

Torrent do Brasil
Ltda.

Financial statements
March 31, 2020 and 2019

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Independent auditors' report on the financial statements

To the Quotaholders of

Torrent do Brasil Ltda.

São Paulo - SP

Opinion

We have audited the financial statements of Torrent do Brasil Ltda. ("the Company"), which comprise the statement of financial position as at March 31, 2020, the statements of operations and other comprehensive income, changes in quotaholders' 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 present fairly, in all material respects, the financial position of the Torrent do Brasil Ltda. as at March 31, 2020, 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

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("*Código de Ética Profissional do Contador*") and in the professional standards issued by the Brazilian Federal Accounting Council ("*Conselho Federal de Contabilidade*") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis

We draw attention to the fact that a substantial part of the Company's sales operations is carried out with related parties, as described in note 1 to the financial statements. Therefore, the financial statements referred to above should be read in this context. Our opinion is not qualified in respect of this matter.

Responsibilities of Management 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 from material misstatement, whether due to fraud or error.

In preparing 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 to cease operations, or has no realistic alternative to avoid closing operations.

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

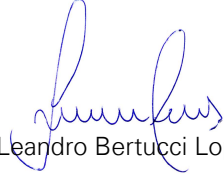
As part of an audit in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

São Paulo, May 8, 2020

KPMG Auditores Independentes
CRC 2SP014428/O-6



Leandro Bertucci Lopes

Contador CRC 1SP267571/O-2

TORRENT DO BRASIL LTDA.
Balance sheet as of March 31, 2020 and 2019
(amounts expressed in thousands Brazilian Reals - R\$)

Asset	Note	<u>2020</u>	<u>2019</u>	Liability	Note	<u>2020</u>	<u>2019</u>
Current				Current			
Cash and cash equivalents	5	9.764	8.929	Suppliers		9.036	9.559
Trade accounts receivable	6	104.623	108.329	Suppliers - Related parties	14	121.240	131.368
Inventories	7	50.313	57.833	Lease	13	1.520	-
Taxes recoverable	8	344	3.456	Current income tax	15	8.214	17.371
Advances to employees		67	162	Tax liabilities	15	2.801	6.364
Other Assets		2.438	3.141	Labor liabilities	16	14.325	12.703
Unrealized gains on derivatives	9	25.927	-	Unrealized losses on derivatives	9	-	254
Total current asset		<u>193.476</u>	<u>181.850</u>	Total current liability		<u>157.136</u>	<u>177.619</u>
Non-current				Non-current			
Judicial deposits		4.073	2.756	Lease		545	-
Deferred tax	10	26.510	34.204	Provision for contingencies	17	27.831	28.682
Fixed assets	11	8.697	9.183	Labor liabilities	16	1.853	1.968
Intangible	12	113	235				
Right of use	13	1.934	-				
Total non-current		<u>41.327</u>	<u>46.378</u>	Total non-current		<u>30.229</u>	<u>30.650</u>
Total asset				Equity			
		<u>234.803</u>	<u>228.228</u>	Capital subscribed	18	25.000	25.000
				Capital to be subscribed	18	(5.856)	(5.856)
				Accumulated results		28.294	815
				Total equity		<u>47.438</u>	<u>19.959</u>
				Total liability + equity		<u>234.803</u>	<u>228.228</u>

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

TORRENT DO BRASIL LTDA.
Statement of operations
For the years ended march 31, 2020 and 2019
(amounts expressed in thousands brazilian Reais - R\$)

	Note	2020	2019
Revenue	19	409.326	365.838
Cost of sales	20	<u>(197.601)</u>	<u>(183.625)</u>
Gross profit		<u>211.725</u>	<u>182.213</u>
Sales expenses	21	(139.229)	(147.655)
Administrative expenses	21	(32.919)	(31.908)
Loss on impairment of trade accounts receivable		<u>(241)</u>	<u>251</u>
Income before net financial income and taxes		<u>39.336</u>	<u>2.901</u>
Financial revenues	9	525	1.658
Financial expenses	9	<u>(1.447)</u>	<u>(9.466)</u>
Net financial results		<u>(922)</u>	<u>(7.808)</u>
Profit before taxes		<u>38.414</u>	<u>(4.907)</u>
Current income tax and social contribution	10	(3.240)	(4.886)
Deferred income tax and social contribution	10	<u>(7.695)</u>	<u>4.846</u>
Income tax and social contribution		<u>(10.935)</u>	<u>(40)</u>
Results for the year		<u><u>27.479</u></u>	<u><u>(4.947)</u></u>

