

# Zydus Nikkho

**Zydus Nikkho Farmacêutica Ltda.**  
Individual Financial Statements  
Related to Exercise  
Ended of December 31st, 2019 and  
Independent Auditor's Report  
on the Financial Statements

## Summary

Report Of The Independent Auditor On Individual Financial Statements.....	4
Balance Sheet.....	7
Income Statements.....	9
Statements of Changes in ShareHolder's Equity.....	10
Cash Flow Statements.....	11
1. Operational Context.....	12
2. Presentation Of Financial Statements.....	12
2.1 Declaration of conformity.....	12
2.2 Accounting Policies.....	12
2.3 Accounting Estimates.....	16
2.4 New Standards And Interpretations Not Yet Effective.....	16
3. Cash And Cash Equivalents.....	17
4. Accounts Receivable.....	18
5. Inventories.....	19
6. Taxes Retrievable.....	19
7. Deferred Taxes.....	20
8. Other Accounts Receivable.....	20
9. Escrow (Non-Current Assets And Non-Current Liabilities).....	20
10. Legal Deposits.....	20
11. Property, Plant And Equipment (Fixed Assets).....	21
12. Leases (IFRS 16).....	21
12.1 Assets Direct the Use.....	21
12.2 Leabilities Leases.....	22
13. Intangible Assets.....	22
14. Suppliers.....	23
15. Tax Obligations.....	23
16. Wages, Charges And Holidays.....	23
17. Other Obligations.....	23
18. Provisions For Civil, Tax And Labor Risks.....	24
19. Related Parties.....	24
20. Capital Stock.....	24
21. Insurance Coverage (Unaudited).....	25

22. Net Revenue.....	25
23. Natural Expenses.....	25
24. Other Operational Revenues (Expenses), Net.....	25
25. Financial Result.....	26
26. Income Tax And Contribution Social.....	26
27. Risk Management.....	26
28. Classification Of Financial Instruments.....	27
29. Remuneration Of Managers.....	28
30. Subsequent Events.....	28



## **REPORT OF THE INDEPENDENT AUDITOR ON INDIVIDUAL FINANCIAL STATEMENTS**

The shareholders of the  
**ZYDUS NIKKHO FARMACÊUTICA LTDA.**  
**RIO DE JANEIRO - RJ.**

### **Opinion**

We have audited the individual financial statements of Zydus Nikkho Farmacêutica Ltda. Which comprise the balance sheet as of December 31, 2019, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended. As well as the related explanatory notes, including a summary of the main accounting policies.

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the individual and financial position of Zydus Nikkho Farmacêutica Ltda., as of December 31, 2019, the individual performance of its operations and their respective Individual 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) - only in cases where there are no differences between the two accounting practices.

### **Basis for opinions**

Our audit was conducted in accordance with Brazilian and international auditing standards. Our responsibilities, in accordance with such standards, are described in the following section, entitled "Auditor's Responsibilities for the Audit of the Individual Financial Statements." We are independent in relation to the company, in accordance with the relevant ethical principles set forth in the Professional Code of Ethics of the Accountant and in the professional norms issued by the Federal Accounting Council, and we comply with the other ethical responsibilities according to these norms. We believe that the audit evidence we have obtained is sufficient and appropriate to substantiate our opinion.

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

The management of the company is responsible for such other information that comprises the Management Report. Our opinion on the individual financial statements does not cover the Management Report and we do not express any form of audit conclusion about this report.

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

### **Responsibilities of management and governance by the individual financial statements.**

Management is responsible for the preparation and fair presentation of the individual 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) Determined as necessary to enable the preparation of financial statements free of material misstatement, whether



caused by fraud or error.

In the preparation of the individual financial statements, management is responsible for evaluating the company's ability to continue operating, disclosing, when applicable, matters related to its operational continuity and the use of this accounting basis in the preparation of the financial statements, unless Intends to liquidate the company or cease its operations, or has no realistic alternative to avoid closing the operations.

Those responsible for corporate governance are those responsible for overseeing the process of preparing the financial statements.

### **Responsibilities of the auditor for the audit of the individual financial statements.**

Our objectives are to obtain reasonable assurance that the individual financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error, and issue an audit report containing our opinion. Reasonable security is a high level of security, but not a guarantee that the audit conducted in accordance with Brazilian and international auditing standards will always detect any relevant material misstatements. Distortions may be due to fraud or error and are considered relevant when, individually or jointly, they can influence, from a reasonable perspective, the economic decisions of the users taken based on the said 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. Besides that:

- We identify and assess the risks of material misstatement in the individual financial statements, whether caused by fraud or error; We plan and perform audit procedures in response to such risks; And we obtain audit evidence appropriate and sufficient to substantiate our opinion. The risk of not detecting material misstatement resulting from fraud is greater than that of error, since fraud may involve circumvention of internal controls, collusion, falsification, omission or false intentional representations.
- We obtain an understanding of the internal controls relevant to the audit to plan audit procedures appropriate to the circumstances, but not, in order to express an opinion on the effectiveness of the company's internal controls.
- We evaluate the adequacy of the accounting policies used and the reasonableness of the accounting estimates and respective disclosures made by management.
- We conclude on the adequacy of the management's use of the accounting basis for operational continuity and, based on the audit evidence obtained, whether there is a material uncertainty regarding events or conditions that may raise significant doubt regarding the Company's operational continuity company. If we conclude that there is material uncertainty, we should draw attention in our audit report to the respective disclosures in the individual and consolidated financial statements or include modification in our opinion if the disclosures are inadequate. Our findings are based on the audit evidence obtained up to the date of our report. However, future events or conditions may lead the company to no longer remain in operational continuity.
- We evaluate the overall presentation, structure and content of financial statements, including disclosures and whether the individual financial statements represent the corresponding transactions and events in a manner consistent with the appropriate presentation objective.



- We obtain adequate and adequate audit evidence regarding the entity's financial information or business activities to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the company's audit and, consequently, for the audit opinion.

We communicate with those responsible for governance regarding, inter alia, the planned scope, timing of the audit and significant audit findings, including any significant weaknesses in the internal controls we have identified during our work.

São Paulo, March 09, 2020.

