638, to be paid in as follows: (i) R\$ 20,669 paid on the acquisition date to the selling shareholders; (ii) R\$ 500 paid as a price adjustment; (iii) R\$ 1,469 as a withheld portion, which can be released in part or in full upon performance of clauses in the purchase and sale agreement. The acquisition aims to expand the Company's footprint and reach in the distribution of medical equipment and inputs in south-east Brazil, which is where Byogene concentrates its operations.

(c) Vitalab – Comércio de Produtos para Laboratórios Ltda. ("Vitalab")

On April 30, 2020 CM Hospitalar S.A. acquired 100% of the capital (2,300,000 shares) of Vitalab – Comércio de Produtos para Laboratórios Ltda. ("Vitalab"), an authorized distributor of Roche with 18 years of operation in Distrito Federal. The acquisition price was R\$ 21,780 to be paid as follows: (i) R\$ 19,431 paid on the acquisition date to the selling shareholders; (ii) R\$ 333 paid as a deferred portion according to the schedule made by the parties; (iii) R\$ 2,016 as a withheld portion, which can be released in part or in full in the event of a price adjustment. The acquisition was made to ramp up the Company's capacity to distribute medical equipment and inputs in Midwest Brazil.

(d) Expressa Distribuidora de Medicamentos Ltda. ("Expressa")

On June 01, 2020 CM Hospitalar S.A. acquired the entire share capital (47,451,690 shares) of Expressa Distribuidora de Medicamentos Ltda. ("Expressa"), a medication distribution firm operating for 34 years, based in the city of Brasília, Distrito Federal. The acquisition price was R\$ 335,845 to be paid as follows: (i) R\$ 201,856 paid on the acquisition date to the selling shareholders; (ii) R\$ 4,429 payable upon completion of the due diligence; (iii) R\$ 120,000 as a fixed withheld portion to be paid over six years based on the clauses in the purchase and sale agreement; and (iv) R\$ 9,560 as contractual liabilities undertaken in respect of trade receivables that will be reimbursed to the sellers. Following the acquisition the Company expects to reinforce its medication distribution capacity in Midwest Brazil.

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(e) Flexicotton Indústria e Comércio de Produtos de Higiene Pessoal S.A. (“Flexicotton”)

On October 02, 2020 CM Hospitalar S.A. acquired the entire share capital (526,316 shares) of Flexicotton Indústria e Comércio de Produtos de Higiene Pessoal S.A. (“Flexicotton”), a company that provides personal hygiene products based in Santo Amaro da Imperatriz, in greater Florianópolis (SC). The price paid was R\$ 91,580, comprised as follows:

- (i) R\$ 50,000, paid on the acquisition date to the selling shareholders;
- (ii) Contingent portion contractually referred to as the “Additional Acquisition Price”. This amount will be paid to the sellers based on the future earnings to be made during an “Accrual Period” established in the contract. The amount will be calculated as follows: “Additional Acquisition Price= (Adjusted EBITDA x 7.0) – Initial Acquisition Price – Net Debt + / - Working Capital Adjustment”. The fair value of the contingent consideration was determined by the weighted average of the probability of payments associated with each possible result (probability-weighted payout approach) and amounted to a contingent consideration of R\$ 41,580 at the acquisition date.

Flexicotton offers a list of healthcare products that complement those of its subsidiary Cremer, and is a material acquisition to increase the Group’s production capacity.

On February 11, 2020, the Company acquired the control of Diagnóstica Serviços Ltda. The acquisition price was R\$ 5 and the equity balances are considered immaterial by Management for disclosure purposes.

4.2.2 Fair value measurement

The table below summarizes the allocation of identifiable assets acquired on the acquisition date, which were recorded by the Company at fair value.

	<u>Biogenetix</u>	<u>Byogene</u>	<u>Vitalab</u>	<u>Expressa</u>	<u>Flexicotton</u>	
	<u>4/30/2020</u>	<u>4/30/2020</u>	<u>4/30/2020</u>	<u>6/01/2020</u>	<u>10/02/2020</u>	<u>Total</u>
Property, plant and equipment	10,148	7,127	917	7,378	43,719	69,289
Inventories	4,230	5,595	1,256	183,241	13,155	207,477
Brands	599	968	265	2,404	1,298	5,534
Non-compete agreements	358	703	1,144	5,485	6,133	13,823
Customer lists	6,060	6,874	5,946	74,318	21,215	114,413
Definitive allocation of goodwill	5,586	7,130	11,844	181,730	51,301	257,591
Total	<u>26,981</u>	<u>28,397</u>	<u>21,372</u>	<u>454,556</u>	<u>136,821</u>	<u>668,127</u>

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Property, plant and equipment

The cost approach was used, based on the market comparison method: the valuation model considers market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

Inventory

Products in progress were valued at fair value based on the sale price less the sum of completion costs, selling costs and a reasonable profit allowance for the completing and selling effort of the acquiring entity based on profit for similar finished goods. Finished goods were valued at fair value based on the sale price less costs to sell.

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Intangible assets - Brand

The Relief-from-Royalty method was used to appraise the Brand. This valuation methodology presumes that a market participant will be obliged to pay the owner of the intangible asset in order to be legally entitled to use their brand. The company's financial performance improves because it owns these brands meaning it does not have to make such royalties payments. The main assumptions were: (i) projected revenue, based on the Company's business plan, adjusted to the market, (ii) a royalties rate consisting of comparable elements, (iii) WARA discount rate (Weighted Average Return on Assets) comprised of the WACC (Weighted Average Capital Cost) plus an adjustment to factor in said asset's risk, and (iv) useful life, given that all the brands were found to be definite-lived.

	<u>Biogenetix</u>	<u>Byogene</u>	<u>Vitalab</u>	<u>Expressa</u>	<u>Flexicotton</u>
Fair value of brand	599	968	265	2,404	1,298
Main assumptions:					
Royalties rate	0.5%	0.5%	0.5%	0.1%	0.9%
WARA	14.5%	14.5%	14.5%	12.56%	14.5%
Useful life	9.7 years	9.7 years	9.7 years	4.6 years	5 years

Intangible assets - Noncompetition agreement

The With and Without method was used to evaluate the noncompetition agreement. This methodology consists of calculating the incremental cash flow from a given asset. This methodology compares the (i) estimated cash flow from the asset to be valued against (ii) estimated cash flow without considering the use thereof, with the incremental flow discounted to present value. The main assumptions were: (i) projected revenue, based on the Company's business plan, adjusted to the market, (ii) percentage revenue exposed to the competition, (iii) Probability of competition, (iv) WARA discount rate comprised of the WACC plus an adjustment to factor in said asset's risk, and (v) useful life, based on the contractual noncompetition term established for each operation.

	<u>Biogenetix</u>	<u>Byogene</u>	<u>Vitalab</u>	<u>Expressa</u>	<u>Flexicotton</u>
Fair value of noncompete agreement	358	703	1,144	5,485	6,133
Main assumptions:					
Percentage revenue exposed to the competition	40%	73%	69%	29%	45%
Probability of competition	30%	30%	30%	30%	30%
WARA	14.5%	14.5%	14.5%	12.56%	14.5%
Useful life	5 years	5 years	5 years	5 years	5 years

Intangible asset - Customer list

The Multi-Period Excess Earnings Method – MPEEM was used, which aims to isolate the cash flows attributable to the intangible asset from the firm's overall cash flows. This method eliminates the use of contributing assets from the total net income, allocating the excess profit to the intangible assets under valuation. The main assumptions made were: (i) churn rate (ii) profitability attributed to the list (EBITDA of the acquired firm, returning the percentage of advertising and marketing expenses), (iii) contributory assets, (iv) WARA discount rate comprised of the WACC plus an adjustment to factor in said asset's risk, and (v) estimated useful life.

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	<u>Biogenetix</u>	<u>Byogene</u>	<u>Vitalab</u>	<u>Expressa</u>	<u>Flexicotton</u>
Fair value of customer list	6,060	6,874	5,946	74,318	21,215
Main assumptions:					
Churn rate	13.29%	18.28%	18.77%	17.97%	26.76%
Average profitability attributed	21.0%	18.9%	26.8%	5.8%	29.6%
Average contribution of contributory assets	8.0%	8.2%	6.9%	1.5%	8.4%
WARA	14.5%	14.5%	14.5%	12.56%	14.5%
Useful economic life	13.7 years	12.7 years	12.7 years	13.6 years	8.25 years

4.2.3 Information about operational performance

The amounts of net revenue and net income for the period of each acquiree since the acquisition date included in the consolidated statement of profit or loss are shown below:

	<u>Biogenetix</u>	<u>Byogene</u>	<u>Vitalab</u>	<u>Expressa</u>	<u>Flexicotton</u>	<u>Total</u>
Contributed revenue from acquisition date to December 31 2020	21,333	35,154	11,278	837,234	23,557	928,556
Contributed net income from acquisition date to December 31 2020	3,239	1,752	1,321	3,931	(2,453)	7,790

See below the revenue and net income of the combined acquirees for the year 2020 as though the acquisition date for all business combinations that occurred during 2020 had been January 1st, 2020:

	<u>Biogenetix</u>	<u>Byogene</u>	<u>Vitalab</u>	<u>Expressa</u>	<u>Flexicotton</u>	<u>CM Hospitalar and subsidiaries</u>	<u>Total</u>
Net revenue	30,626	48,362	16,473	1,465,123	78,819	3,484,865	5,124,268
Net income	4,346	364	3,493	(41,877)	3,957	113,976	84,259

In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1st, 2020.

4.2.4 Costs incurred

The Group incurred direct acquisition-related costs of R\$ 6,074 thousand on legal fees and due diligence costs. These costs have been included in Administrative expenses in profit or loss.

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4.2.5 Obligations for investment acquisitions

Obligation to acquired investments is composed as follows:

	12/31/2019	Consideration transferred (including contingent consideration) see note 4.2.1	Cash transferred to sellers	Interest	12/31/2020
Cremer S.A.	179,818	-	-	4,724	184,542
Biogenetix	-	26,306	(25,036)	18	1,288
Byogene	-	22,638	(21,169)	21	1,490
Vitalab	-	21,780	(19,764)	361	2,377
Expressa	-	335,845	(206,285)	1,375	130,935
Flexicotton	-	91,580	(50,000)	19	41,599
Total	179,818	498,149	(322,254)	6,518	362,231
Cash acquired in business combination			58,366		
Acquisition of investments, net of cash			(263,888)		

4.3. Financial Instruments

(a) Recognition and initial measurement

Trade accounts receivable and issued debt securities are initially recognized on the date they originate. All other financial assets and financial liabilities are initially recognized when the Company and its subsidiaries become a party to the contractual provisions of the instrument.

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

(b) Classification and subsequent measurement

Upon initial recognition a financial asset is classified as measured at amortized cost or fair value through profit or loss - FVTPL.

Financial assets are not reclassified subsequently to initial recognition, unless the Company and its subsidiaries change their business model to financial asset management. In this case all the affected financial assets are reclassified on the first day of the first year following the business model change.

A financial asset is measured at amortized cost if both of the following conditions are met and it is not stated as measured at FVTPL:

- it is maintained within a business model with the objective of maintaining financial assets in order to receive contractual cash flows; and
- its contractual terms generate the cash flows on specified dates that constitute solely payments of principal and interest on the outstanding principal.

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A debt instrument is measured at FVOCI if both of the following conditions are met and it is not stated as measured at FVTPL:

- it is maintained within a business model whose objective is affected by both the receipt of contractual cash flows and the sale of financial assets; and
- its contractual terms generate the cash flows on specified dates that constitute payments of principal and interest on the outstanding principal.

Upon initial recognition of an investment in an equity instrument that is not held for trading, the Company and its subsidiaries can elect to make irrevocable subsequent changes to the fair value of the investment in OCI. This choice is made for each investment.

All financial assets not classified as measured at amortized cost or FVOCI, as described above, are classified as FVTPL. This includes all derivative financial assets. Upon initial recognition, the Company and its subsidiaries irrevocably assign a financial asset that would otherwise meet the requisites to be measured at amortized cost or FVOCI as FVTPL if this eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(i) Financial assets - Assessment of the business model

The Company and its subsidiaries assess the objective of the business model in which a financial asset is maintained in the list which better reflects how the business is managed and the information is provided to Management. The information considered includes:

- the policies and objectives stipulated for the list and the practical functioning of these policies. These include the question of ascertaining whether the Management strategy is focused on obtaining contractual interest revenue, maintaining a given interest rate profile, the correspondence between the duration of financial assets and the duration of related liabilities or expected cash flows, or the realization of cash flows through the sale of assets;
- how the list's performance is assessed and reported to Company and its subsidiaries' Management;
- the risks affecting the performance of the business model (and the financial asset maintained in said business model) and how such risks are managed;
- the frequency, volume and timing of the financial asset sales in previous years, the reasons for these sales and expectations for future sales.

The transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales, in a way consistent with the ongoing recognition of the Company and its subsidiaries' assets.

Financial assets held-for-trading or managed with performance assessed based on fair value are measured at fair value through profit or loss.

(ii) Financial assets - assessment as to whether the contractual cash flows are merely payments of principal and interest

For the purpose of this assessment, the principal is defined as the fair value of the financial asset upon initial recognition. The interest is defined as a payment for the value of the money over time and the credit risk posed by the outstanding principal over a given period of time and the other underlying loan costs and risks (for example liquidity risk and administrative cost), in addition to a spread.

The Company and its subsidiaries examine the instrument's contractual terms to determine whether the contractual cash flows only entail payments of the principal and interest.

This includes assessing whether the financial asset contains a contractual term that could change the timing or value of the contractual cash flows so that it would no longer meet this condition. When making this assessment, the Company and its subsidiaries take into account:

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- contingent events modifying the value or timing of the cash flows;
- terms that could adjust the contractual rate, including variable fees;
- prepayment and extending the term; and
- the terms limiting the Company and its subsidiaries' access to specific cash flows from specific assets (for example based on an asset's performance).

Prepayment is consistent with the criteria of paying the principal and interest if the prepayment mainly represents unpaid amounts of the principal and interest on the outstanding principal - which may include reasonable additional compensation for early termination of the contract. Furthermore, in relation to a financial asset acquired for an amount less than or greater than the nominal value of the contract, the permission or requirement for prepayment at an amount representing the nominal value of the contract plus the contractual interest (which may also include reasonable additional compensation for early termination of the contract) accumulated (but not paid) are treated as consistent with this criteria if the fair value of the prepayment is insignificant upon initial recognition.

(iii) Financial assets - Subsequent measurement and gains and losses

Financial assets at FVTPL: These assets are subsequently stated at fair value. The net income including interest or dividend revenue is recognized in profit or loss.

Financial assets at amortized cost: These assets are subsequently measured at the amortized cost using the effective interest rate method. The amortized cost is reduced for impairment. Revenue from interest, exchange variance gains and losses and impairment is recognized in profit or loss. Any gain or loss resulting from derecognition is recognized in profit or loss.

(iv) Financial liabilities - classification, subsequent measurement and gains and losses

Financial liabilities were classified as measured at amortized cost. A financial liability is classified as at fair value through profit or loss if it is classified as held-for trading, is a derivative or is designated as such on initial recognition. Financial liabilities measured at FVTPL are measured at fair value and the net revenue, including interest, is recognized in profit or loss. Other financial liabilities are subsequently measured at the amortized cost using the effective interest rate method. Expenses on interest, exchange variance gains and losses are recognized in profit or loss.

(c) Derecognition

(i) Financial assets

The Company and its subsidiaries derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or when the Company and its subsidiaries transfer the rights to receive the contractual cash flows of a financial asset in a transaction where essentially all the risks and rewards of ownership of financial assets are transferred or in which the Company and its subsidiaries neither transfer nor substantially retain all the risks and rewards of ownership of the financial asset nor retain control over the financial asset.

(ii) Financial liabilities

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

Upon derecognizing a financial liability, the difference between the former carrying amount and the amount paid (including assets transferred that do not flow through cash or undertaken liabilities) is recognized in profit or loss.

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(d) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company and its subsidiaries have a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(e) Impairment

(i) Non-derivative financial assets

The Company and its subsidiaries recognize provisions for expected credit losses on:

- Financial assets measured at amortized cost; and
- Contract assets.

The Company and its subsidiaries measure the provision for loss at an amount equal to the expected credit loss for the entire life, except for the items described below, which are measured as expected credit loss for 12 months:

- Debt securities with low credit risk at the reporting date; and
- Other debt securities and bank balances for which the credit risk (i.e. the risk of default over the expected lifetime of the financial instrument) has not significantly risen since initial recognition.

The Company and its subsidiaries have a strict credit granting and monitoring process, mitigating the risk of losses on its account receivables. Due to the profile of part of its client portfolio, some delay in receiving the payments is expected. The Company and its subsidiaries monitor its customer's defaults monthly and record a provision for loss when the credit risk of a financial asset increases significantly.

(ii) Measuring expected credit losses

Expected credit losses are estimates weighted by the credit loss probability. Expected losses are measured at present value based on all cash deficiencies (i.e. the difference between the cash flows owed to the Company and its subsidiaries according to the contract and the cash flows the Company and its subsidiaries expect to receive).

Expected credit losses are discounted by the financial asset's effective interest rate.

(iii) Presenting the provision for expected credit losses in the statement of financial position

The provision for financial asset losses measured at amortized cost is deducted from the gross carrying amount of the assets.

(f) Derivative financial instruments

The Company and its subsidiaries uses derivative financial instruments to hedge against currency risk in firm commitments. Derivatives are initially recognized at fair value on the contracting date and subsequently remeasured at fair value at the end of the reporting period. Any gains and losses are immediately recognized in profit or loss.

Derivatives not designated as hedge instruments are classified as assets and liabilities according to the maturity flow.

