BIOTOSCANA INVESTMENTS S.A.
Société Anonyme
(formerly: Biotoscana Investments & Cy S.C.A.)
70 Route d´Esch, L-1470, Luxembourg

R.C.S. Luxembourg B 162.861

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

MANAGEMENT REPORT

In the accordance with the terms of legal and bylaws dispositions, the management of Biotoscana Investments S.A. ("Company", "GBT" or "Grupo Biotoscana") submits to its shareholders the Management Report an our consolidated statement of financial position as at 31 December 2019, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, as well as the independent auditors report, regarding the fiscal year ended 31 December 2019. All the below information is provided to the best of our knowledge at the time of signing this letter as well as based on information received from our subsidiaries, auditors and advisors as well as external sources.

MESSAGE FROM MANAGEMENT

Started in third quarter 2018, reported numbers are presented applying IAS 29 – "Financial Reporting in Hyperinflationary Economies" for our Argentinean operations. This standard requires that the entity or components financial information whose functional currency is that of an economy considered hyperinflationary be restated using a general price index that reflects changes in general purchasing power (Note 2.1.1 of the Consolidated financial statements).

We achieved for the year, Net revenues amounting to BRL 743 million compared to BRL 821 million in 2018. There was a decrease in the year substantially due to the discontinuation of the distribution agreement with Actelion.

Gross profit reached BRL 345,4 million, Gross margin reached 46,5%, and Adjusted[1] EBIDTA margin 16,7% for the year.

Our OPEX (without impairment of goodwill but including the expenses related to the change of control), represent approximately 35,9% of our net revenues for the year.

We are working on the proper launch and promotion across the region of our pipeline. We have evolved with the main products in our pipeline in several countries, like CRESEMBA®, that it is already approved in Peru, Mexico, Colombia, Argentina, Brazil and Chile.

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[1] In this document, we present certain Non-GAAP measures, including EBITDA, EBITDA Adjusted, Operating Profit, Net Financial Position/Indebtedness and Financial Indebtedness.

We define "EBITDA" as operating profit before financial expenses and income taxes ("EBIT") plus amortization and depreciation. "EBITDA Adjusted" refers to EBITDA as adjusted to remove accounting effects and costs associated with some non-recurring income and expenses considered by our management to be non-recurring and exceptional in nature.

It uses similar indicators for its net financial indebtedness, the components of which are described in the relative section of the notes.

We believe that EBITDA is a useful indicator of our ability to incur and service our indebtedness and can assist shareholders, investors, security analysts and other interested parties in evaluating us. We believe that EBTIDA Adjusted is a relevant measure for assessing our performance because it is adjusted for changes which we believe, are not indicative of our underlying operating performance and thus aid in an understanding of EBITDA.

EBITDA and EBITDA Adjusted and similar measures are used by distinct companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Reader should exercise caution in comparing EBITDA and EBITDA Adjusted as reported by us to EBITDA and EBITDA Adjusted of other companies. The information presented by each of EBITDA and EBITDA Adjusted is unaudited and has not been prepared in accordance with IFRS or any other accounting standards. None of EBITDA or EBITDA Adjusted is a measurement of performance under IFRS and you should not consider EBITDA and EBITDA Adjusted as an alternative to net income or operating profit determined in accordance with IFRS as the case may be, or to cash flows from operations, investing activities EBITDA and EBITDA Adjusted have limitations as analytical tools and you should not consider them in isolation. Some of these limitations are:

- they do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- they do not reflect changes in or cash requirements for our working capital needs;
- they do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often need to be replaced in the future and EBITDA and EBITDA Adjusted do not reflect any cash requirements that would be required for such replacements, and the fact that other companies in our industry may calculate EBITDA and EBITDA Adjusted differently than we do, which limits their usefulness as comparative measures.

Grupo Biotoscana continues to build and deliver pipeline with important progress, bringing innovative products into the region.

During the year, GBT participated at several congresses to discuss the latest outbreaks in several therapy lines, like SBOC, ESMO, ECCMID, among others. GBT also organized several events throughout the region, allowing physicians and healthcare specialists to get the most update information.

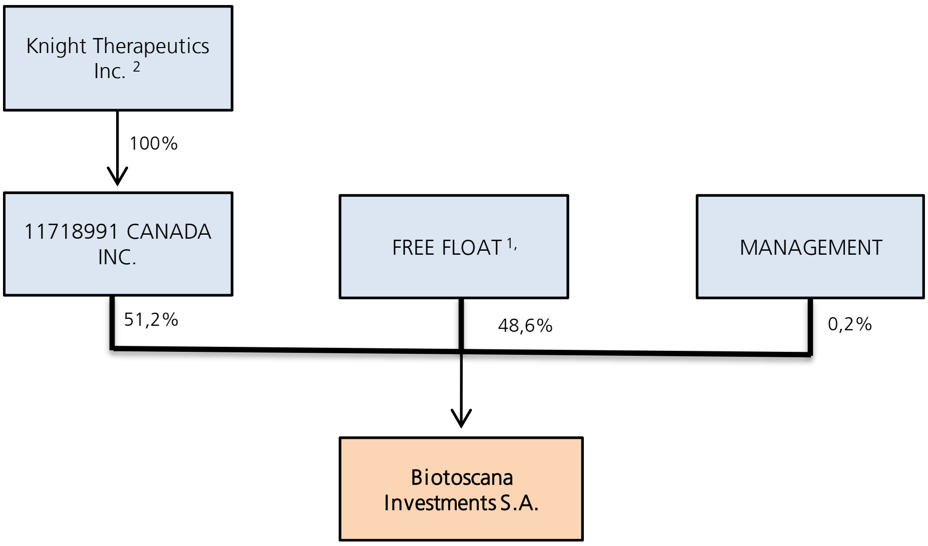
For R&D, GBT continues to work on the development of branded generic products, where there is a high unmet medical need. Biotoscana has invested into the remodeling of the R&D lab in Argentina, with new equipment and personnel.

CHANGE OF CONTROL

On November 29, 2019, Knight Therapeutics Inc. ("Knight" or "the Buyer") announced that it has completed the acquisition of a 51,21% interest (Sale of Control) in the Company from a controlling shareholder group. The purchase price of the Sale of Control was BRL 596 million (Purchase Price), being BRL 10,96 per share or BDR.

Considering the completion of this first step, Knight became the controlling shareholder and appointed its representatives to the board of directors of the Company. In addition, as a consequence of the closing of the Sale of Control, the Buyer is conducting a tender offer of the remaining shares and BDRs, according to section 12 of the Bylaws of Biotoscana Investments S.A. According to the Buyer's information, the tender offer will be launched with similar terms and conditions of the Sale of Control.

As of 31 December 2019, the ownership structure is the following:



References:

[1] Free float (excluding shares/BDRs held in treasury) refers to the outstanding shares that are traded in the Brazil Stock Exchange (BOVESPA). Please note that within the Free Float there is no investor that helds a ownership in excess of 10%.

[2] Controlling shareholder of the Company. Knight is listed in the Toronto Stock Exchange under the ticker symbol "GUD".