**HOLDER AUDITORES INDEPENDENTES SS – EPP**  
**CRC 2SP 034.257/O-4**

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**MARCOS BARBOSA HENRIQUES**  
**CRC 1SP 258.019/O-6**

# Zydus Nikkho

## ZYDUS NIKKHO FARMACÊUTICA LTDA

### BALANCE SHEET

FOR THE FISCAL YEARS ENDED ON DECEMBER 31, 2019 and 2018

(In Real - BRL)

<b>ASSETS</b>	<b>Notes</b>	<b>2019</b>	<b>2018</b>
<b>CURRENT</b>			
Cash and cash equivalents	3	931.345	2.101.163
Accounts receivable from clients	4	50.305.529	43.591.044
Inventories	5	24.749.718	27.312.367
Recoverable taxes	6	887.215	1.443.436
Deferred Taxes	7	62.524	
Prepaid expenses		276.264	219.742
Other current assets	8	445.347	951.235
<b>Total current assets</b>		<b><u>77.657.941</u></b>	<b><u>75.618.987</u></b>
<b>NON-CURRENT</b>			
Escrow account	9	6.114.903	10.950.359
Legal deposits	10	2.595.145	3.348.556
Fixed assets	11	11.721.842	9.986.612
Intangible assets	13	44.742.267	44.789.192
The Right to direct the use of na Asset	12	4.156.676	
<b>Total non-current assets</b>		<b><u>69.330.832</u></b>	<b><u>69.074.720</u></b>
 <b>TOTAL ASSETS</b>		 <b><u>146.988.774</u></b>	 <b><u>144.693.707</u></b>

The accompanying notes are an integral part of these financial statements

# Zydus Nikkho

## ZYDUS NIKKHO FARMACÊUTICA LTDA

### BALANCE SHEET

FOR THE FISCAL YEARS ENDED ON DECEMBER 31, 2019 and 2018

(In Real - BRL)

<b>LIABILITIES AND NET EQUITY</b>	<b>Nota</b>	<b>2019</b>	<b>2018</b>
<b>CURRENT</b>			
Suppliers	14	52.409.877	33.373.325
Tax obligations	15	2.187.368	2.389.395
Wages, charges, and vacation	16	3.772.593	3.955.601
Other obligations	17	1.436.388	1.808.770
Leases (Direct the Use)	12	2.085.769	-
<b>Total current liabilities</b>		<b>61.891.996</b>	<b>41.527.092</b>
<b>NON-CURRENT</b>			
Allowances for civil, tax, and labor risks	18	7.994.920	7.337.299
Escrow account	9	6.119.729	10.857.574
Leases (Direct the Use)	12	2.326.597	-
<b>Total non-current liabilities</b>		<b>16.441.246</b>	<b>18.194.873</b>
<b>Net equity</b>			
Share capital	20	145.720.724	145.720.724
Accrued losses		(77.065.192)	(60.748.983)
<b>Total net equity</b>		<b>68.655.532</b>	<b>84.971.741</b>
<b>TOTAL LIABILITIES AND NET EQUITY</b>		<b>146.988.774</b>	<b>144.693.707</b>

The accompanying notes are an integral part of these financial statements



# Zydus Nikkho

## ZYDUS NIKKHO FARMACÊUTICA LTDA

### INCOME STATEMENTS

FOR THE FISCAL YEARS ENDED ON DECEMBER 31, 2019 and 2018

(In Real - BRL)

	<b>2019</b>	<b>Nota</b>	<b>2018</b>
<b>Sales revenue</b>	142.510.929	22	128.933.912
<b>Cost of products and goods sold</b>	(65.712.673)	23	(52.686.331)
<b>Gross profit</b>	<b>76.798.257</b>		<b>76.247.581</b>
<b>Operating (expenses) revenue</b>			
Sales	(46.015.609)	23	(42.853.207)
Administrative	(41.915.182)	23	(33.645.694)
Other operating (expenses) revenue	(2.161.353)	24	2.624.241
Other expenses non-operating	(49.162)		-
	(90.141.306)		(73.874.659)
<b>Operating income before the financial</b>	<b>(13.293.887)</b>		<b>2.372.922</b>
<b>Financial result</b>			
Financial revenues	820.936	25	1.409.472
Financial expenses	(2.767.579)	25	(1.296.235)
Monetary and exchange variations	(1.138.203)	25	(2.303.133)
<b>Net financial result</b>	(3.084.846)		(2.189.895)
<b>Income before taxes</b>	<b>(16.378.733)</b>		<b>183.027</b>
Provision for income and social contribution taxes	62.524	7	-
<b>Profit (Loss) for the year</b>	<b>(16.316.209)</b>	26	<b>183.027</b>
<b>Other Comprehensive Results</b>	-		-
<b>Result after Other Comprehensive Results</b>	<b>(16.316.209)</b>		<b>183.027</b>

The accompanying notes are an integral part of these financial statements

# Zydus Nikkho

**ZYDUS NIKKHO FARMACÊUTICA LTDA**  
**STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY**  
**FOR THE FISCAL YEARS ENDED ON DECEMBER 31, 2019 and 2018**  
**(In Real - BRL)**

	<u>Share capital</u>	<u>Accrued losses</u>	<u>Total Net Assets</u>
On December 31, 2017	145.720.724	(60.932.010)	84.788.714
Profit for the Year	-	183.027	183.027
On December 31, 2018	<u>145.720.724</u>	<u>(60.748.984)</u>	<u>84.971.741</u>
Accrued losses for the Year		(16.316.209)	(16.316.209)
On December 31, 2019	<u>145.720.724</u>	<u>(77.065.192)</u>	<u>68.655.532</u>

The accompanying notes are an integral part of these financial statements

# Zydus Nikkho

## ZYDUS NIKKHO FARMACÊUTICA LTDA

### CASH FLOW STATEMENTS

FOR THE FISCAL YEARS ENDED ON DECEMBER 31, 2019 and 2018

(Em reais - R\$)

	<u>2019</u>	<u>2018</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Gain(Loss) for the year</b>	<b>(16.316.209)</b>	<b>183.027</b>
Adjustments to reconcile the loss for the year with net cash generated by operating activities:		
Depreciation and amortization	1.284.133	1.147.504
Depreciation Leases (Direct the Use)	2.487.306	-
Income from the sale of fixed assets	-	(4.824)
Write-off of fixed assets	49.162	489
Leases - interest	377.409	-
Income Taxes and Social Contribution Deferred	(62.524)	-
Allowance for inventory losses	3.574.424	769.555
Estimated losses for doubtful accounts	2.404.392	-
Allowance for tax, civil, and labor risks	657.621	58.510
Inventory losses	1.963.831	2.550.421
Losses on receivables	-	768.740
Reversal of the allowance for inventory losses	(1.964.007)	(2.548.122)
Reversal of the losses for doubtful accounts	-	(378.058)
Reversal of provision for tax, civil and labor risks	-	(1.558.776)
Allowance for interest and monetary and exchange variations	1.744.304	2.956.431
	<b>12.516.051</b>	<b>3.761.869</b>
<b>Decrease (Increase) in operating assets:</b>		
Accounts receivable from clients	(9.118.877)	(5.650.898)
Inventories	(4.939.613)	(13.611.335)
Recoverable taxes	556.221	(484.979)
Prepaid expenses	(56.522)	39.838
Judicial deposits	753.411	389.280
Other assets	4.835.456	90.698
<b>Decrease (Increase) in operating liabilities:</b>		
Suppliers	17.898.349	16.551.601
Wages and payroll charges	(183.008)	78.690
Tax obligations	(202.027)	(775.236)
Other liabilities	(372.382)	485.184
	<b>5.370.850</b>	<b>1.057.740</b>
<b><u>Net cash generated by (invested in) operating activities</u></b>	<b>5.370.850</b>	<b>1.057.740</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Acquisition of fixed and intangible assets	(3.021.599)	(1.811.997)
Direct the Use (Assets) - Leases	(5.705.566)	-
	<b>(8.727.165)</b>	<b>(1.811.997)</b>
<b><u>Net cash generated by (invested in) investment activities</u></b>	<b>(8.727.165)</b>	<b>(1.811.997)</b>
<b>CASH FLOW FROM FINANCE ACTIVITIES</b>		
Lease payments	(2.603.278)	-
Lease - News Leases	4.789.775	-
	<b>2.186.497</b>	<b>-</b>
<b><u>Net cash generated by finance activities</u></b>	<b>2.186.497</b>	<b>-</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1.169.818)</b>	<b>(754.257)</b>
<b>Opening balance of cash and cash equivalents</b>	<b>2.101.163</b>	<b>2.855.420</b>
<b>Closing balance of cash and cash equivalents</b>	<b>931.345</b>	<b>2.101.163</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1.169.818)</b>	<b>(754.257)</b>