	Parent company		Consolidated	
	2020	2019	2020	2019
Swap	-	-	11,737	723

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In December 2018 the subsidiary Cremer S.A. obtained from Banco do Brasil a loan of EURO 11,000 thousand. To hedge its cash flows against foreign exchange variance, Cremer S.A. entered into a swap contract on the same date, with the same maturity and for the same notional principal amount of EURO 11,000 thousand. At December 31, 2020 the notional balance under the contract was EURO 3,666 thousand (EURO 7,333 thousand at December 31, 2019).

Subsidiary Expressa has obtained from Banco Santander a loan of USD 5,884 thousand and a second loan of USD 1,685 thousand. To hedge its cash flows against foreign exchange variance, Expressa entered into a swap contract on the same date, with the same maturity and for the same notional principal amounts of respectively USD 5,884 thousand and USD 1,685 thousand. At December 31, 2020 the notional balance under these contracts was respectively USD 4,119 thousand and USD 842 thousand.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. The fair values are classified into different levels in the hierarchy based on the inputs used in the evaluation methods. Level 2 fair value measurements are used for the Company's derivative financial instruments. Management projects cash flows for the pay and receive legs of swap contracts by discounting them to present value at market rates.

The carrying amounts of the financial instruments stated in the statement of financial position approximate their respective fair values reported and do not reflect future changes in the economy, such as changes in interest rates and tax rates and other variables that could exert influence.

The Board of Directors and Officers are tasked with overseeing management of the Company's risks.

4.4. Cash and cash equivalents

Consists of the balance in cash, demand deposits and short-term investments with immediate liquidity, convertible into a known amount of cash and with a low risk of impairment, maturing within three months or less as from the procurement date. Short-term investments are recorded at acquisition cost plus earnings accrued up to the reporting dates, which approximate fair value and do not exceed market or realization value.

4.5. Inventory

Valued at average acquisition or production cost, adjusted to replacement value and net realization value, when applicable. The cost of finished goods and work in progress comprises the cost of raw materials, labor and other indirect costs related to production based on normal capacity usage rates. Provisions for inventory impairment and for slow-moving and/or obsolete inventory are made when identified. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

4.6. Property, plant and equipment

Property, plant and equipment is recorded at acquisition or construction cost, when applicable, less depreciation, which is calculated by the straight-line method at the rates described in the respective note. The Company periodically reviews the economic useful lives of its property, plant and equipment.

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. When significant parts of the property, plant and equipment are replaced, the Company recognizes these parts on a stand alone basis. Similarly, when a major inspection is conducted, its cost is recognized in the carrying amount of the property, plant and equipment if the recognition criteria have been met. All other repair and maintenance costs are recognized in the income statement as incurred.

CPC 27 (IAS 16) requires spare parts used in repairing machinery and equipment to be classified under property, plant and equipment. The Company has an inventory of small-value spare parts that are recognized in profit or loss at the time of use, given that they do not affect the equipment's useful life or capacity.

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4.7. Intangible assets

4.7.1 Recognition and measurement

(a) Software

Software licenses are capitalized based on costs incurred to acquire the software and render it ready for use. These costs are amortized during the software's estimated useful life of three to five years.

The costs associated with software maintenance are expensed when incurred. Development costs directly related to the design and tests of identifiable and exclusive software products, controlled by the Group are recognized as intangible assets.

Costs directly attributable, which are capitalized as part of the software product, include costs incurred on employees allocated to software development and a suitable portion of the indirect applicable expenses. The costs also include financing costs incurred during the software development period.

Other development expenses that do not meet these capitalization criteria are expensed, as and when incurred. Development costs previously recognized as expenses are not recognized as an asset in a subsequent period.

Software development costs recognized as assets are amortized during the estimated useful life, not exceeding three years.

(b) Customer list

Denotes customer lists identified in business combinations.

Customer lists are recognized at fair value at the acquisition date, and are definite-lived. Amortization is calculated by the straight-line method during the expected life in relation to the customer.

(c) Brands

Trademarks acquired in business combinations are recognized at fair value at the acquisition date. They are subsequently recognized at cost. Trademarks with a definite useful life are amortized based on their expected useful life. Trademarks with an indefinite useful life are not amortized, but are tested annually for impairment.

(d) Goodwill

Goodwill resulting from the acquisition of subsidiaries represents the surplus consideration transferred in relation to the fair value of the net assets acquired.

4.7.2 Amortization

Amortization is calculated using the straight-line method over their estimated useful lives. Amortization is recognized in profit or loss. Goodwill is not amortized.

The estimated useful lives are described in note 14.

4.8 Leases

At inception, the Group assesses whether the contract is or contains a lease. I.e., if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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The Group applies a single approach for recognizing and measuring all leases, except for short-term leases and low-value leases. The Group recognizes lease liabilities to make lease payments and right-of-use assets that denote the right to use the underlying assets.

(a) Right-of-use assets

The Group recognizes a right-of-use asset at the commencement date of the lease (i.e. when the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any new remeasurement of the lease liabilities. The cost of right-of-use assets includes recognized lease liabilities, initial direct costs incurred and lease payments made up to the start date, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis for the shorter of the lease term and the estimated useful life of the assets with ranges from 3 to 25 years.

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

(b) Lease liabilities

At the lease inception date, the Group recognizes the lease liabilities measured at present value of the lease payments to be made over the lease term. Lease payments include any in-substance fixed lease payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be payable under residual value guarantees. Lease payments also include the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments not depending on an index or rate are recognized as expenses (unless they were incurred to produce inventory) in the period in which the event or condition that triggers those payments occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the commencement date, since the interest rate implicit in the lease cannot be readily determined.

After the commencement date, the Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a change in the lease term, a change in future lease payments (e.g. a change in future lease payments resulting from a change in an index or a rate used to determine those payments), or a change in the assessment of an option to purchase the underlying asset.

(c) Short-term leases and low-value assets

The Group applies recognition exemptions for short-term leases for machinery and equipment (i.e. leases that terminate within 12 months as from the start date and not contain a purchase option). It also applies the recognition exemption awarded to low value assets for leases of office equipment. Short-term lease payments and low-value leases are recognized by the straight-line method as an expense over the lease term.

4.9 Nonfinancial asset impairment

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

When such evidence is identified and the net carrying amount exceeds the recoverable value, a provision for impairment is made and the net carrying amount adjusted to the recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its net sale value.

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In assessing the asset's value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the average weighted cost of capital for the industry in which the cash generating unit operates. The fair value of selling expenses is determined, whenever possible, based on arm's length transactions between knowledgeable and willing parties involving similar assets. In the absence of observable transactions, an appropriate appraisal method is used. The calculations used in this model are corroborated by available indicators of fair value, such as prices quoted by listed entities and other available indicators.

The Group bases its assessment of impairment on financial budgets and forecasts prepared separately by Management for each cash-generating unit to which the relevant assets are allocated. Projections based on these budgets and forecasts typically cover a period of five years. An average long-term growth rate is calculated and applied to future cash flows after the fifth year.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

An impairment loss previously recognized for an asset is reversed only if there has been a change in the circumstances used to determine the recoverable amount of the assets since the previous impairment loss was recognized. The impairment loss can only be reversed to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined (net of depreciation, amortization or depletion) had no impairment loss been recognized for the asset in previous years. The reversal is recognized in profit or loss.

Goodwill is tested for impairment annually at the end of the financial year or when circumstances indicate the carrying amount is impaired.

Impairment losses are recognized for the cash-generating unit to which the goodwill is related. When the recoverable amount of a cash-generating unit is less than its carrying amount, and impairment loss is recognized and allocated to reduce the carrying amount of the assets of the unit in the following order: (a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and (b) then, to the other assets of the unit *pro rata* on the basis of the carrying amount of each asset in the unit.

Indefinite-lived intangible assets are tested annually for impairment at the end of each year, either individually or at cash generating unit level, as the case may be, or when circumstances indicate impairment. In 2020 Company Management did not identify substantial impairment of its property, plant and equipment and intangible assets.

4.10 Loans, financings and debentures

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the settlement value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Loans are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

General and specific loan costs that are directly attributed to the acquisition, construction or production of a qualifiable asset, i.e. an asset that requires a long time to be concluded for the purpose of use or sale, are capitalized as part of the asset's cost when it is probable that they will result in future economic benefits for the entity and that such costs can be reliably measured. Other loan costs are recorded as an expense in the period they are incurred in.

4.11 Provisions

A provision is recognized in the statement of financial position when the Company has a potential or actual legal present obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation, which can be reliably estimated. Expenses related to any provision are presented in profit or loss net of any reimbursement.

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The Company is party to a number of judicial and administrative proceedings. Provisions are made for all contingencies related to judicial proceedings for which an outflow of economic benefits will probably be required to settle the contingency/obligation and which can be reliably estimated. The chance of loss is rated according to the evidence available, the hierarchy of law, available case law, recent court decisions and their relevance in the legal framework, in addition to independent legal advisors' opinions. Provisions are reviewed and adjusted to reflect changes in circumstances, such as the applicable statute of limitations, the conclusions from tax audits or additional exposure identified as a result of new issues or court decisions.

A provision for contingencies is established in an amount considered by Management to be sufficient to cover probable losses up to the relevant reporting dates, supported by the opinion of the Company's legal advisors. The basis and nature of provisions for contingencies are described in notes to the financial statements.

Reimbursement rights are recognized where the expenditure required to settle a provision is expected to be reimbursed by another party. The reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the Company settles the obligation. The reimbursement is treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. In the statement of income, the expense relating to a provision may be presented net of the amount recognized for a reimbursement.

4.12 Revenue from contracts with customers

The Group supplies and distributes medicines and medical and personal hygiene products. Revenue from contracts with customers is recognized when the control of the goods or services is transferred to the customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

(a) Sale of goods

Revenue from product sales is recognized when control of the asset is transferred to the customer, typically on delivery of the product at a physical location named by the customer. The Group considers whether there are other promises in the contract that are distinct performance obligations to which a portion of the transaction price needs to be allocated (e.g. guarantees, customer loyalty points, etc.). When determining the transaction price, the Group considers the effects of variable consideration, the existence of a significant financing component in the contract, non-cash consideration, and any consideration payable to a customer.

(b) Variable consideration

If the consideration in a contract includes a variable amount, the Group shall estimate the amount of consideration to it will be entitled in exchange for transferring the promised goods to the customer.

Variable consideration is estimated at the commencement of the contract only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Some contracts for the sale of medical supplies may grant customers a right to return the goods within a specified period, or may provide retrospective volume rebates to certain customers to the extent that product volumes purchased during the period exceed a threshold specified in the contract. Rights of return and volume rebates give rise to variable consideration.

(c) Transportation and distribution services

The Company handles the shipping of its surgical, medical, nutritional, skincare and medicine products. Service revenue is recognized when control of the products is transferred, i.e. when the products being transported are delivered to the buyer, which thereupon has full discretion in choosing sales channels and prices, provided there are no unsatisfied obligations which could affect acceptance of the products by the buyer. Revenues are realized over a period for receipt of 60 days as is customary in the market, and therefore are not classified as loans or discounted to present value. A receivable

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is recognized when transportation of the product is complete, as it is then that the consideration becomes unconditional (i.e. only the passage of time is required before payment of the consideration is due).

(d) Volume rebates

The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds the threshold specified in the contract. Rebates are offset against amounts receivable from customers. The Group applies either the most likely amount method or the expected value method to estimate the variable consideration in the contract. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The most likely amount is used for those contracts with a single volume threshold, while the expected value method is used for those with more than one volume threshold. The Group then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognized as revenue.

4.13 Income and social contribution taxes

(a) Current income and social contribution tax

Calculated on taxable earnings at the rate of 15% and a surcharge of 10% for income tax and 9% for social contribution.

Current tax assets and liabilities for the current and previous years are measured at the amount expected to be recovered from or paid to the tax authorities, using the tax rates in force at the end of the year, which is being reported in the countries where the Group operates and records taxable profit. Current income and social contribution taxes relating to items recognized directly in equity are recognized in equity.

Management periodically assesses the tax position of situations where the tax regulations require interpretation and makes provisions when appropriate.

(b) Deferred income and social contribution tax

Deferred tax is generated by temporary differences, at the reporting date, between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liabilities are recognized for all temporary tax differences, except when the deferred tax liability arises from the initial recognition of goodwill or the asset or liability in a transaction other than a business combination and that the transaction date does not affect the net income or income or tax loss; and on temporary tax differences related to investments in subsidiaries, where the period for reversing the temporary differences can be controlled and the temporary differences will probably not be reversed in the near future.

Deferred tax assets are recognized for all deductible temporary differences and unused tax credits and tax losses to the extent that it is probable that taxable income will be available against which the deductible temporary differences and unused tax credits and tax losses can be utilized, except when the deferred tax asset related to the deductible temporary difference is generated upon initial recognition of the asset or liability in a transaction other than a business combination and that the transaction date does not affect the net income or fiscal income (or loss); and on temporary deductible differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent it is probable that the temporary differences will be reversed in the near future and the taxable income is available so that the temporary differences can be used.

The carrying amount of deferred tax assets is revised at each reporting date and written off when it is no longer probable that taxable income will be available to permit usage of all or part of the deferred tax asset. Deferred tax assets are written off at each reporting date and recognized when it is probable that sufficient future taxable income will be available to allow the deferred tax asset to be recovered.

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Deferred net tax assets liabilities are recorded if, and only if, the Group has the legally enforceable right to offset current tax assets against current tax liabilities and if the deferred tax assets and the deferred tax liabilities are related to income taxes demanded by the same tax authority.

4.14 Benefits for senior management, executives and employees

(a) Short-term employee benefits

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

(b) Share-based payment arrangements with settlement in shares or cash (“phantom shares”)

The Company operates a share-based payment plan for its executives, which may be settled in cash. The fair value of the amount payable to employees in respect of share appreciation rights (SARs), which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The conditions had not been satisfied as of December 31, 2020.

(c) Profit sharing

The provision for the employee profit sharing program is recorded on the accrual basis, in accordance with the Company’s compensation policy.

4.15 Earnings per share

Basic earnings per share are calculated through profit and loss for the year attributable to the controlling shareholders and the weighted average of the common shares in circulation in the respective year.

The diluted earnings per share are calculated according to the aforesaid average of the shares in circulation, adjusted by instruments potentially convertible into shares, with a dilutive effect in the years presented, pursuant to technical pronouncement CPC 41 - Earnings per Share.

4.16 Segment reporting

An operating segment (see note 29) is a component of the Company that develops business activities from which revenue streams can be derived and expenses incurred, including revenue and expenses related to transactions with other components. All operating results from operating segments are reviewed frequently by the Board of Directors, which is responsible for making decisions about new resources to be allocated to the segment and to evaluate its performance, for which individual financial information is made available.

Segment profit or loss include items directly attributable to the segment, such net sales revenue, gross profit, income before net financial costs, and items that can be reasonably allocated, which are reviewed by the Board of Directors. Items not allocated primarily consist of corporate assets (primarily the Group's head office) and income and social contribution tax assets and liabilities.

4.17 Statement of value added

This aims to present the wealth created by the Company and the distribution thereof in a given year. It is presented in accordance with the requirements of Brazilian corporation law, prepared based on information obtained from the accounting records, serving as the basis for preparing the financial statements and in accordance with technical pronouncement CPC 09 “Statement of Added Value” (“DVA”).

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4.18 Government grants

The Group has been awarded government grants in the form of reduced ICMS tax rates. These incentives are customary in the medicines and medical supplies market, and have been granted by the states in which the Company is present. Government grants are recognized in the statement of income for the financial year under net sales revenue.

The Group has complied with all requirements for eligibility to these government grants, which include complying with all tax obligations, maintaining agreed job posts, sustaining minimum revenue levels, and maintaining logistics infrastructure with adequate storage space for the granting authority.

4.19 Investments in entities accounted under equity method

The Company's investments accounted under equity method includes its interests in the investee company, on which the Company has significant influence, but not control.

Such investments are calculated at cost, which includes the costs of a transaction. After initial recognition, the Company's participation in the net profit or loss for the year and other current incomes of the investee are disclosed in the financial statements, until the date when the significant influence or joint control ceases to exist.

In the parent Company's individual financial statements, investments in subsidiaries are also accounted under this method.

4.20 Change in significant accounting policies

CPC 06 (R2) / IFRS 16 – Leases

The Group applied at first time CPC 06 (R2) / IFRS 16 Leases, in the annual periods beginning on January 1st, 2019.

The Company used for its transition the modified retrospective approach, applying the requirements of the leasing standard to all its existing contracts on the initial application date, January 1st, 2019. After the initial application date on January 1st, 2019, leases are recognized as a right of use the asset and a corresponding liability on the date the leased asset becomes available to the Company.

Each payment is allocated between the lease liability and the finance cost. The finance cost of the lease liability is recorded in income over the lease term, using a constant rate of interest on the remaining balance of the liability. The right of use right asset is depreciated by the straight-line method considering the shorter period between the useful life of the asset and the executable term of the contract.

When adopting CPC 06 (R2) / IFRS 16, the Company recognized lease liabilities in relation to contracts previously classified as "operating leases" in accordance with CPC 06 (R1) / IFRS 16. Until the 2018 financial statement, payments under these leases, net of any incentives received from the lessor, were recognized in income during the contract period.

At the date of adoption, assets and liabilities from the lease contracts were measured at their present value, considering the remaining payments of each contract, discounting the incremental rate on January 1, 2019. The weighted average of the incremental rate applied on the initial adoption ranged from 6.78% to 8.80%. The lease liability considers the net present value of the following lease payments:

- Fixed payments discounting any incentive received;
- Variable payments based on rates or indexes;

There were no guaranteed residual amounts to be paid to the lessor at the end of the contract, as well as no de-installation costs or other amounts required at the end of the contracts. Rights to use assets were measured at an amount equal to the amount of the lease liability, adjusted for any amount of advance payments and lease payment provisions related to the

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contract recognized on January 1, 2019. There were no onerous lease contracts that require an adjustment to the right to use the asset on the date of initial application.