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, 2020 and 2019
(amounts expressed in thousands brazilian Reais - R\$)

	2020	2019
Results for the year	27.479	(4.947)
Other comprehensive income	<u>-</u>	<u>-</u>
Total of other comprehensive profit	<u>27.479</u>	<u>(4.947)</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, 2020 and 2019
(amounts expressed in thousands brazilian Reais - R\$)

		Capital subscribed	Capital to be subscribed	Accumulated results	Total
Balance as of march 31	2018	25.000	(5.856)	5.761	24.905
Results for the year		-	-	(4.947)	(4.947)
Balance as of march 31	2019	25.000	(5.856)	814	19.958
Results for the year		-	-	27.479	27.479
Balance as of march 31	2020	25.000	(5.856)	28.293	47.437

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, 2020 and 2019
(amounts expressed in thousands brazilian Reais - R\$)

	Note	2020	2019
Cash Flow from operating activities			
Results for the year		<u>27.479</u>	<u>(4.946)</u>
Adjustments for:			
Depreciation and amortization	11, 12 e 13	3.335	1.762
Disposal of fixed assets	11	99	10
Loss through impairment of customers	6	241	(2.337)
Provision for inventory write-off and impairment	7	(10.281)	22.174
Current and Deferred income tax	10	10.935	40
Interest paid on lease	13	282	-
Accrued payroll and related charges	16	779	952
Provision for discounts	6	4.626	4.102
Provisions for contingencies	17	(851)	11.371
		<u>36.644</u>	<u>33.128</u>
Changes in:			
Trade accounts receivables	6	(1.161)	5.543
Inventories	7	17.801	(43.505)
Taxes recoverable	8	(7)	(2.801)
Advances to employees		95	176
Other assets		703	1.372
Unrealized gains on derivatives	9	(25.927)	(759)
Judicial deposits		(1.317)	2.622
Suppliers		1.051	(1.972)
Suppliers - Related parties	14	(10.128)	56.571
Tax liabilities	15	(3.563)	(413)
Labor liabilities	16	728	3.158
Unrealized losses on derivatives	9	(254)	-
Cash generated from operating activities		<u>14.665</u>	<u>53.120</u>
Interest paid	14	-	(3.591)
Short term and low value lease agreements paid	13	(2.123)	-
Income taxes paid		(8.730)	(4.397)
Net cash from operating activities		<u>3.812</u>	<u>45.132</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment	11 e 12	(1.237)	(446)
Net cash used in investing activities		<u>(1.237)</u>	<u>(446)</u>
Cash flows from financing activities			
Intercompany loan paid	14	-	(55.262)
Interest paid on lease	13	(94)	-
Lease agreements paid	13	(1.646)	-
Net cash from financing activities		<u>(1.740)</u>	<u>(55.262)</u>
Net increase / (decrease) in cash and cash equivalents		<u>835</u>	<u>(10.576)</u>
Cash and cash equivalents at the beginning of the year	5	8.929	19.505
Cash and cash equivalents at the end of the year	5	9.764	8.929
Net increase / (decrease) in cash and cash equivalents		<u>835</u>	<u>(10.576)</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, 1240, 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 activity includes the import, storage, distribution, sale and export of chemical products, drugs, pharmaceuticals and allopathic, phytotherapeutic, 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 99% of inventory purchases for sales come from transactions with related parties, with Torrent Pharmaceuticals Ltd as the main supplier; the remaining 1% comes from purchases from other suppliers outside the Torrent Group.

COVID-19

Considering the current situation due to the coronavirus (COVID-19), which is a global health emergency. The outbreak triggered significant decisions by governments and private sector entities, which added to the potential impact of the outbreak, increased the degree of uncertainty for economic agents and can impact the amounts recognized in the financial statements.

Considering the current situation of the spread of the outbreak, the projection of revenues and cash flows for the year 2021 may be revised. Considering the unpredictability of the evolution of the outbreak and its impacts, it is currently not feasible to estimate the financial effect of the outbreak on estimated revenues and cash flows.

Management is constantly evaluating the impact of the outbreak on the Company's operations and equity and financial position, with the objective of implementing appropriate measures to mitigate the impacts of the outbreak on operations and financial statements. To date, the Company's operations have not been impacted by the coronavirus outbreak.