The current Board of Directors of the Company was designated in the General Shareholder´s Meeting held on November 22nd, 2019 with effects as of November 29th, 2019 and is integrated as follows:

- Samira Sakhia
- Robert Lande
- Nicolas Sujoy
- Gaelle Lamotte

GOODWILL IMPAIRMENT TEST

The Group performed its annual impairment test of goodwill in December 2019. For this assessment, the Group has identified three cash-generating units (CGUs): United Medical Ltda., Latin American Pharma Company ETVE S.L.U. and Laboratorio DOSA S.A.

United Medical Ltda. (UM)

The recoverable amount of UM's cash generating unit as at December 31, 2019, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the changes in demand and margins for pharmaceutical products on UM's portfolio, also considering the expected impact of the non-renewal of certain license agreed with a third party. The discount rate applied to cash flow projections is 10,70% (2018: 8,70%) nominal in USD and cash flows beyond the five-year period are extrapolated using a 1,9% growth rate (2018: 1,9%) that relates to the long-term inflation rate in United States. As a result of this impairment test, management did not identify a need for goodwill impairment.

Latin America Pharma Company ETVE S.L.U. (LAPC) and Laboratorio DOSA S.A. (DOSA)

The recoverable amount of LAPC and DOSA's cash generating units as at December 31, 2019, has been determined based on a value in use calculation using cash flow projections from financial updated by Group and covering an eight-year period. The projected cash flows have been updated to reflect the changes in demand for pharmaceutical products on LAPC and DOSA's portfolio due to the economic conditions expected in Argentina as described above. The discount rate applied to cash flow projections is 16.29% (2018: 15%) nominal in USD and cash flows beyond the eight-year period are extrapolated using a 1,9% growth rate (2018: 1,9%) that relates to the long-term inflation rate in United States. As a result of this impairment test, management did not identify a need for goodwill impairment for DOSA, but it was determined that the future discounted cash flows for LAPC's CGU are below the carrying amount of goodwill, after sustain the recoverability of PP&E, so, it was determined the need for an impairment adjustment of that portion of the goodwill in the amount of BRL 7,7 million and recorded in the current period in the income statement.

The calculation of value in use for the three units is most sensitive to the following assumptions that were considered by management in the impairment test execution:
Volumes
Pricing
Gross margins
Discount rate
Growth rate used to extrapolate cash flows beyond the forecast period

Volumes and prices: Volumes and prices for UM were estimated with a CAGR of 0,6% that results less than expected local inflation and GDP growth. Each product net revenues evolution is in line with historical trends and with its life cycle, and also considering due dates of licenses. For LAPC and DOSA, it was considered that new launches will be in the range of 2 to 4 products per year, in line with historical evidence throughout the years. Price increases have been sensitized for certain specific products to include lower inflation pass through.

A decrease in volumes and prices would lead to a decline in gross margin values and in the projected cash-flows. A decrease in net sales with respect to budget by 3,7%, 1,3% and 38,7% would result in impairment in UM, LAPC and DOSA, respectively.

Gross margin: For UM, total gross margin evolution has been projected considering possible negative impacts of license renegotiations in certain products and devaluation effects affecting costs in USD. For LKM and UM, it has been projected by GBT in line with historical trends.

An increase in COGS would lead to a decline in gross margin values and in the projected cash-flows. An increase in COGS with respect to budget by 5,2%, 1,9% and 44,4% would result in impairment in UM, LAPC and DOSA, respectively.

Discount rates: They represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its CGUs and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. CGUs-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

A rise in the post-tax discount rate to 11,3%, 16,8% and 23% (i.e., +2,6%; +0,4% and +6,6%) would result in an impairment in UM, LAPC and DOSA, respectively.

Growth rate: Long-term growth rates used has been conservative considering a 1,9% that reflects the current USD inflation and 0% in real terms, implying a conservative position that assumes a non-growing scenario in quantities sold and only with price increases due to inflation.

IFRS 16 LEASES

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

<u>Leases previously classified as finance leases:</u>
The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 was applied to these leases from January 1, 2019.

<u>Leases previously accounted for as operating leases</u>:
The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities

were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

With that, when compared to IAS 17, the IFRS 16 creates a positive effect on the EBITDA, in the amount of BRL 10,6 million for the year.

For more information, please see Note 2.4 of the Consolidated financial statements.

COMPANY OVERVIEW

GBT is a specialty pharmaceutical company headquartered in Montevideo, Uruguay, operating in 10 countries in Latin America. GBT markets and sells licensed innovative products and engages in development, manufacturing and marketing of innovative specialty pharmaceuticals and branded generic products. GBT's business model focuses on therapeutic areas covering infectious diseases, oncology and onco-hematology, and certain other specialty therapeutics.

On July 21, 2017 the Company was authorized to list and trade its Brazilian Depositary Receipts (BDRs) on the Sao Paulo Stock Exchange. The Company has also been admitted to list and trade its common shares on the Euro MTF market, the unregulated exchange market operated by the Luxembourg Stock Exchange.

PORTFOLIO & INNOVATION

Our product development pipeline is divided into two business models: (1) partnership product development, which is focused on building relationships to license and commercialize innovative products that are new to Latin America, and (2) internal product development, which is focused on studying, designing, formulating and manufacturing branded generic (BGx) products, which are the bioequivalent of innovative products without patent protection.

GBT´s commercial stage portfolio includes:

- (i) Launches (1 to 5-year-old products) are products launched recently and can be divided into key launches from innovative licensed products and launches from BGx line;
- (ii) Peak year products, which are approximately 5 years after launch, that already reached peak sales. It´s a mix of licensed and BGx products;
- (iii) Mature products from 10 years or over after launch, and usually already lost exclusivity and may start do decline over the years. It´s also a mix of licensed and BGx.

Proprietary BGx are developed and manufactured in Argentina through four proprietary plants.

Six main products from the base portfolio (all stages, excluding only key/innovative launches) represented approximately 55% of total net revenues in 2019. They are comprised of AMBISOME®, ABRAXANE®, SALOFALK®, LADEVINA®, HALAVEN® and VIDAZA®.

Key launches are the main licensed products launched in the past five years. Usually, these products are still in the ramp up phase to reach peak market share.

Launch products include LENVIMA®, ABRAXANE®, HALAVEN® in Brazil and ABRAXANE®/ABRAXUS® in Brazil and Mexico. ABRAXANE®, HALAVEN® and LENVIMA® are already part of our top 10 products.

GBT is working on the promotion and ramp up of these products and additional indications and/or registration in new countries for several of them.

Recently launched products totaled BRL 112 million in 2019. Recently launched products increased QoQ during 2020, showing solid performance of new products and effective launch execution. The growth is related to the addition of new products since last year, such as EPCLUSA®. In addition, CRESEMBA® was launched during the third quarter 2019 and sales have just started.