The Group opted to use the practical transition period to not reassess whether a contract is or contains a lease as of January 1, 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases, applying the previous version of the standard on the date of initial application. The Group also opted to use the recognition exemptions for leases that have a lease term of 12 months or less at the inception date and contain no call option (short-term lease) and leases for which the underlying asset is low (low value assets).

Impacts on statement of financial position as shown below:

	2019		January 1 st , 2019	
	Parent Company	Consolidated	Parent Company	Consolidated
Assets				
Right-of-use assets	45,834	119,819	49,958	143,244
Liabilities				
Lease liabilities	48,968	129,141	49,958	143,244
Current	4,529	29,342		
Non-current	44,439	99,799		

Impacts on statement of profit or loss as shown below:

	2019	
	Parent Company	Consolidated
Statement of profit or loss		
Leasing depreciation and amortization expenses	4,124	23,425
Financial expenses – lease interest	4,052	10,331

Financial impact as shown below:

	2019	
	Parent Company	Consolidated
Payments of lease liabilities in 2019	5,041	24,434

There are not relevant tax impacts in statements of comprehensive income and in basic and diluted earns per share.

Several new standards and/or improvements became effective for financial years beginning after January 1, 2020. Those most relevant to the Company and its subsidiaries are summarized below:

- Amendments to references to the conceptual framework of IFRS standards;
- Defining a business (amendments to CPC 15/IFRS 3);
- Defining materiality (amendments to CPC 26/IAS 1 and CPC 23/IAS 8);
- Amendments to CPC 06/IFRS16 – *Leases*, addressing COVID-19-related rent concessions to lessees.

The introduction of these standards has not had a material impact on the financial statements of the Company or its subsidiaries.

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4.21 Standards issued but not yet in force

A number of changes or new standards will come into force in upcoming financial years. The Group has not early adopted any of these standards in the preparation of these financial statements.

The altered standards and interpretations that apply to the Company are listed below:

- CPC 25 (IAS 37) – Provisions, contingent liabilities and contingent assets: changes to the way of recording and classifying costs as onerous liabilities;
- CPC 27 (IAS 16) – Property, plant and equipment: Treatment of revenue originated before an asset is completed;
- CPC 26 (IAS 1) - Presentation of financial statements: changes to criteria for classifying liabilities as current and non-current.

Management does not expect these new requirements to impact the Group's individual and consolidated financial statements. In addition to these changes, certain improvements will become effective introduced after the standards review cycle (2018 – 2020) conducted by IASB/CPC. Management did not identify, until the release of this document, any requirement either that will materially impact the individual and consolidated financial statements.

5. Financial risk management

5.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The main risk factors to which the Group is exposed reflect strategic-operational and financial- economic issues. Strategic-operational risks (such as performance of demand, competition and changes in the operating segment structure, among others) are addressed by the Group's management model.

The financial-economic risks principally reflect the behavior of macroeconomic variables, such as the exchange rate and interest rate. These risks are administered by control and monitoring policies, specific strategies and the determination of limits.

The Group has a Conservative policy for managing funds, instruments and financial risks monitored by senior management, which primarily aims to preserve the value and liquidity of financial assets and to guarantee financial funds for the smooth progress of business, including expansions.

Risk	Exposure	Methodology used to measure the impact	Management
Market risk - Currency	Foreign-currency assets and liabilities	Sensitivity analysis	Forex swap
Market risk - interest rates	Long-term loans with variable interest rates	Sensitivity analysis	Policy for low-risk floating financial investments and floating loan contracts
Credit risk	Cash and cash equivalents, trade and other receivables, derivative financial instruments, investments in debt instruments and contract assets.	Maturity analysis; Credit assessment.	Diversification of financial institutions; Robust analysis policy for releasing credit; Monitoring credit limit/ratings
Liquidity risk	Loans and other liabilities	Cash flow projections	Credit facilities available

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(a) Market risk

This is the risk of changes in market prices and demand, such as a contraction and demand in the consumption of products, exchange rates and interest rates.

b) Interest rate risk

This risk derives from the possibility of the Group suffering losses due to variations to the interest rates, which increase financial expenses on loans and financing obtained in the market. The Group continuously monitors the market interest rates in order to assess any requirement to use derivative financial instruments to hedge against the risk of variation in these rates. Interest rates on financial assets and liabilities are substantially indexed to the CDI rate. The net debt amounts presented in note 5.1.d – *Capital management* are indexed to this rate, although Management does not expect significant effects from any fluctuations in the CDI rate.

To test sensitivity to variance in the interest rates to which the Company and its subsidiaries are exposed at the reporting date, 05 different scenarios were modeled. The likely scenario was estimated based on CDI and TJPL projections for the following year (annual rate and year-end rate) published in *Boletim Focus*, also for the next 12 months. In addition to the likely scenario, other scenarios were modeled with the indexes decreasing by 25% and 50%, and increasing by 25% and 50%. The analysis was conducted only for variance by the relevant index, and did not include fixed interest rates.

The Company's interest rate exposure and the relevant sensitivity analyses are shown in the following table:

Parent company

Operation	Risk	Balance exposed December 31, 2020	Sensitivity - (expense)/revenue in profit or loss for the year				
			25% decrease	50% decrease	Probable Scenario	Increase 25%	Increase 50%
Short-term investments	CDI	660,935	16,611	19,934	24,917	31,147	37,376
Loans	CDI	(235,529)	(5,920)	(7,104)	(8,879)	(11,099)	(13,319)
Debentures	CDI	(386,573)	(9,716)	(11,659)	(14,574)	(18,217)	(21,861)
Total CDI exposure		38,833	975	1,171	1,464	1,831	2,196
Loans	TJLP	(4,873)	(145)	(174)	(218)	(272)	(327)
		<u>33,960</u>	<u>830</u>	<u>997</u>	<u>1,246</u>	<u>1,559</u>	<u>1,869</u>

Consolidated

Operation	Risk	Balance exposed December 31, 2020	Sensitivity - (expense)/revenue in profit or loss for the year				
			25% decrease	50% decrease	Probable Scenario	Increase 25%	Increase 50%
Short-term investments	CDI	1,000,357	25,142	30,171	37,713	47,142	56,570
Loans	CDI	(735,837)	(18,494)	(22,193)	(27,741)	(34,676)	(41,612)
Debentures	CDI	(386,573)	(9,716)	(11,659)	(14,574)	(18,217)	(21,861)
Total CDI exposure		(122,053)	(3,068)	(3,681)	(4,601)	(5,751)	(6,903)
Loans	TJLP	(10,411)	(310)	(372)	(465)	(582)	(698)
		<u>(132,464)</u>	<u>(3,378)</u>	<u>(4,053)</u>	<u>(5,067)</u>	<u>(6,333)</u>	<u>(7,601)</u>

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Parent company

Operation	Risk	Balance exposed December 31, 2019	Sensitivity - (expense)/revenue in profit or loss for the year				
			25% decrease	50% decrease	Probable Scenario	Increase 25%	Increase 50%
Short-term investments	CDI	113,982	1,444	1,733	2,166	2,707	3,248
Loans	CDI	(19,379)	(245)	(295)	(368)	(460)	(552)
Debentures	CDI	(384,204)	(4,867)	(5,840)	(7,300)	(9,125)	(10,950)
Total CDI exposure		(289,601)	(3,668)	(4,402)	(5,502)	(6,878)	(8,254)
Loans	TJLP	(6,925)	(225)	(270)	(337)	(422)	(506)
		(296,526)	(3,893)	(4,672)	(5,839)	(7,300)	(8,760)

Consolidated

Operation	Risk	Balance exposed December 31, 2019	Sensitivity - (expense)/revenue in profit or loss for the year				
			25% decrease	50% decrease	Probable Scenario	Increase 25%	Increase 50%
Short-term investments	CDI	270,403	3,425	4,110	5,138	6,422	7,706
Loans	CDI	(237,740)	(3,011)	(3,614)	(4,517)	(5,646)	(6,776)
Debentures	CDI	(455,932)	(5,775)	(6,930)	(8,663)	(10,828)	(12,994)
Total CDI exposure		(423,269)	(5,361)	(6,434)	(8,042)	(10,052)	(12,064)
Loans	TJLP	(6,925)	(225)	(270)	(337)	(422)	(506)
		(430,194)	(5,586)	(6,704)	(8,379)	(10,474)	(12,569)

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c) Currency risk

This risk derives from the possibility of the Company incurring losses due to changes in interest rates on borrowings and exposure to exchange rate changes raising its finance costs on loans taken out from financial institutions or related parties, or variations in financial revenue due to changes in accounts receivable in foreign currencies and foreign currency payables. The Company continually monitors volatility in market rates.

The table below shows the Group's foreign-exchange exposure. Balances have been converted into reais as of the reporting date.

	Parent company		Consolidated	
	2020	2019	2020	2019
Assets				
Trade and other receivables	-	-	3,409	1,426
Advances	181	-	181	-
Derivatives	-	-	11,737	723
Total assets	181	-	15,327	2,149
Liabilities				
Trade payables	(2,787)	(866)	(2,975)	(866)
Loans and borrowings (1)	-	-	(166,970)	(93,696)
Total liabilities	(2,787)	(866)	(169,945)	(94,562)
Net exposure	(2,606)	(866)	(154,618)	(92,412)

(1) As mentioned in Note 5.3, the Group has entered into derivative instruments to protect its cash flows against foreign exchange variations related to these loans and borrowings.

Sensitivity to foreign-exchange rate:

To test sensitivity to variance in the exchange rates to which the Company and its subsidiaries are exposed at the reporting date, 05 different scenarios were modeled. The likely scenario was estimated based on projected exchange variance for the following 12 months, based on the balance of foreign currencies at the reporting date and the US dollar prices published in *Boletim Focus* for the next 12 months. In addition to the likely scenario, other scenarios were modeled with the indexes decreasing by 25% and 50%, and increasing by 25% and 50%.

Parent company		Balance exposed December 31, 2020	Sensitivity - (expense)/revenue in profit or loss for the year				
Operation	Risk		25% decrease	50% decrease	Probable Scenario	25% increase	50% increase
Assets	USD	181	(41)	(64)	(6)	38	82
Liabilities	USD	(2,787)	627	987	87	(587)	(1,262)
		(2,606)	586	923	81	(549)	(1,180)
		2,606	586	923	81	(549)	(1,180)

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Operation	Risk	Balance exposed	Sensitivity - (expense)/revenue in profit or loss for the year				
		December 31, 2020	25% decrease	50% decrease	Probable Scenario	25% increase	50% increase
Assets	USD	2,912	(656)	(1,032)	(91)	614	1,319
Liabilities	USD	(26,413)	5,946	9,357	829	(5,567)	(11,963)
		(23,501)	5,290	8,325	738	(4,953)	(10,644)
Assets	EUR	7,985	(1,797)	(2,829)	(345)	1,565	3,475
Liabilities	EUR	(143,532)	33,670	50,847	6,205	(28,127)	(62,459)
		(135,547)	31,873	48,018	5,860	(26,562)	(58,985)
		(159,048)	37,163	56,343	6,598	(31,515)	(69,629)
Parent company							
Operation	Risk	Balance exposed	Sensitivity - (expense)/revenue in profit or loss for the year				
		December 31, 2019	25% decrease	50% decrease	Probable Scenario	25% increase	50% increase
Assets	USD	-	-	-	-	-	-
Liabilities	USD	(866)	161	279	(15)	(235)	(455)
		(866)	161	279	(15)	(235)	(455)
		(866)	161	279	(15)	(235)	(455)
Consolidated							
Operation	Risk	Balance exposed	Sensitivity - (expense)/revenue in profit or loss for the year				
		December 31, 2019	25% decrease	50% decrease	Probable Scenario	25% increase	50% increase
Assets	USD	1,214	(226)	(391)	21	330	638
Liabilities	USD	(33,943)	(6,322)	10,925	(584)	(9,215)	(17,847)
		(32,729)	(6,548)	10,534	(563)	(8,885)	(17,209)
Assets	EUR	936	(174)	(301)	374	701	1,028
Liabilities	EUR	(60,618)	(7,245)	19,511	(24,211)	(45,419)	(66,626)
		(59,682)	(7,419)	19,210	(23,837)	(44,718)	(65,598)
		(92,411)	(13,967)	29,744	(24,400)	(53,603)	(82,807)

(d) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. Most customers have had a business relationship with the Group for longer than one year, and there are no customers individually accounting for more than 5% of revenue. The Group has a credit risk management policy of analyzing the financial and equity position of its clients, as well as defining credit limits and constantly monitoring outstanding accounts. Business orientation is addressed at meetings for taking decisions, following-up results and adapting established strategies, with a view to maintaining the results expected.

Other assets creating risks for the Company and its subsidiaries include: (i) cash and cash equivalents; (ii) short-term financial investments; and (iii) reimbursement rights arising from acquisitions. The Company manages credit risk on the assumption that its main financial assets are located in Brazil, have an immaterial history of impairment, and its cash equivalents are held at financial institutions considered low risk by Management. With respect to reimbursement rights, there are certain amounts outstanding and payable to the sellers in the relevant business combinations which the Company can use to offset any failure by counterparties to perform their obligations.

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The maximum exposure of each asset is equivalent to the balance of the relevant line item as presented in the relevant notes.

In the financial year ended December 31, 2020 impairment losses on accounts receivable were recognized in profit and loss in the amount of R\$ 2,124 at the parent company and R\$ 2,216 consolidated (R\$ 1,905 and R\$ 1,982, respectively in 2019). An aging list and details on the Company's allowance policy by length of delinquency are provided in note 8. The Company establishes allowances for receivables that are more than 180 days overdue and which are not secured by property. A percentage of expected losses is also estimated based on historical losses over the previous 3 years, and an analysis is made of market factors which could indicate an increased historical risk, such as a sudden increase in delinquency within the portfolio. Additional losses for receivables more than 179 days overdue are also recognized where relevant. At the reporting dates, the amounts of expected losses were deemed immaterial.

(e) Liquidity risk

This is the risk of the Group having insufficient liquid funds to meet its financial commitments, as a result of a time or volume mismatch between scheduled receipts and payments. Group Management's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without disrupting its operations.

Future receipt and payment assumptions are made to administrate cash liquidity in local and foreign currency, which are directly monitored by the Treasury Department and subject to a conservative working capital policy.

The cash flow is projected by the Group's operational entities and aggregated by the Finances department. This department monitors the ongoing projections of the Group's liquidity requirements to ensure it has sufficient cash to meet its operational requirements. Sufficient free space is also maintained in its committed credit facilities at any time, so the Group does not breach its loan limits or covenants (when applicable) in any one of its credit facilities. This projection takes into account the Group's debt financing plans, performance of clauses, performance of internal targets for the statement of financial position quotient and, if applicable, external or legal regulations - such as currency restrictions.

Surplus cash maintained by the operational entities in excess of the balance required to manage working capital is transferred to the Group's Treasury. The Treasury invests surplus cash in bank accounts incurring interest, time deposits, short-term deposits and securities, choosing instruments with appropriate maturities or sufficient liquidity to establish a sufficient margin as determined by the aforesaid projections.

	<u>Less than one year</u>	<u>Between one and two years</u>	<u>Parent company Between two and five years</u>	<u>Over five years</u>	<u>TOTAL</u>
At December 31, 2020					
Trade payables	576,193	-	-	-	576,193
Accounts payable on reverse factoring	17,265	-	-	-	17,265
Loans and borrowings	204,405	10,652	26,814	8,559	250,430
Debentures	149,035	67,390	196,815	-	413,240
Acquisitions of other companies	-	-	362,231	-	362,231
Other financial liabilities	2,643	2,145	-	-	4,788
Lease liability	13,993	4,932	5,860	30,466	55,251
Balance at December 31, 2020	<u>963,534</u>	<u>85,119</u>	<u>591,720</u>	<u>39,025</u>	<u>1,679,398</u>
At December 31, 2019					
Trade payables	399,145	-	-	-	399,145
Loans and borrowings	3,422	19,260	-	2,629	25,311
Debentures	68,806	64,000	64,000	182,133	378,939
Acquisitions of other companies	-	179,818	-	-	179,818
Other financial liabilities	4,425	-	-	-	4,425
Lease liability	4,529	4,529	13,587	26,323	48,968
Balance as of December 31, 2019	<u>480,327</u>	<u>267,607</u>	<u>77,587</u>	<u>211,085</u>	<u>1,036,606</u>

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	Consolidated				TOTAL
	Less than one year	Between one and two years	Between two and five years	Over five years	
At December 31, 2020					
Trade payables	955,882	-	-	-	955,882
Accounts payable on reverse factoring	64,763	-	-	-	64,763
Loans and borrowings	581,330	80,804	104,002	33,424	799,561
Debentures	149,035	67,390	196,815	-	413,240
Acquisitions of other companies	-	-	362,231	-	362,231
Other financial liabilities	51,459	-	-	-	51,459
Lease liability	50,785	25,197	7,679	68,249	151,910
Balance at December 31, 2020	<u>1,853,254</u>	<u>173,391</u>	<u>670,727</u>	<u>101,673</u>	<u>2,799,045</u>
At December 31, 2019					
Trade payables	477,951	-	-	-	477,951
Accounts payable on confirming	9,891	-	-	-	9,891
Loans and borrowings	84,055	103,520	-	56,254	243,829
Debentures	140,534	64,000	64,000	182,133	450,667
Acquisitions of other companies	-	179,818	-	-	179,818
Other financial liabilities	15,682	-	-	-	15,682
Lease liability	29,342	29,342	29,342	41,115	129,141
Balance as of December 31, 2019	<u>757,455</u>	<u>376,680</u>	<u>93,342</u>	<u>279,502</u>	<u>1,506,979</u>

(f) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the returns on capital that the Group defines as the result of operating activities divided by equity. The Group's debt to shareholders' equity ratio at the end of the financial is presented as follows:

	Consolidated	
	2020	2019
Total loans, borrowings and debentures	1,145,833	694,496
Less cash and cash equivalents	(937,334)	(273,685)
Less short-term investments	(97,500)	(5,044)
Net debt	110,999	415,767
Total equity	1,201,028	381,853
Total capital	1,312,027	797,620
Financial leverage index - %	8%	52%

(g) Operational risk

Operating risks are direct and indirect risks of losses resulting from a range of causes associated with the processes, staff, technology and infrastructure of the Group, in addition to external factors, except for credit, market and liquidity risks, such as those deriving from legislative and regulatory requirements and generally accepted corporate conduct standards. The Group's objective is to manage operating risks and risk to pursue cost efficiency and avoid financial losses and damage to its reputation.