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 May 08, 2020.

This is the first set of annual financial statements of the Company in which CPC 06 (R2) - Leases was applied. Changes in the main accounting policies are presented in note 4.

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 6** - recognition and measurement of the expected provision for credit losses;
- **Note 7** - Provisions for inventory losses by validity or slow moving;
- **Note 10** - Deferred income tax and social contribution: availability of future taxable income against which tax losses may be utilized;
- **Note 16** - Provision for contingencies;

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 **22 - 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.

Foreign operations

Assets and liabilities of entities with functional currency other than presentation currency have been translated to the presentation currency using exchange rates prevailing on the balance sheet date. Statement of profit and loss has been translated using weighted average exchange rates. Translation adjustments have been reported as foreign currency translation reserve in the statement of changes in equity.

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 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. Trade payables

Trade payables are amounts due to vendors for purchase of goods or services acquired in the ordinary course of business and are classified as current liabilities to the extent it is expected to be paid within the normal operating cycle of the business.

d. Trade receivables

Trade receivables are amounts due from customers for sale of goods or services performed in the ordinary course of business. Trade receivables are initially recognized at its transaction price which is considered to be its fair value and are classified as current assets as it is expected to be received within the normal operating cycle of the business.

e. Inventories

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

The cost incurred in bringing the inventory to their existing location and conditions are determined as follows: Finished goods (traded) - Purchase cost on a moving average basis.

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 actual experience on a periodic basis.

f. 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. Borrowing cost attributable to financing of acquisition or construction of the qualifying fixed assets is capitalized to respective assets when the time taken to put the assets to use is substantial.

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.

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.

Freehold land is carried at historical cost and not depreciated. 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 2020 - 2019 (Years)
Computers and accessories	5
Installation	10
Machinery and equipment	10
Furniture	10
Vehicles	5
Under construction	-

g. 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 are as mentioned below:

	Useful life 2020 - 2019 (Years)
Software	5

h. 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;
- debt investments measured at FVOCI (Fair value other comprehensive income); and
- contract assets.

The Company also recognized provisions for expected credit losses on receivables of leases that are disclosed as part of receivables and other receivables.

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.

Provisions for losses on trade receivables (including lease receivables) and contract assets are measured at an amount equal to the expected credit loss over the life of the instrument.

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 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 and the debt securities measured at FVOCI 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.

For debt securities measured at FVOCI, the provision for losses is charged to income and recognized in OCI (other comprehensive income).

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 assets with finite 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.

i. 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, medicaid payments 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 and medicaid payments are estimated based on 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 significant risks and rewards of ownership 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 services is recognized when the services are rendered or when contracted milestones have been achieved.

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

j. 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;
- inefficiency of hedge instruments recognized in the result.

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.

k. 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.

l. Provisions and provisions for contingent

Provisions for contingent

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.

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.

m. 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.

n. 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; to the FVOCI - debt instrument; to the FVOCI - equity instrument; 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.

A debt instrument is measured at the FVOCI if it meets both of the following conditions and is not designated as measured at the FVTPL

- is maintained within a business model whose objective is achieved by both receiving contractual cash flows and selling financial assets; and
- its contractual terms generate, at specific dates, cash flows that are only payments of principal and interest on the outstanding principal.

On initial recognition of an investment in an equity instrument that is not held for trading, the Company may irrevocably choose to present subsequent changes in the fair value of the investment in OCI. This choice is made investment by investment.

All financial assets not classified as measured at amortized cost or FVOCI, as described above, are classified as FVTPL. This includes all derivative financial assets. 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.
FVOCI debt instruments	These assets are subsequently measured 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 OCI. On derecognition, retained earnings under OCI are reclassified to net income.
Property instruments to FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as gains in profit or loss unless the dividend clearly represents a recovery of part of the investment cost. Other net income is recognized in OCI and is never reclassified to 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, contract assets and debt instruments measured at FVOCI, 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
Financial liabilities	
Suppliers	Amortized cost
Related parties – payables	Amortized cost
Related parties – loans	Amortized cost
Unrealized losses on derivatives	Fair value through profit or loss

Derivative financial instruments

The Company enters into derivative financial instruments to manage its foreign exchange rate risk. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in statement of profit and loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in statement of profit and loss depends on the nature of the hedging relationship and nature of hedged items.