The accompanying notes are an integral part of these financial statements

## 1. OPERATIONAL CONTEXT

ZYDUS NIKKHO FARMACÊUTICA LTDA. hereinafter referred to as "Zydus Nikkho" or "Company", is a limited liability company with its head office in the city of Rio de Janeiro, in the state of Rio de Janeiro. Its corporate purpose is the production, distribution and marketing of medicine for human use, operating throughout the national territory.

## 2. PRESENTATION OF FINANCIAL STATEMENTS

### 2.1 Declaration of conformity

The financial statements have been prepared in accordance with accounting practices adopted in Brazil that comprise the Brazilian Corporate Law and the Pronouncements, Interpretations and Guidelines issued by the Accounting Pronouncements Committee ("CPC"), approved by the Brazilian Securities Commission ("CVM") and by the Federal Accounting Council ("CFC"). All the relevant information specific to the financial statements, and only this information, are being evidenced and correspond to those used in the management of the Company.

The subsequent events were evaluated until March 09st, 2020, the date in which the financial statements were approved by Management.

### 2.2 Accounting policies

**2.2.1 Financial Assets:** In initial recognition, a financial asset is classified as measured: at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. Financial assets are not reclassified subsequent to initial recognition, unless the Company changes the business model for the management of financial assets. The Company conducts an assessment of the objective of the business model in which a financial asset is held in the portfolio because it better reflects the way in which the business is managed.

**a) Financial Assets at amortized cost:**

These assets are measured subsequently to the amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized directly in income. Any gain or loss on derecognition is recognized in income.

**b) Financial assets measured at fair value through profit or loss:**

These assets are subsequently measured at fair value. The net result, including interest, is recognized directly in the result.

**c) Financial assets measured at fair value through other comprehensive income:**

These assets are measured subsequently at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in income. Other net income is recognized in other comprehensive income. Upon derecognition, the result accumulated in other comprehensive income is reclassified to the result.

**d) Impairment of financial assets**

The Company measures losses due to the non-recoverability of financial assets in an amount equal to the expected credit loss for the entire life. When determining whether the credit risk of a financial asset has increased significantly since the initial recognition and when estimating expected credit losses, the Company considers reasonable and bearable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information and analysis, based on the Company's historical experience, credit assessment and considering prospective information. The losses due to the non-recoverability of financial assets were calculated based on the credit risk analysis, which includes the history of losses, the individual situation of the clients, the situation of the economic group to which they belong, the real guarantees for debts and the assessment of legal advisors, and is considered sufficient to cover possible losses on the amounts receivable, in addition to a prospective assessment that takes into account the change or expected change in economic factors that affect expected credit losses, which will be determined based on in weighted probabilities.

**e) Derecognition:** The Company derecognizes a financial asset when the contractual rights to the asset's cash flows expire, or when the Company transfers the contractual rights of receipt to the contractual cash flows on a financial asset in a transaction in which substantially all the risks and benefits the ownership of the financial asset are transferred or in which the Company neither transfers nor maintains substantially all the risks and benefits of the ownership of the financial asset and also does not retain control over the financial asset.

**- Financial liabilities:** Financial liabilities are classified as measured at amortized cost or at fair value through profit or loss. A financial liability is classified as measured at fair value through profit or loss if it is classified as held for trading, is a derivative or is designated as such at initial recognition. Financial liabilities measured at fair value against profit or loss are measured at fair value and the net result, including interest, is recognized in the result. Other financial liabilities are subsequently measured at amortized cost using the interest method effective. Interest expense, foreign exchange gains and losses are recognized in income.

#### **a) Derecognition**

The Company derecognizes a financial liability when its contractual obligation is withdrawn, canceled or expires. The Company also derecognizes a financial liability when the terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. In the derecognition of a financial liability, the difference between the extinguished book value and the consideration paid (including transferred assets that do not pass through cash or assumed liabilities) is recognized in the result.

The classification of financial instruments is shown in note 25.

**2.2.2 Cash and cash equivalents:** These include cash, bank deposits, other highly liquid short-term investments with original maturities of three months or less and insignificant risk of change in value.

**2.2.3 Accounts receivable from clients:** the accounts receivable from clients correspond to the amounts receivable from clients for the sale of goods in the normal course of the Company's activities. If the term of receipt is equivalent to one year or less, the accounts receivable are classified in current assets. Otherwise, they are presented as non-current assets. Accounts receivable from clients are initially recognized at fair value and subsequently measured at amortized cost using the method of effective interest rate minus the provision for doubtful accounts (impairment). In practice, they are usually recognized at the amount billed, adjusted according to the loss estimated for clients with doubtful accounts, if necessary.

**2.2.4. Inventories:** the inventories are stated at cost or net realizable value; whichever amount is lower. The cost of finished products and products under development comprises costs of raw materials, direct labor, other direct costs and indirect costs of production (based on operational capacity). When necessary, a provision for slow-moving and/or obsolete inventories is constructed to reflect the risk of realization of these inventories.

**2.2.5 Other current and non-current assets:** are stated at the net realizable value, shown in current or non-current assets according to the forecast of their realization.

**2.2.6. Property, plant and equipment (fixed assets):** is shown at cost value minus accumulated depreciation and losses due to reduction of retrievable value. Depreciation is recognized based on the estimated life cycle of each asset by the linear method, so that the cost value minus its residual value after its life cycle is fully written off (except for land and construction in progress). The estimated life cycle, residual values and depreciation methods are reviewed at the end of each year, and the effect of any changes in estimates is accounted for prospectively. An item of property, plant and equipment is written off after the disposal or when there are no future economic benefits resulting from the continued use of the asset. Any gains or losses on the sale or write-off of an item of property, plant and equipment are determined by the difference between the amounts received in the sale and the book value of the asset, and recognized in the income statement.

## ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS  
AS OF DECEMBER 31st, 2019 (In Brazilian currency)

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The estimated life cycles are as follows:

	<u>Expected Life Cycle</u> <u>(Years)</u>
Real Estate	25 years
Facilities	10 years
Machines and Equipment	10 years
Electronic Equipment	5 years
Furniture and Fixtures	10 years
Vehicles	5 years
Improvements	25 years

### ***Impairment***

Impairment of non-financial assets - Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the book value may not be recoverable. An impairment loss is recognized when the book value of the asset exceeds its recoverable amount, which represents the greater value considering the fair value of an asset minus its disposal costs ("VJMCV") and its value in use ("VIU").

VJMCV is generally determined as the basis for the present value of the estimated future cash flows arising from the continued use of the asset, including any prospects for expansion and its possible disposal. The VIU is determined by the present value of estimated future cash flows that are expected to be continued use of the asset in its current conditions, without taking into account future developments. These assumptions are different from those used in the calculation of the VIU and, therefore, the calculation of the value in use will probably have a different result from the calculation of the VJMCV.

### **2.2.7 Leases**

The Company, as a Lessee, recognizes a right-of-use asset that represents its right to use the leased asset and a lease liability that represents its obligation to make lease payments. Exemptions are available for short-term leases and low-value items. From January 2019, the Company recognized new assets and liabilities for its operating leases. Expenses related to these leases are now recognized as a depreciation of assets under the right of use and financial expense on lease obligations. The discount rates used by the Company were obtained in accordance with market conditions and estimated at 1% per month.

### **2.2.8 Intangible Assets:**

**a) Goodwill:** goodwill is represented by the positive difference between the amount paid and/or payable for the acquisition of a business and the net amount of the fair value of the assets and liabilities of the subsidiary acquired. Goodwill on acquisitions of subsidiaries is recorded as "Intangible assets". Goodwill is stated by its fair value minus accumulated impairment losses. Impairment losses recognized on goodwill are not reversed. Goodwill is tested annually for to verify losses (impairment).

For the purpose of impairment assessment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units (CGUs)). For the purposes of this test, goodwill is allocated to Cash Generating Units or groups of Cash Generating Units that are expected to benefit from the business combination from which the goodwill originated. These are identified according to operating segment. Goodwill is considered to be an asset with an indefinite life cycle.

**(b) Trademarks and patents:** registered trademarks and patents are stated at historical cost minus amortization. The assets arising from the business combination are recorded at fair value at the acquisition date. Expenses incurred internally for the development and strengthening of a trademark are recognized as an expense.

**(c) Improvement to the manufacturing process:** production of pilot tests to enable investments in improvements in the manufacturing process aiming at higher productivity.

## ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS  
AS OF DECEMBER 31st, 2019 (In Brazilian currency)

**(d) Software:** Software licenses acquired are capitalized based on the costs incurred in acquiring them and making them ready for use.

The estimated life cycles of assets with a defined life cycle are as follows:

	<u>Expected Life Cycle</u> <u>(Years)</u>
Trademarks and patents	-
Improvements to the manufacturing process	-
Software	5 years

**2.2.9 Loans and financing:** are recognized at fair value upon receipt of funds, net of transaction costs and plus charges, interest and monetary variation, as contractually provided and incurred through the balance sheet dates. Any difference between the amounts raised and the settlement value is recognized in the income statement for the period during which the loan is outstanding, using the effective interest rate method. Accordingly, the balance payable on the balance sheet date is close to the fair value.

**2.2.10 Vacation payable:** constituted based on the rights acquired by the employees up to the balance sheet date and including the corresponding social charges.

**2.2.11 Other current and Non-current liabilities:** these are stated at known or estimated amounts plus the related charges and/or monetary and exchange variations incurred up to the balance sheet date, when applicable.

**2.2.12 Provision for Tax, Civil and Labor Risks:** the provision is recognized in the balance sheet when the Company has a legal or constituted obligation as a result of a past event and it is probable that the economic resource will be required to settle the obligation. Provisions are recorded based on the best estimates of the specific risks of the liability and duly supported by the assessment of the likelihood of loss by the Company's administrators and legal advisors.

### **2.2.13 Income Tax and Social Contribution And Deferred Taxes:**

**(a) Income Tax and Social Contribution** Income Tax and Social Contribution: taxation on profit comprises income tax and social contribution. Income tax is calculated on annual profit at a rate of 15%, plus an additional 10% on profits that exceed BRL 240 thousand in the period. Social contribution is calculated at a rate of 9% on adjusted profit according to the legislation. Both are recognized according to the accrual basis.

**(b) Deferred Taxes:** Deferred income and social contribution taxes are recognized in their entirety on the differences generated between the assets and liabilities recognized for tax purposes and corresponding to amounts recognized in the Financial Statements. However, deferred income tax and social contribution are not recognized if they are generated in the initial registration of assets and liabilities in transactions that do not affect the tax bases, except in business combination transactions. Deferred income tax and social contribution are determined considering the rates (and laws) in force on the date of preparation of the Financial Statements and applicable when the respective income tax and social contribution are realized. Deferred income tax and social contribution assets are recognized only to the extent that it is probable that there will be a positive tax base for which temporary differences can be used and tax losses can be offset.

**2.2.14 Determination of income and recognition criteria of Sales Revenue:** sales revenue is presented net of taxes and discounts recurrent upon itself. Sales revenues are currently recognized when products are delivered to the customer and the performance obligation is met.

**2.2.15 Financial Revenue:** these are recognized according to the elapsed period, based on the effective interest rate method and are recognized as they are expected to be realized.

**2.2.16 Result by share:** in accordance with IAS 33/CPC 41 - Earnings per share, the company reconciles the net profit to the amounts used to calculate the basic and diluted earnings per share. The company does not have instruments that have not been included in the calculation of earnings per share because they are anti-dilutive. Therefore, the result by basic share is the same as the diluted one, as shown:

# ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS  
AS OF DECEMBER 31st, 2019 (In Brazilian currency)

	2019	2018
<b>Basic and Diluted Result</b>		
Profit (Loss) for the year for common share	(16.316.209)	183.026
Common Shares	145.720.724	145.720.724
Profit (Loss) per share – basic	(0,1120)	0,0012

## 2.3 Accounting estimates:

The preparation of the financial statements in accordance with accounting practices adopted in Brazil requires Management to use its judgment in the determination and recording of accounting estimates. Significant assets and liabilities subject to these estimates and assumptions include the definition of the life cycle of property and intangible assets with defined life cycles, losses for doubtful accounts, provision for losses in inventories, realization of deferred tax and provision for contingent risks. Settlement of transactions involving these estimates may result in divergent values due to inaccuracies inherent in the determination process. Zydus Nikkho Management reviews the estimates at least annually.

## 2.4 New standards and interpretations not yet effective

**a) IFRS 16 – Leases:** This standard introduces a single model of accounting for leases in the balance sheet for lessees. A lessee recognizes a right-of-use asset that represents its right to use the leased asset and a lease liability that represents its obligation to make lease payments. Exemptions are available for short-term leases and low-value items. This standard replaces the existing lease rules, including CPC 06 / IAS 17 - Lease Operations and ICPC 03 / IFRIC 4, SIC 15 and SIC 27 - Complementary Aspects of Lease Operations.