Senior Management is primarily responsible for developing and implementing controls to address operating risks. The responsibility is supported by the development of general standards of the Group to manage operational risks in the following areas:

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- demands to adequately segregate duties, including the independent authorization of operations
- demands to reconcile and monitor operations
- compliance with regulatory and legal requirements
- documentation of controls and procedures
- development of contingency plans
- professional training and development
- ethical and commercial standards, and
- mitigation of risk, including insurance when feasible.

The existence of integrated complete information systems helps management mitigate operational risks by implementing standardized and automatic processes.

5.2. Financial instruments by category

	Category of financial instruments	Parent company		Consolidated	
		2020	2019	2020	2019
Assets					
Cash and cash equivalents	Amortized cost	569,121	111,042	937,334	273,685
Trade and other receivables	Amortized cost	526,004	425,693	987,704	516,615
Short-term investments	FVTPL	97,500	5,044	97,500	5,044
Dividends receivable	Amortized cost	27,944	21,080	-	-
Right to reimbursement	FVTPL	3,091	43,708	3,091	43,708
Judicial deposits	Amortized cost	5	60	5,729	5,309
Derivative financial instruments	FVTPL	-	-	11,737	723
Other assets	Amortized cost	8,730	7,266	47,314	33,224
Total		1,232,395	613,893	2,090,409	878,298
Liabilities					
Trade payables	Amortized cost	576,193	399,145	955,882	477,951
Accounts payable on confirming operations	Amortized cost	17,265	-	64,763	9,891
Loans and borrowings	Amortized cost	240,030	25,311	763,647	243,829
Debentures	Amortized cost	382,188	378,939	382,186	450,667
Dividends payable	Amortized cost	37,753	8,856	49,081	8,856
Lease liability	Amortized cost	55,251	48,968	151,910	129,141
Obligations on acquisition of investments	Amortized cost	362,231	179,818	362,231	179,818
Other liabilities	Amortized cost	9,909	4,425	127,653	15,682
Total		1,680,620	1,045,462	2,857,353	1,515,835

The fair value of financial instruments measured at amortized cost, represents an approximation of their fair value.

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Fair value of financial instruments:

	Hierarchy level	Parent company		Consolidated	
		2020	2019	2020	2019
Assets					
Short-term investments	1	97,500	5,044	97,500	5,044
Dividends receivable	2	27,944	21,080	-	-
Right to reimbursement	2	3,091	43,708	3,091	43,708
Judicial deposits	2	5	60	280,589	5,309
Derivative financial instruments	2	-	-	11,737	723
Other assets	2	8,730	7,266	47,314	33,224
Total		137,270	77,158	440,231	88,008
Liabilities					
Loans and borrowings	2	240,130	25,311	755,243	243,829
Debentures	2	382,188	378,939	366,950	450,667
Dividends payable	2	37,753	8,856	49,081	8,856
Lease liability	2	55,251	48,968	150,369	129,141
Obligations on acquisition of investments		362,231	179,818	362,231	179,818
Other consideration	2	320,633	179,818	320,633	179,818
Contingent consideration	3	41,598	-	41,598	-
Other liabilities	2	9,909	4,425	127,653	15,682
Total		1,087,462	646,317	1,811,527	1,027,993

Contingent consideration measured at fair value - level 3

Valuation technique: Income approach based on Monte Carlo pricing method (Sequential Monte Carlo). The valuation model considers the present value of average of multiple scenarios and metrics, including expected future EBITDA, estimated working capital and net debt discounted using a risk-adjusted discount rate.

Significant unobservable inputsVariable data:

Expected EBITDA in June 30, 2021 to Flexicotton: from R\$ 11,370 to R\$ 42,801.

EBTIDA multiple adjusted expected as of June 30, 2021: from R\$ 79,589 to R\$ 161,000.

Non-variable data:

Volatility: 17,99%

Required Metric Risk Premium (RMRP): 11.78%

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Inter-relationship between significant unobservable inputs and fair value measurement

The estimated fair value would increase (decrease) if:

- Expected EBITDA were higher (lower);
- Expected volatility were higher (lower); or
- Required Metric Risk Premium were lower (higher)

Sensitivity analysis

For the fair values of contingent consideration, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on statement of profit or loss:

December 31, 2020	Increase	Decrease
Expected EBITDA (10% movement):	(+10%) 7,770	(-10%) (10,231)
Expected volatility (5% movement):	(+5%) 2,478	(-5%) (2,226)
Expected Required Metric Risk Premium (RMRP) (2% movement):	(-2%) 895	(+2%) (909)

5.3. Derivative financial instruments

	Consolidated	
	2020	2019
Derivative financial instruments - Swap	11,737	723
	11,737	723

In December 2018 the subsidiary Cremer S.A. obtained from Banco do Brasil a loan of EURO 11,000 thousand. To hedge its cash flows against foreign exchange variance, Cremer S.A. entered into a swap contract on the same date, with the same maturity and for the same notional principal amount of EURO 11,000 thousand. At December 31, 2020 the notional balance under the contract was EURO 3,666 thousand (EURO 7,333 thousand at December 31, 2019).

The subsidiary Expressa maintains loans of USD 5,884 thousand and USD 1,685 thousand with Banco Santander. In order to protect its cash flow against risks of exchange rate variations, a SWAP derivative instrument was contracted on the same date, with the same maturity date and with notional values also of USD 5,884 thousand and USD 1,685 thousand, respectively. As of December 31, 2020, the notional balance of the contracts was USD 4,119 thousand and USD 842 thousand, respectively.

6. Cash and cash equivalents

	Parent company		Consolidated	
	2020	2019	2020	2019
Cash and banks	5,686	2,104	34,492	8,328
Short-term investments (i)	563,435	108,938	902,842	265,357
Total	569,121	111,042	937,334	273,685

(i) These consist of balances of investments in Certificates of Deposit (CDB) yielding an average of 100.8% (101.4% as of December 31, 2019) of the change in the Interbank Deposit Certificate rate.

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Short-term investments are readily convertible into a known amount of cash and subject to an insignificant risk of impairment, and have therefore been considered as cash equivalents in the cash flow statements.

The Company's exposure to interest rate risks and a sensitivity analysis for financial assets and liabilities can be seen in note 5.

7. Short-term investments

	Parent company		Consolidated	
	2020	2019	2020	2019
CDB investments (i)	97,500	5,044	97,500	5,044
Total	97,500	5,044	97,500	5,044

(i) Investments yielding approximately 100.8% of the CDI rate as of December 31, 2020 (100.5% in 2019), that can be redeemed after more than 90 days.

The Company's exposure to interest rate risks and a sensitivity analysis for financial assets and liabilities can be seen in note 5.

(a) Guarantees

The balances of short-term financial investments at the reporting dates are used as guarantees for loans obtained from financial institutions, maturing in July 2021.

8. Trade accounts receivable

	Parent company		Consolidated	
	2020	2019	2020	2019
Accounts receivable - domestic customers	540,958	414,551	1,013,869	517,200
Overseas trade accounts receivable	-	-	3,409	-
Trade receivables agreements (i)	-	24,962	-	24,961
Related parties (note 21)	2,794	1,805	-	1,801
(-) Impairment loss on trade receivables	(17,748)	(15,625)	(29,574)	(27,357)
Total	526,004	425,693	987,704	516,605
Current	525,137	424,481	978,549	515,383
Noncurrent	867	1,212	9,155	1,222

(i) Renegotiations with customers with overdue receivables, for which a new agreement for payment has been made by the parties.

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Accounts receivable aging list before deducting the allowance for doubtful accounts.

	Parent company		Consolidated	
	2020	2019	2020	2019
Amounts outstanding	486,571	382,179	919,296	464,577
Overdue				
Up to 30 days	17,181	23,183	29,487	26,782
31 to 60 days	7,525	7,039	10,109	8,723
61 to 90 days	4,190	4,522	4,839	5,482
91 to 180 days	4,941	4,148	7,884	4,993
181 to 360 days	5,047	18,530	8,139	19,629
Past due more than 361 days	18,297	1,717	37,521	13,776
Total	543,752	441,318	1,017,275	543,962

The criteria the Group uses to determine whether a provision is required are described in note 4.3.e.

In addition to the maturity range assessment, the Company also assess credit risk for clients in the public and private sectors.

The following table provides information about the exposure to credit risk and estimated credit losses for trade receivables from private and public customers as at 31 December 2020.

2020	Consolidated		
	Weighted-average loss rate	Gross carrying amount	Impairment loss amount
Private customers			
Low risk	0.09%	904,806	851
Medium risk	11.74%	33,426	3,924
High risk	68.49%	32,167	22,030
Public sector			
Low risk	0.09%	41,926	38
High risk	55.18%	4,950	2,731
		1,017,275	29,574

The changes in the allowance for doubtful accounts are as follows:

	Parent company		Consolidated	
	2020	2019	2020	2019
Balance at beginning of year	15,625	13,720	27,357	25,375
Provision for the period	2,124	1,905	2,216	1,982
Balance at end of year	17,748	15,625	29,573	27,357

The allowance for doubtful accounts made is recorded in profit or loss. When the allowance is not expected to be recovered, the amounts credited to the item are realized against the definitive write-off of the receivable.

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Other aspects that the Company considers in assessing its allowance for doubtful accounts include business aspects such as its relatively short receivables collection period, its large customer base and the fact that the Company is not dependent on individually significant customers.

(a) Guarantees

As of December 31, 2020, the Company had accounts receivable of R\$ 246,388 (R\$ 290,306 consolidated) securing loans and borrowings (R\$ 288,500 as of December 31, 2019) in the parent company and consolidated statements.

9. Inventory

	Parent company		Consolidated	
	2020	2019	2020	2019
Goods for resale	289,859	253,277	540,151	285,390
Finished goods	38,448	-	88,713	46,775
Work in progress	603	-	2,875	17,650
Raw materials	2,036	-	49,616	19,085
Packaging materials	86	311	4,945	5,308
Other materials	974	249	29,625	4,692
Total	332,006	253,837	715,925	378,900

The changes in the provision for inventory losses are as follows:

	Parent company		Consolidated	
	2020	2019	2020	2019
Balance at beginning of year	1,004	782	1,839	1,631
Addition of provision for inventory losses	4,000	222	5,494	208
Balance at end of year	5,004	1,004	7,333	1,839

The provision for inventory impairment is made based on the lower of the net cost and recoverable value. The expense incurred on making the provision for inventory impairment has been recorded under "costs of goods sold" in profit or loss for the year.

(a) Guarantees

As of December 31, 2020, and 2019 there is no inventory securing loans, borrowings, debentures or legal proceedings.

10. Recoverable taxes

	Parent company		Consolidated	
	2020	2019	2020	2019
Value-Added Tax on Goods and Services (ICMS) (i)	9,013	2,040	32,041	18,953
Excise Tax - IPI	16	51	3,769	4,060
Income tax and social contribution (ii)	5,125	9,146	28,792	11,955
INSS	658	-	3,797	-
Recoverable Pis and Cofins (iii)	8,545	5,654	164,331	5,654
Other	-	633	83	5,787
Total	23,357	17,524	232,813	46,409
Current	22,962	17,321	80,380	42,052
Noncurrent	395	203	152,433	4,357

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- (i) Denotes the ICMS credits generated on the acquisition of consumables, materials, interbranch transfers and ICMS on the acquisition of property, plant and equipment, appropriated at the rate of 1/48.
- (ii) Denotes the overpayment of income and social contribution taxes in 2018 to be offset against taxes payable in fiscal year 2020.
- (iii) As mentioned in note 21.c, the Company and its subsidiaries are parties to lawsuits claiming the right to exclude ICMS tax on sales from the tax base for PIS and COFINS. Unappealable decisions were issued in the cases brought by subsidiaries Cremer S.A. and Flexicotton Indústria e Comércio de Produtos de Higiene Pessoal S.A. on October 21, 2020 and September 18, 2020, respectively. In addition, an unappealable decision was issued in the case brought by Biogenetix Imp. e Exp. Ltda. in 2019. The amount of tax credits arising from these decisions was a total of R\$ 146,992, including R\$ 82,067 in principal and R\$ 64,925 related to interest. The credit amounts were recognized under other operating revenue, and interest under finance revenue. Under the purchase and sale agreements between the Company and the sellers of acquired subsidiaries Cremer S.A., Flexicotton Ind. e Com. de Produtos de Higiene Pessoal S.A and Biogenetix Importação e Exportação Ltda, an amount equivalent to the tax credits arising from these claims, net of taxes, must be paid to the selling shareholders. The Parent Company accordingly recorded an obligation to the selling shareholders. The consolidated amount of the obligations of R\$ 73,891 was recorded in other liabilities and other operating expense as of December 31, 2020.

11. Other assets

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Advance to suppliers	5,218	1,677	16,816	2,822
Advances to employees	574	108	2,220	659
Insurance premiums	941	727	2,550	1,529
Insurance advances	609	1,024	624	1,424
Accounts receivable on property sales (i)	-	-	18,961	21,319
Related-party loans (note 21)	-	3,508	198	3,508
Other	1,389	222	5,945	1,963
	<u>8,731</u>	<u>7,266</u>	<u>47,314</u>	<u>33,224</u>
Current	8,646	3,758	46,423	29,716
Noncurrent	84	3,508	891	3,508

- (i) Denotes financed receivables resulting from sold assets, relating to: (i) the sale of a plot of land in August 2019 to BLUMOB in the amount of R\$ 2,319, (ii) the sale of a plot of land in October 2019, to Hennings Administradora S.A. in the amount of R\$ 19,000, the amounts are being updated by CDI until the settlement date.

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12. Investments

(a) Breakdown of investments in subsidiaries and investees

	Cremer	Flexicotton	Expressa	Vitalab	Byogene	Health Log	Tecnocold	Biogenetix	Diagnóstica	Far.me	Total investments 2020	Total investments 2019
Percentage interest	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	99.99%	100.00%	100.00%	35.75%		
Net income (loss) for the year	112,439	298	8,060	1,832	2,429	407	(132)	3,939	49	(274)	129,047	51,898
Equity in accordance with subsidiary's records	306,438	8,907	79,971	4,177	7,764	608	6,283	13,716	49	4,295	432,208	227,119
Goodwill (negative goodwill) on acquisition of subsidiary	220,181	51,301	181,732	11,843	7,994	-	5,390	5,585	(5)	-	484,021	225,898
Fair value of identifiable intangible assets acquired - Brand	82,513	1,298	2,404	265	968	-	-	599	-	-	88,047	82,513
Fair value of identifiable intangible assets acquired - Customer list	66,225	21,215	74,318	5,946	6,874	-	-	6,060	-	-	180,638	66,225
Fair value of property, plant and equipment	9,141	2,084	-	185	1,628	-	-	3,926	-	-	16,964	9,141
Value of noncompetition agreement	-	6,133	5,485	1,144	703	-	-	358	-	-	13,823	-
Amortization of fair value of assets and liabilities acquired	(24,463)	(2,751)	(4,137)	(511)	(677)	-	-	(699)	-	-	(33,238)	(10,451)
Other changes	2	-	(3)	51	-	(2)	(111)	-	10	-	(55)	(110)
Adjusted equity	660,037	88,187	339,770	23,100	25,254	606	11,562	29,545	54	4,295	1,182,408	600,335

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(b) Change in investments in subsidiaries and investees

	Cremer	Flexicotton	Expressa	Vitalab	Byogene	Health Log	Tecnocold	Biogenetix	Diagnóstica	Far.me	Total investments 2020	Total investments 2019
Opening balance as of December 31 of the prior year	588,313	-	-	-	-	-	12,022	-	-	-	600,335	604,873
Equity acquisition	-	9,549	71,908	2,396	5,335	499	-	9,777	-	4,546	104,010	-
Appreciation of property, plant and equipment	-	2,084	-	185	1,628	-	-	3,926	-	-	7,823	-
Customer list	-	21,215	74,318	5,946	6,874	-	-	6,060	-	-	114,413	-
Brands	-	1,298	2,404	265	968	-	-	599	-	-	5,534	-
Noncompetition agreement	-	6,133	5,485	1,144	703	-	-	358	-	-	13,823	-
Goodwill (negative goodwill)	-	51,301	181,732	11,843	7,994	-	(327)	5,585	(5)	-	258,123	-
Investments acquired	-	91,580	335,847	21,779	23,502	499	(327)	26,305	(5)	4,546	503,726	-
Write-off of appreciation on assets held for sale	-	-	-	-	-	-	-	-	-	-	-	(2,132)
Proposed dividends	(26,704)	(940)	-	-	-	(300)	-	-	-	-	(27,944)	(17,322)
Share of profit (loss) of equity-accounted investees and effects of appreciation												
Share of profit (loss) of equity-accounted investees	112,439	298	8,060	1,832	2,429	407	(132)	3,939	49	(274)	129,047	32,294
Amortization of fair value of assets and liabilities acquired	(14,012)	(2,751)	(4,137)	(511)	(677)	-	-	(699)	-	-	(22,787)	(6,518)
Other changes	1	-	-	-	-	-	(1)	-	10	23	31	(10,860)
Balance as of December 31, 2020	660,037	88,187	339,770	23,100	25,254	606	11,562	29,545	54	4,295	1,182,410	600,335