Derivative financial instruments that hedges foreign currency risk associated with highly probable forecasted transactions are designated as cash flow hedges and valued at fair value. The ineffective portion of such hedges is recorded in statement of profit and loss immediately.

4 Changes in significant accounting policies

The Company initially applied CPC 06 (R2) as of April 1, 2019. A number of other new standards also became effective as of January 1, 2019 but did not materially affect the Company's financial statements.

Due to the transition methods chosen by the Company in the application of these standards, the comparative information in these financial statements was not restated to reflect the requirements of the new standards.

a. New standards and interpretations adopted

CPC 06 (R2) - Leases

CPC 06 (R2) Leases supersedes CPC 06 (R1), Leases. The new standard introduces single lease accounting model for the lessees under which all major leases are recognised on-balance sheet, removing the lease classification test. Lease assets are initially recognised as right of use asset and subsequently measured using the cost model. Lease liabilities are initially measured at present value of future lease payments and subsequently adjusted for interest, payments and remeasurement, if any. Exemption is provided for short-term leases and low value underlying items. Lease accounting for lessors essentially remains unchanged except for additional guidance and new disclosure requirements.

The Company applied CPC 06(R2) initially on April 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting CPC 06(R2) will be recognized as an adjustment to the opening balance of retained earnings on April 1, 2019, without updating the comparative information. The Company applied the practical expedient in relation to the definition of lease contract in the transition. This means that it will apply CPC 06(R2) to all agreements entered into before April 1, 2019 that were identified as leases in accordance with CPC 06(R1) and ICPC 03. The standard provides for exemptions in the applicability to short-term leases and low value assets involved in the transaction.

a) Lease definition

Previously, the Company determined at the beginning of the contract, whether it was or contained a lease in accordance with ICPC 03 / IFRIC 4 Complementary Aspects of Operations Lease. The Company now assesses whether a contract is or contains a lease based on the lease definition.

In the transition to CPC 06 (R2), the Company chose to apply the practical expedient regarding the definition of lease, which assesses which transactions are leases. The Company applied CPC 06 (R2) only to contracts previously identified as leases. Contracts that were not identified as leases in accordance with CPC 06 (R1) and ICPC 03 have not been reassessed as to whether there is a lease in accordance with CPC 06 (R2). Therefore, the definition of a lease pursuant to CPC 06 (R2) was applied only to contracts signed or amended on or after April 1, 2019.

b) As lessee

As a lessee, the Company leases building. The Company previously classified the leases as operating or financial, based on its assessment of whether the lease significantly transferred all the risks and benefits inherent in ownership of the underlying asset of the Company. In accordance with CPC 06 (R2), the Company recognizes rights of use assets and liabilities for most of these leases - that is, these leases are on the balance sheet.

At the beginning or in the modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component based on their individual price.

However, for building leases, the Company chose not to separate the components that are not lease and account for lease and non-lease components associated, as a single lease component.

i) Lease classified as operational lease as CPC 06 (R1)

Previously, the Company classified real estate leases as operating leases in accordance with CPC 06 (R1). In the transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental loan rate on April 1, 2019. Right-of-use assets are measured:

- At its book value as if CPC 06 (R2) had been applied since the date of discounted using the Company's incremental loan rate on the application date initial: the Company applied this approach to its largest real estate lease;

The Company tested its right-of-use assets for impairment loss on transition date and concluded that there is no indication that the rights of use assets present impairment problems.

The Company used several practical expedients when applying CPC 06 (R2) to leases previously classified as operating leases in accordance with CPC 06 (R1). In particular:

- did not recognize assets and liabilities for use rights for leases whose lease term ends within 12 months from the date of initial application;

- did not recognize assets and liabilities for usage rights for leasing low-cost assets value (for example, IT equipment);

- excluded the initial direct costs of measuring the right-of-use asset on the application date initial; and

- used it retrospectively when determining the lease term.

c) Impact in transaction

In the transition to CPC 06 (R2), the Company recognized rights-of-use assets and lease liabilities for buildings, there was no difference in the opening balance of retained earnings. The impact on transition is summarized below and the liability is shown in the balance sheet in the Lease.

<i>In thousand reais</i>	1 April 2019
Assets by right of use – building	3.870
Liability of Lease	(3.870)

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at April 1, 2019. The weighted average rate applied is 11,14%. The lease liabilities are presented under Lease and useful life estimated 2-3 years.

