

Torrent do Brasil Ltda.

Financial statements
March 31, 2023

Contents

Independent auditors' report on financial statements	3
Statement of financial position	6
Statements of operations	7
Statements of comprehensive income	8
Statements of changes in shareholders' equity	9
Statements of cash flows	10
Notes to the financial statements	11



KPMG Auditores Independentes Ltda.

Rua Verbo Divino, 1400, Conjunto Térreo ao 801 - Parte,

Chácara Santo Antônio, CEP 04719-911, São Paulo - SP

Caixa Postal 79518 - CEP 04707-970 - São Paulo - SP - Brasil

Telefone +55 (11) 3940-1500

kpmg.com.br

Independent auditors' report on the financial statements

To the Shareholders and Quota holders of

Torrent do Brasil Ltda.

São Paulo - SP

Opinion

We have audited the financial statements of Torrent do Brasil Ltda. ("Company"), which comprise the statement of financial position as at March 31, 2023, the statements of income and other comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements referred above, present fairly, in all material respects, the financial position of the Torrent do Brasil Ltda. as at March 31, 2023, and of its financial performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Basis for opinion

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 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.

Management's Responsibilities for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether caused by fraud or error.

In the preparing of the 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 cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and international auditing standards always detect a material misstatement when it exist. Misstatements can arise from fraud or error and are considered material if, individually or aggregate, they could reasonably be expected to influence the economic decisions of the users taken based on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

São Paulo, May 11, 2023

KPMG Auditores Independentes Ltda.
CRC 2SP-014428/O-6



Marcelo R. Ramos
Accountant CRC 1SP289398/O-1

TORRENT DO BRASIL LTDA.

Balance sheet as of march 31, 2023 and 2022

(amounts expressed in thousands brazilian Reais - R\$)

Asset	Note	31/03/2023	31/03/2022	Liability	Note	31/03/2023	31/03/2022
Cash and cash equivalents	4	71,217	23,438	Suppliers		14,974	14,890
Trade accounts receivable	5	207,056	175,853	Suppliers - Related parties	12	140,598	92,794
Inventories	6	61,874	62,298	Other accounts payable	5	6,017	2,896
Taxes recorvable		135	135	Lease	11	4,279	2,165
Other Assets		4,177	4,544	Current income tax	8, 13	17,802	7,958
Total current asset		344,459	266,268	Tax liabilities	13	4,541	4,300
Judicial Deposit		4,824	3,224	Labor liabilities	14	19,734	14,706
Deferred tax	8	36,031	29,686	Unrealized loss on derivatives	7	7,343	17,319
Total long-term receivables		40,855	32,910	Total current liability		215,288	157,028
Fixed assets	9	8,043	7,818	Lease	11	2,663	3,808
Intangible	10	7,051	1,859	Provision for contingencies	15	30,312	31,487
Right of use	11	6,274	5,387	Labor liabilities	14	-	1,539
		21,368	15,064	Total non-current		32,975	36,834
Total non-current		62,223	47,974	Equity			
				Capital subscribed	16	25,000	25,000
				Capital to be subscribed	16	(5,856)	(5,856)
				Accumulated results		139,275	101,236
				Total equity		158,419	120,380
Total asset		406,682	314,242	Total liability + equity		406,682	314,242

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

TORRENT DO BRASIL LTDA.

Statement of operations

For the years ended march 31, 2023 and 2022

(amounts expressed in thousands brazilian Reais - R\$)

	Note	31/03/2023	31/03/2022
Revenue	17	594,249	524,237
Cost of sales	18	<u>(287,756)</u>	<u>(264,619)</u>
Gross profit		306,493	259,618
Sales expenses	19	(189,500)	(154,946)
Administrative expenses	19	(43,588)	(35,000)
Loss on impairment of trade accounts receivable	5	(498)	26
Income before net financial income and taxes		72,907	69,699
Financial revenues	7	11,003	20,209
Financial expenses	7	<u>(25,245)</u>	<u>(26,960)</u>
Net financial results		(14,242)	(6,751)
Profit before taxes		58,665	62,948
Current income tax and social contribution	8	(26,971)	(23,858)
Deferred income tax and social contribution	8	6,345	765
Income tax and social contribution		(20,626)	(23,093)
Results for the year		38,039	39,855

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

TORRENT DO BRASIL LTDA.**Statement of comprehensive income (loss)****For the years ended march 31, 2023 and 2022***(amounts expressed in thousands brazilian Reais - R\$)*

	2023	2022
Results for the year	<u>38,039</u>	<u>39,855</u>
Other comprehensive income	<u>-</u>	<u>-</u>
Total of other comprehensive profit	<u>38,039</u>	<u>39,855</u>

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

TORRENT DO BRASIL LTDA.

Statement of changes in shareholders' equity

For the years ended march 31, 2023 and 2022

(amounts expressed in thousands brazilian Reais - R\$)

	Note	Capital subscribed	Capital to be subscribed	Accumulated results	Total
Balance as of march 31, 2021		<u>25,000</u>	<u>(5,856)</u>	<u>61,381</u>	<u>80,525</u>
Results for the year		-	-	39,855	39,855
Balance as of march 31, 2022		<u>25,000</u>	<u>(5,856)</u>	<u>101,236</u>	<u>120,380</u>
Results for the year		-	-	38,039	38,039
Balance as of march 31, 2023		<u>25,000</u>	<u>(5,856)</u>	<u>139,275</u>	<u>158,419</u>

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

TORRENT DO BRASIL LTDA.**Statement of cash flows****For the years ended march 31, 2023 and 2022***(amounts expressed in thousands brazilian Reais - R\$)*