RISK FACTORS

Our business could be adversely affected if any of the main risks described below occurs:

Risks related to our business and our industry:

- If we are unsuccessful in obtaining and maintaining our licensing agreements, strategic alliances and other collaborations related to our products portfolio,
- The manufacture of our generic products is highly complex, and an interruption at our plants or in our supply chain, or an adverse opinion in a regulatory audit, could adversely affect our business financial condition or results operations.
- We operate in a competitive market, characterized by the frequent introduction of new products. Many of our competitors, particularly large pharmaceutical companies, have substantially greater financial, technical and human resources than we do.
- Our research and development product expenditures may not result in commercially successful products.
- If the reputation of one or more of our leading brands erodes significantly, it could have a material impact on our business, financial condition and results of operations.
- Product liabilities claims could hurt our business.
- Our acquisition strategy is subject to significant risk and may not be successful due, for example, failing to accurately identify suitable companies, products or brands; failing to obtain the necessary regulatory approvals; experiencing difficulties in the integration process.
- Our business is regulated by numerous governmental authorities, which subjects us to elevated compliance risks and costs, and future government regulations may place additional burdens on our business.
- We may be involved in environmental actions that could adversely affect our reputation, business, financial condition or results operations
- Refer to subsequent event section for risk related to covid-19.

Risk related to the countries in which we operate:

- Increase in taxes we pay in the countries where we do business.
- Economic conditions in those countries in which we operate and expect to operate
- Governments have a high degree of influence in the economies in which we operate. Changes in governmental policy or regulations impact factors such as: healthcare laws and policies; labor laws; currency fluctuations; inflation; exchange and capital control policies; interest rates, developments in trade negotiations through the World Trade Organization or other international organizations; environmental regulations; tax laws; import/export restrictions; price controls or price fixing regulations; and other political, social and economic developments.
- Currency exchange rate fluctuations relative to the USD dollar, Euro, Brazilian Real and the currencies in the countries in which we operate.
- Refer to subsequent event section for risk related to covid-19.

Please see Note 12.1 of the Consolidated financial statements for financial risks for more information (including liquidity risk).

FINANCIAL AND OPERATING PERFORMANCE

The following table summarize and shows the Group´s financial performance (in millions of BRL). As explained before, figures as at 31 December 2019 and as at 31 December 2018 are presented applying IAS 29 for our Argentinian operations, and are then translated into BRL using the exchange rate at closing date:

	2019	2018
Net revenues	743,1	821,0
Cost of sales	(397,7)	(398,8)
Gross profit	**345,4**	**422,2**
Selling and marketing expenses	(143,1)	(131,2)
General and administrative expenses	(84,0)	(98,5)
R&D, medical, regulatory and business development expenses	(33,6)	(41,4)
Reorganization, integration and acquisition expenses	(14,3)	(11,4)
Impairment of goodwill	(7,7)	-
Other operating income, net	7,8	1,3
Operating income	**70,5**	**141,0**
(+) D&A	38,9	27,9
(+) Stock Grants	0,7	9,5
(+) One-time adjustment	13,9	6,2
Adjusted EBITDA	124,1	184,6
Adjusted EBITDA margin	16,7%	22,5%
EBITDA	109,5	168,9
EBITDA margin	14,7%	20,6%

For the full year of 2019, net revenues came to BRL 743,1 million from BRL 821 million in 2018, mainly due to the discontinuation of Actelion.

Selling and marketing expenses reaching BRL 143,1 million in 2019 from BRL 131,2 million in 2018. This is mainly due to the efforts GBT had to put into the new launches, such a congresses and sales force education.

General and administrative expenses totaled BRL 84 million in 2019 from BRL 98,5 million in 2018, impacted by the stock grants distributed to management at the time of the IPO (BRL 9,5 million in 2018 vs BRL 0,7 million in 2019), devaluation of the currencies and application of IFRS 16.

R&D, medical, regulatory and business development expenses came to BRL 33,6 million in 2019 from BRL 41.4 million in 2018.

Reorganization, integration and acquisition expenses amounted to BRL 14,3 million in 2019, mainly related with corporate restructuring costs, and change of control costs.

Moreover, there is the impairment of goodwill, that was previously explained, that amounted for BRL 7,7 million in 2019.

There is also a non-recurring other operating income in the amount of BRL 7,8 million in 2019, related with a non-compete in Argentina. Approximately 5 years ago, Argentina sold a portfolio to another pharma company and there was a non-compete for 5 years and a part of the payment for the sale was linked with this non-compete. In 2019 we reached the 5 years and the amount received was recognized in Opex, under "other operating income". The amount in non-recurring and therefore is not part of the total recurring operating expenses.

INDEBTEDNESS

As of December 31, 2019, our outstanding consolidated indebtedness with financial institutions in the aggregate amounted to BRL 172 million.

During November 2017 Laboratorio LKM S.A. contracted Argentinian pesos denominated debt for a total of ARS 531 million, in two separate contracts with Citibank.

The first one, disbursed on November 2, 2017, for ARS 266 million, was an off-shore ARS-linked loan with Citibank N.A. (New York) at a fixed rate of 18,40% p.a. (21,66% all-in after including withholding tax). Total tenor of 3 years; quarterly payments with amortization starting on month 15; and certain penalties in case of an early prepayment. The residual amounts of this loan as at December 31, 2019 is BRL 9.266 thousand.

The second one, disbursed on November 3, 2017, was fully pre-paid on November 2018.

On December 2017, United Medical Ltda. contracted Reais denominated debt for BRL 150 million with Itaú Unibanco Brasil. This loan was disbursed on December 8, 2017 and its key conditions are as follow:

The loan was a CCB (Brazilian Bank Credit Note). Total tenor of 5 years, with semi-annual payments and a one-year grace period for amortization. The applicable interest rate was the Interbank Market references interest rate (known in Brazil as CDI) +1.65% (with a step-up clause whereby the interest rate increases 25bps for every 0.25x increase in the "Net Debt" / "EBITDA" ratio after 2,0x).

On October 2, 2018, an amendment to this loan was signed between United Medical and Itaú. The purpose of the amendment was to add one extra year of grace period and extend the final maturity of the loan by one year. Interest charges remain the same.

Due to the acquisition of the Group by Knight mentioned in Note 1 and considering the "Change of Control" clause, the Company is in non-compliance of the "change of control" clause and it should obtain the approval of the transaction from Itaú Unibanco Brasil. Taking into account as of December 31, 2019, the above-mentioned approval has not been obtained, total amount of the financial debt was classified as current considering the Company does not have the unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

As of the date of issuance of the financial statements, the waiver of Itaú Unibanco Brasil has not been obtained. In case that the waiver is not finally obtained, the Group has the financial support commitment of Knight to repay the Itau Unibanco Brasil loan on demand or seek other sources of financing.

On December 2018, United Medical Ltda. contracted Reais denominated debt for BRL 38,9 million with Banco Santander. This loan was disbursed on December 28, 2018 and was a CCB (Brazilian Bank Credit Note) based on Law 4.131. Total tenor of 3 years, with semi-annual payments and a one-year grace period for amortization. The applicable interest rate was CDI +2.00% all in (1.87% interest and 0,13% Stand by).