ITG 22 (Technical Interpretation ICPC 22) / IFRIC 23 - Uncertainty about Treatment of Taxes on Profit

The interpretation of IAS 12 / CPC 32 - Taxes on Profit clarifies how to apply the recognition and measurement requirements of the standard when there is uncertainty about the treatment of taxes on profit by the tax authority. In this circumstance, the company must recognize and measure its current or deferred tax assets or liabilities, applying the requirements based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and determined tax rates.

The Company's Management understands that there are no significant impacts on the accounting information resulting from treatments that could potentially expose the Company to materially probable risks of loss, since the procedures adopted for the calculation and payment of taxes on profit are supported by legislation and precedents of Administrative and Judicial Courts.

Other standards and interpretations not yet effective

A set of new standards will be effective for years beginning after January 1, 2019. The Company did not adopt these standards in the preparation of these financial statements, following amended standards and interpretations are not expected to have a material impact on the Company's financial statements:

- Changes in references to the conceptual framework in IFRS standards.
- Definition of a business (changes to CPC 15 / IFRS 3).
- Definition of materiality (amendments to CPC 26 / IAS 1 and CPC 23 / IAS 8).
- IFRS 17 Insurance contracts

5 Cash and cash equivalents

	2020	2019
Cash and banks	9.461	7.227
Certified bank deposit	<u>303</u>	<u>1.702</u>
	<u>9.764</u>	<u>8.929</u>

As of 31st March 2020, the weighted average interest over bank deposit (CDB) was 96% of CDI (Certified Interbank Deposits) reference rate (96% - 2019).

6 Trade accounts receivable

	2020	2019
National	126.790	125.629
Provision for doubtful accounts	(626)	(385)
Provision for sales returns and claims (*)	<u>(21.541)</u>	<u>(16.915)</u>
	<u>104.623</u>	<u>6.329</u>

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

(a) The balances of trade accounts receivable by age of maturity are shown below:

	2020	2019
Not yet due	124.057	121.246
Past due		
1 to 30 days	768	2.278
31 to 60 days	71	134
61 to 90 days	35	66
91 to 120 days	8	52
121 to 180 days	69	433
Over 180 days	<u>1.782</u>	<u>1.420</u>
	<u>126.790</u>	<u>125.629</u>

(b) Changes in the impairment losses of customers are shown below:

	2020	2019
Opening balance	(385)	(2.722)
Additions	(363)	(134)
Reversals	<u>122</u>	<u>2.471</u>
Closing balance	<u>(626)</u>	<u>(385)</u>

7 Inventories

	2020	2019
Finished good for resale	59.528	77.329
Provision for losses due to expiration	(5.657)	(13.540)
Provision for losses due to slow moving	<u>(3.558)</u>	<u>(5.956)</u>
	<u>50.313</u>	<u>57.833</u>

Management expects stocks to be sold within a 12-month period.

The changes in the allowance for losses on the realization of inventories are as follows:

	2020	2019
Opening balance	(19.496)	(23.161)
Additions	(7.083)	(22.174)
Utilizations	17.364	25.839
	<u>17.364</u>	<u>25.839</u>
Closing balance	<u>(9.215)</u>	<u>(19.496)</u>

8 Taxes recoverable

	2020	2019
Social security contribution (INSS)	135	136
VAT tax (ICMS)	209	201
IRPJ/CSLL	-	3.119
	<u>344</u>	<u>3.456</u>

The recoverable ICMS balance consists of credits on the acquisition of fixed assets.

9 Unrealized gains (losses) on derivatives

	2020	2019
Revenue from financial investments	122	1.648
Other financial income	403	10
	<u>403</u>	<u>10</u>
Total financial revenues	<u>525</u>	<u>1.658</u>

	2020	2019
Interest expenditure (*)	(282)	(3.592)
Exchange variation	(36.113)	(27.233)
Other financial expenses	(224)	(113)
Financial fines	(425)	(936)
Gain (loss) on realized hedge	9.416	21.649
Hedge gain (loss) - fair value	26.181	759
	<u>26.181</u>	<u>759</u>

Total financial expenses **(1.447)** **(9.466)**

Net total **(922)** **(7.808)**

	2020	2019
Hedge – fair value		
Gain – provision	25.995	2.067
Loss – provision	(68)	(2.321)
	<u>25.927</u>	<u>(254)</u>
Gain – reversal	(2.067)	(1.384)
Loss – reversal	2.321	2.397
	<u>254</u>	<u>1.013</u>
Net gain Hedge – fair value	<u>26.181</u>	<u>759</u>

(*) Last year refer to Intercompany and Current year is related to Lease interest.