	Note	2023	2022
Cash Flow from operating activities			
Results for the year		<u>38,039</u>	<u>39,855</u>
Adjustments for:			-
Depreciation and amortization	9, 10, 11	6,040	5,587
Disposal of fixed assets	9	430	156
Loss through impairment of customers	5	498	(26)
Provision for inventory write-off and impairment	6	5,559	(2,943)
Current and Deferred income tax	8	20,626	23,093
Unrealized losses on derivatives	7	(9,976)	20,882
Interest paid on lease	11	754	755
Accrued payroll and related charges	14	1,235	771
Provision for discounts and returns	5	(3,468)	3,938
Provisions for labor, tax and civil risks	15	<u>(1,175)</u>	<u>2,149</u>
		<u>58,562</u>	<u>94,217</u>
Changes in:			
Trade accounts receivables	5	(28,232)	(37,619)
Inventories	6	(5,135)	17,458
Other assets		367	(867)
Judicial deposits		(1,600)	(76)
Suppliers		128	1,181
Suppliers - Related parties	13	47,804	(39,007)
Other accounts payable		3,120	(2,138)
Tax liabilities	14	241	5,931
Labor liabilities	15	2,254	496
Cash generated from operating activities		<u>77,509</u>	<u>39,576</u>
Income taxes paid		(17,127)	(24,106)
Short term and low value lease agreements paid	12	(44)	(42)
Interest paid on lease	12	(438)	(182)
Net cash from operating activities		<u>59,900</u>	<u>15,246</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment	10 e 11	(7,912)	(2,605)
Net cash used in investing activities		<u>(7,912)</u>	<u>(2,605)</u>
Cash flows from financing activities			
Lease agreements paid	12	(4,209)	(4,219)
Net cash from financing activities		<u>(4,209)</u>	<u>(4,219)</u>
Net increase / (decrease) in cash and cash equivalents		<u>47,779</u>	<u>8,422</u>
Cash and cash equivalents at 1 April	4	23,438	15,016
Cash and cash equivalents at 31 March	4	71,217	23,438
Net increase / (decrease) in cash and cash equivalents		<u>47,779</u>	<u>8,422</u>

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

Notes to the financial statements

(in thousands of reais)

1 Operational context

Torrent do Brasil Ltda. ("Company"), located at Avenida Dr Chucri Zaidan, 1.240, in the city of São Paulo, state of São Paulo, is a subsidiary of Torrent Pharmaceuticals Ltd, India, incorporated as a limited liability company in Brazil, the company's fiscal year is from April to March.

The Company's activity includes the import, storage, distribution, sale and export of chemical products, drugs, pharmaceuticals and allopathic, phytotherapy, homeopathic, hygiene, cosmetics, food supplements and related medicines. The portfolio currently marketed includes products from the Cardiovascular, Central Nervous System and Oral Anti-Diabetes segments.

Currently, more than 98% of inventory purchases for sales come from transactions with related parties, with Torrent Pharmaceuticals Ltd as the main supplier; the remaining 2% comes from purchases from other suppliers outside the Torrent Group.

2 Basis of preparation

a. Statement of conformity

These financial statements are prepared in accordance with accounting practices adopted in Brazil.

The financial statements were authorized by the Company's management on 08 May 2023.

All relevant information specific to the financial statements, and only these, are being evidenced, and correspond to those used by Management in its management.

b. Basis of measurement

The financial statements were prepared on historical cost basis, with the exception of derivative financial instruments measured at fair value through profit or loss.

c. Functional currency and presentation

These financial statements are presented in Brazilian Reais, which is the Company's functional currency. All balances are in thousands of reais (R\$), except when otherwise indicated.

d. Use of estimates and judgments

In preparing these financial statements, management has used judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and assumptions are continuously reviewed. Revisions to estimates are recognized prospectively.

Uncertainties and judgments about assumptions and estimates

Information on critical judgments related to the accounting policies adopted that have effects on the amounts recognized in the financial statements is included in the following notes:

- **Note 5** - recognition and measurement of the expected credit losses of accounts receivables.
- **Note 6** - Provisions for inventory losses by validity or slow moving.
- **Note 8** - Deferred income tax and social contribution: availability of future taxable income against which tax losses may be utilized.
- **Note 11** – Lease: initial recognition at present value.
- **Note 15** - Provision for contingencies: main assumptions about the probability and magnitude of the outflows of resources.
- **Note 20** – Financial instruments: fair value measurement.

Fair value measurement

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

When measuring the fair value of an asset or a liability, the Company uses observable market data as much as possible. Fair values are classified at different levels in a hierarchy based on the information (inputs) used in valuation techniques as follows.

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets and liabilities.
- **Level 2:** inputs, except for quoted prices included in Level 1, which are observable for the asset or liability, directly (prices) or indirectly (price derivative).
- **Level 3:** inputs, for the asset or liability, that are not based on observable market data (unobservable inputs).

Additional information on the assumptions used in the measurement of fair values is included in explanatory note **20 - Financial instruments**.

3 Significant accounting policies

The main accounting policies used in the preparation of the financial statements are summarized below. The Company has consistently applied the following accounting policies to all periods presented in these financial statements.

a. Foreign currency transaction, translation and foreign operations

Foreign currency transactions are recorded at exchange rates prevailing on the date of the transaction. The net gain or loss on account of exchange differences arising on settlement of foreign currency transactions are recognized as income or expense of the period in which they arise. Monetary assets and liabilities denominated in foreign currency as at the balance sheet date are translated at the closing rate. The resultant exchange rate differences are recognized in

the statement of profit and loss. Foreign exchange differences regarded as an adjustment to borrowing costs are presented in the statement of profit and loss, within finance costs. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

b. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, short demand deposits and highly liquid investments, that are readily convertible into known amounts of cash, and which are subject to an insignificant risk of change in value. Short term means investments with original maturities / holding period of three months or less from the date of investments. Bank overdrafts, if existing, that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalent for the purpose of statement of cash flow.

c. Inventories

Inventories are carried at the lower of cost and net realizable value.

The cost of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recovered by the Company from taxing authorities), and transport, handling and other costs directly attributable to bringing the inventory to their existing location and conditions. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sales.