BUYBACK OF SHARES

On April 25, the General Meeting Shareholders approved the buyback program to acquire up to 5% of the free float, up to 2.773.631 BDRs, out of 50.429.659 outstanding BDRs/shares. The program´s objective is to create value for shareholders by properly managing the Company´s capital structure.
The Company recognized its own equities instruments (Treasury shares) deducted from equity and no gain or loss are recognized in profit or loss related to those instruments.

- Number of BDRs held in treasury as of December 31, 2019: 490.236.

- Number of BDRs acquired: 1.346.300. BDRs have been acquired at an average price of BRL 10,49 with prices ranging from BRL 14,30 to BRL 9,16.
- Number of BDRs delivered to employees to fulfill the second and third vesting of the first plan and first vesting of the new plan of the Stock Grant: 856.064
- The total amount of BRL 4.675.972 is presented as Treasury shares, deducted from equity.

Treasury shares have been acquired by two subsidiaries of the Group (United Medical Ltda and Wisteny Trading S.A.)

HUMAN RESOURCES

As December 31, 2019, we had approximately 677 employees, 341 employees in Argentina, 90 employees are located in Colombia, 110 employees are located in Brazil and the remaining, 136 employees are located in the rest of Latin America.

SUBSEQUENT EVENTS

With the recent and rapid development of the coronavirus outbreak, certain countries where the Group has significant operations, have required entities to limit or suspend business operations and implemented travel restrictions and quarantine measures. Over the time, these measures may have a negative impact on the activities of the Group including namely on its revenue, supply and profitability but also on the recoverability of its receivables and long-lived assets.

Until to the date of these financial statements, the outbreak has not had a material impact on the results of the Group. As the outbreak continues to progress and evolve, it is uncertain at this point of time to predict the extent of the potential impact on the Group’s financial and operating results that cannot be reasonable estimated, but the impact could be material.

ENVIRONMENTAL MANAGEMENT

Our operations are subject to regulation under various federal, state, local and foreign laws concerning the environment, including laws addressing the discharge of pollutants into the air, soil and water, the management and disposal of hazardous substances and waste and the cleanup of contaminated sites. We continuously verify that our operations comply with environmental regulations. Our facilities utilize products and materials that are considered hazardous waste, which transportation, storage, treatment and final disposal is regulated by several governmental authorities.

We believe we are in compliance with all applicable environmental regulations in the countries in which we operate.

RELATIONSHIP WITH AUDITORS

Ernst & Young Société Anonyme, a member firm of Ernst & Young Global Limited, independent auditors, conducted an audit of our consolidated statement of financial position as at 31 December 2019, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies prepared in accordance with IFRS as adopted by the European Union.

The Company's policy in regard to contracting external audit services assures that there is no conflict of interest, loss of independence or objectiveness of the services eventually provided by independent auditors and not related to external audit services.

Our external auditors declared to the Board of Directors of the Company that the non audit services provided do not influence the independence and objectiveness which are necessary for the provision of external audit services, as they correspond to verifying the adherence to the fiscal regulation and to commenting and suggesting improvements to the existing controls for the financial risk management process. Our external auditors confirmed to us that the professional independence rules of the IFAC code of ethics have been respected.

Luxembourg, March 27, 2020

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Independent auditor's report

To the Shareholders of
BIOTOSCANA INVESTMENTS S.A.
2-4, rue Beck
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Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of BIOTOSCANA INVESTMENTS S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Law and standards are further described in the "Responsibilities of "Réviseur d'Entreprises Agréé" for the audit of the consolidated financial statements" section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Goodwill impairment test:

As of 31 December 2019, the Group reported BRL 435 million in goodwill as a result of the acquisitions of United Medical, Latin America Pharma Company and Laboratorio DOSA in June 2014, December 2015 and November 2017, respectively. In accordance with IFRS, the Group performed an impairment test per cash generating unit to assess whether goodwill might be impaired. The assumptions and results of the impairment tests performed by the Group are disclosed in Note 6 of the consolidated financial statements. Because of the complex process involving management judgement to support key assumptions and future cash flows estimation, as well as the significant carrying amount of the goodwill, which represents 35% of the total assets on the consolidated statement of financial position, the goodwill impairment tests are a key audit matter for the 31 December 2019 audit.

Our procedures over the impairment test of goodwill prepared by management included, but were not limited to:

- Involve our own valuation specialists to evaluate the assumptions and methods that were used by the Group to carry out its impairment test, including the discount rate per cash generating unit, and to assess the model that calculates future cash flows.
- Challenge the forecast and key assumptions used by the Group during the horizon of projection, such as the macroeconomic variables, the expected growth rates and the required level of CAPEX and working capital, among other key assumptions.
- Comparing key assumptions to Group historical information and externally derived data such as projected economic growth, cost inflation and discount rates.

We also assessed the adequacy of the Group´s disclosures in respect of goodwill and impairment test as set out in Note 6 of the consolidated financial statements.

Hyperinflation accounting (application of IAS 29 "Financial Reporting in Hyperinflationary Economies"):

As disclosed in Note 2.1.1, the Argentine economy is considered hyperinflationary in accordance with the criteria stated in IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). This standard requires that the entity or components financial information whose functional currency is that of an economy considered hyperinflationary be restated in terms of the measuring unit current at the reporting date using a general price index that reflects changes in general purchasing power. Audit of IAS 29 application is a key audit matter for the 31 December 2019 audit considering the effort required for the application of this accounting standard and the effects on the Group consolidated financial statements described in the mentioned Note 2.1.1.

We have performed procedures on the Group's application of IAS 29 that included, but were not limited to:

- Test the segregation of the monetary and non-monetary items of balance sheet items.
- Recompute the aging of results and financial position items that require to be restated.
- Assess the selection of indexes applied for restatement.
- Test the restatement of the relevant accounts, including the deferred tax liabilities recognized as a consequence of the restatement.
- Test through reperforming the gain or loss on the net monetary position recognized in the consolidated statement of profit or loss.
- Evaluate the translation method used for Argentine subsidiaries' restated financial information under the hyperinflation context.

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- We have involved our own valuation specialists to evaluate the assumptions and methods that were used by the Group to carry out its impairment test of restated values of Argentine's PP&E and goodwill.

We also assessed the disclosures included in the consolidated financial statements in Note 2.1.1 in connection with the application of this standard.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated management report but does not include the consolidated financial statements and our report of "Réviseur d'Entreprises Agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group'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 the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Responsibilities of the "Réviseur d'Entreprises Agrée" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF 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 consolidated financial statements.