From 2019, the Company recognizes new assets and liabilities for its operating leases. The nature of the expenses related to these leases changes because the Company now recognizes an amortization of assets for use rights and financial expense on lease obligations. The Company recognized up to 2018 an operating lease expense during the lease term. The Company had no significant impact on financial leases. The new standard provides practical expedients whose election is optional.

The Company adopted the following practical steps:

- 1) Did not reassess whether the contract is or contains a lease on the date of initial application, instead it applied CPC 06 (R2) to contracts that were previously identified as a lease, using CPC 06 (IAS 17) and ICPC 03 ( IFRIC 4);
- 2) It did not separate non-lease components from lease components, considering them, then, as a single lease component;
- 3) Did not register low value contracts;
- 4) Excluded direct direct costs from measuring the right-of-use asset on the date of initial application; and
- 5) Applied a single discount rate to the leasing portfolio with reasonably similar characteristics (such as similar remaining lease term, similar classes of underlying assets in a similar economic environment).

As a result of the initial adoption, the Company discloses the main impacts on the financial statements due to the change:



## ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS  
AS OF DECEMBER 31st, 2019 (In Brazilian currency)

	2019	2018
<b>Direct The Use (Properties)</b>		
<b>Asset</b>		
Direct The Use	4.156.676	-
Deferred tax assets	62.524	-
<b>Liabilities</b>		
Leases Current and Non liabilities	4.412.366	-
<b>Income Statement</b>		
Depreciation Expenses	2.487.306	
Interest Expenses	377.409	
Car Rental	280.052	1.817.041
<b>Total</b>	<b>3.144.767</b>	<b>1.817.041</b>

**b) Issue of IFRIC 23 interpretation - Uncertainties in the treatment of income taxes.** Establishes aspects of recognition and measurement of the IAS 12 standard when there are uncertainties about the treatment of income tax related to active or liabilities and current or deferred taxes, based on taxable profits, tax losses, tax bases, unused tax losses, unused tax credits used and tax rates. This interpretation is effective for exercises beginning on or after 01/01/2019. The Company had no significant impact on its Financial Statements.

### Issued standards for the year 2020

In addition, the IASB issued / revised some IFRS standards, which have their adoption for the year 2020 or after, and the Company presents below the assessment of the impacts of the adoption of these standards in its Financial Statements:

c) Amendment to IFRS 3 - Definition of business. Clarifies aspects for the definition of business, in order to clarify when a transaction should have accounting treatment of business combination or acquisition of assets. This amendment to the standard is effective for years beginning on or after 01/01/2020. The Company does not expect significant impacts on possible future events of business combinations or acquisition of assets.

d) Amendment to IAS 1 and IAS 8 - Definition of materiality. It clarifies aspects of materiality to fit the accounting standard where this concept is applicable. These changes to standards are effective for years beginning on or after 1/01/2020. The Company does not expect significant impacts on its Financial Statements.

e) Amendment to IFRS 9, IAS 39 and IFRS 7 - Interest rate reform. Clarifies aspects related to interest rates in hedge financial instruments. These changes to standards are effective for years beginning on or after 1/01/2020. The Company does not expect significant impacts on its Financial Statements.

f) Amendment to IAS 1 - Classification of liabilities as Current or Non-current. Clarifies aspects to be considered for the classification of liabilities as Current Liabilities or Non-current Liabilities. This amendment to the standard is effective for fiscal years beginning on or after 1/01/2022. The Company does not expect significant impacts on its Financial Statements.

### **3 CASH AND CASH EQUIVALENTS**

	2019	2018
Cash and movement of bank accounts	6.439	218.777
Financial investments	924.906	1.882.386
Total	931.345	2.101.163

Financial investments in securities for trading include Bank Deposit Certificates (CDB) and investments in securities, which are recorded at fair value. The revenue generated by these investments is recorded as financial revenue.

## ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS  
AS OF DECEMBER 31st, 2019 (In Brazilian currency)

### 4 ACCOUNTS RECEIVABLE

	2019	2018
Clients	52.709.920	43.591.044
Estimated losses for doubtful accounts	(2.404.391)	-
Total	50.305.529	43.591.044

The credit risk of accounts receivable arises from the possibility of the Company not receiving amounts arising from sales operations. To mitigate this risk, the Company adopts as practice the detailed analysis of the financial and patrimonial situation of its clients, establishing a credit limit and permanently monitoring their debit balance. The estimate for credit risk was calculated based on the credit risk analysis, which includes the history of losses, the individual situation of the clients, the situation of the economic group to which they belong, the actual guarantees for the debts and the evaluation of the consultants. The combination of these elements is considered sufficient to cover possible losses on amounts receivable. The breakdown of client accounts receivable by maturity, as well as the maximum exposure to credit risk, is as follows:

	2019	2018
Maturing debt	46.408.080	38.412.631
Overdue:		
From 1 to 30 days	3.440.608	2.188.816
From 31 to 60 days	244.839	143.115
From 61 to 90 days	85.892	81.189
Over 120 days	2.530.501	2.765.293
Total	52.709.920	43.591.044

	2019	2018
Maximum exposure to credit risk	52.709.920	43.591.044
Outstanding balances	46.408.080	38.412.631
Overdue balances not considered as risk of loss (i)	3.897.449	5.178.413
Overdue balances considered as risk of loss (ii)	2.404.391	-
Total	52.709.920	43.591.044

(i) Such clients have a history of receipt, but for a temporary reason they present problems regarding financial settlement. Therefore, they were not estimated as risk of loss.

(ii) All balances in this group are due in excess of 120 days in 2019.

The Movement of estimated losses for doubtful accounts:

	2019	2018
Opening balance	-	(378.058)
Addition	(2.404.391)	-
Reversal	-	378.058
Final balance	(2.404.391)	-

The amounts charged to the provision account are written off from accounts receivable when there is no expectation of recovery of resources.

**ZYDUS NIKKHO FARMACÊUTICA LTDA.****EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS  
AS OF DECEMBER 31st, 2019 (In Brazilian currency)****5 INVENTORIES**

	<u>2019</u>	<u>2018</u>
Finished products	4.115.311	4.579.832
Products in preparation	3.582.196	2.319.551
Goods	7.235.825	5.789.264
Raw materials and packages	3.276.555	5.329.731
Third party owned inventory	7.535.706	5.783.566
Goods in transit	1.384.097	4.279.978
Provision for losses on inventories	(2.379.972)	(769.555)
Total	24.749.718	27.312.367
	<u>2019</u>	<u>2018</u>
Third party owned inventory		
Finished products	1.844.898	2.499.320
Goods	2.542.071	2.564.590
Products in preparation	-	38.887
Raw materials and packages	3.148.737	680.769
Total	7.535.706	5.783.566

Movement of the provision for losses on inventories:

	<u>2019</u>	<u>2018</u>
Opening balance	(769.555)	(2.548.121)
Provision for losses on inventories	(3.574.424)	(769.555)
Realization of the provision for losses on inventories (i)	1.964.007	2.548.121
Final balance	(2.379.972)	(769.555)

- (i) The realization of the provision for losses in the period corresponds to the write-offs of the products discarded by the Company.