The Company considers various factors like shelf life, ageing of inventory, product discontinuation, price changes and any other factor which impact the Company's business in determining the allowance for obsolete, non-saleable and slow moving inventories. The Company considers the above factors and adjusts the inventory provision to reflect its real experience on a periodic basis under the item "Cost of sales".

d. Fixed assets

Fixed assets are stated at cost of acquisition or construction less accumulated depreciation and any accumulated impairment losses. The cost of fixed assets comprises of its purchase price, non-refundable taxes & levies, freight and other incidental expenses related to the acquisition and installation of the respective assets.

When major items of fixed assets have different useful lives, they are accounted for as separate items of Property Plant and Equipment. The cost of replacement of any Property Plant and Equipment is recognized in the carrying amount of the item if it is probable that the future economic benefit associated with the item will flow to the Company and its cost can be measured reliably. Such expenses are capitalized only if the project to which they refer involves a substantial expansion of capacity or upgrading.

Pre-operative expenditure comprising of revenue expenses incurred in connection with project implementation during the period up to commencement of commercial production are treated

as part of the project costs and are capitalized. Such expenses are capitalized only if the project to which they relate, involve substantial expansion of capacity or upgradation.

An item of fixed asset is derecognized upon disposal or when no future economic benefits are expected to arise from its use. Difference between the sales proceeds and the carrying amount of the asset is recognized in statement of profit and loss.

Depreciation on fixed asset is provided using straight-line method based on useful life of the assets estimated by the management. The estimated useful lives, residual values and depreciation method are reviewed at each financial year-end and changes in estimates, if any are accounted for on a prospective basis.

The estimated useful lives of fixed assets are as under:

	Useful life (Years)
Computers and accessories	5
Installation	10
Machinery and equipment	10
Furniture	10

e. Intangible

Intangible assets acquired separately are measured at cost of acquisition. Intangible assets acquired under business combination are measured at fair value as of the date of business combination. Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses, if any.

Intangible assets are amortized over their respective estimated useful life using straight-line method. The estimated useful life of amortizable intangibles is reviewed at the end of each reporting period and change in estimates if any are accounted for on a prospective basis.

The estimated useful lives of intangibles, mainly software, is 5 years.

f. Provision for impairment of non-derivative and non-financial assets

Non-derivative financial assets

Financial instruments and contractual assets

The Company recognizes provisions for expected credit losses on:

- financial assets measured at amortized cost;
- contract assets.

The Company measures the allowance for loss in an amount equal to the expected loss of credit for life, except for the items described below, which are measured as expected loss of credit for 12 months:

- debt securities with low credit risk at the balance sheet date; and

- other debt securities and bank balances for which the credit risk (that is, the risk of default over the expected life of the financial instrument) has not increased significantly since initial recognition.

In determining whether the credit risk of a financial asset has increased significantly since initial recognition and in estimating expected credit losses, the Company considers reasonable and supportable information that is relevant and available without excessive cost or effort. This includes quantitative and qualitative information and analysis, based on historical experience. the Company considers forward-looking information.

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

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

- it is unlikely that the debtor will pay its credit obligations in full. The Company, without recourse to actions such as the realization of the guarantee (if any); or
- the financial assets are overdue for over 90 days.

Measurement of expected credit losses

Expected credit losses are estimates weighted by the historical probability of credit losses. Credit losses are measured at present value based on all cash shortfalls (i.e., the difference between the cash flows due, under the contract, to the Company and the cash flows the Company expects to receive).

Expected credit losses are discounted at the effective interest rate on the financial asset.

Financial assets with recovery problems

At each balance sheet date, the Company assesses whether the financial assets accounted for at amortized cost are experiencing recovery problems.

A financial asset has "recovery problems" when one or more events occur with a detrimental impact on estimated future cash flows from financial assets.

Objective evidence that financial assets have experienced recovery problems includes the following observable data:

- significant financial difficulties of the debtor;
- breach of contractual clauses, such as delinquency or a delay of more than 90 days;
- restructuring of an amount owed to the Company under conditions that would not be accepted under normal conditions;
- the probability that the debtor will go bankrupt or undergo another type of financial reorganization; or
- the disappearance of active market for the security because of financial difficulties.

Presentation of the provision for expected credit losses on the balance sheet

The allowance for losses on financial assets measured at amortized cost is deducted from the gross book value of the assets.

Write-off

The gross book value of a financial asset is written off when the Company has no reasonable expectation of recovering the financial asset in whole or in part. The Company makes an individual assessment of the timing and value of the write-off based on whether or not there is a reasonable expectation of recovery. The Company does not expect any significant recovery of the amount written off. However, the financial assets written off may still be subject to credit execution in order to comply with the Company's procedures for recovering the amounts due.

Non-financial assets

Property Plant and equipment and intangible asset with finite useful life are evaluated for recoverability whenever there is any indication that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount (i.e. higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. In such cases, the recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs.

For impairment tests, assets are grouped into Cash-Generating Units (CGUs), that is, the smallest possible group of assets that generates cash inflows through their continued use, which are largely independent of the inflows. cash from other assets or CGUs. Goodwill from business combinations is allocated to the CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized in the statement of profit and loss to such extent. When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, such that the increase in the carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in statement of profit and loss.

g. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue from sale of goods includes excise duty and are net of discounts, applicable taxes, rebates, chargeback and estimated returns.

A chargeback claim is made by the wholesaler for the difference between the price at which the product is initially invoiced to the wholesaler and the net price at which it is agreed to be sold to the third parties. Provision / accruals for chargeback, rebates, returns are estimated on the basis of historical experience, market conditions and specific contractual terms. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in line with contractual and legal obligations, trade practices historical trends, past experience and projected market conditions.

The revenue is recognized when the performance obligations established in the products contracts are met, where the control of goods are transferred to the buyer, recoverability of consideration is probable, the amount of revenue and cost incurred or to be incurred in respect of the transaction can be measured reliably and there is no continuing managerial involvement over the goods sold.

Revenue from arrangements which includes performance of obligations is recognized in the period in which the Company completes all its performance obligations.

h. Financial revenue and financial expenses

The Company's financial revenue and expenses comprise:

- interest revenue.
- interest expenses.
- net gains / losses on financial assets measured at fair value through profit or loss.
- gains / losses, net of exchange variation on financial liabilities.