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13. Property, plant and equipment

Parent company	Buildings, facilities and improvements	IT and communications equipment	Machinery and equipment	Furniture, fixtures and tools	Vehicles	Total
Cost						
Balances at January 01, 2019	9,039	3,775	11,496	1,296	36,725	62,331
Additions	397	2,097	754	224	850	4,322
Write-offs and transferances	158	(44)	(117)	(2)	(2,790)	(2,795)
Balances at December 31, 2019	9,594	5,828	12,133	1,518	34,785	63,858
Additions	1,055	2,828	591	232	1,733	6,439
Write-offs	-	(16)	-	-	(1,724)	(1,740)
Balances at December 31, 2020	10,649	8,640	12,724	1,750	34,794	68,557
Depreciation						
Balances at January 01, 2019	(939)	(2,270)	(5,466)	(401)	(15,838)	(24,914)
Depreciation in the year	(709)	(640)	(1,199)	(132)	(2,542)	(5,222)
Depreciation in the year	-	29	68	-	1,641	1,738
Balances at December 31, 2019	(1,648)	(2,881)	(6,597)	(533)	(16,739)	(28,398)
Depreciation in the year	(784)	(1,098)	(1,248)	(165)	(2,293)	(5,588)
Write-offs	-	10	-	-	1,482	1,492
Balances at December 31, 2020	(2,432)	(3,968)	(7,845)	(683)	(17,550)	(32,494)
Net carrying amount						
At December 31, 2019	7,946	2,947	5,536	985	18,046	35,460
At December 31, 2020	8,217	4,671	4,879	1,052	17,244	36,063
<i>Annual depreciation rate %</i>	4	20	10	10	20	

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	Land and plots	Buildings, facilities and improvements	IT and communications equipment	Machinery and equipment	Furniture, fixtures and tools	Vehicles	PPE in progress	Total
Consolidated Cost								
Balances at January 01, 2019	4,405	13,282	16,213	163,150	15,408	37,966	26,261	276,685
Additions	-	252	3,165	2,509	501	850	13,251	20,528
Sales / Write-offs	(3,481)	(1,571)	(289)	9,233	(139)	(2,870)	(13,041)	(12,158)
Balances at December 31, 2019	924	11,963	19,089	174,892	15,770	35,946	26,471	285,055
Additions	-	2,547	4,120	26,879	686	1,734	13,392	49,358
Sales / Write-offs	(260)	(214)	(740)	(154)	(100)	(1,715)	-	(3,184)
Transferences	-	49,565	-	(19,863)	(13)	-	(29,715)	-
Assets acquired in a business transaction	260	6,071	1,181	43,630	1,083	8,036	8,283	68,544
Balances at December 31, 2020	924	69,932	23,649	225,384	17,453	44,001	18,430	399,772
Depreciation								
Balances at January 01, 2019	-	1,334	(11,649)	(103,985)	(9,255)	(16,693)	-	(140,248)
Depreciation in the year	-	(4,196)	(1,545)	(8,160)	(1,192)	(2,354)	-	(17,447)
Sales / Write-offs	-	86	260	2,357	196	1,325	-	4,224
Balances at December 31, 2019	-	(2,776)	(12,934)	(109,788)	(10,251)	(17,722)	-	(153,471)
Depreciation in the year	-	(5,057)	(2,276)	(13,653)	(1,405)	(3,734)	-	(26,125)
Transferences	-	(29,098)	-	29,098	-	-	-	-
Sales / Write-offs	-	-	510	640	63	1,645	-	2,858
Balances at December 31, 2020	-	(36,931)	(14,700)	(93,703)	(11,593)	(19,811)	-	(176,737)
Net carrying amount								
At December 31, 2019	924	9,187	6,155	71,375	5,519	18,224	20,200	131,584
At December 31, 2020	924	33,001	8,949	131,681	5,860	24,190	18,430	223,035
Annual depreciation rate %		4	20	10	10	20		

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(a) Impairment of property, plant and equipment

On an annual basis or whenever there is evidence that a loss has been incurred, the Group tests its property, plant and equipment for impairment in accordance with CPC 01(IAS36) - *Impairment of Assets*, in order to determine whether a provision for impairment is required. At December 31, 2020 the Group did not identify the need to recognize a provision for impairment of property, plant and equipment.

(b) Guarantees

The Company has a balance of R\$ 27,000 (R\$ 58,182 on a consolidated basis) in assets given as guarantees for loans and financing.

14. Intangible assets

(a) Breakdown of and changes in intangible assets

	Parent company		
	Software, trademarks and patents	Other	Total
Balances at December 31, 2018	3,448	-	3,448
Additions	2,355	720	3,075
Amortization	(1,190)	(78)	(1,268)
Balances at December 31, 2019	4,613	642	5,255
Additions	10,705	339	11,044
Amortization	(2,337)	(437)	(2,774)
Balances at December 31, 2020	12,981	544	13,525
Cost at December 31, 2020	19,250	1,060	20,310
Amortization as of December 31, 2020	(6,269)	(516)	(6,785)
	12,981	544	13,525

	Consolidated					Total
	Software, trademarks and patents	Goodwill	Trademarks	Customer list	Other	
Definite-lived	5 years	-	30 years	12 years	5 years	
Balances at December 31, 2018	5,398	306,103	120,732	67,711	7,122	507,066
Additions	4,648	-	-	-	875	5,523
Additions – acquisition Cremer S.A.	(108)	-	-	-	-	(108)
Amortization	(2,102)	-	-	(6,949)	(5,232)	(14,283)
Balances at December 31, 2019	7,836	306,103	120,732	60,762	2,765	498,198
Reclassifications	-	5,713	(11,176)	5,463	-	-
Additions from business combinations	14,247	257,591	5,534	114,413	14,994	406,779
Amortization	(3,913)	-	(7,567)	(6,627)	(10,504)	(28,611)
Additions	3,986	-	39	-	-	4,025
Balances at December 31, 2020	22,156	569,407	107,562	174,011	7,255	880,391

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*(In thousands of Reais, unless stated otherwise)***(b) Impairment tests for indefinite-lived goodwill assets**

The Company has the following goodwill assets:

Business acquired ⁽¹⁾	2020	2019
P. Simon S.A. ⁽²⁾	19,251	19,251
Embramed Ind. Com. Prod. Hosp. Ltda. ⁽²⁾	66,671	66,671
Cremer S.A.	220,181	220,181
Byogene Com. de Prod. Para Lab. Clínico Ltda.	7,130	-
Biogenetix Imp. e Exp. Ltda.	5,586	-
Vitalab Com.de Prod. para Lab. Ltda	11,844	-
Expressa Distribuidora de Medicamentos Ltda.	181,730	-
Tecnocold Locação de Espaços e Distribuição de Produtos Refrigerados Ltda.	5,385	-
Flexicotton	51,301	-
	569,079	306,103

*(1) Each acquired business is controlled as a Cash-Generating Unit.**(2) Goodwill from entities P. Simon S.A. and Embramed Ind. Com. Prod. Hosp. Ltda. Were incorporated in 2011 and 2019, respectively, in the subsidiaries Cremer S.A. Goodwill amounts are monitored at the lower CGU level related to each business.*

This goodwill has an indefinite useful life and its economic basis is the future profit to be generated by acquired companies. Goodwill is tested annually for impairment.

Impairment testing has been conducted for goodwill with an indefinite useful life. All cash flows were projected over a period of 5 years, and a terminal growth rate was used thereafter. Terminal growth rates were limited to long-term inflation rates. This means that the terminal growth rate is equivalent to zero, as the discount rates and cash flows were estimated using nominal methods.

The main assumptions adopted to estimate the recoverable value are shown below:

	Discount Rate	Discount rate before tax	Terminal Growth Rate (1)	Average projected EBITDA
P. Simon S.A.	10.5%	12.0%	3.3%	23.3%
Embramed Ind. Com. Prod. Hosp. Ltda.	10.5%	11.6%	3.3%	22.8%
Cremer S.A.	10.5%	11.7%	3.3%	20.3%
Byogene Com. de Prod. Para Lab. Clínico Ltda.	10.5%	11.8%	3.3%	16.6%
Biogenetix Imp. e Exp. Ltda.	10.5%	11.9%	3.3%	21.0%
Vitalab Com.de Prod. para Lab. Ltda	10.5%	11.7%	3.3%	31.9%
Expressa Distribuidora de Medicamentos Ltda.	10.5%	11.6%	3.3%	4.9%
Flexicotton Ind. e Com. de Prod. Higiene Pessoal S.A.	10.5%	11.8%	3.3%	29.7%

(1) Considering a growth rate of 3.3%, equivalent to the long-term inflation rate at the assessment date. The cash flow is nominal; and therefore the real terminal growth rate is 0% (zero).

Revenue was estimated based on expected growth rates for the Company's industry, namely 6% to 7% in nominal terms. Growth rates were limited to the current capacity of the asset and of the market in which the Company operates. Sales taxes were deducted from revenue where prescribed by law, and other deductions were made for historical consistency. Commercial expenses were projected based on historical data for the previous period, with no adjustments. Overhead expenses were projected based on expenses incurred in the previous period, adjusted for inflation.

The discount rate applied in cash-flow projections was 10.46%, which is the weighted average cost of capital (WACC) (approximately 12% before taxes).

The impairment tests indicated that the carrying amount of these assets is less than the value in use of the cash-generating unit as estimated based on the assumptions described above, and therefore a provision for impairment is not required.

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See below the amount by which individual changes to the discount rate used could lead to the CGU's recoverable amount being equal to the carrying amount:

	Discount rate used in the valuation	Maximum discount rate (1)	Carrying amount (2)
Embramed Ind. Com. Prod. Hosp. Ltda.	10.5%	13.7%	124,862
Cremer S.A.	10.5%	19.2%	639,612
Byogene Com. de Prod. Para Lab. Clínico Ltda.	10.5%	18.9%	24,112
Biogenetix Imp. e Exp. Ltda.	10.5%	12.5%	27,420
Vitalab Com.de Prod. para Lab. Ltda	10.5%	14.2%	32,195
Expressa Distribuidora de Medicamentos Ltda.	10.5%	18.3%	355,775
Flexicotton Ind. e Com. de Prod. Higiene Pessoal S.A.	10.5%	20.3%	91,598

(1) Sensitivity scenario: A sensitivity test generated a stress scenario to determine the maximum discount rate at which the cash flow will be sufficient to support the carrying value of the CGU.

(2) Carrying value of merged companies: includes goodwill, the residual balance of allocations, property, plant and equipment and directly attributable intangible assets, corporate assets and working capital ramp-up. Carrying value of non-merged companies: includes goodwill, the residual balance of allocations and the equity of the CGU.

These projections were approved by Management in a meeting held on January 5, 2021, and were prepared based on historical earnings and expected earnings for each CGU.

15. Leases

(a) Right-of-use asset

On initial adoption, the measurement of the right-of-use asset denotes the lease initial liability's value. Depreciation is calculated using the straight-line basis over the useful lives of the contracts.

	Average period in years	Parent company						
		12/01/2019		12/31/2019		12/31/2020		
		12/01/2019	Additions	Write-offs	12/31/2019	Additions	Write-offs	12/31/2020
Cost								
Distribution Centers	27	-	49,958	-	49,958	8,812	(777)	57,993
		-	49,958	-	49,958	8,812	(777)	57,993
Amortization								
Distribution Centers		-	(4,124)	-	(4,124)	(4,401)	-	(8,525)
		-	(4,124)	-	(4,124)	(4,441)	-	(8,525)
Net		-	45,834	-	45,834	4,412	(777)	49,468

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	Consolidated								
	Average per in years	12/01/2019	Additions	Write- offs	12/31/2019	Business combinations	Additions	Write-offs	12/31/2020
Cost									
Distribution Centers	24	-	49,958	-	49,958	2,010	17,133	(777)	68,324
Buildings	10	-	93,286	-	93,286	12,315	20,942	(6,892)	119,651
Amortization		-	143,244	-	143,244	14,325	38,075	(7,669)	187,975
Distribution Centers		-	(4,124)	-	(4,124)	(1,181)	(7,077)	-	(12,382)
Buildings		-	(19,300)	-	(19,300)	(1,827)	(20,453)	-	(41,580)
		-	(23,425)	-	(23,424)	(3,008)	(27,530)	-	(53,962)
Net		-	119,819	-	119,820	11,317	10,545	(7,669)	134,013

The right-of-use assets are tested for impairment at least annually. Management found it was not necessary to make a provision for impairment for the period ended December 31, 2020.

(b) Lease liabilities

At December 31, 2020 the Company had 30 lease agreements (23 leases at December 31, 2019) across its commercial, industrial and administrative operations, which were classified as operating leases.

For agreements falling within the scope of the relevant standard, future fixed lease payments (net of taxes), discounted using a nominal interest rate, were recognized as a component of lease liabilities.

At initial adoption of IFRS 16 / CPC 06 (R2), the weighted average discount rate used was 6.78% to 8.80% p.a.

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Breakdown and changes

Parent company											
	12/01/2019	Additions	Principal and interest payments	Interest appropriated	12/31/2019	Additions	Principal and interest payments	Interest appropriated	Write-offs	12/31/2020	
Distribution											
Centers	-	49,958	(5,042)	4,052	48,968	8,812	(5,795)	4,043	(777)	55,251	
	-	49,958	(5,042)	4,052	48,968	8,812	(5,795)	4,043	(777)	55,251	
Current					4,529					13,993	
Noncurrent					44,439					41,258	
Consolidated											
	12/01/2019	Additions	Principal and interest payments	Interest appropriated	12/31/2019	Business combinations	Additions	Principal and interest payments	Interest appropriated	Write-offs	12/31/2020
Distribution											
Centers	-	49,958	(5,042)	4,052	48,968	983	17,133	(7,603)	4,394	(777)	63,098
Buildings	-	93,286	(19,393)	6,279	80,172	11,323	20,942	(22,193)	5,458	(6,689)	88,812
	-	143,244	(24,435)	10,331	129,140	12,306	38,075	(29,796)	9,852	(7,667)	151,910
Current					29,342						50,785
Noncurrent					99,799						101,125

Estimated realization

Amortization schedule	Parent company	Consolidated
2021	13,993	50,785
2022	4,932	25,197
2023 onwards	36,326	75,928
	55,251	151,910

Additional information

The Company used the nominal interest rate in measuring lease liabilities. For disclosure purposes pursuant to CVM Circular 01/2020, we measure lease liabilities using the nominal flow x nominal rate method. The Company deems the difference between the calculation method for accounting purposes (actual flow x nominal rate) and the calculation method required by the CVM for disclosure purposes (nominal flow x nominal rate) to be immaterial.

At initial adoption of IFRS 16 / CPC 06 R (2) the Company believed lease liabilities were to be measured considering taxes (PIS and COFINS). After the CVM subsequently established a requirement that the gross amount of lease liabilities be recognized instead, the Company assessed the resulting difference and found it to be immaterial.

The Company has not applied the practical expedient outlined in CVM Resolution 859 (July 7, 2020) in the financial statements for the financial year ended December 31, 2020, as no terms or amounts have been adjusted as a result of the crisis triggered by the COVID-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a COVID-19-related rent concession that meets the conditions in paragraph 46B is a lease modification.

A lessee that makes this election must account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification.

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*(In thousands of Reais, unless stated otherwise)***16. Trade payables**

	Parent company		Consolidated	
	2020	2019	2020	2019
Domestic payables	555,714	383,732	953,095	474,889
Overseas payables	2,787	866	2,787	866
Payables - related-party transactions (note 21)	17,692	14,547	-	2,087
Total	576,193	399,145	955,882	477,951

The trade payables balances refer substantially to products purchased for resale and raw materials for manufacturing. The Group purchases goods from both domestic and foreign suppliers, which are subject to foreign-exchange variance.

(a) Trade payables – Reverse factoring

Consolidated trade payables amounted to R\$ 64,763 (R\$ 9,891 at December 31, 2019) relating to reverse factoring transactions with the company' suppliers (parent Company R\$ 17,265 at December 31, 2020). Reverse factoring transactions allow a supplier to receive payments before they are due, with a financial institution becoming the creditor in the transaction in the interim. In this operation the supplier can reduce its finance costs compared with market costs, as the financial institution takes into account the buyer's credit risk. The supplier elects to enter into the reverse factoring transaction at its own discretion, and fully incurs all related transaction fees. Payment terms and transaction conditions are not affected by confirming transactions.