10 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:

	2020	2019
Income before income tax and social contribution	38.414	(4.906)
Combined tax rate	<u>34%</u>	<u>34%</u>
Taxes calculated at rates	(13.061)	1.627
Transfer price adjustments	(116)	(357)
Other permanent differences	12	(1.230)
Credit arising from Thin Cap adjustments	2.618	-
IR / CS debts from previous years	<u>(388)</u>	<u>-</u>
Income tax and social contribution	(10.935)	(40)
Composed of:		
Current	(3.240)	(4.886)
Deferred	<u>(7.695)</u>	<u>4.846</u>
Total	<u>(10.935)</u>	<u>(40)</u>
Effective tax rate	28,5%	(0,9%)

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 five years.

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

	2020	2019
Sample stock and promotional materials	95	1.620
Deferred revenue adjustment	2.668	2.201
Loss through impairment of customers	-	7
Provision for variable salary	2.224	1.838
Allowance for inventory losses	3.133	6.629
Provision for labor, tax and civil risks	9.462	9.752

Losses (Gains) on transactions with derivative instruments	(8.815)	86
Provision for returns and discounts	7.324	4.643
Exchange variation	7.863	792
Other provisions	460	2.090
Tax loss and negative basis	2.096	4.546
	26.510	34.204
Total deferred income tax and social contribution	26.510	34.204

11 Fixed assets

Description	Balance as 03/31/2018	Additions	Sales	Transfers	Balance as 03/31/2019	Additions	Sales	Balance as 03/31/2020
<u>Cost of acquisition</u>								
Computers and accessories	1.846	30	(45)	-	1.831	917	(139)	2.609
Installation	5.860	100	-	-	5.960	91	(162)	5.889
Machinery and Equipment	7.038	55	(30)	-	7.063	79	(69)	7.073
Furniture	1.403	44	(1)	-	1.446	-	(17)	1.430
Vehicles	155	-	-	-	155	-	-	155
Under construction	227	488	-	(280)	435	141	-	576
Subtotal	16.529	717	(76)	(280)	16.890	1.228	(387)	17.732
<u>Accumulated Depreciation</u>								
Computers and accessories	(1.049)	(261)	41	-	(1.269)	(266)	137	(1.398)
Installation	(1.714)	(569)	-	-	(2.283)	(576)	71	(2.788)
Machinery and Equipment	(2.681)	(633)	23	-	(3.291)	(634)	64	(3.861)
Furniture	(651)	(109)	1	-	(759)	(109)	16	(852)
Vehicles	(75)	(30)	-	-	(105)	(31)	-	(136)
Subtotal	(6.170)	(1.602)	65	-	(7.707)	(1.616)	288	(9.035)
Total	10.359	(885)	(11)	(280)	9.183	(388)	(99)	8.697

12 Intangible

Description	Balance as 03/31/2018	Additions	Sales	Balance as 03/31/2019	Additions	Sales	Balance as 03/31/2020
<u>Cost of acquisition</u>							
Software	1.408	9	-	1.417	9	(46)	1.380
Subtotal	1.408	9	-	1.417	9	(46)	1.380

Accumulated Amortization

Software	(1.023)	(159)	-	(1.182)	(131)	46	(1.267)
Subtotal	(1.023)	(159)	-	(1.182)	(131)	46	(1.267)
Total	385	(150)	-	235	(122)	-	113

13 Right of use

Description	Balance as 01/04/2019	Additions	W-Off	Balance as 03/31/2020
<u>Cost of acquisition</u>				
Building	3.870	-	(347)	3.523
Subtotal	3.870	-	(347)	3.523

Accumulated Amortization

Building	-	(1.589)	-	(1.589)
Subtotal	-	(1.589)	-	(1.589)
Total	3.870	(1.589)	(347)	1.934

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

Installments to due in year 1 (apr20 to mar21)	1.520
Installments to due in year 2 (apr21 to mar22)	545
	<u>2.065</u>

Others leases and interests on leases were recognized in P&L for the year as follows:

Low value leases	62
Short-term leases – less than 12 months	2.061
Interests on leases	282
	<u>2.405</u>

14 Suppliers - Related parties

Final controller company:

The Company's ultimate controller is Torrent Pharmaceuticals Limited.