Interest revenue and expense are recognized in the income statement using the effective interest method.

The 'effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument by:

- gross book value of the financial asset; or
- the amortized cost of the financial liability.

i. Short term employee benefits

Short-term benefit obligations to employees are recognized as personnel expenses as the corresponding service is provided. The liability is recognized at the expected payment amount if the company has a present legal obligation, and the obligation can be estimated reliably.

j. Provisions and contingent liability

Provisions

A provision is recognized when as a result of a past event, the Company has a present obligation whether legal or constructive that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the obligation is expected to be settled more than 12 months after the end of reporting date or has no definite settlement date, the provision is recorded as non-current liabilities after giving effect for time value of money, if material. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Contingent liability

A possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company or; present obligation that arises from past events where it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability are disclosed as contingent liability and not provided for.

k. Tax

Income tax and social contribution include current and deferred taxes.

Current income tax

The expense for income tax and social contribution is based on taxable income for the year. Taxable profit differs from profit presented in the income statement because it excludes income or expenses taxable or deductible in other years, in addition to permanently excluding non-taxable or non-deductible items.

The expense for income tax is calculated based on the tax rate considering the tax benefits on operating income. The provision for social contribution is calculated based on the tax rate valid for the year. The amounts of income tax and social contribution are calculated at the rates of 25% and 9%, respectively.

Management periodically evaluates the positions assumed by the Company in the determination of income taxes with respect to situations in which the applicable tax regulations give rise to interpretations. Establishes provisions, when appropriate, based on the estimated values of payment to the tax authorities.

Deferred income tax

Deferred income tax and social contribution ("deferred tax") is recognized on temporary differences at the end of each reporting period between the balances of assets and liabilities recognized in the financial statements and the corresponding tax bases used in determining taxable income, including the balance of tax losses, when applicable.

Deferred tax liabilities are generally recognized on all taxable temporary differences and deferred tax assets are recognized on all deductible temporary differences, only when it is probable that the company will present future taxable profit in an amount sufficient for such deductible temporary differences to be utilized.

The recovery of the balance of deferred tax assets is reviewed at the end of each reporting period and, when it is no longer probable that future taxable profits will be available to allow the recovery of all or part of the asset, the balance of the asset is adjusted by the amount that is expected to be recovered.

Deferred tax assets and liabilities are measured at the rates applicable in the period in which the liability is expected to be settled or the asset to be realized, based on the rates established in the tax legislation in effect at the end of each reporting period, or when new legislation has been substantially approved.

Deferred tax assets and liabilities are offset only if certain criteria are met.

1. Financial Instruments

Recognition and initial measurement

Accounts receivable from customers and debt securities issued are initially recognised on the date they originated. All other financial assets and liabilities are initially recognised when the Company becomes party to the contractual provisions of the instrument.

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

Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured: at amortized cost or to the FVTPL.

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

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

- it is maintained within a business model whose objective is to hold financial assets to receive contractual cash flows; and
- its contractual terms generate, at specific dates, cash flows that are related only to the payment of principal and interest on the outstanding principal.

All financial assets not classified as measured at amortized cost are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or the FVOCI as the FVTPL if this eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial Assets - Business Model Assessment

The Company performs an evaluation of the objective of the business model in which a financial asset is kept in portfolio because this better reflects the way in which the business is managed, and the information is provided to Management. The information considered includes:

- the policies and objectives stipulated for the portfolio and the practical functioning of these policies. These include whether Management's strategy focuses on obtaining contractual interest income, maintaining a certain interest rate profile, matching the duration of financial assets to the duration of related liabilities or expected cash outflows, or realizing cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to Company Management.
- the risks that affect the performance of the business model (and the financial assets held in that business model) and the way those risks are managed;
- how business managers are remunerated - for example, whether remuneration is based on the fair value of assets managed or the contractual cash flows obtained; and
- the frequency, volume and timing of sales of financial assets in prior periods,
- the reasons for such sales and their expectations about future sales.

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

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

Financial assets - Assessment of whether the contractual cash flows are only principal and interest payments.

For purposes of this valuation, 'principal' is defined as the fair value of the financial asset on initial recognition. Interest' is defined as a consideration for the time value of money and the credit risk associated with the principal amount outstanding over a given period of time and for the other basic risks and costs of borrowing (e.g. liquidity risk and administrative costs), as well as a profit margin. The Company considers the contractual terms of the instrument to assess whether the contractual cash flows are only principal and interest payments. 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 not meet this condition. When making this valuation, the Company considers:

- contingent events that change the value or timing of the cash flows;
- terms that might adjust the contractual rate, including variable rates;
- the prepayment and the extension of the term; and
- terms that limit the Company's access to cash flows from specific assets (for example, - based on an asset's performance).

The prepayment is consistent with the criterion of payments of principal and interest if the prepayment amount represents, for the most part, unpaid amounts of principal and interest on the outstanding principal amount - which may include reasonable compensation for early termination of the contract. In addition, with respect to a financial asset acquired for an amount less than or greater than the nominal value of the contract, the permission or requirement to prepay for an amount representing the nominal value of the contract plus accrued (but unpaid) interest (which may also include reasonable compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment is insignificant on initial recognition.

Financial assets - Subsequent measurement and gains and losses

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

Financial liabilities - classification, subsequent measurement and gains and losses

Financial liabilities have been classified as measured at amortized cost or at FVTPL. 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 on initial recognition. Financial liabilities measured at the FVTPL are measured at fair value and net income, including interest, is recognized in income. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense, foreign exchange gains and losses are recognized in income. Any gain or loss on derecognition is also recognized in income.

Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows of the asset expire, or when the Company transfers the contractual rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor

retains substantially all risks and rewards of ownership of the financial asset and also does not retain control over the financial asset.

The Company carries out transactions in which it transfers assets recognized in the balance sheet, but maintains all or substantially all the risks and benefits of the assets transferred. In these cases, the financial assets are not derecognized.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligation is withdrawn, cancelled 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 extinct carrying amount and the consideration paid (including transferred assets that do not transit through cash or assumed liabilities) is recognized in income.