17. Loans, financings, and debentures**(a) Loans and borrowings**

Type	Finance charges applicable	Parent company		Consolidated	
		2020	2019	2020	2019
Domestic currency					
Acquisition of PP&E (Finame and Finimp)	2.00 to 12.00% p.a.	4,699	6,731	4,699	6,731
Agricultural loans	8.00% to 8.60% p.a.	-	-	-	10,268
Acquisition of property, plant and equipment	5.00% to 15.00% p.a.	221	1,130	221	2,129
Working capital	CDI + USD variation	68,529	17,392	71,088	17,392
Working capital	CDI + 1.90% p.a.	-	-	172,605	-
Working capital	6.00% to 16.00% p.a.	-	-	83,480	-
ACC - Advances on Export Contracts	4.78% p.a.	-	-	-	1,036
Export credit	CDI +1.70% p.a.	-	-	14,377	27,141
Floating rate note	CDI +1.51% p.a.	-	-	20,171	40,695
Commercial papers	CDI +1.79% p.a.	-	-	31,909	44,682
CDC – Direct Consumer Credit	6.00% to 16.00% p.a.	4	58	692	58
CCB – Bank Credit Note	CDI + 1.90% p.a.	166,577	-	207,133	-
		240,030	25,311	606,375	150,132
Foreign currency					
Foreign-currency working capital (EUR)	CDI + 2.00% to 18.00% p.a.	-	-	23,438	33,079
Foreign-currency working capital (USD)	CDI +1.93% p.a.	-	-	133,834	60,618
		-	-	157,272	93,697
Total		240,030	25,311	763,647	243,829
Current		219,947	3,422	599,285	84,055
Noncurrent		20,083	21,889	164,362	159,774

The amounts recorded in noncurrent liabilities break down as follows by year of maturity:

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	Parent company		Consolidated	
	2020	2019	2020	2019
2021	-	19,260	-	103,520
2022 and 2023	20,079	-	135,490	-
2024 onwards	4	2,629	28,872	56,253
Total	20,083	21,889	164,362	159,773

Covenants

(i) Cremer S.A.: the subsidiary contracted a floating rate note, which include covenants related to economic and financial indexes that have to be accomplished annually. These indexes are as follow:

Maintenance of the index obtained by consolidated Net Debt over EBITDA, less than “3” (considering the consolidated financial statements at Company level) and consolidated Net Debt over EBITDA, less than “3,5” (considering the consolidated financial statements at subsidiary Cremer S.A. level), considering the followings terms:

Net debt: sum of loans and borrowings, debentures and other financial liabilities, financed payable taxes, leasing liabilities, derivative financial instruments and other contractual clauses, less cash and cash equivalents and financial investments.

EBITDA: sum of net income/loss, net financial costs, income taxes provision, depreciation and amortization.

(ii) Expressa Distribuidora de Medicamentos Ltda.: the subsidiary contracted loans with financial entities, which include covenants related to economic and financial indexes that have to be accomplished annually. These indexes are as follow:

Santander Bank: Maintenance of the index obtained by consolidated net financial cost over EBITDA, less than “2”, and current ratio above than “1” considering the followings terms:

EBITDA: net income/(loss), less any provision, interests, hedging instruments, depreciation, amortization, dividends, contingences, capitalized costs and other contractual clauses.

Current ratio: current assets over current liabilities.

ABC Bank: Maintenance of the index obtained by consolidated Net Debt over EBITDA, less than 3 considering the followings terms:

Net debt: sum of loans and borrowings, debentures and other financial liabilities, financed payable taxes, leasing liabilities, derivative financial instruments and other contractual clauses, less cash and cash equivalents and financial investments.

EBITDA: sum of net income/loss, net financial costs, income taxes provision, depreciation, amortization, costs and expenses arising from the issuance, profit (loss) of equity-accounted investees, gains (losses) on assets valuation and other contractual clauses.

Guarantees

Loans and financing are secured by sureties and rights in receivables, and have been obtained at rates that are customary in the industry and for the type of loan, the repayment period and the timing of disbursements.

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*(In thousands of Reals, unless stated otherwise)***(b) Debentures**

Type	Finance charges applicable	Parent company		Consolidated	
		2020	2019	2020	2019
Domestic currency					
Debentures	(CDI + 2.00% p.a. 2.50% p.a.)	386,573	384,204	386,573	456,029
(-) borrowing costs of debentures issuance		(4,387)	(5,265)	(4,387)	(5,362)
Total		382,186	378,939	382,186	450,667
Current		135,175	68,806	135,175	140,534
Noncurrent		247,011	310,133	247,011	310,133

The amounts recorded in noncurrent liabilities, gross of debenture issuance transaction costs, break down as follows by year of maturity:

	Parent company and consolidated	
	2020	2019
2022	49,402	64,000
2023	49,402	64,000
2024	49,402	64,000
2025	49,402	64,000
2026	49,403	54,133
Total	247,011	310,133

The Group's debentures were realized in accordance with Directive 476 issued by the Brazilian Securities Commission - CVM on January 16, 2009.

(i) 1st debentures issuance - Parent Company

On December 27, 2017 CM Hospitalar S.A. made its 1st issuance of simple unsecured nonconvertible debentures in a single tranche, maturing March 27, 2026, which the Board of Directors approved in December 2017. This issuance has the following features:

Amount: R\$ 400,000;

Dates: (a) issuance: December 27, 2017 and (b) maturity: March 27, 2026;

Amortization: quarterly, with payment starting at the end of month 24, as from the issuance date;

Compensation: the debentures will yield interest equal to 100% of the accumulated average daily rates of the DIs - One-day "over extra-group" Interbank Deposits, calculated and disclosed by CETIP, capitalized at a surcharge of 2.40% on the basis of 252 working days on the nominal value or nominal unit value, as from the debentures issuance date;

Payment of Compensation: The amount shall be paid quarterly, as from the issuance date with a grace period of 24 months, with the first payment on December 27, 2019 and the last payment due at maturity.

Covenants: the aforesaid debentures have covenants related to economic and financial indexes that have to be accomplished annually. These indexes are as follow:

Maintenance of the index obtained by consolidated Net Debt over EBITDA, less than 3, considering the followings terms:

Net debt: sum of loans and borrowings, debentures and other financial liabilities, financed payable taxes, leasing liabilities, derivative financial instruments and other contractual clauses, less cash and cash equivalents and financial investments.

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EBITDA: sum of net income/loss, net financial costs, income taxes provision, depreciation, amortization, costs and expenses arising from the issuance, profit (loss) of equity-accounted investees, gains (losses) on assets valuation and other contractual clauses.

	Contracted 2020	Reached 2020	Contracted 2021
Net debt/EBITDA	3	2,1	3

(ii) 2nd debentures issuance – Parent Company

On May 27, 2020, CM Hospitalar S.A. made its 2nd issuance of simple unsecured nonconvertible debentures in a single tranche. This issuance was approved by the Board of Directors on May 11, 2020 and has the following features:

Amount: R\$ 65,000;

Dates: (a) issuance: May 14, 2020 and (b) maturity: March 27, 2026;

Amortization: quarterly, with payment starting at the end of month 24, as from the issuance date;

Compensation: the debentures will yield interest equal to 100% of the accumulated average daily rates of the DIs - One-day “over extra-group” Interbank Deposits, calculated and disclosed by CETIP, capitalized at a surcharge of 2.56% on the basis of 252 working days on the nominal value or nominal unit value, as from the debentures issuance date;

Payment of compensation: the amount shall be paid in a unique payment due at maturity.

(iii) 4th Debentures issuance – Subsidiary Cremer S.A.

On April 15, 2014 the subsidiary Cremer S.A. made its 4th issuance of simple unsecured nonconvertible debentures in a single tranche, maturing April 15, 2020, which the Board of Directors approved at a meeting on April 04, 2014. This issuance has the following features:

Amount: R\$ 200,000;

Dates: (a) issuance: April 15, 2014 and (b) maturity: April 15, 2020;

Amortization: in five equal annual installments starting 24 months after the issuance date;

Compensation: The debentures will yield interest equal to 100% of the accumulated average daily rates of the DIs - One-day “over extra-group” Interbank Deposits, calculated and disclosed by CETIP, capitalized at a surcharge of 2.0% on the basis of 252 working days on the nominal value or nominal unit value, as from the debentures issuance date;

Payment of Compensation: 6 annual payments, expiring between August 2015 and April 2020.

Covenants: the aforesaid 4th Debentures issuance had covenants related to economic and financial indexes that had to be accomplished annually. These indexes were as follow:

Maintenance of the index obtained by consolidated Net Debt over EBITDA, less than “3,5”, and service cost index above “1,3” considering the followings terms:

Net debt: sum of loans and borrowings, debentures and other financial liabilities, financed payable taxes, leasing liabilities, derivative financial instruments and other contractual clauses, less cash and cash equivalents and financial investments.

EBITDA: sum of net income/loss, net financial costs, income taxes provision, depreciation and amortization.

Service cost index: Cash generated (cash and cash equivalents and financial investments plus EBITDA) over amortization of principal and interest

Debentures issued by the subsidiary Cremer S.A. were completely settled in April 2020, according to the maturity date of the debt.

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(iv) 6th Debentures issuance – Subsidiary Cremer S.A.

On April 11, 2017 the subsidiary Cremer S.A. made its 6th issuance of simple unsecured nonconvertible debentures in a single tranche, maturing April 11, 2020, which the Board of Directors approved at a meeting on April 03, 2017. This issuance has the following features:

Amount: R\$ 80,000;

Dates: (a) issuance: April 11, 2017 and (b) maturity: April 11, 2020;

Amortization: semi-annual, with payment starting at the end of month 12, as from the issuance date;

Compensation: The debentures will yield interest equal to 100% of the accumulated average daily rates of the DIs - One-day “over extra-group” Interbank Deposits, calculated and disclosed by CETIP, capitalized at a surcharge of 2.50% on the basis of 252 working days on the nominal value or nominal unit value, as from the debentures issuance date;

Payment of Compensation: the amounts shall be paid semi-annually, as from the issuance date, in October and April each year, with the first payment on October 11, 2017 and the last payment due at maturity.

Covenants: the aforesaid 6th Debentures issuance had covenants related to economic and financial indexes that had to be accomplished annually. These indexes were as follow:

Maintenance of the index obtained by consolidated Net Debt over EBITDA, less than “3,5”, and service cost index above “1,3” considering the followings terms:

Net debt: sum of loans and borrowings, debentures and other financial liabilities, financed payable taxes, leasing liabilities, derivative financial instruments and other contractual clauses, less cash and cash equivalents and financial investments.

EBITDA: sum of net income/loss, net financial costs, income taxes provision, depreciation and amortization.

Service cost index: Cash generated (cash and cash equivalents and financial investments plus EBITDA) over amortization of principal and interest

Debentures issued by the subsidiary Cremer S.A. were completely settled in April 2020, according to the maturity date of the debt.

Guarantees

The debentures are secured by trade notes receivable, equal to the debit balance at the reporting dates.

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*(In thousands of Reais, unless stated otherwise)***(c) Reconciliation of movements of liabilities to cash flows arising from financing activities (parent company)**

	<u>Loans and borrowings</u>	<u>Debentures</u>	<u>Total</u>
At January 01, 2019	38,727	394,130	432,857
Changes not affecting cash flow			
Borrowing	17,000	-	17,000
Payments of principal	(32,059)	-	(32,059)
Interest payments	(157)	-	(157)
Payments of debentures	-	(41,783)	(41,783)
Payments of interest on debentures	-	(7,327)	(7,327)
Changes not affecting cash flow			-
Provision for debenture interest	-	33,919	33,919
Provision for interest and exchange variance	1,800	-	1,800
At December 31, 2019	25,311	378,939	404,250
Changes not affecting cash flow			
Borrowing	214,825	65,000	279,825
Payments of principal	(3,890)	(64,000)	(67,890)
Interest payments	(1,037)	-	(1,037)
Payments of interest on debentures	-	(18,615)	(18,615)
Changes not affecting cash flow			
Provision for debenture interest	-	20,862	20,862
Provision for interest and exchange variance	4,821	-	4,821
At December 31, 2020	240,030	382,186	622,216

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*(In thousands of Reais, unless stated otherwise)***(d) Reconciliation of movements of liabilities to cash flows arising from financing activities (consolidated)**

	Loans and borrowings	Debenture s	Total
At January 01, 2019	261,601	540,544	802,145
Changes affecting cash flow			
Loans obtained	91,633	-	91,633
Loan payments	(115,477)	-	(115,477)
Interest payments	(10,403)	-	(10,403)
Payments of debentures	-	(113,783)	(113,783)
Cash and cash equivalents, redemptions and short-term investments	-	(18,631)	(18,631)
Changes not affecting cash flow			
Provision for interest and exchange variance	16,474	-	16,474
Provision for debenture interest	-	42,538	42,538
At December 31, 2019	243,828	450,668	694,496
Changes affecting cash flow			
Proceeds from issue of share capital			
Loans obtained/debentures issuance	505,844	65,000	570,844
Loan payments	(261,988)	(120,000)	(381,988)
Interest payments	(15,393)	-	(15,393)
Payments of interest on debentures	-	(35,705)	(35,705)
Acquisitions/sales of investments	310,201	-	310,201
Changes not affecting cash flow	-	-	-
Provision for interest and exchange variance	(18,846)	22,224	3,378
At December 31, 2020	763,646	382,186	1,145,832

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*(In thousands of Reais, unless stated otherwise)***18. Payroll and related charges payable**

	Parent company		Consolidated	
	2020	2019	2020	2019
Salaries and wages payable	30,494	3,877	34,715	6,450
Social charges payable	6,353	4,018	13,200	6,052
Provisions for vacations	6,404	7,372	14,212	14,969
Provisions for labor liabilities and payroll taxes	218	35,522	14,252	35,522
Other	494	684	1,115	9,061
Total	43,963	51,473	77,494	72,054

19. Taxes payable

	Parent company		Consolidated	
	2020	2019	2020	2019
Value-Added Tax on Goods and Services - ICMS (i)	21,306	16,745	42,331	20,894
Income tax and social contribution - IRPJ and CSLL	5,906	371	10,417	2,399
Provisions for tax liabilities (ii)	6,049	22,963	6,049	22,871
Other	197	1,334	1,935	4,284
Total	33,458	41,413	60,732	50,448
Current	33,458	40,265	60,327	48,059
Noncurrent	-	1,148	405	2,389

- (i) With the entry into effect of ICMS 93/2015, a differential rate now applies to transactions originating in the state of Goiás. Under ICMS 93/2015, the state of Goiás is required to either offset or return the differential rate amounts for the period between January and June 2016 to the Company. At the time of publication of the rules on offsetting or returning differential rates, the Company had not made any payments of ICMS. Other amounts are taxes payable by the Group in the ordinary course of business.
- (ii) In the financial year ended December 31, 2020 and 2019 the Company reassessed the likelihood considering the statute of limitation and concluded that cash outflows are not probable. The effects from the reassessment have been recognized in the statement of profit of loss for the fiscal year under other expense in the amount of R\$ 14,491 (R\$ 59,070 as of December 31, 2019).

20. Income and social contribution taxes**(a) Deferred income and social contribution tax**

Deferred income tax and social contribution assets and liabilities have been recognized at current rates.

Deferred income tax and social contribution assets are recognized for tax losses, cumulative negative tax bases and temporary differences, while liabilities are recognized in respect of the effects of deemed cost accounting and temporary differences between depreciation calculated at the rates for tax purposes and over the economic useful life of goodwill assets (which are amortized for tax but not accounting purposes pursuant to Law no. 11.638/07).

Deferred tax assets and liabilities in the year were as follows:

	Parent company		Consolidated	
	2020	2019	2020	2019
Assets:				
Tax losses and negative basis	-	-	60,120	37,912
Allowance for doubtful accounts	320	479	320	479
Labor provisions and payroll taxes	9,173	12,077	9,173	12,077
Provisions for tax liabilities	2,057	5,080	2,057	5,080
Provision for contingencies	2,070	2,329	2,070	2,329
Other provisions	2,471	5,234	49,552	22,646

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Deferred tax assets	16,091	25,199	123,292	80,523
Liabilities				
Goodwill ⁽¹⁾	-	-	(12,203)	(7,679)
Useful life	-	-	(8,602)	(8,874)
Effect on gain from lawsuit ⁽²⁾	-	-	(46,898)	-
Deemed cost	-	-	(571)	(1,037)
Right to reimbursement	-	(14,861)	-	(14,861)
Appreciation of property, plant and equipment and assets held for sale ⁽³⁾	(3,415)	(5,444)	(3,415)	(5,444)
Brands ⁽³⁾	(25,483)	(28,054)	(25,483)	(28,054)
Customer list ⁽³⁾	(16,464)	(18,715)	(16,464)	(18,715)
Deferred tax liabilities	(45,362)	(67,074)	(113,636)	(84,664)
Total deferred net taxes	(29,271)	(41,875)	9,656	(4,141)
Total Assets	-	-	38,927	37,734
Total Liabilities	(29,271)	(41,875)	(29,271)	(41,875)

(1) The deferred tax liability is related to a tax benefit of amortization (only for tax purpose) from goodwill described as "P. Simon S.A." and "Embramed Ind. Com. Prod. Hosp. Ltda.". This amortization tax benefit was recognized in the subsidiary Cremer S.A. based in the merger occurred in 201X and 2019, respectively.

(2) (1) As mentioned in note 10, the subsidiaries Cremer S.A, Flexicotton and Biogenetix obtained success in their lawsuits claiming the right to exclude ICMS from de Pis and Cofins calculation basis. As a result of the favorable outcome of the lawsuit, the corresponding tax credits were recorded in the income statement. The subsidiary Cremer S.A. obtained the final and unappealable judgment, but awaits the case closure before requesting the approval of the credits by the Brazilian Federal Revenue Office. Due to the credit registration, the subsidiary recorded a deferred income tax and social contribution on the recognized gain while it is still waiting for the judicial process to realize the benefit.

(3) The deferred tax liability is related to the amortization of some assets measured at fair value in the acquisition date, recognized in the acquisition of subsidiary Cremer S.A. occurred in 2018. In the acquisition date, The Company had recognized a deferred tax liability based in the tax and legal limitations to proceed with a future merger process between the Company and its subsidiary.