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As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises Agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises Agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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Report on other legal and regulatory requirements

The Consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Olivier Lemaire

Luxembourg, 30 March 2020

BIOTOSCANA INVESTMENTS S.A.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended December 31, 2019
(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

	Notes	2019	2018
Net revenues	4 and 17	743.097	820.961
Cost of sales	18.1	(397.661)	(398.809)
Gross profit		345.436	422.152
Selling and marketing expenses	18.2	(143.068)	(131.195)
General and administrative expenses	18.2	(84.035)	(98.498)
R&D, medical, regulatory and business development expenses	18.2	(33.627)	(41.411)
Reorganization, integration and acquisition expenses	18.2	(14.304)	(11.339)
Impairment of goodwill	6	(7.682)	-
Other operating income, net	18.3	7.826	1.309
Operating income		70.546	141.018
Interest and other financial (expenses) gains, net	18.4	(26.529)	(31.153)
Foreign exchange expenses, net	18.5	(6.318)	(27.673)
(Loss) Gain on net monetary position for exposure to inflation in Argentina	2.1.1	(2.501)	12.811
Financial expenses		(35.348)	(46.015)
Income before income tax		35.198	95.003
Income tax expense	20	(33.596)	(31.541)
Net income		1.602	63.462
Attributable to			
Equity holders of the parent		1.602	63.462
Earnings per share			
Basic, income for the year attributable to ordinary equity holders of the parent	13	0,02	0,60
Diluted, income for the year attributable to ordinary equity holder of the parent	13	0,02	0,60

BIOTOSCANA INVESTMENTS S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2019
(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

	2019	2018
Net income	1.602	63.462
Other comprehensive income (loss) to be reclassified to income or loss in subsequent periods		
Effect of cash flow hedges	(70)	-
Exchange difference on translation of foreign operations	7.491	(6.410)
Total other comprehensive income (loss) to be reclassified to income or loss in subsequent periods	7.421	(6.410)
Total comprehensive income	9.023	57.052
Attributable to		
Equity holders of the parent	9.023	57.052

BIOTOSCANA INVESTMENTS S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2019

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

ASSETS	**Notes**	**2019**	**2018**
NON-CURRENT ASSETS			
Intangible assets	6	561.072	569.462
Property, plant and equipment	7	50.409	47.084
Right-of-use assets	2.4	20.816	-
Investment properties		5.130	4.980
Trade receivables and other account receivables	9	13.745	480
Other assets		14.683	1.673
Deferred tax assets	20	19.098	17.481
Total non-current assets		684.953	641.160
CURRENT ASSETS			
Inventories	8	213.874	182.490
Trade receivables and other account receivables	9	289.496	315.431
Other assets		6.564	9.728
Cash and short-term deposits	14	47.974	100.609
Total current assets		557.908	608.258
Assets held for sale		4.087	3.968
TOTAL ASSETS		1.246.948	1.253.386
EQUITY AND LIABILITIES			
EQUITY			
Issued capital	15	217	217
Share premium	15	748.624	748.624
Treasury shares	15	(4.676)	(6.316)
Other capital reserves	19	12.911	12.246
Retained earnings		264.820	263.218
Transactions with equity holders		(333.180)	(333.180)
Other equity items		51.848	44.427
Total equity		740.564	729.236
NON-CURRENT LIABILITIES			
Provisions and contingences	16	181	146
Financial debt	10.1	29.312	175.919
Payroll and social security liabilities		306	227
Taxes payable	10.3	347	862
Other liabilities	10.4	-	14
Deferred tax liability	20	61.763	45.008
Total non-current liabilities		91.909	222.176
CURRENT LIABILITIES			
Provisions and contingences	16	4.121	9.411
Financial debt	10.1	160.972	39.701
Trade payable	10.2	201.750	175.401
Contract liabilities		2.804	3.532
Refund liabilities		328	453
Payroll and social security liabilities		20.040	23.504
Taxes payable	10.3	11.060	15.166
Other liabilities	10.4	13.400	34.806
Total current liabilities		414.475	301.974
Total liabilities		506.384	524.150
TOTAL EQUITY AND LIABILITIES		1.246.948	1.253.386

BIOTOSCANA INVESTMENTS S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2019

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

	Attributable to the equity holders of the parent								
	Issued capital	Share premium	Treasury shares	Other capital reserves	Retained earnings	Transactions with equity holders	Effect of cash flow hedges	Exchange differences on translation of foreign operations	Total
As at January 1, 2019	217	748.624	(6.316)	12.246	263.218	(333.180)	-	44.427	729.236
Share-based payments	-	-	-	2.305	-	-	-	-	2.305
Stock grant vesting			1.640	(1.640)	-	-	-	-	-
Net income for the year	-	-	-	-	1.602	-	-	-	1.602
Other Comprehensive Income (Loss)	-	-	-	-	-	-	(70)	7.491	7.421
At December 31, 2019	217	748.624	(4.676)	12.911	264.820	(333.180)	(70)	51.918	740.564

	Attributable to the equity holders of the parent							
	Issued capital	Share premium	Treasury shares	Other capital reserves	Retained earnings	Transactions with equity holders	Other Comprehensive Income (Loss)	Total
As at January 1, 2018	214	728.805	-	30.410	114.927	(333.180)	50.837	592.013
Effect on beginning balances under IAS 29 (Note 2.1.1)	-	-	-	-	84.829	-	-	84.829
Capital increase (Note 15)	3	19.819	-	(19.822)	-	-	-	-
Share-based payments	-	-	-	9.459	-	-	-	9.459
Buyback of shares (Note 15)	-	-	(14.117)	-	-	-	-	(14.117)
Stock grant vesting			7.801	(7.801)	-	-	-	-
Net income for the year	-	-	-	-	63.462	-	-	63.462
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(6.410)	(6.410)
At December 31, 2018	217	748.624	(6.316)	12.246	263.218	(333.180)	44.427	729.236

BIOTOSCANA INVESTMENTS S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019
(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

	Notes	2019	2018
Cash flow from operating activities			
Income before income tax		35.198	95.003
Adjustments to reconcile profit before income tax to net cash flows:			
PP&E depreciation and intangible amortization	6 and 7	31.015	27.850
Depreciation of right-of-use	2.4	8.243	-
PP&E and intangible disposals	6 and 7	2.417	537
Impairment of goodwill	6	7.682	-
Shared-based payments	19	2.305	9.458
Inventory allowance for impairment in value	8	6.340	5.192
Allowance for debtors' impairment	9	7.487	8.021
Recovery for debtors´ impairment	9	-	(5.271)
Movements in provisions		(4.231)	(6.340)
Interest and other financial expense		22.487	31.153
Interest expenses of right-of-use		2.357	-
Foreign exchange expense		4.307	16.896
Reorganization, integration and acquisition expenses		-	3.632
Gain on net monetary position for exposure to inflation in Argentina	2.1.1	2.501	(12.811)
Changes in assets and liabilities			
Inventories		(28.116)	(56.969)
Trade receivables and other account receivables		(31.728)	(13.255)
Other assets		(4.828)	(1.771)
Trade payable and other liabilities		12.126	60.355
Income tax payments		(19.453)	(39.924)
Net cash flow from operating activities		56.109	121.756
Cash flows used in investing activities			
Payments related to acquisition of intangible assets		(21.446)	(37.190)
Payments related to acquisition of property, plant and equipment	7	(14.745)	(12.479)
Advance payments of PP&E		(6.364)	-
Acquisition of a subsidiary, net of cash acquired		-	(18.393)
Expenses paid related to the acquisition of a subsidiary		-	(1.698)
Net cash flow used in investing activities		(42.555)	(69.760)
Cash flows from financing activities			
Proceeds from financial debt and borrowings		8.120	45.416
Payment of financial debt and borrowings		(44.038)	(33.908)
Interest and other financial expenses payments		(22.372)	(30.424)
Payment related to leases liabilities		(9.600)	-
Buyback of shares		-	(14.117)
Expenses paid related to issued share capital		-	(1.933)
Net cash used in financing activities		(67.890)	(34.966)
Effect on cash and cash equivalent for exposure to Inflation in Argentina		(1.425)	(3.987)
Effect of foreign exchange results		3.126	(10.552)
Net (decrease) increase of cash and cash equivalents		(52.635)	2.491
Cash and cash equivalent at the beginning of the year		100.609	98.118
Cash and cash equivalent at the end of the year		47.974	100.609