Offsetting

Financial assets or liabilities are offset and the net amount shown on the balance sheet when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends to settle them on a net basis or to realize the assets and settle the liabilities simultaneously.

Derivative financial instruments.

The Company maintains derivative financial instruments to protect its exposure to foreign currency and interest rate risks. Embedded derivatives are separated from its master contracts and recorded separately if the master contract is not a financial asset and certain criteria are met.

Derivatives are measured initially at fair value. After initial recognition, derivatives are measured at fair value and changes in fair value are usually recorded in income.

Impairment of financial assets

The impairment model applies to financial assets measured at amortized cost and contract assets but not to investments in equity instruments.

The following table and the explanatory notes below explain the original measurement categories in CPC 48 for each class of the Group's financial assets and liabilities

	Measurement
Financial assets	
Cash and cash equivalents	Amortized cost
Trade accounts receivables	Amortized cost
Unrealized gains on derivatives	Fair value through profit or loss
Financial liabilities	
Suppliers	Amortized cost
Suppliers – related parties	Amortized cost
Unrealized losses on derivatives	Fair value through profit or loss

m. Leases

Lease assets are initially recognized as right-of-use assets and subsequently measured on the cost model. Lease liabilities are initially measured at the present value of future lease payments, plus any initial direct costs incurred by the lessee and an estimate of the costs to be incurred by

the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, less any lease incentives received. Exemption is provided for short-term leases and low-value underlying items.

The accounting for lessor leases remains essentially unchanged, except for additional guidance and new disclosure requirements.

As a Lessee

As a lessee, the Company leases real estate. The Company recognizes right-of-use assets and lease liabilities for all such leases - that is, these leases are on the balance sheet.

At the inception or upon modification of an agreement that contains a lease component, the Company allocates the consideration in the agreement to each lease component based on its individual price.

However, for real estate leases, the Company has elected not to separate the non-lease components and to account for the lease and associated non-lease components as a single lease component.

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

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

The Company determines its incremental borrowing rate by obtaining interest rates from various external funding sources and making certain adjustments to reflect the terms of the contract and the type of asset being leased.

Lease payments included in the measurement of lease liabilities comprise the following:

- fixed payments, including fixed payments in essence;
- variable lease payments that depend on index or rate, initially measured using the index or rate at the inception date;
- amounts expected to be paid by the lessee in accordance with residual value guarantees; and
- the purchase option exercise price if the lessee is reasonably certain to exercise that option, and lease termination penalty payments if the lease term reflects the lessee exercising the option to terminate the lease

Lease liabilities are measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments resulting from a change in index or rate, if there is a change in the amounts expected to be paid under the residual value guarantee, if the Company changes its assessment whether it will exercise a purchase option, extension or termination or if there is a revised lease payment fixed in essence.

When the lease liability is remeasured in this manner, a corresponding adjustment is made to the carrying value of the right-of-use asset or is recorded in the income statement if the carrying value of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property under "right-of-use" and lease liabilities under "Lease" in the balance sheet.

n. Other standards and interpretations not adopted

A series of new standards will be effective for years beginning after January 1, 2022. The Company has not adopted these standards in the preparation of these financial statements. The following new and amended standards are not expected to have a significant impact on the Company's financial statements:

- Classification of Liabilities in Current or Non-Current (Amendments to CPC 26 / IAS 1).
- IFRS 17 Insurance contracts.
- Disclosure of Accounting Policies (Changes to CPC 26 /IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimate (Changes to CPC 23 /IAS 8)
- Initial recognition of deferred taxes (Changes to CPC 32/IAS 12)

4 Cash and cash equivalents

	2023	2022
Cash and banks	70,846	23,109
Certified bank deposit	371	329
	<u>71,217</u>	<u>23,438</u>

As of 31st March 2023, the weighted average interest over bank deposit (CDB) was 96% of CDI (Certified Interbank Deposits) reference rate (96% - 2022).

5 Trade accounts receivable and other accounts payable

	2023	2022
National	218,095	189,861
Provision for doubtful accounts	(498)	-
Provision for discounts/returns(*)	(10,540)	(14,008)
	<u>207,056</u>	<u>175,853</u>

(*) Related to the estimate of expected returns and discounts.

The Company has commercial agreements with customers for which it maintains provisions for possible future payments. Such amounts are presented under "Other accounts payable" and totaled R\$ 6,017 on March 31, 2023 and R\$ 2,897 on March 31, 2022.

- a. The balances of trade accounts receivable by age of maturity are shown below:

	2023	2022
Not yet due	211,200	187,102
Past due		
1 to 30 days	608	357
31 to 60 days	606	377
61 to 90 days	193	22
91 to 120 days	368	33
121 to 180 days	2,970	187
Above 180 days	2,150	1,783
	<u>218,095</u>	<u>189,861</u>

6 Inventories

	2023	2022
Finished good for resale	79,380	74,246
Provision for losses due to expiration	(11,883)	(10,298)
Provision for losses due to slow moving	(5,442)	(1,067)
Provision for negative margin	(181)	(583)
	<u>61,874</u>	<u>62,298</u>

The movement of the provision for losses on the realization of inventories, which was recognized under the cost of goods sold heading, is represented as follows:

	2023	2022
Opening balance	(11.948)	(14.891)
Additions	(14.885)	(9.708)
Utilizations	9.326	12.651
Closing balance	<u>(17.507)</u>	<u>(11.948)</u>

7 Net Financial results

	2023	2022
Revenue from financial investments	365	88
Exchange variation	-	20,071
Other financial income	662	50
Gain from derivative instruments - fair value	9,976	-
Total financial revenues	<u>11,003</u>	<u>20,209</u>
	2023	2022
Interest expenditure	(755)	(767)
Exchange variation	(6,991)	-
Other financial expenses	(208)	(119)
Financial fines	(127)	(343)
Realized gain on derivative instruments	(17,164)	(4,849)
Gain (Loss) from derivative instruments - fair value		(20,882)
Total financial expenses	<u>(25,245)</u>	<u>(26,960)</u>
Net financial results	<u>(14,242)</u>	<u>(6,751)</u>

Financial instruments – fair value	2023	2022
Loss – provision	<u>(7,343)</u>	<u>(17,319)</u>
	<u>(7,343)</u>	<u>(17,319)</u>
Gain – reversal		(4,630)
Loss – reversal	<u>17,319</u>	<u>1,067</u>
	<u>17,319</u>	<u>(3,563)</u>
Total net Gain (Loss) Derivative instruments - fair value	<u>9,976</u>	<u>(20,882)</u>

8 Current and deferred income tax and social contribution

Below is a reconciliation of the tax effect on income before income tax and social contribution, applying the rates of 25% and 9%, respectively.