	2020	2019
Purchases:		
Accounts payables on importation of goods (a)	98.464	129.201
Foreign exchange variance	22.776	2.167
Intercompany payables on supplies	<u>121.240</u>	<u>131.368</u>

Intercompany transactions during the period from Apr19 to Mar20

Importation of goods (a)	181.410	185.279
Price adjustments (c)	(11.834)	(6.225)
Interest expenses on loan (b)	-	(3.592)

- (a) Transaction relate 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) The Company obtained an intercompany loan with Torrent Pharmaceutical Ltd. in June 2015 for US\$ 30.000.000 at a fixed interest rate of 8% p.a. The principal amount is payable on a quarterly basis starting on March 2016 and ending on March 2019. In March 2019, the last instalment was paid.
- (c) 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.

15 Tax liabilities

	2020	2019
VAT tax (ICMS)	1.306	5.227
Income tax (IRPJ/CSLL)	8.214	17.371
Excise tax (PIS/COFINS)	886	584
Others	609	553
	<u>11.015</u>	<u>23.735</u>

16 Labor liabilities

	2020	2019
Current		
Payroll	3.784	3.058
Contribution payable	1.776	1.659
Vacation, bonuses and contribution	8.765	7.986
	<u>14.325</u>	<u>12.703</u>
Non-current		
Contribution payable	1.853	1.968
	<u>1.853</u>	<u>1.968</u>
	<u>16.178</u>	<u>14.671</u>

17 Provision for contingencies

As of March 31, 2020, 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.

These provisions are shown as follows:

	2020	2019
Labor lawsuits	7.246	8.889
Tax and patent lawsuits	<u>20.585</u>	<u>19.793</u>
	<u>27.831</u>	<u>28.682</u>

As of March 31, 2020, 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, 2020, the Company is also a party to judicial and administrative lawsuits, which were classified as possible losses by its legal advisors involving tax, labor, civil and administrative matters in the amount of R\$ 14,900.

The changes in provisions for contingencies in the years ended March 31, 2020 and 2019 are as follows:

	2020	2019
Opening balance	28.682	17.311
Reductions	(2.916)	(3.752)
Additions	<u>2.065</u>	<u>15.123</u>
Closing balance	<u>27.831</u>	<u>28.682</u>

18 Share capital

As of March 31, 2020, and 2019, the value of shareholders' equity was R\$ 25.000.000,00, represented by 25.000.000 shares of R\$ 1,00 each, distributed as such:

	Quantity	%
Torrent Pharmaceuticals Ltd	24.999.999	99,99
Torrent Private Limited	1	0,01

As of March 31, 2020, and 2019, the amount paid-in capital was R\$ 19,144 and the amount to be subscribed was R\$ 5.856.

As of March 31, 2020, and 2019 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).

19 Revenue

	2020	2019
Gross revenues	493.669	447.518
Other revenues	206	217
Discounts and returns	(45.650)	(43.165)
Sales taxes	(38.899)	(38.730)
	409.326	365.838

20 Cost of sales

	2020	2019
Cost of goods sold	(187.477)	(158.969)
Quality control cost	(2.649)	(2.018)
Impairment of goods	(7.475)	(22.639)
	(197.601)	(183.625)

21 Sales and administrative expenses

	2020		2019	
	Administrative	Selling	Administrative	Selling
Promotional events	-	26.072	-	18.293
Freight	-	6.933	-	5.612
Promotional material	-	2.146	-	4.850
Training	118	2.687	92	1.853
Other selling expenses	-	96	-	3
Promotional expenses	-	2.885	-	3.487
Market research	-	1.544	-	2.263
Travels, transportation and vehicle expenses	1.120	13.674	861	13.921
Warehousing and distribution	-	2.880	1.022	1.323
Communication	-	154	10	22
Consulting	4.008	3.382	3.730	4.858
Translation	88	25	68	1
Contingencies	-	380	-	14.244
General expenses	1.448	1.520	1.141	2.170
Duties and levies	335	3.871	485	6.117
Maintenance	326	733	241	544
Rental	3.349	-	4.529	-
Product registration	814	-	777	-
Insurance	279	197	146	183
Audit fees	188	-	126	-
Depreciation and amortization	3.233	102	1.662	100
Salary and bonuses	8.749	38.350	8.315	36.945
Social security and contribution	5.607	22.865	6.454	22.171
Employee benefits	3.257	8.733	2.249	8.695
	32.919	139.229	31.908	147.655

22 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 taking into account 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 due to the fact that 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 (hedging contracts) with banks to hedge future 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 and loans.