BIOTOSCANA INVESTMENTS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

1. CORPORATE INFORMATION

Biotoscana Investments S.A. is a Luxembourg Company incorporated on July 26, 2011 as a "société en commandite par actions" for an unlimited duration and is subject to general company law. The former name was Advent Cartagena & CY S.C.A. and an Extraordinary General Meeting held on August 17, 2011, decided to change the Company's corporate name into Biotoscana Investments & CY S.C.A.

On March 14, 2017, the Board of Directors resolved the Company's transformation from a partnership limited by shares (Société en Comandite par Actions) into a corporation (Société Anonyme). Consequenty, the Company's name was changed from Biotoscana Investments & CY S.C.A. to Biotoscana Investments S.A.

The consolidated financial statements of Biotoscana Investments S.A. and its subsidiaries (collectively, the Group or the Company) for the year ended December 31, 2019 were authorized for issue in accordance with a resolution of the Directors on March 27, 2020. Biotoscana Investments (the parent) is a company domiciled in Luxembourg. The registered office is located at 2-4 Rue Beck, L-1222, Luxembourg.

The main activity of the Group companies is the sale of pharmaceutical products for humans through manufactured medicines and also through the purchase, sale, distribution, importation, exportation, trade in general of pharmaceutical, para-pharmaceutical, and chemical products under several license agreements with different global pharmaceutical companies (third parties).

On July 21, 2017 the Company was authorized to list and trade its Brazilian Depositary Receipts (BDRs) on the Sao Paulo Stock Exchange. The Company has also been admitted to list and trade its common shares on the Euro MTF market, the unregulated exchange market operated by the Luxembourg Stock Exchange.

On November 29, 2019, Knight Therapeutics Inc. ("Knight" or "the Buyer") announced that it has completed the acquisition of a 51,21% interest (Sale of Control) in the Company from a controlling shareholder group. The purchase price of the Sale of Control was BRL 596 million (Purchase Price), being BRL 10,96 per share or BDR.

Considering the completion of this first step, Knight became the controlling shareholder and appointed its representatives to the board of directors of the Company. In addition, as a consequence of the closing of the Sale of Control, the Buyer is conducting a tender offer of the remaining shares and BDRs, according to section 12 of the Bylaws of the Biotoscana Investments S.A. According to the Buyer's information, the tender offer will be launched with similar terms and conditions of the Sale of Control.

BIOTOSCANA INVESTMENTS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

The relationship of subsidiaries, included in the consolidation perimeter, and the information related thereto is as follows:

		Interest (1)		
Corporate name	**Address**	**Direct interest**	**Indirect interest**	**Activity**
Biotoscana Ecuador S.A.	Manuel Córdova Galarza S/N, KM 7,5, Quito, Ecuador	0,00%	100%	Pharmaceutical
Biotoscana Farma de Perú S.A.C.	Av. República de Panamá 3591, Floor 13, San Isidro, Lima, Perú	0,00%	100%	Pharmaceutical
Biotoscana Farma S.A.	Pte. Arturo Illia 668, Haedo, Buenos Aires, Argentina	0,00%	100%	Pharmaceutical
Biotoscana Farma S.A.	Cra. 106 No. 15-25 Lote 135A Manzana 23, Bogotá, Colombia	0,00%	100%	Pharmaceutical
Colveh1 S.A.S	Av. 82 12-18, Floor 6, Bogotá, Colombia	0,00%	100%	Other scientific and technical activities
Colveh2 S.A.S	Av. 82 12-18, Floor 6, Bogotá, Colombia	0,00%	100%	Other scientific and technical activities
Colveh3 S.A.S	Av. 82 12-18, Floor 6, Bogotá, Colombia	0,00%	100%	Other scientific and technical activities
Colveh4 S.A.S	Av. 82 12-18, Floor 6, Bogotá, Colombia	0,00%	100%	Other scientific and technical activities
Biotoscana Uruguay S.A. (formerly Cufré S.A.)	Saldanha da Gama 3622, Office 311, Montevideo, Uruguay	0,00%	100%	Pharmaceutical
Grupo Biotoscana Costa Rica S.R.L.	San Rafael de Escazú, Office 103, San José, Costa Rica	0,00%	100%	Pharmaceutical
Grupo Biotoscana de Especialidad S.A. de C.V.	Jaime Nuno 1915, Guadalupe Inn, Distrito Federal, México	0,00%	100%	Pharmaceutical
Grupo Biotoscana Panamá S.A.	Street 56 y 57 Este, Obarrio, Sortis Business Tower, Office 10 H, Panamá	0,00%	100%	Pharmaceutical
Grupo Biotoscana S.L.U.	Cl Pradillo 5 Bajo Ext, Madrid, España	100%	0,00%	Pharmaceutical
Wisteny Trading S.A. (formerly Grupo Biotoscana S.A.)	Luis Bonavita 1294, Office 2004, WTC, Montevideo, Uruguay	0,00%	100%	Pharmaceutical
Laboratorio Biotoscana Farma Ltda.	Av. Los Militares 5001, Floor 12, Comuna de las Condes, Santiago de Chile, Chile	0,00%	100%	Pharmaceutical
Laboratorio DOSA S.A.	Girardot 1369, Buenos Aires, Argentina	0,00%	100%	Pharmaceutical
Laboratorio LKM S.A.	Montevideo 589, Floor 4, Buenos Aires, Argentina	0,00%	100%	Pharmaceutical
Latin American Pharma Company ETVE S.L.U.	Travessera de Grácia 11, Floor 5, Barcelona, España	0,00%	100%	Pharmaceutical
LKM Bolivia S.A.	Arce 2132, La Paz, Bolivia	0,00%	100%	Pharmaceutical
LKM Chile S.A.	Av. Los Militares 5001, Floor 12, Comuna de los Condes, Santiago de Chile, Chile	0,00%	100%	Pharmaceutical
LKM Ecuador S.A.	Diego de Almagro 30-134, Quito, Ecuador	0,00%	100%	Pharmaceutical

Corporate name	Address	Interest (1) Direct interest	Indirect interest	Activity
LKM Paraguay S.A.	Mainumby 2062, Fernando de la Mora, Paraguay	0,00%	100%	Pharmaceutical
LKM Perú S.A.	Los Zorzales 130, Lima, Perú	0,00%	100%	Pharmaceutical
GBT - Grupo Biotoscana S.A. (formerly Perbal S.R.L)	Luis Bonavita 1294, Office 2004, WTC, Montevideo, Uruguay	0,00%	100%	Pharmaceutical
United Medical Distribution Ltda.	Al Dos Maracatins 1435, Office 104, São Paolo, Brazil	0,00%	100%	Pharmaceutical
United Medical Ltda.	Av. dos Imarés 401, Bairro Moema, São Paolo, Brazil	0,00%	100%	Pharmaceutical

(1) No changes in subsidiaries and in consolidation perimeter compared to the year-end December 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and issued by the International Accounting Standards Board (IASB). These standards have no differences to the ones approved by the IASB.