Details of deferred tax assets and additions over the year are shown below:

	2023	2022
Income before income tax and social contribution	58.665	62.949
Combined tax rate	<u>34%</u>	<u>34%</u>
	(19.946)	(21.403)
Taxes calculated at rates		
Other permanent differences	(680)	63
IR / CS debts from previous years	<u>-</u>	<u>(1.753)</u>
	(20.626)	(23.093)
Income tax and social contribution		
Composed of:		
Current	(26.971)	(23.858)
Deferred	<u>6.345</u>	<u>765</u>
	(20.626)	(23.093)
Total		
Effective tax rate	35.2%	36,7%

Deferred tax credits arising from temporary differences and tax losses were recorded. These tax credits were recorded in accordance with the expected realization, based on projections of future taxable income and limited use to 30% of annual taxable income, pursuant to current legislation.

Deferred income tax and social contribution assets are reviewed at each reporting date and reduced to the extent that their realization is no longer probable. The Company's management uses projections of gains and losses and frequently reviews the effective use of these credits, based on estimates of future income subject to taxation.

Based on the projection of future taxable income, the Company expects to realize deferred income tax and social contribution assets in the next years when the temporary differences are expected to be realized.

The breakdown of deferred charges for temporary differences and is presented below:

	2023	2022
Sample stock and promotional materials	282	376
Deferred revenue adjustment	6,441	2,859
Loss through impairment of customers	169	-
Provision for variable salary	3,174	1,880
Allowance for inventory losses	5,952	4,062
Provision for labor, tax and civil risks	10,306	10,705
Losses (Gains) on transactions with derivative instruments	2,497	5,888
Provision for returns and discounts	5,629	5,748
Exchange variation	1,182	(4,462)
Other provisions	399	2,630
Total deferred income tax and social contribution	<u>36,031</u>	<u>29,686</u>

9 Fixed assets

Description	Balance as 01/04/2021	Additions	Sales	Balance as 31/03/2022	Additions	Sales	Balance as 31/03/2023
<u>Cost of acquisition</u>							
Computers and accessories	2,504	475	(8)	2,971	791		3,762
Installation	6,703	85	-	6,788	263		7,051
Machinery and Equipment	7,083	278	(16)	7,345	1,057	1,011	9,413
Furniture	1,171	-	-	1,171	123		1,294
Under construction	1,173	-	(143)	1,030		(1,030)	-
Subtotal	18,634	838	(167)	19,305	2,234	(19)	21,520
<u>Accumulated Depreciation</u>							
Computers and accessories	(1,444)	(410)	4	(1,850)	(499)		(2,349)
Installation	(3,244)	(653)	-	(3,897)	(652)		(4,549)
Machinery and Equipment	(4,360)	(637)	7	(4,990)	(745)	14	(5,721)
Furniture	(644)	(106)	-	(750)	(108)		(858)
Subtotal	(9,692)	(1,806)	11	(11,487)	(2,004)	14	(13,477)
Total	8,942	(968)	(156)	7,818	(230)	(5)	8,043

10 Intangible

Description	Balance as 01/04/2021	Additions	Balance as 31/03/2022	Additions	Sales	Balance as 31/03/2023
<u>Cost of acquisition</u>						
Softwares	1,234	23	1,257	423		1,680
Under development	-	1,744	1,744	5,255	(425)	6,574
Subtotal	1,234	1,767	3,001	5,678	(425)	8,254
<u>Accumulated Amortization</u>						
Softwares	(1,088)	(54)	(1,142)	(61)		(1,203)
Subtotal	(1,088)	(54)	(1,142)	(61)		(1,203)
Total	146	1,713	1,859	5,617	(425)	7,051

Additions in 2023 are related to licenses acquired for product commercialization.

11 Leases

a) Right of use

Asset – Right of use	Buildings	Total
Balance as of 01/04/2021	8,929	8,929
New contracts and remeasurement	185	185
Depreciation	(3,727)	(3,727)
Balance as 31/03/2022	5,387	5,387
New contracts and remeasurement		
Depreciation	4,862	4,862
	(3,975)	(3,975)
Balance as 31/03/2023	6,274	6,274

b) Leases Liabilities

The changes in lease liabilities in the years ended March 31, 2023 and 2022 are as follows:

	2023	2022
Initial balance	5.973	9.432
New lease – warehouse	4.862	-
Lease payments	(4.647)	(4.401)
Interests on leases	754	755
Other lease adjustments on renewal	-	187
Closing balance	6.942	5.973

The balances of lease to pay by age of maturity are shown below:

	2023	2022
Installments due in the year 1 (abr22 à mar23):	-	2,165
Installments due in the year 2 (abr23 à mar24):	4,279	1,812
Installments due in the year 2 (abr24 à mar25):	2,663	1,996
	6,942	5,973

Other leases were recognized in P&L for the year as follows:

	2023	2022
Low value leases:	44	42
Interests on leases	754	755
	798	797

The following are the amounts paid for leases for the year:

	2023	2022
Interest paid on leases	438	182
Paid lease agreements	4,209	4,219
	4,647	4,401

12 Suppliers - Related parties

Final controller company:

The Company's ultimate controller is Torrent Pharmaceuticals Limited.