Recognized tax credits are supported by projections demonstrating that the Company will earn taxable income in future fiscal years in amounts deemed sufficient to use those credits. These projections were prepared based on budgets for financial year 2021 prepared by Management and presented to the Board of Directors in a meeting on January 27, 2021. In preparing projections of future taxable income, the Company uses assumptions derived from its business plan including revenue and profit-margin growth, the macroeconomic environment, current and past performance, and expected market growth. Based on the Company's business plan, these tax credits will be off settable by fiscal year 2024.

Management periodically reevaluates the extent to which the business plan has been realized in terms of taxable income, and the expected time required to offset recognized tax credits. Based on its projected earnings, Management estimates the recorded tax credits will be fully realized as follows:

	2020
2021	19,077
2022	21,155
2023	8,092
2024	9,906
2025 onwards	1,890
Total	60,120

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The assumptions regarding business prospects, operating and financial income projections and the Company's growth potential are made into projections based on management's expectations about the Company's future. Accordingly, these estimates may differ from the effective taxable income in the future due to the inherent uncertainties involving these estimates.

The deferred tax liabilities of the parent company and its subsidiaries are stated net of deferred tax assets, as described in (a) above. CM Hospitalar S.A. and direct subsidiary Cremer Administradora de Bens Ltda., however, have no deferred tax assets in their individual statements of financial position and therefore their deferred taxes are stated under liabilities.

(b) Reconciliation between effective income and social contribution tax expense

The reconciliation between the tax expense as calculated by the statutory rates and the income and social contribution tax expense charged to net income is presented below:

	Parent company		Consolidated	
	2020	2019	2020	2019
Income before tax	119,637	(16,737)	189,585	(17,357)
Basic rate	34%	34%	34%	34%
Expense at the basic rate	(40,677)	5,691	(64,459)	5,901
Taxes on permanent exclusions (additions)				
Share of profit (loss) of equity-accounted investees	36,128	10,980	-	-
Fines and donations	14	497	14	497
Income taxes impact on reversal of right of reimbursement (permanent difference)	2,808	18,020	2,808	19,395
Income tax impact related to interest on income tax risks	2,119	13,337	2,119	13,337
Presumed taxes from subsidiary	-	-	-	10,390
Other permanent additions (exclusions)	1,737	3,959	(8,301)	3,584
Income tax and social contribution credit (expense)	2,129	52,484	(67,819)	53,104
Effective rate	-1.8%	-314%	-36%	-306%
Current income and social contribution tax	(10,475)	(7,696)	(38,845)	(25,565)
Deferred income and social contribution tax	12,604	60,180	(28,974)	78,669

21. Related-party transactions

The related-party balance substantially relates to resale transactions with Group companies and individuals.

Balances	Parent company		Consolidated	
	2020	2019	2020	2019
Current assets				
Trade accounts receivable				
CM Medicamentos Especiais Ltda.	339	926	-	926
CMI Hospitalar Ltda.	749	874	-	874
CCM Industria e Com. De Prod. Disposables	-	1	-	1
Diagnóstica Serviços Ltda.	15	-	-	-
Expressa Distribuidora de Medicamentos Ltda.	2,580	-	-	-
Health Logística Hospitalar S.A.	60	-	-	-
Cremer S.A.	139	4	-	-
	3,882	1,805	-	1,801

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Dividends receivable – Cremer S.A.	26,704	21,080	-	-
Dividends receivable – Flexicotton	940	-	-	-
Dividends receivable – Health Log	300	-	-	-
	27,944	21,080	-	-
Loans receivable				
Far.me	449	-	449	-
Biogenetix	7,100	-	-	-
Byogene	29,550	-	-	-
Vitalab	6,350	-	-	-
Expressa	80,000	-	-	-
Health	10,801	-	-	-
	134,250	-	449	-
Right to reimbursement (i)	1,998	27,829	1,998	27,829
Total current assets	168,074	50,714	2,447	29,630
Noncurrent assets				
Current account - Health Logística S.A.	-	3,508	-	3,508
Right to reimbursement (i)	1,093	15,879	1,093	15,879
Total non-current assets	1,093	19,387	1,093	19,387
Current liabilities				
Trade payables				
Cremer S.A.	11,220	8,557	-	-
Tecnocold Locação de Espaços e Distribuição de Produtos Refrigerados Ltda.	4,290	4,290	-	-
Health Logística S.A.	96	7	-	395
CCM Indústria e Comércio de Produtos Descartáveis Ltda.	6,632	1,691	-	1,691
CM Medicamentos Especiais Ltda.	-	1	-	1
Expressa Distribuidora de Medicamentos Ltda.	2,086	-	-	-
	24,326	14,546	-	2,087
Dividends payable				
Cromossomo Participações IV S.A.	135	135	135	135
Carlos Alberto Mafra Terra	101	101	101	101
Consolação Goulart Terra	101	101	101	101
Cleber Aparecida Ribeiro	28	28	28	28
Vitalab former shareholders ⁽ⁱⁱ⁾	-	-	11,328	-
Minimum dividends proposed by Management	37,388	8,491	37,388	8,491
	37,753	8,856	49,081	8,856
Tecnocold Locação de Espaços e Distribuição de Produtos Refrigerados Ltda.	1,637	1,747	-	-
	1,637	1,747	-	-

(i) On December 31, 2015, Carlos Alberto Mafra Terra, Cleber Aparecido Ribeiro, Consolação Goulart Terra and CAMT Empreendimentos e Participações Ltda. (collectively the Group's "Original Shareholders") entered into an investment agreement with Cromossomo Participações IV S.A. ("Cromossomo" or "Investor") which contained a clause providing for an indemnity payable by the Original Shareholders to the Company, as the case may be, for acts, events, actions or omissions on the part of the Group that occurred before the date of March 1st, 2016 ("the Agreement date") or that arise from an event that occurred prior to the agreement date, even if the relevant effects materialize after the

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agreement date. Under such clause, the Company has a right of reimbursement arising from an indemnity clause signed between its shareholders to cover possible contingencies and tax liabilities, which were originated in periods prior to March 1st, 2016 and may be required to be settled after this date. The contract foresees that the Company will be reimbursed and will not have any financial or tax charge, including tax charges, fees or interest related to the indemnity reimbursement. Management assessed the clauses related to the right of reimbursement, warranties, guarantor's ability to pay, among others, and concluded on the amount required to be recorded in the financial statements to cover contingencies and tax liabilities, due to their chance of loss be assessed as probable. Such right of reimbursement was recognized to meet the condition of being "virtually certain", as required by CPC 25 / IAS 37. Management understands that such amounts recorded are sufficient to ensure that the Company will not have any loss in case of the need of cash disbursement to any guaranteed contingent by this right. The asset right of reimbursement was recognized on the Agreement date, and the amounts on December 31, 2020 of assets of right of reimbursement are R\$ 3,091 (R\$ 43,708 on December 31, 2019). During 2020, there was the derecognition of R\$ 40,616 (R\$ 163,656 on December 31, 2019), which were recognized in other expenses, due to the derecognition of related contingent liabilities. There was no cash effect in this transaction.

- (ii) The subsidiary Vitalab has in its liabilities an amount of dividends payable to the former shareholders of the company in relation to results earned on the date prior to the purchase, still due on payment.

Loan operations receivables from subsidiaries do not incur in charges, have no formal guarantees and have a maturity of one to two years.

Transactions	Parent company		Consolidated	
	2020	2019	2020	2019
Sales revenue				
CCM Indústria e Comércio de Produtos Descartáveis Ltda.	-	13	-	13
CM Campinas Medicamentos Especiais Ltda.	-	663	-	663
CM Medicamentos Especiais Ltda.	-	6,020	-	-
Cremer S.A.	314	-	-	-
Expressa	44,921	-	-	-
CMI Hospitalar Ltda.	-	7,493	-	7,493
Total	45,235	14,189	-	8,169
Services and products purchased				
Health Logística Hospitalar S.A.	27,669	28,723	-	28,723
CCM Indústria e Comércio de Produtos Descartáveis Ltda.	-	21,193	-	21,193
Expressa	46,421	-	-	-
Biogenetix	59	-	-	-
CM Medicamentos Especiais Ltda.	-	16	-	16
Cremer S.A.	68,167	97,462	-	-
Total	142,316	147,394	-	49,932

Commercial transactions entailing the sale and purchase of goods with related parties are conducted on specific terms between them.

(a) Key management personnel compensation

Key Management personnel include all members of the Board of Directors and statutory and non-statutory officers whose duties give them decision-making authority and control over the Company's and its subsidiaries' operations. Expenses on short-term compensation paid to key Management personnel, as recognized in the statement of income, amounted to R\$ 8,962 (R\$ 8,818 at December 31, 2019). This includes all short-term benefits, namely: (i) management fees paid to officers and members of the Board of Directors; (ii) bonuses paid to officers, and (iii) other benefits, such as health insurance. The Company does not provide post-employment and/or severance benefits to key Management personnel, other than those required by applicable law. Key Management personnel are entitled to long-term benefits, such as pension plans, share-based payment plan, or other benefits.

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Share-based remuneration plan

On April 2, 2018 a Phantom Stock Program was approved in an Extraordinary General Meeting. Under the Program, Company executive directors and managers (Beneficiaries) are granted rights in the appreciation of the Company's stock. Benefits under the program can be paid in cash or shares.

Beneficiaries are selected and appointed by the Board of Directors at its sole discretion, and benefits are not granted equally to each beneficiary, but are instead based on criteria established by the Board of Directors case by case. The conditions to be satisfied by and the benefits payable to each beneficiary are formalized under Program Agreements signed individually by each executive.

Under the Program rules, the appreciation of the Company's stock, and the corresponding amounts to be paid to Beneficiaries, are measured by the difference between a "Baseline Value" and a "Terminal Value". On September 30, 2020 an Extraordinary General Meeting approved an amendment to the Program that established a new Baseline Value reflecting the amounts capitalized into the company in 2020. On September 30, 2020 the Board of Directors granted this SARs to Beneficiaries. Terminal Value means the value, expressed in Reais, of 1 (one) share in the Company on the Record Date. The Terminal Value will:

- (i) at any time prior to the occurrence of a Triggering Event, be equivalent to the share price as determined by (A) multiplying LTM EBITDA (last-twelve-month EBITDA) by a multiple of (x) 8.33 (eight point three three) or (y), in the event that any amounts are capitalized into the Company between the present date and the Record Date, by such multiple as was used in the valuation of the Company in the most recent capitalization event, less (B) the Company's Net Debt, divided (C) by the total number of shares in the Company on the Record Date;
- (ii) or, upon the occurrence of a Triggering Event, be the Company's share price upon such Triggering Event.

The fair value of the amount payable to employees in respect of SARs, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the SARs. Any changes in the liability are recognized in profit or loss.

As of December 31, 2020, and 2019, expenses related to the services provided (considering the vesting period) and the corresponding liability were not recognized as the amounts were not considered material in relation to the financial statements taken as a whole.

22. Provision for tax, civil and labor risks

The Group is party to labor and tax claims, and is disputing them before both the administrative and judicial courts, which when applicable are subject to judicial deposits. The provisions for any losses under these proceedings are estimated by Management.

(a) Contingencies and risks rated as probable losses

Contingencies and risks rated as probable losses refer to labor and tax proceedings likely to result in disbursements by the Company, especially labor claims seeking severance pay, and tax disputes involving a high degree of judgment.

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An assessment of whether or not a provision is required for these amounts was conducted in accordance with CPC 25 (IAS 37) - *Provisions, Contingent Liabilities and Contingent Assets*.

	2019	Balances from business combinations	Provisions	Write-offs	Charges	2020
Parent company						
Labor	9,333	-	1,240	-	265	10,838
Consolidated						
Tax	8,221	291,741	21,064	(7,276)	140	313,890
Labor	12,721	1,801	4,668	(3,223)	-	15,967
Civil	7,207	2	109	-	1,666	8,984
	<u>28,149</u>	<u>293,544</u>	<u>25,841</u>	<u>(10,499)</u>	<u>1,806</u>	<u>338,841</u>
Current	-					2,551
Noncurrent	29,149					336,290

Our most significant tax proceeding was brought by subsidiary Expressa Distribuidora de Medicamentos Ltda. in September 2017, before courts in 25 states, seeking payment of ICMS Rate Differential (DIFAL) amounts on interstate sales originating at its distribution center in the Federal District. A judicial deposit has been made as Direct Unconstitutionality Action ADIN 5439 has yet to be adjudicated by the Federal Supreme Court (STF). The updated amount of the provision and the judicial deposit amount were a total of R\$ 274,860 at December 31, 2020.

(b) Contingencies and risks rated as possible losses - Consolidated

The Company has an amount of approximately R\$ 292,365 (R\$ 205,373 at December 31, 2019) related to tax and labor contingencies assessed as possible chance of loss, for which no provisions were recorded. The main proceedings are substantially related to:

(i) Parent Company - Infraction notice

Related to the questioning by the tax authorities of the state of Goiás about the exemption of taxation over medicines resold by the Company. At December 31, 2020 the amount involved was R\$ 37,799 (R\$ 41,035 at December 31, 2019). The most significant infractions brought in connection with these notices are as follows:

- (a) Case no. 4011403583605: an infraction notice was issued by tax authorities on December 12, 2014, due to lack of payment of ICMS and alleging greater use of granted credit to which the Company would be entitled. The case is pending adjudication by the judgments office in Catalão, state of Goiás. The estimated case value rated as a possible loss is R\$ 4,819.
- (b) Case no. 4011403585306: an infraction notice was issued by tax authorities on December 12, 2014 alleging that invoices for goods shipped between January 1, 2012 and December 31, 2013 contained less than the tax amount required by applicable tax legislation. The case is pending adjudication by the tax authority. The estimated case value rated as a possible loss is R\$ 29,775.

(ii) Subsidiary Cremer S.A.*Tax contingencies*

During the second half of 2010, Cremer S.A received a delinquency notice from the Federal tax authorities disallowing certain expenses related to amortization of goodwill. The delinquency notice is currently being heard in administrative proceedings. The case is also being litigated in court, and the Company's independent legal advisors have rated the likelihood of loss as possible. In the second quarter of 2016, an audit by the Federal tax authorities led to a delinquency notice against subsidiary Cremer Administradora de Bens Ltda., alleging that the sale of certain properties was subject to capital gains tax. Our legal advisors have rated the likelihood of loss as possible.

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Labor contingencies

Cremer S.A and its subsidiaries are parties to certain labor claims brought by employees, former employees and third parties seeking payment of severance indemnities, bonuses, overtime pay, salary parity amounts, monetary update of FGTS contributions, damages for pain and suffering, material damages, and damages through joint liability.

Civil contingencies

Cremer S.A and its subsidiaries are defendants in certain lawsuits before common courts and special civil courts. Most of the lawsuits were filed by customers seeking damages for pain and suffering and material damages. The Company and its subsidiaries are also parties to proceedings seeking collection of contract termination penalties, some of which have resulted in court awards which have been appealed against where applicable. The Company believes that the risk factors involved in these various proceedings warrant the establishment of a provision, and has done so accordingly.

(iii) Expressa Distribuidora de Medicamentos

The subsidiary is involved in other tax proceedings arising from the normal course of business, which in management and its legal advisers' opinion are rated as a possible defeat, and consequently no provision was made for them. The most significant cases rated by our tax advisors as possible losses at December 31, 2020 concern IRPJ and CSLL tax claims totaling R\$ 49,419 (R\$ 20,695 in 2019).

(c) Contingent assets - Consolidated

(i) PIS and COFINS credit

The Company and its subsidiaries are party to four proceedings seeking recognition of the right to exclude ICMS from the PIS and COFINS tax base. At the reporting date, these claims were pending adjudication of special appeals brought by the Federal tax authorities. The Company's legal advisers believe the Company is probable to be successful in these cases, but because none of them have become *res judicata*, and the Supreme Court (STF) has yet to rule on a motion filed in the leading case by the Federal tax authorities, seeking to amend the effects of the decision and the method of calculating credits, the estimated amounts involved may substantially change. The relevant contingent assets are therefore not recognized in the financial statements, but are being disclosed in notes.

For these cases, the Company preliminarily compiled documents and prepared estimates at December 31, 2020 for two separate scenarios: one based on the amount stated on outgoing invoices, and the other based on the net tax amounts paid, as outlined in guidelines issued by the Federal tax authorities. These estimates range from R\$ 7,000 to R\$ 13,000 for the parent company and from R\$ 31,000 to R\$ 95,000 on a consolidated basis, assuming respectively the first and the second scenario.

(d) Judicial deposits (consolidated)

	2019	Balances from business combinations	Additions	Write-offs	2020
Tax	3,748	264,885	10,541	-	279,084
Labor	1,132	99	42	(135)	1,138
Civil	429	-	11	(73)	367
	5,309	264,984	10,594	(208)	280,589

In December 2009 the Company filed a petition for writ of mandamus (case no. 5002307.54.2010.404.7205) claiming entitlement to use tax losses and negative tax bases inherited from third parties, which had been rejected by the Federal tax authorities. During the 3rd quarter of 2011, the Company made a judicial deposit of R\$ 2,111 (R\$ 2,111 at December 31, 2019). The Company secured a favorable decision in the lower court, which was, however, amended under an appeal brought by the Federal tax authorities before the Federal Court of the 4th Region. The decision on appeal requires collection of PAES amounts deemed to be delinquent. The Company has accordingly made a judicial deposit for the balance alleged to be owing, in order to prevent the exclusion of PAES contributions from the related tax proceedings, pending a decision on extraordinary and special appeals which have been filed. The Company's legal advisers have rated the likelihood of loss as possible.

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Subsidiary Expressa Distribuidora de Medicamentos has a judicial deposit relating to litigation in several states concerning ICMS rate differentials, as described in note 22.a.