The consolidated financial statements have been prepared on a historical cost basis, except for derivatives and investments properties, which have been measured at fair value.

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which each entity operates. Biotoscana Investments S.A. functional currency is US dollar (USD). The Group's presentation currency is Brazilian Reais (BRL) and all BRL figures are stated in thousands.

Monetary assets and liabilities are translated into each entity's functional currency at the applicable exchange rate at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions performed by the companies of the Group and from the translation of monetary assets and liabilities into each entity's functional currency are recognized in profit or loss.

The results and financial position of each group entity (except for the subsidiaries in Argentina the economy of which was considered hyperinflationary from July 1, 2018) are translated into the presentation currency as follows:

i. Assets and liabilities for each statement of financial position presented are translated at the applicable closing rate at the respective reporting date.

ii. Income and expenses for each statement of profit or loss and statement of other comprehensive income are translated either at the rates prevailing at the dates of the transactions or at monthly average exchange rates (in case this average is a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates).

Exchange differences arising on the translation of results and financial position of each of the Group's consolidated entities are included in "Exchange differences on translation of foreign operations" in other comprehensive income and taken to a separate component of equity.

2.1.1 IAS 29 Financial Reporting in Hyperinflationary Economies

With the effect from July 1, 2018, the Argentine economy was considered to be hyperinflationary in accordance with the criteria in IAS 29 “Financial Reporting in Hyperinflationary Economies” (IAS 29). This standard requires that the entity or components financial information whose functional currency is that of an economy considered hyperinflationary be restated using a general price index that reflects changes in general purchasing power. The inflation index used in Argentina was a synthetic index with the following characteristics: i) The Internal Wholesale Price Index (IPIM) until December 2016 and ii) after that date, the National Consumer Price Index (IPC). Additionally, due to the lack of national index on November and December 2015, Consumer Price Index of City of Buenos Aires (IPC CABA) was used.

All balance sheet items of Argentine subsidiaries should be segregated into monetary and non-monetary items. Monetary items are units of currency held, and assets and liabilities to be received or paid, in fixed or determinable number of units of currency. These monetary items are not restated because they are already expressed in terms of the current monetary unit. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power, and an entity with an excess of monetary liabilities over monetary assets gains purchasing power, to the extent the assets and liabilities are not linked to a price level. The gain or loss on the net monetary position is included in profit or loss.

Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit) are restated by applying the relevant index. After the IAS 29 restatement of non-monetary assets, it is necessary to consider whether the restated amount of the asset might exceed its recoverable amount. Additionally, the application of IAS 29 results in the creation of temporary differences because the book value of non-monetary assets is adjusted for inflation but not equivalent adjustment is made for tax purpose; the effect of such a temporary difference is a deferred tax liability that need to be recognized in profit or loss.

The results and financial position of subsidiaries in Argentina, whose functional currency is the currency of a hyperinflationary economy, are first restated in accordance with IAS 29 and are then translated into the presentation currency using the following procedure:

i. All amounts in the financial statements (excluding the comparatives) are translated using the exchange rate at the current reporting date.

ii. The statement of profit or loss figures has been presented by restating each line under IAS 29 until the end of the period and translating the corresponding amount to BRL at the effective rate at period end.

iii. The comparative amounts in the consolidated financial statements are those that were presented as current year amounts in the relevant prior year financial statements (i.e. not adjusted for subsequent changes in the price level or exchange rates). This results in differences between the closing equity of the previous year and the opening equity of the current year and, as an accounting policy choice, these changes are presented as follows: (a) the remeasurement at the time of initial application of IAS 29 as an adjustment to equity and (b) the subsequent effects, including retranslation under IAS 21, as “Exchange differences on translation of foreign operations” in other comprehensive income.

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

Main effects of the application of IAS 29 in these financial statements are the following:

a) Impact in beginning balances (January 1, 2018 – Initial application date) is the following:

	Equity Increase (Decrease)
Intangible assets	74.434
Property, plant and equipment	9.064
Deferred tax assets	(4.726)
Inventories	6.057
	84.829

b) (Loss) Gain on net monetary position for exposure to inflation during the years ended December 31, 2019 and 2018:

	(Loss) / Gain	
	2019	2018
Trade receivables and other account receivables	(43.889)	(29.068)
Other assets	(1.785)	(447)
Cash and short-term deposits	(1.425)	(3.987)
Provisions	1.413	4.564
Financial debt and borrowings	23.456	32.215
Trade payable and other payables	15.787	5.949
Payroll and social security liabilities	3.942	3.585
	(2.501)	12.811

2.2. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as of December 31, 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value or at cost.

The Group has 100% of interest on its current subsidiaries as of December 31, 2019 and 2018.

2.3. Summary of significant accounting policies

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method, except for those under common control that are accounted for using the pooling of interest method. The cost of an acquisition under the acquisition method is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in "Reorganization, integration and acquisition expenses".

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument, is measured at fair value with the changes in fair value recognized in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Business combinations of entities under common control are accounted for using the pooling of interest method (predecessor accounting). Under this method, assets and liabilities of the combined entities are reflected at their carrying amounts and a new goodwill is not recognized. Any difference between the consideration transferred and the equity acquired is reflected in equity as "transactions with equity holders".

b) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle (twelve months)
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle (twelve months)
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

c) Fair value measurement

The Group measures financial instruments such as derivatives at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

In case of assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. No transfers of such nature have occurred during the fiscal year presented in these financial statements.

For the purpose of fair value disclosures, the Group determines classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

d) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Group has concluded that, except for certain specific transactions, it is the principal in all its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks. The Group has in certain occasions the right to return expired inventories to certain suppliers. However, this event is considered immaterial not affecting the general inventory risk to which the Group is exposed.

In addition, the Group has certain agreements with third parties to act as agent in the sale of goods to others in exchange for a fee or commission and does not control the goods or services for any length of time nor carry any risk of collection. The agent’s performance obligation is to arrange for another third parties to provide the goods to its customer.

The specific recognition criteria described below must also be met before revenue is recognized.

Sale of goods

Revenue from the sale of goods, both for those manufactured by the Company and for those traded under license agreements, is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, allowances and discounts.