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".

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

Amounts in thousands of US dollars (USD)	2020	2019
Open derivative contracts to hedge liabilities denominated in - US\$ - notional amount	28.942	35.760
Amounts in thousands of reais (BRL)	2020	2019
Open derivative contracts to hedge liabilities denominated in - US\$ - notional amount	124.920	141.616

Next, the value of the Company's foreign exchange exposure on March 31, 2020 and 2019:

Amounts in thousands of US dollars (USD)	2020	2019
Suppliers - Related Parties - import of products - US\$	23.321	33.713
Suppliers – import of products – US\$	257	-
Total	23.578	33.713
Amounts in thousands of reais (BRL)	2020	2019
Suppliers - Related Parties - import of products - US\$	121.240	131.368
Suppliers – import of products – US\$	1.336	-
Total	122.576	131.368

The fair values of derivative financial instruments outstanding at March 31, 2020 and 2019 and presented in the balance sheet are as follows:

	2020	2019
Unrealised gains (losses) on derivatives	25.927	(254)

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, 2020 and 2019 is shown below:

	2020	2019
Gains on derivatives	9.416	21.649

Sensitivity Analysis

A reasonably possible variation of the Brazilian real against the U.S. dollar on March 31, 2020 and 2019 would have affected the measurement of financial instruments denominated in foreign currency and would have affected shareholders' equity and income at the amounts shown below. The analysis considers that all other variables, especially interest rates, remain constant and ignore any impact of the sales and purchase forecast.

	Profit and Loss		Shareholders' Equity (without taxes)	
	Valuation	Devaluation	Valuation	Devaluation
Effect in reais (BRL)				
31 st March 2020 Real (variation of 10%)	(12.258)	12.258	(8.090)	8.090
31 st March 2019 Real (variation of 10%)	(13.137)	13.137	(8.670)	8.670

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:

31st March 2020

In thousands Reais	Accounting Value	Contractual cash flows				
		Total	1 year or less	1-2 years	3-5 years	More than 5 years
Financial liabilities						
Suppliers	11.101	11.101	10.556	545	-	-
Suppliers – Related Parties	121.240	121.240	121.240	-	-	-
	132.341	132.341	131.796	545	-	-

31st March 2019

In thousands Reais	Accounting Value	Contractual cash flows				
		Total	1 years or less	1-2 years	3-5 years	More than 5 years
Financial liabilities						
Suppliers	9.559	9.559	9.556	-	-	-
Suppliers – Related Parties	131.368	131.368	131.368	-	-	-
Derivatives financial liabilities	254	254	254	-	-	-
	141.178	141.178	141.178	-	-	-

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, 2020, the five largest customers represented 69% (79% in 2019) of the balance of Accounts Receivable and 79% (59% in 2019) of Gross Profit.

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	2020	2019
Cash and cash equivalents	5	9.764	8.929
Trade accounts receivable	6	104.623	108.329
Derivatives financial assets	9	25.297	-
		140.314	117.258

d. Categories of financial instruments

The table below shows the position of financial assets and liabilities as of March 31, 2020:

	2020
Fair value in profit or loss -	
Gain not realized on derivatives	25.927
Amortized cost:	
Cash and cash equivalents	9.764
Trade accounts receivable	104.623
Other financial liabilities	
Suppliers	11.101
Suppliers – Related parties	121.240

The table below shows the position of financial assets and liabilities as of March 31, 2019:

	2019
Fair value in profit or loss -	
Loss not realized on derivatives	(254)
Amortized cost:	
Cash and cash equivalents	8.929
Trade accounts receivable	108.329
Other financial liabilities	
Suppliers	9.559
Suppliers – Related parties	131.368

e. Fair value

As of March 31, 2020, and 2019, 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 with recorded in the balance sheet on March 31, 2020 and 2019.

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, 2020, 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 (losses) on derivatives".

As of March 31, 2020, the Company had financial instruments not measurable at fair value recorded under “Cash and cash equivalents”, “Accounts receivable from customers”, “Suppliers” and “Suppliers - related parties”, are classified at level 2.

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President

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