**6 TAXES RETRIEVABLE**

	<u>2019</u>	<u>2018</u>
IRPJ and CSLL to be compensated	4.164	886.894
IRRF retrievable	107.968	118.280
ICMS retrievable	758.531	427.192
PIS (Social Integration Program) and COFINS (Contribution to Social Security Financing) retrievable	15.048	11.070
Other taxes	1.504	-
Total	887.215	1.443.436
Current	887.215	1.443.436

## ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS  
AS OF DECEMBER 31st, 2019 (In Brazilian currency)

### 7 DEFERRED TAXES

Deferred tax arising from temporary differences in leasing - Right to use real estate, as per note 12. For the vehicle fleet, there are monthly payments, so there is no temporary difference in December 2019.

	2019	2018
<b>Temporary Differences (Non-deductible expenses at year end for Tax Income and Contribution Social)</b>		
Lease Amortization	113.415	
Interest of Lease	70.479	
TOTAL	183.894	
Aliquot	34%	
<b>Total Recognized</b>	<b>62.524</b>	
<b>Changes in the income statement</b>		
<b>Opening balance</b>	-	-
Additions	62.524	
Reversals	-	-
<b>Total Recognized in the Income Statement</b>	<b>62.524</b>	-

The estimate for the recoverability of the temporary differences will be made when the payments for this lease start scheduled for the next year. Therefore, deduction will be allowed in the Tax Income and Contribution Social calculation base.

### 8 OTHER ACCOUNTS RECEIVABLE

	2019	2018
Advance to employees	319.051	744.981
Advance to third parties	126.296	206.254
Total	445.347	951.235

### 9 ESCROW (NON-CURRENT ASSETS AND NON-CURRENT LIABILITIES)

	2019	2018
Non-current assets	6.114.903	10.950.359
Non-current liabilities	6.119.729	10.857.574

Refers to amounts retained as guarantee for possible contingencies arising from the former subsidiary Química e Farmacêutica Nikkho do Brasil Ltda., acquired in July, 2007. The amount retained is invested in the financial market and in 2019 its income was paid at an average rate of 6% the year 2019 and 2018. The amount will be refunded or discounted from the payments to the former shareholders of the company, within the period stipulated in the agreement entered into between the parties. The adjustment amount is recorded in Non-Current Liabilities.

### 10 LEGAL DEPOSITS

In some situations, due to legal requirements or the presentation of guarantees, legal deposits are made to ensure the continuity of the processes under discussion. These legal deposits may be required for proceedings whose likelihood of loss has been assessed by the Company as probable, possible or remote, based on the opinion of its legal counsel.

	2019	2018
Civil	396.908	396.908
Labor	1.987.594	2.370.264
Tax	210.643	581.384
Total	2.595.145	3.348.556
Non-current	2.595.145	3.348.556

# ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS  
AS OF DECEMBER 31st, 2019 (In Brazilian currency)

## 11 PROPERTY, PLANT AND EQUIPMENT (FIXED ASSETS)

	<u>Works/goods in progress</u>	<u>Buildings (Real Estate)</u>	<u>Machines and equipment and others</u>	<u>Improvements</u>	<u>Other assets</u>	<u>Total</u>
Cost of fixed assets (gross amount)						
Balance in 2017	2.162.124	5.717.742	9.769.299	575.776	3.749.609	21.974.550
Additions	420.478		962.797		383.362	1.766.637
Losses					(155.232)	(155.232)
Transferences						
Balance in 2018	2.582.602	5.717.742	10.732.096	575.776	3.977.739	23.585.955
Additions	1.477.533		463.868	436.349	643.848	3.021.598
Losses			(7.431)	(60.100)	(136.545)	(204.076)
Transferences	(1.727.994)	1.103.097	166.140	325.155	133.602	-
Balance in 2019	2.332.141	6.820.839	11.354.674	1.277.180	4.618.644	26.403.478
	<u>Works/goods in progress</u>	<u>Buildings (Real Estate)</u>	<u>Machines and equipment and others</u>	<u>Improvements</u>	<u>Other assets</u>	<u>Total</u>
Accumulated depreciation						
Balance in 2017	-	(2.173.312)	(7.055.033)	(549.271)	(2.886.118)	(12.663.734)
Depreciation		(225.498)	(553.747)	(12.045)	(299.062)	(1.090.352)
Losses					154.774	154.774
Transferences						-
Balance in 2018	-	(2.398.810)	(7.608.780)	(561.316)	(3.030.437)	(13.599.343)
Depreciation		(220.317)	(624.302)	(49.382)	(343.206)	(1.237.207)
Losses			6.733	52.018	96.164	154.915
Transferences					-	-
Balance in 2019	-	(2.619.127)	(8.226.349)	(558.680)	(3.277.479)	(14.681.635)
<b>Net property, plant and equipment Balance in 2018</b>	<b>2.582.602</b>	<b>3.318.932</b>	<b>3.123.316</b>	<b>14.460</b>	<b>947.302</b>	<b>9.986.612</b>
<b>Balance in 2019</b>	<b>2.332.141</b>	<b>4.201.172</b>	<b>3.128.325</b>	<b>718.500</b>	<b>1.341.165</b>	<b>11.721.842</b>

## 12 LEASES

The Company adopted IFRS 16 - Leasing Operations as of 01/01/2019. The Company recognized up to 2018 an operating lease expense during the lease term.

The Company had no significant impact on financial leases.

The recognized balance is shown as follows:

### 12.1 Right of Use Asset

TOTALS	<u>Vehicles Expected Life Cycle 33% per year</u>	<u>Administrative Property Expected Life Cycle 20% per year</u>	<u>Balance</u>
	Balance in 2018	-	-
Additions	5.793.369	850.613	6.643.982
Amortization	(2.373.891)	(113.415)	(2.487.306)
Balance In 2019	3.419.478	737.198	4.156.676

## ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS  
AS OF DECEMBER 31st, 2019 (In Brazilian currency)

### 12.2 Lease Liabilities

Current and non-current liabilities arising from leasing are as follows:

Lease Liabilities	Current	Non - Current	TOTAL
Vehicles	2.470.364	1.386.124	3.856.488
Administrative Property	32.029	1.239.201	1.271.230
(-) Interest to be appropriated	(416.624)	(298.728)	(715.352)
<b>TOTAL</b>	<b>2.085.769</b>	<b>2.326.597</b>	<b>4.412.366</b>

The liability payment schedule is shown:

Lease Liabilities	Vehicles	Administrative Property
2020	2.470.364	32.029
2021	1.386.124	324.493
2022		373.159
2023 on		541.549
<b>TOTAL</b>	<b>3.856.488</b>	<b>1.271.230</b>

The discount rate used is in line with the market rate and was approximately 1% per year. The total interest expense incurred in 2019 was R \$ 377,409.