	2023	2022
Purchases:		
Accounts payables on importation of goods (a)	144,389	106,030
Foreign exchange variance (a)	(3,791)	(13,236)
Intercompany payables on supplies	<u>140,598</u>	<u>92,794</u>

Intercompany transactions during the period from Apr20 to Mar22

Importation of goods (a)	267,084	251,046
Price adjustments (b)	(10,887)	(30,390)

- (a) Transaction related to the importation of products from Torrent Pharmaceuticals Ltd. For resale in local market. Price and purchase condition are formally agreed between the parties.
- (b) Related to price adjustment in connection to products imported from Torrent Pharmaceuticals Ltd that were sold in local market during the current year. This expense has been recognized as part of Cost of Goods Sold in the Income Statement.

13 Tax liabilities

	2023	2022
VAT tax (ICMS)	2,839	3,045
Income tax (IRPJ/CSLL)	17,802	7,958
Excise tax (PIS/COFINS)	790	533
Others	912	722
	<u>22,343</u>	<u>12,258</u>

14 Labor liabilities

	2023	2022
Current		
Payroll	6,991	3,035
Contribution payable	1,393	1,556
Vacation, bonuses and contribution	11,350	10,115
	<u>19,734</u>	<u>14,706</u>
Non-current		
Contribution payable	-	1,539
	<u>19,734</u>	<u>16,245</u>

15 Provision for contingencies

As of March 31, 2023, the Company was a party of judicial and administrative lawsuits. Supported by external lawyer's opinion, management understands that the provision recorded for tax, civil and tax contingencies are sufficient to cover the losses, as detailed below:

	2023	2022
Labor lawsuits	5,308	7,801
Tax and patent lawsuits	25,004	23,685
	<u>30,312</u>	<u>31,487</u>

In 2023 and 2022, management revised the provision for labor contingencies based on external lawyer's opinions and understand that those provisions are correctly stated in the financial statements.

As of March 31, 2023, the Company is also a party to judicial and administrative law suits, which were classified as possible losses by its legal advisors involving tax, labor, civil and administrative matters in the amount of R\$ 5.164 (2022 – R\$ 2.263).

The Company has sufficient provision for a lawsuit that questions the launch date of a product during its exclusivity period, whose current status of the lawsuit indicates a conclusion in the year of 2023.

The changes in provisions for contingencies in the years ended March 31, 2023 and 2022 are as follows:

	2023	2022
Opening balance	31,487	29,338
Reductions	(4,552)	(3,710)
Additions	<u>3,377</u>	<u>5,858</u>
Closing balance	<u>30,312</u>	<u>31,487</u>

16 Share capital

As of March 31, 2023 and 2022, the value of shareholders' equity was R\$ 25.000, represented by 25.000.000 shares of R\$ 1,00 each, distributed as such:

	Quantity	%
Torrent Pharmaceuticals Ltd	24,999,998	99.9998
Torrent Private Limited	1	0.0001
Joydeep Bhattacharjee	1	0.0001

As of March 31, 2023 and 2022, the amount paid-in capital was R\$ 19,144 and the amount to be subscribed was R\$ 5,856.

As of March 31, 2023 and 2022 US\$ 6,568,097.00 was registered with the Central Bank of Brazil (BACEN) as foreign capital held by Torrent Pharmaceuticals Ltd.

Dividends and capital repayments to non-resident is subjected BACEN regulation and requires their formal registration (foreign investments or reinvestments).

17 Revenue

	2023	2022
Gross revenues	674,760	607,132
Other revenues	203	224
Discounts and returns	(40,506)	(39,845)
Sales taxes	(40,208)	(43,274)
	<u>594,249</u>	<u>524,237</u>

18 Cost of sales

	2023	2022
Cost of goods sold	(261,927)	(249,833)
Quality control cost	(9,120)	(5,597)
Product incinerations	(11,150)	(12,132)
Impairment of goods	(5,559)	2,943
	<u>(287,756)</u>	<u>(264,619)</u>

19 Sales and administrative expenses

	2023		2022	
	Administrative	Selling	Administrative	Selling
Salary and bonuses	13,619	53,780	10,541	43,801
Social security and contribution	7,323	34,512	6,310	27,220
Promotional events	-	33,755	-	10,753
Travels, transportation, and vehicle expenses	1,407	18,474	1,102	12,842
Employee benefits	2,942	13,318	2,495	10,895
Consulting	7,728	4,615	6,835	12,644
Depreciation and amortization	2,004	4,036	1,656	3,931
Freight	-	6,897	-	5,563
Promotional material	-	4,898	-	4,664
General expenses	2,386	1,668	420	2,083
Training	84	1,470	80	1,358
Duties and levies	-	3,319	-	1,624
Promotional expenses	-	3,191	-	7,409
Market research	-	2,595	215	1,636
Warehousing and distribution	653	2,374	667	2,611
Communication	117	7	-	102
Maintenance	1,187	479	199	1,166
Insurance	1,830	244	1,190	451
Product registration	1,396	-	2,980	-
Contingencies	128	(403)	-	3,496
Rental	469	271	-	623
Audit fees	210	-	195	-
Translation	100	-	115	61
Other expenses	5	-	-	13
	<u>43,588</u>	<u>189,500</u>	<u>35,000</u>	<u>154,946</u>

20 Financial instruments

The estimated realizable value of the Company's financial instruments was determined based on available market information and appropriate valuation methods. However, a considerable level of judgment is required to interpret market data in order to estimate the most appropriate realizable value. As a result, the estimates represented below are not necessarily indicative of the amounts that could be realized in the market. The use of different valuation methodologies may have a material impact on the estimate of fair value.

These instruments are managed considering operational strategies, aimed at liquidity, profitability and protection. The control methodology basically consists of constantly comparing the contracted rates with the market rates. The Company does not maintain derivative instruments or any other risk assets for speculative purposes.

The main risk factors inherent to the Company's operation are detailed below:

a. Foreign exchange risk

The Company's operation generates impacts that involve foreign exchange risks because a considerable portion of its financial commitments is denominated in foreign currency (US dollar - US\$). These risks are constantly evaluated and the cash flow, as well as the Company's operation are monitored periodically.