23. Equity

(a) Share capital

The share capital as of December 31, 2020 in the amount of R\$ 979,957 (R\$ 253,629 in 2019) consists of registered common shares with no par value and is distributed as follows:

	2020		2019	
	Shares	%	Shares	%
Genoma VI Fundo Investimento	130,065,900	52.43%	-	-
Cromossomo Participações IV S.A.	56,386,455	22.73%	57,898,545	37.00%
Carlos Alberto Mafra Terra	17,497,843	7.05%	43,377,889	27.72%
Consolação Goulart Terra	44,129,162	17.79%	43,377,889	27.72%
Cleber Aparecido Ribeiro	-	-	11,828,232	7.56%
	<u>248,079,360</u>	<u>100.00%</u>	<u>156,482,555</u>	<u>100.00%</u>

On March 12, 2020, in an Extraordinary General Meeting, the shareholders of the Company approved a capital increase of R\$ 498 through the issuance of 204,369 new registered common shares with no par value. The amount of 204,369 shares was measured by the historical share price of the Company as of March 12, 2020. This capital increase had no cash effect. The shares were fully subscribed and paid in by shareholders Carlos Alberto Mafra Terra, Cleber Aparecido Ribeiro, Consolação Goulart Terra and Cromossomo Participações IV S.A., in proportion to their interests, by conveying 89,201 registered no-par-value shares representing 100% of the share capital of Health Logística Hospitalar S.A. As a result of the capital increase, the Company's share capital increased from R\$ 253,629, represented by 156,482,555 registered common shares with no par value, to R\$ 254,127, represented by 156,686,924 shares. This transaction was considered a business combination under common control and was accounted considering the book value.

The assets used for the purposes of the capital increase are presented below:

	<u>2/29/2020</u>
Cash and cash equivalents	614
Accounts receivable	7,313
Other assets	272
Property, plant and equipment	8,234
Right-of-use	829
Trade payables	(3,270)
Loans and borrowings	(3,654)
Lease liability	(983)
Payroll and charges payable	(2,460)
Related-party transactions	(3,158)
Taxes payable	(813)
Other liabilities	(2,129)
Provision for tax, labor and civil risks	(297)
Equity	<u>498</u>

At the extraordinary general meeting held April 02, 2020 the shareholders approved a capital increase of R\$ 725,833, via the issuance of 91,392,436 new registered common shares with no par value. The increase was fully subscribed by the shareholder Genoma VI Fundo de Investimentos em Participações Multiestratégia, in local currency. The share capital consequently rose from R\$ 254,124 consisting of 156,686,924 common registered shares with no par value to R\$ 979,957 consisting of 248,079,360 shares. With the increase, the shareholder Cleber Aparecido Ribeiro left the partnership and the remaining partners had their shares diluted.

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(b) Profit reserves

(ii) Legal Reserve

The legal reserve is annually allocated 5% of the net income for the year and may not exceed 20% of the share capital. The legal reserve aims to ensure the integrity of the share capital and can only be used to absorb losses and increase capital. The Company allocated R\$ 6,088 to the legal reserve as of December 31, 2020 (R\$ 1,787 in 2019). The created amounts meet the limits imposed by Brazilian corporate legislation.

(iii) Profit retention reserve

Appropriated retained earnings are used for the investments projected in the capital budget. A reserve of R\$ 86,759 was made on December 31, 2020 (R\$ 25,470 as of December 31, 2019).

(c) Dividends

Based on the Company's Bylaws, shareholders are entitled to receive a minimum mandatory annual dividend of 30% of net income, adjusted in accordance with Brazilian corporate law. Under the Indenture for the 1st Issue of Ordinary Debentures, however, shareholder payouts of any kind—including dividends and interest on equity—are limited to 25% of net income for the period. Issuance of the debentures was approved by all shareholders during an Extraordinary General Meeting on December 21, 2017.

Therefore, any dividends proposed by Management are limited to 25% of net income, in accordance with applicable corporate law and the relevant indenture covenants. The Board of Directors recommended the capitalization of these proposed dividends, which will be subject to deliberation in the next Shareholder's meeting.

	<u>2020</u>	<u>2019</u>
Net income for the year	121,766	35,747
Creation of the legal reserve (5%)	(6,088)	(1,787)
Dividends basis	<u>115,678</u>	<u>33,960</u>
Mandatory dividends (25%)	<u><u>28,920</u></u>	<u><u>8,490</u></u>

24. Earnings per share

Basic earnings per share is calculated by dividing profit attributable to company shareholders by the weighted average number of common shares during the year. Diluted earnings per share are calculated based on the profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. The shares are subject to the effects of potential dilution of share-based payment.

The table below provides data on earnings and the shares used in calculating basic and diluted earnings per share:

	<u>Parent Company and Consolidated</u>	
	<u>2020</u>	<u>2019</u>
Basic and dilute		
Net income allocated to common shares	121,766	35,747
Weighted average of common shares	223,992,849	156,482,555
Profit per share – basic and diluted	<u><u>0.54362</u></u>	<u><u>0.22844</u></u>

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*(In thousands of Reais, unless stated otherwise)***25. Revenue**

	Parent company		Consolidated	
	2020	2019	2020	2019
Gross revenue from sales and services	3,179,706	2,784,683	5,277,729	3,636,423
(-) Rebates, canceled sales and returns	(40,275)	(35,741)	(90,564)	(53,059)
(-) Sales taxes	(458,302)	(417,668)	(773,744)	(580,166)
Total	2,681,129	2,331,274	4,413,421	3,003,198

Group sales revenues are primarily derived from the supply and distribution of medicines, medical supplies and personal hygiene products. Subsidiaries Cremer S.A. and Flexicotton Indústria e Comércio de Produtos de Higiene Pessoal S.A. produce a wide range of healthcare disposables and consumables across the following product lines: first aid, surgery, treatment, hygiene and wellness, gauze pads, gauze sponges, cast bandages, tape, water repellent cotton, cloth diapers, feeding sets and feeding tubes.

Group domestic sales represent 98% and overseas sales represent 2%.

Revenue is measured based on the payment specified in the contract with the client, and is recognized when products are delivered and accepted by the clients at their facilities. The Company monitors delivery times and adjusts its operating revenues as necessary.

The Group's operating revenue is primarily derived from the Brazilian market, and the Group has no individually significant customers, i.e. customers representing 10% or more of operating revenue in the financial year.

For contracts that permit customers to return their goods - which represent only a minor portion of Group revenues - revenue is recognized if it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The revenue breakdown based on reporting segments is shown in note 29 Segment Reporting.

26. Expenses by nature

	Parent company		Consolidated	
	2020	2019	2020	2019
Raw materials, resale goods and property costs	2,397,022	2,073,408	3,578,974	2,294,423
Salaries, vacations and employee benefits	70,223	75,448	224,461	221,828
Payroll taxes	22,653	21,644	33,162	39,569
Consultancy services	16,431	11,591	22,585	15,402
Commission	18,259	5,922	25,928	13,099
Impairment loss on trade receivables	2,124	1,905	2,216	1,982
Freight expenses	53,697	42,846	107,934	82,302
Packaging	2,106	2,532	4,000	2,532
Rentals	1,957	1,308	8,508	5,731
Outsourced services	4,146	7,237	45,488	93,283
Travel expenses	6,133	5,448	6,908	9,648
Depreciation and amortization	12,763	10,407	82,265	55,021
Consumables and usage materials	2,517	912	26,602	2,964
Other expenses	14,167	3,782	28,477	12,833
Total	2,624,198	2,264,595	4,197,508	2,850,751

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(In thousands of Reais, unless stated otherwise)

Classified as	Parent company		Consolidated	
	2020	2019	2020	2019
Cost of goods and products sold	2,397,022	2,073,408	3,774,950	2,533,751
Sales expenses	59,991	55,839	162,338	134,425
Impairment loss on trade receivables	2,124	1,904	2,216	5,124
General and administrative expenses	165,061	133,444	258,004	177,451
Total	2,624,198	2,264,595	4,197,508	2,850,751

27. Other net operating income (expenses)

	Parent company		Consolidated	
	2020	2019	2020	2019
Other operating expenses				
Other expenses	(1,765)	(16,722)	(1,767)	(5,771)
Donations and bonuses awarded	(2,435)	(3,796)	(4,957)	(4,156)
Other outsourced services	(433)	(1,486)	(7,325)	(2,524)
Reversal of (provision for) contingencies	(1,240)	9	(8,414)	(7,020)
Fines	(41)	(155)	(202)	(649)
Letter of guarantee	-	(84)	-	(85)
Plant idleness / loss of inventory	-	-	-	(2,778)
Reversal of rights to reimbursement, net of provisions (ii)	(14,491)	(59,070)	(14,491)	(59,070)
Fair value measurement of assets held for sale (i)	-	-	-	(31,943)
Leases	(4,499)	(4,124)	(4,499)	(4,124)
Tax credits related to ICMS excluded from calculation basis of Pis and Cofins (Note 10)	-	-	(73,891)	-
Financing of taxes	-	(339)	-	(339)
	(24,904)	(85,767)	(115,546)	(118,459)
Other operating revenue				
Other income	2,000	10,354	5,580	19,190
Donations and bonuses received	1,800	2,968	1,553	2,968
Net income from the disposal of property, plant and equipment	1,978	98	3,324	131
Tax credits related to ICMS excluded from calculation basis of Pis and Cofins (Note 10)	-	-	82,067	-
Reversal of miscellaneous taxes and other credits	1,585	5,176	4,381	5,625
Other net operating income (expenses)	7,363	18,596	96,905	27,914
	(17,541)	(67,171)	(18,641)	(90,454)

- (i) The indirect subsidiary Cremer Administradora de Bens Ltda. (“Cremer Administradora”) signed a selling agreement to sell lands and buildings on March 6, 2017, which were reclassified as assets held for sale, as its realization must be effective as soon as certain precedent conditions of the contract between the parties are met. Cremer Administradora received the amount of R\$ 25,000 as an advance referring to this agreement, which is recorded in the item “Advances from customers” in current liabilities. On April 4, 2018, the control of Cremer S.A. was acquired, and an appreciation on assets held for sale was recorded in the amount of R\$ 38,083 (note 15). In the year of 2019, the subsidiary Cremer Administradora de Bens Ltda. received an offer to sell properties classified as assets held for sale. At the same time the subsidiary remeasured those assets at fair value less cost to sell, which generated an expense on statement of profit and loss of R\$ 31,943.
- (ii) The contingent liability was recognized in 2016 and assessed as a probable estimate outflow from cash flows of the Company. On December 31, 2020, the amounts of related contingent liabilities to tax and labor matters are R\$ 41,805 (R\$ 67,931 on December 31, 2019). During 2020, the amount of R\$ 26,125 (R\$ 104,586 on December 31, 2019) was recognized in other expenses, due to status of limitation. There was no cash impact in this transaction. In the financial year ended December 31, 2020 and 2019 the Company reassessed the likelihood considering the status of limitation and concluded that cash outflows is not probable. The effects from the reclassification have been recognized in the statement of income for the fiscal year under Other operating revenue (expense), net of reversals of reimbursement rights. See more details about the asset reversal in note 21.

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*(In thousands of Reais, unless stated otherwise)***28. Finance income (costs)**

	Parent company		Consolidated	
	2020	2019	2020	2019
Finance income				
Earnings on investments	10,574	3,308	15,945	10,153
Interest earned	2,514	3,437	4,086	3,784
Gain on derivatives	5	-	131,584	7,997
Exchange variance	520	1,707	125,163	19,285
Interest on tax credits related to ICMS excluded from calculation basis of Pis and Cofins (Note 10)	-	-	64,925	-
Other	587	-	2,306	927
Total	14,200	8,452	344,009	42,146
Finance costs				
Interest on loans, financing and debentures	(25,498)	(37,775)	(27,889)	(72,136)
Lease interest	(4,043)	(4,052)	(9,852)	(10,331)
Derivative losses	-	(2,410)	(102,244)	(6,311)
Bank expenses	(1,223)	(1,112)	(7,404)	(1,115)
Discounts awarded	(1,847)	(1,190)	(7,837)	(1,190)
Exchange variance	(7,291)	(10,452)	(195,908)	(30,783)
Other financial expenses	(311)	-	(311)	(461)
Total	(40,213)	(56,991)	(351,445)	(121,405)

29. Segment reporting

CPC 22 and IFRS 8 - *Operating Segments* require operating segments to be identified based on internal reports identifying the components of the Company, which are regularly reviewed by the Executive Board, the Board of Directors and the Company's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance.

As part of its approach to financial and operational management of the business, the Company has classified its businesses into Healthcare and Non-Healthcare divisions. These divisions are considered the Company's primary segments for disclosure purposes. The distinguishing activities of each of these divisions are as follows:

- Materials – manufacture and distribution of materials in the following categories: cardiology, surgery, urinary, diagnostics, sterilization, gowning, hygiene and protection.
- Medicines – distribution of medicines, analgesics, antihistamines, antibiotics, anti-inflammatory drugs, oncology drugs, anesthetics, and vaccines.
- Other - the segment classified as “other” relates to operations of the subsidiary Health Logística Hospitalar S.A., which comprehend shipping of medical and hospital products and the operations of subsidiary Cremer Administradora de Bens Ltda. which comprehends administrations of Group's properties.

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2020	Medication	Material	Total reportable segments	Other	Total
Net sales revenue	3,155,646	1,243,283	4,398,929	14,492	4,413,421
Domestic	3,155,646	1,233,628	4,389,274	14,492	4,403,766
Exports	-	9,655	9,655	-	9,655
Cost of goods sold	(2,869,988)	(898,785)	(3,768,773)	(6,177)	(3,774,950)
Gross profit	285,658	344,498	630,156	8,315	638,471
Sales expenses	(45,852)	(116,486)	(162,338)	(2,216)	(164,554)
General and administrative expenses	(162,108)	(93,276)	(255,384)	(2,620)	(258,004)
Interest in subsidiaries' earnings	-	-	-	(251)	(251)
Other net revenue (expenses)	(17,000)	(3,951)	(20,951)	2,312	(18,639)
Income before net financial costs	60,698	130,785	191,483	5,540	197,023
Depreciation, amortization	(32,093)	(46,178)	(78,271)	(3,994)	(82,265)
Assets	3,221,334	1,030,602	4,251,936	69,515	4,321,451
Liabilities	2,109,259	963,102	3,072,361	48,062	3,120,423
2019	Consolidated				
	Medication	Material	Others	Total	
Net sales revenue	1,991,484	961,156	50,558	3,003,198	
Domestic	1,991,484	951,501	50,558	2,993,543	
Exports	-	9,655	-	9,655	
Cost of goods sold	(1,807,319)	(696,633)	(29,799)	(2,533,751)	
Gross profit	184,165	264,523	20,759	469,447	
Sales expense	(105,465)	(32,102)	-	(137,567)	
General and administrative expenses	(47,938)	(127,061)	(2,452)	(177,451)	
Interest in subsidiaries' earnings	-	-	-	-	
Other net revenue (expenses)	(57,417)	(34,685)	(425)	(92,527)	
Income before net financial costs	(26,655)	70,675	17,882	61,902	
Depreciation, amortization	29,009	26,012	-	55,021	
Assets	1,350,508	682,884	57,551	2,090,943	
Liabilities	1,017,629	654,413	37,048	1,709,090	

The Group's operating revenue is primarily derived from the Brazilian market, and the Group has no individually significant customers, i.e. customers representing 10% or more of operating revenue in the financial year.

The sales in domestic market represent 98% for each segment and overseas sales represent 2%. The main overseas destinations are Bolivia, Paraguay e Mexico. There is no relevant sales intersegment.

The segment classified as "other" relates to operations of the subsidiary Health Logística Hospitalar S.A., which comprehend shipping of medical and hospital products and the operations of subsidiary Cremer Administradora de Bens Ltda. which comprehends administrations of Group's properties.

All the production and service facilities of the Group are localized in Brazil.

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30. Insurance coverage

The Company has insurance policies taken out with the main insurance companies in Brazil, which were determined in accordance with the orientation of experts and take into consideration the nature and the level of risk involved. The risk assumptions adopted were determined by Management.

At December 31, 2020, the insurance coverage is comprised of:

<u>Risks covered</u>	<u>Parent company</u>	<u>Consolidated</u>
Operational	133,303	556,515
Lost earnings	5,500	63,341
Civil liability	20,000	40,000

31. Items not affecting cash

The transactions in the financial year which did not affect the cash flows of the Company are shown below:

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Reversal of rights of reimbursement, net of provisions	14,491	59,070	14,491	59,070
Capital increase (Note 23)	498	-	498	-

32. Subsequent events

On January 2021, the Extraordinary General Meeting approved the merge of one of its parent Company, the Cromossomo Participações IV S.A., through the celebration of a "Particular Instrument of Protocol and Merge Justifying of Cromossomo Participações IV S.A. by CM Hospitalar S.A".

Due to the approval of this merge, the 55,888,818 common shares with no par value and held by Cromossomo Participações IV S.A. were attributed to its only shareholder, Fundo de Investimento em Participações Multiestratégia Genoma I. There was no changes in the Company's share capital.

* * * * *

BOARD OF DIRECTORS

Mario Sergio Ayres Cunha Ribeiro
Chairman

Members:

Carlos Alberto Mafra Terra
Carlos Alberto Mafra Terra Júnior
Luiz Felipe Duarte Martins Costa
Thayan Nascimento Hartmann
Ricardo Pechinho Hallack

EXECUTIVE BOARD

Leonardo Almeida Byrro
Guilherme Fonseca Goulart
Lúcio Flavio Bueno
Renan de Almeida Havelha
Thiago Liska

Chief Executive Officer
Chief Financial Officer
Officer
Commercial Officer
Diagnostics Officer

ACCOUNTANT

Guilherme Fonseca Goulart
CRC 1SP – 217101/O-8