### 13 INTANGIBLE ASSETS

	Software	Improvements to the manufacturing process	Trademarks and patents	Goodwill	Total
Cost of intangible assets (gross amount)					
Balance in 2017	3.859.563	2.345.437	3.052.941	36.724.675	45.982.616
Additions	45.361				45.361
Losses					
Transferences					
Balance in 2018	3.904.923	2.345.437	3.052.941	36.724.675	46.027.976
Additions					45.361
Losses					
Transferences					
Balance in 2019	3.904.923	2.345.437	3.052.941	36.724.675	46.027.976
Accumulated amortization					
Balance in 2017	(1.128.691)	-	(52.941)	-	(1.181.632)
Amortization	(57.152)				(57.152)
Losses					
Transferences					
Balance in 2018	(1.185.843)		(52.941)		(1.238.784)
Amortization	(46.925)				(46.925)
Losses					
Transferences					
Balance in 2019	(1.232.768)		(52.941)		(1.285.709)
Net of intangible assets					
Balance in 2018	2.719.080	2.345.437	3.000.000	36.724.675	44.789.192
Balance in 2019	2.672.155	2.345.437	3.000.000	36.724.675	44.742.267

Goodwill value is tested annually for verification of probable losses ("impairment"), considering the economic basis on which goodwill was acquired (future profitability).

**ZYDUS NIKKHO FARMACÊUTICA LTDA.**EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS  
AS OF DECEMBER 31st, 2019 *(In Brazilian currency)***14 SUPPLIERS**

	<u>2019</u>	<u>2018</u>
National suppliers	2.742.253	1.794.548
Foreign suppliers	1.168.904	763.336
Related parties' suppliers	48.498.720	30.815.442
Total	52.409.877	33.373.325

The payment schedule for non-derivative financial liabilities or suppliers for 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Maturing debt	17.990.918	13.114.369
Goods in transit	1.384.097	4.279.978
Overdue:		
From 1 to 30 days	3.174.701	15.978.978
From 31 to 60 days	2.234.736	
From 61 to 90 days	4.250.256	
From 91 to 120 days	590.250	
Over 121 days	22.784.919	
Total	52.409.877	33.373.325

**15 TAX OBLIGATIONS**

	<u>2019</u>	<u>2018</u>
ICMS to be collected	358.592	675.000
IRRF, PIS, COFINS, CSLL and ISS to be collected	537.671	521.239
PIS and COFINS to be collected	1.291.105	1.193.156
Total	2.187.368	2.389.395

**16 WAGES, CHARGES AND HOLIDAYS**

	<u>2019</u>	<u>2018</u>
INSS (Social Security National Institute)	723.854	704.761
FGTS (Government Severance Indemnity Fund for Employees)	232.781	230.142
Vacation and social charges payable	2.799.460	2.984.717
Others	16.498	35.981
Total	3.772.593	3.955.601

**17 OTHER OBLIGATIONS**

	<u>2019</u>	<u>2018</u>
Electric energy payable	125.969	105.144
Water and sewage services payable	23.571	20.835
Insurance payable	23.111	49.248
Rent payable	88.060	224.408
Other accounts payable	933.750	1.114.409
Freights payable	95.276	173.166
Credit cards payable	146.651	121.560
Total	1.436.388	1.808.770

## ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS  
AS OF DECEMBER 31st, 2019 (In Brazilian currency)

### 18 PROVISIONS FOR CIVIL, TAX AND LABOR RISKS

The Company is a party to lawsuits and administrative proceedings before various courts and government agencies, arising from the course of its operations and involving labor issues, civil aspects and other matters. Management constituted the following constant provision based on the information of its legal counsel after analysis of pending legal claims and regarding labor claims, considering previous experience of loss percentage in relation to amounts claimed. Management considers its amount sufficient to cover the probable estimated losses from the current lawsuits.

#### Changes in the provision for civil, tax and labor risks:

2019	Opning Balance	Additions	Payments	Final Balance
Labor	7.337.299	657.621	-	7.994.920
Total	7.337.299	657.621	-	7.994.920

Management did not make the discount at present value because the money in time was not material, as interpreted in items 45 to 47 of CPC 25. Management and its legal advisors understand that the possible probability causes are already contemplated in the existing provision.

### 19 RELATED PARTIES

On December 31st, 2019 and 2018, balances and transactions with related parties are as follows:

	2019	2018
Liabilities		
Cadila Healthcare Limited	48.498.720	30.815.442
Current	48.498.720	30.815.442
Goods for resale:		
Purchase of Cadila Healthcare Limited products	59.057.000	26.542.059
Goods in transit Cadila Healthcare Limited	1.384.097	4.279.978
Total	60.441.097	30.822.037

Balances of business transactions between related parties.

### 20 CAPITAL STOCK

On December 31st, 2019, the Company's fully subscribed and paid-in capital stock, in the amount of BRL 145,720,724.00, was represented by 145,720,724 nominative shares, with a nominal value of BRL 1.00 each, as follows:

	2019	2018
Zydus Netherland B.V.	145.720.154	145.720.154
PatelPankajRamanbhai	570	570
Total	145.720.724	145.720.724



**ZYDUS NIKKHO FARMACÊUTICA LTDA.**

**EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS**  
AS OF DECEMBER 31st, 2019 *(In Brazilian currency)*

**21 INSURANCE COVERAGE (unaudited)**

The Company maintains insurance for certain fixed assets, as well as for civil liability and other contractual guarantees. The summary of the policies in force on December 31st, 2019 is as follows:

<u>Object of Guarantee</u>	<u>Insured Amount</u>	<u>Validity</u>
Pharmaceuticals, building and content	159.689.078	10/08/2019 a 10/08/2020
Vehicles	100.000	01/06/2019 a 01/06/2020
Tablets, Electronic equipment, IPAD's	436.284	24/05/2019 a 24/05/2020
Civil liability	1.620.000	28/02/2019 a 29/02/2020
National Transportation	1.500.000	28/02/2019 a 29/02/2020

**22. NET REVENUE**

	<u>2019</u>	<u>2018</u>
Gross revenue	391.515.204	404.457.214
Returns, discounts and other	(225.904.225)	(253.854.952)
Taxes on sales	(23.100.050)	(21.668.350)
Net revenue	142.510.929	128.933.912

**23. NATURAL EXPENSES**

<b>Cost of Products and Goods Sold</b>	<u>2019</u>	<u>2018</u>
Raw materials, packaging and goods for resale	(52.114.264)	(39.781.170)
Materials, energy, third-party services and others	(6.010.991)	(6.086.067)
Personnel expenses	(6.761.818)	(6.094.587)
Depreciation and amortization	(825.600)	(724.507)
Total	(65.712.673)	(52.686.331)

<b>Administrative and Commercial Expenses</b>	<u>2019</u>	<u>2018</u>
Materials, energy, third-party services and others	(14.350.903)	(10.178.255)
Marketing, sales force and other expenses with sales	(20.273.123)	(23.650.921)
Other administrative expenses	(5.927.320)	(6.633.349)
Personnel expenses	(44.362.721)	(35.613.380)
Depreciation and amortization*	(3.016.724)	(422.996)
Total	(87.930.791)	(76.498.901)