The Company has derivative contracts (derivatives instruments contracts) with banks for protect payments in foreign currency. The Company's policy determines the exchange protection of 100% of its liabilities recorded in foreign currency, with its intercompany suppliers, as well as the protection of imports in transit.

Gains or losses arising from these derivative contracts are recognized when the contract expires. At the balance sheet dates, outstanding contracts are measured at fair value (marked to market at the balance sheet dates) and the resulting gain or loss is recognized in the statements of income under "Unrealized gain (loss) on derivative instruments".

The amount recorded in Asset, referring to derivative instruments contracted for the purpose of protect the exchange risk of future acquisitions of inventory, as of March 31, was as follows:

Amounts in thousands of US dollars (USD)	2023	2022
Open derivative contracts to protect liabilities denominated in - US\$ - notional amount	27,735	22,284
 Amounts in thousands of reais (BRL)	 2023	 2022
Open derivative contracts to protect liabilities denominated in - US\$ - notional amount	149,071	126,540

Next, the value of the Company's foreign exchange exposure on March 31:

Amounts in thousands of US dollars (USD)	2023	2022
Suppliers - Related Parties - import of products - US\$	27,675	19,586
Suppliers – import of products – US\$	<u>318</u>	<u>445</u>
Total	<u>27,993</u>	<u>20,031</u>
 Amounts in thousands of reais (BRL)	 2023	 2022
Suppliers - Related Parties - import of products - US\$	140,598	92,794
Suppliers – import of products – US\$	<u>1,614</u>	<u>2,108</u>
Total	<u>142,212</u>	<u>94,902</u>

The fair values of derivative financial instruments outstanding at March 31, 2023 and 2022 and presented in the balance sheet are as follows:

	2023	2022
Derivative financial instruments liabilities	7,343	17,319

Derivative instruments are represented by Non-Deliverable Forward (NDF) contracts maturing in the next 12 months.

The impact of the derivative contracts settled in the period of March 31, 2023 and 2022 is shown below:

	2023	2022
Gains on derivatives	(17,164)	(4,849)

Sensitivity Analysis

A reasonably possible variation of the Brazilian Real against the US Dollar at March 31, 2023 and 2022 quoted at R\$ 5.069 and R\$ 4.7592 respectively, would have affected the measurement of financial instruments denominated in foreign currency and affected shareholders' equity and net income by the amounts shown below.

Effect in reais (BRL)	Profit and Loss	
	Valuation	Devaluation
31 st March 2023 Real (variation of 10%)	(14,221)	14,221
Projected USD exchange rate	4.6081	5.5759
31 st March 2022 Real (variation of 10%)	(9,490)	9,490
Projected USD exchange rate	4.2833	5.2351

b. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled with cash payments or other financial assets. The Company's approach to liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations on maturity, both under normal and stress conditions, without causing unacceptable losses or risk of damaging the Company's reputation.

The following are the contractual maturities of financial liabilities on the date of the financial statement. These amounts are gross and not discounted, and include contractual interest payments and exclude the impact of netting agreements:

As of 31st March 2023		Contractual cash flows				
In thousands Reais	Accounting Value	Total	1 year or less	1-2 years	3-5 years	More than 5 years
Financial liabilities non derivatives						
Suppliers	14,974	14,974	14,974	-	-	-
Suppliers – Related Parties	140,598	140,598	140,598	-	-	-
Lease	6,942	7,573	4,796	2,776	-	-
	162,514	163,145	160,368	2,776	-	-
Financial liabilities derivatives						
Unrealized loss on derivatives	7,343	7,343	7,343	-	-	-
	7,343	7,343	7,343	-	-	-

c. Credit risk

Credit risk refers to the risk that a counterparty (customers or depositories of financial investment funds) does not comply with its contractual obligations, leading the Company to incur financial losses. To mitigate these risks, the Company constantly monitors the flow of receivables and monitors the open position. As of March 31, 2023, the five largest customers represented 76% (77% in 2022) of the balance of Accounts Receivable and 81% (62% in 2022) of Gross Revenue.

The book value of financial assets represents the maximum credit exposure. The maximum credit risk exposure on the date of the financial statements was:

	Note	2023	2022
Cash and cash equivalents	4	70,846	23,109
Trade accounts receivable	5	201,040	172,957
Derivatives financial assets	8	-	-
		271,886	196,066

d. Categories of financial instruments

The table below shows the position of financial assets and liabilities as of March 31, 2023 and 2022:

	2023	2022
Fair value through profit and loss		
Derivative financial instruments liabilities	7,434	17,319
Cash equivalents (investments)	371	329
Amortized cost:		
Cash	70,846	23,109
Trade accounts receivable	201,040	172,957
Other financial liabilities		
Suppliers	14,974	14,890
Suppliers – Related parties	140,598	92,794
Lease	6,942	5,974

e. Fair value

As of March 31, 2023 and 2022, the Company had financial instruments represented mainly by short-term investments, trade accounts receivable, accounts payable to suppliers, related parties and derivatives. The fair value of these instruments is same of recorded in the balance sheet on March 31, 2023 and 2022.

The Company uses hierarchy level rules to measure the fair value of its financial instruments shown in the balance sheet, based on the following hierarchy levels, as described in Note 3.

As of March 31, 2023, the Company had financial instruments valued at fair value and contracted to protect the Company from certain fluctuations in the U.S. dollar (US\$), as previously described. These transactions, classified as level 2, are measured at fair value at the balance sheet dates and recorded under "Unrealized gains on derivatives". Fair value is determined using forward exchange rates quoted at the balance sheet date and present value calculations based on yield curves of investments with high credit quality in the respective contracted currencies.

As of March 31, 2023, the Company had financial instruments not measurable at fair value recorded under “Cash and cash equivalents”, “Trade accounts receivable”, “Suppliers” and “Suppliers - related parties”, whose accounting values are similar to the fair value of the financial instruments.

* * *

Joydeep Bhatthacharjee
President

Fernando Henrique Teixeira de Oliveira
Accountant
CRC 1SP231475/O-8