\* Variation due to the initial adoption of IFRS 16. See note 2.4 item (a)

**24. OTHER OPERATIONAL REVENUES (EXPENSES), NET**

	<u>2019</u>	<u>2018</u>
Provisions for tax, civil and labor risks	(657.621)	(58.510)
Provision for miscellaneous inventories/losses	(3.574.424)	(769.555)
Income from sale of fixed assets	(49.161)	4.824
Recovery of expenses (*)		1.188.173
Occasional revenues	1.929.024	963.512
Reversal of provisions for tax, civil and labor risks		1.568.095
Losses receivable from doubtful accounts		(400.000)
Others	190.829	127.702
Total	(2.161.353)	2.624.241

(\*)Resurgence of Permit of labor authorization proces (2018)

## ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS  
AS OF DECEMBER 31st, 2019 (In Brazilian currency)

### 25. FINANCIAL RESULT

	2019	2018
Financial expenses:		
Interests	(17.350)	(28.786)
Bank fees	(234.023)	(247.752)
Tax Expenses on Financial Operations – IOF	(2.546)	(2.230)
Discounts given	(1.524.007)	(364.167)
Interests Leases * (note 2.4 item (a))	(377.409)	
Escrow charges	(612.244)	(653.299)
Total expenditure	(2.767.579)	(1.296.234)
Financial revenue:		
Interest on delinquency of accounts receivable	54.908	545.510
Income from financial investments	661.744	748.468
Discounts obtained	53.105	12.030
Active monetary variation	51.179	103.464
Total revenue	820.936	1.409.472
Net exchange variation	(1.138.203)	(2.303.133)
Financial result	(3.084.846)	(2.189.895)

### 26. INCOME TAX AND CONTRIBUTION SOCIAL

	2019	2018
<b>(Loss) / Profit before Taxes</b>	<b>(16.378.733)</b>	<b>183.027</b>
<b>Additions to the Calculation Base</b>	<b>10.513.122</b>	<b>1.511.536</b>
Amortizations and interest related to IFRS 16	2.864.716	-
Contingency / Inventory Provisions and Losses on receivables	6.636.437	828.065
Other Expenses (Gifts, Gratuities, etc.)	1.011.969	683.471
<b>Exclusions in the Calculation Base</b>	<b>(4.567.285)</b>	<b>(4.484.956)</b>
Payment of Leases	(2.603.278)	-
Reversal of Labor Provision	(1.964.007)	(4.484.956)
<b>(Tax Loss)</b>	<b>(10.432.896)</b>	<b>(2.790.393)</b>

Due to the tax loss presented, there was no provision for tax in the current fiscal year.

### 27. RISK MANAGEMENT

The Company participates in operations involving financial instruments, which are fully recorded in equity accounts. These operations are designed to meet the needs of maximizing the profitability of the net cash resources and raising funds needed to maintain working capital and the provision of its investment plan.

#### Market value of financial instruments

Considering that maturity occurs on a date close to the balance sheet date, the carrying amount due approximates the market value of cash and cash equivalents (cash, banks and short-term investments), trade accounts receivable and current liabilities. The balance of the financing is monetarily restated based on variable interest rates due to market conditions. Therefore, the outstanding balance at the balance sheet date is close to the market value.

#### Risk management

The Company has procedures for preventive and detective controls that monitor its exposure to credit risks, already disclosed in note 4, liquidity risks, market risks and risks related to the Company and its operations.

## ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS  
AS OF DECEMBER 31st, 2019 (In Brazilian currency)

### Liquidity Risk

Company Management monitors continuous forecasts of the Company's liquidity requirements to seek sufficient cash to meet operating needs. The Company may need to obtain additional funds through bank loans or capital increase.

### Market risk management

The Company is exposed to market risks arising from its activities. These market risks, which are beyond its control, mainly involve the possibility that changes in interest rates, exchange rates and inflation may negatively affect the value of its financial assets or cash flows and future income. Market risk is the possible loss resulting from adverse changes in market rates and prices. The mitigation of this risk occurs through the application of procedures to evaluate the exposure of assets and liabilities to market risk and, consequently, the contracting of hedge in the top financial institutions, when necessary.

The Company becomes exposed to risks of the dollar variation as of December 31st, 2018. In order to provide information on how these variations might behave, we present next the possible changes, from 25% to 50%, in the relevant risk variables regarding net exposure in foreign currency (international suppliers). The exposure to the CDI was not disclosed due to the fact that the company does not have any balances with loans and financing.

The assumptions for the calculation for foreign suppliers are:

Scenario I: Current loss - Based on the result of exchange variation in the year ended on December 31st, 2019;

Scenario II: 25% increase in US dollar - Based on liabilities in foreign currency as of December 31st, 2019;

Scenario III: 50% increase in US dollar - Based on liabilities in foreign currency as of December 31st, 2019.

In the table below, we show the possible impacts on the Company's results, with the devaluation of Brazilian currency (BRL):

Scenario I – Current – Gain or (Loss) in the result for the year	(1.138.203)
USD Balance on December 31st, 2019	12.322.332
Scenario II – Increase of 25% - Foreign exchange loss in the income for the year	(12.416.906)
Scenario III - Increase of 50% - Foreign exchange loss in the income for the year	(24.833.812)

## 28. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The summary of financial instruments has been classified according to the following categories:

Amortized Cost: "CA", Assets at fair value through profit or loss ("AVJR")

	2019	2018
<b>Current Financial Assets</b>		
Cash and Cash Equivalents ("VJR")	931.345	2.101.163
Other Current Assets ("CA")	445.347	951.235
<b>TOTAL</b>	<b>1.376.691</b>	<b>3.052.398</b>
<b>Current Financial Liabilities</b>		
Other Obligations ("CA")	1.436.388	1.808.770
<b>TOTAL</b>	<b>1.436.388</b>	<b>1.808.770</b>

## ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS  
AS OF DECEMBER 31st, 2019 *(In Brazilian currency)*

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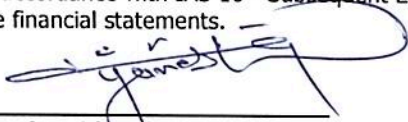
### 29. REMUNERATION OF MANAGERS

The total compensation of the directors of the company is composed of fixed remuneration, which includes wages, salaries and social security contributions. In 2019, the total compensation was BRL 1,559,683 (BRL 1,173,816 in 2018).

During the years 2019 and 2018, there was no remuneration related to post-employment benefits, termination benefits, other long-term benefits or stock-based compensation.

### 30. SUBSEQUENT EVENTS

In accordance with IAS 10 - Subsequent Events, there were no facts or transactions that had an impact on the financial statements.



**(CFO) - Chief Financial Officer**  
Gyanesh Kumar



**Accountant**  
Gilson Antonio da Silva  
CRC nº RJ 67027/O-0