Sales' commissions

Revenue of sales commissions are recognized once the performance obligation to arrange the sales is executed. The cost of the related activities are commercial in nature and are recorded in "selling and marketing expenses"

Sale of goods under bill-and-hold arrangements

In certain cases, revenue from the sale of goods is recognized even when the corresponding goods have not been delivered to the extent that the transaction corresponds to a sale with a deferred delivery method (usually known as bill-and-hold arrangement), specifically requested in that way by the respective customer and provided that the customer expressly assumes the transfer of ownership of the related goods along with all the associated risks and benefits. For these situations, the sale's operation is documented in a way that properly reflect the bill-and-hold arrangement and all its terms and conditions. After a bill-and-hold arrangement, the Company becomes a simple custodian of the sold goods, and must deliver them as soon as receiving customer request and without retaining risks or benefits associated with the ownership of said goods as from that moment.

Performance obligations under bill-and-hold arrangement involve the transfer of ownership of the products sold and the custodian and transportation services until the customer request of physical delivery. At the time of invoicing, the related revenue is measured at the fair value of the consideration received or receivable, net of returns, allowances and discounts, after excluding from the sales price the portion related to custodian and transportation services. That portion of the sale's price is subsequently accrued during the time elapsed from invoicing to final physical delivery, jointly with the related costs.

e) Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

According to a tax reform introduced in Argentina, a reduction in corporate income tax rate took place for fiscal periods beginning January 1, 2018, but an additional tax of 7% for dividends related to profits generated in 2018 onwards. There are also other jurisdictions where the Group operates through different subsidiaries that impose additional tax in the way of withholdings when dividends are remitted from the different subsidiaries to the Parent.

Based on the fulfilment of IAS 12 requirement to apply one of the abovementioned recognition exceptions, the Group has not recognized a deferred tax liability related to the undistributed profits of subsidiaries in Argentina and Peru considering current plans to not declare or pay intra-group dividends and to the reinvestments of the related undistributed intra-group earnings in each subsidiary.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of other account receivable or taxes payable in the statement of financial position.

f) Foreign currencies

The parent company´s functional currency is USD. However, the Group's consolidated financial statements are presented in thousands of BRL.

For each entity, the Group determines the functional currency to measure the items included in the financial statements of each entity by using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Except for GBT - Grupo Biotoscana S.A., Wisteny Trading S.A., Grupo Biotoscana Panama S.A., and the intermediate holding companies (Grupo Biotoscana S.L.U. and Latin American Pharma Company ETVE S.L.U.) whose functional currency is USD, remaining subsidiaries use their local currency as functional currency.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot exchange rates at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. See Note 2.1.1 in connection with subsequent measurement of non-monetary items related to components entities whose functional currency is that of an economy considered hyperinflationary.

Income (loss) due to the conversion of all balances nominated in foreign currency (related to trade, non-trade and/or financial transactions) to the functional currency are recorded in "Financial expenses" caption of the income statement as "Foreign exchange expenses, net".

ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into BRL at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the respective transactions (except for subsidiaries whose functional currency is that of an economy consider hyperinflationary, translated as explained in Note 2.1.1). The exchange differences arising on translation for consolidation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation, measured at the respective functional currency, and translated at the spot exchange rate at the reporting date.

g) Assets held for sale

An entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

Assets that meet the criteria to be classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets ceases.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

h) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. In case of PPE items of a subsidiary whose functional currency is that of an economy considered hyperinflationary, the cost is adjusted and translated into reporting currency following the criteria mentioned in Note 2.1.1 The cost of an item of property, plant and equipment acquired in a business combination is its fair value at the date of the acquisition.

When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The Group has determined the following useful lives that are reasonable and consistent with industry practices and which were applied consistently during 2019 and 2018:

	Useful lives
Buildings	20 years
Machinery and equipment	5-10 years
Information processing equipment	5 years
Office equipment	10 years
Vehicles	5 years

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

i) Leases

As of December 31, 2018, the Group applied IAS 17 to record lease transactions. Effective on January 1, 2019, IAS 17 was replaced by IFRS 16. Note 2.4.a) describes with detail the former and actual criteria to recognize leases and the impacts of the new standard application.

j) Borrowing costs

Borrowing costs are expensed in the period in which they occur, except when they are attributable to eligible assets for their capitalization under IAS 23 rules.

k) Investment properties

Investment property is held by the Group to earn rentals and is measured on initial recognition at cost. Subsequent to initial recognition, investment properties are stated at fair value, which reflect market conditions at the reporting date. The fair value reflects, among other things, rental income from current leases and other assumptions that market participants would use when pricing investment property under current market conditions. A gain or loss arising from a change in the fair value of investment property shall be recognized in profit or loss for the period in which it arises.

l) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. In case of intangible assets of a subsidiary whose functional currency is that of an economy considered hyperinflationary, the cost is adjusted and translated into reporting currency following the criteria mentioned in Note 2.1.1. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

The useful lives of intangible assets are assessed as either finite or indefinite. Client´s portfolio and licenses and trademarks are amortized between 5 and 15 years, depending on the terms assigned by contractual rights. Research and development cost are amortized between 3 and 10 years. The useful lives were consistently applied during 2019 and 2018.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

Licenses and trademarks

The Group made payments or incurred expenses to acquire licenses for selling and distributing human medicines or and to own a specific registry and the related trademark. The licenses have been granted for periods between 5 and 15 years. The useful lives were consistently applied during 2019 and 2018. They are measured initially at cost and amortized by using the straight forward method during determined useful lives that, in the case of licenses, do not exceed the license period. After initial recognition, licenses and trademarks are measured at cost net of accumulated amortization, less any accumulated impairment losses, if any.

These kinds of agreements establish additional payments according to certain milestones. Considering upfront and milestone payments are part of the total consideration to be paid for the license rights, the carrying value of the intangible asset have to be adjusted on a cumulative catch-up basis as if the additional amount that is no longer contingent had been accrued from the outset of the arrangement when the obligation was established. Accordingly, at the time when the milestone payment becomes probable that will be paid, the Company will immediately have to expense the portion of the milestone payment for the time elapsed and capitalize the remainder of the payment and amortize during the remainder period.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

m) Financial instruments - initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

As of December 31, 2019 and 2018, the Company has not financial assets classified as "Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)" or "Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)".

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
  And
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes trade and other receivables

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification. The Group has not financial liabilities classified as "at fair value through profit or loss" or "hedging instruments in an effective hedge".

Financial debt and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing financial debt and borrowings.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate. The effective interest rate is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit or loss.

n) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group may use derivative financial instruments, such as forward currency contracts and interest rate swaps, to partially hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income and later reclassified to profit or loss when the hedge item affects profit or loss.

The Group applied hedge accounting during the year ended December 31, 2019, and designated certain foreign currency non-deliverable forwards (NDF) contract as hedge of highly probable purchases of inventories in USD expected to occur in December 2019. As of December 2018, the group has not used hedge accounting.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

o) Inventories

Inventories are valued at the lower of cost and net realizable value. In case of inventories of a subsidiary whose functional currency is that of an economy considered hyperinflationary, the cost is adjusted and translated into reporting currency following the criteria mentioned in Note 2.1.1.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost on a first-in/first-out basis.
- Finished goods and work in progress: cost of direct materials as it was mentioned for “Raw materials”. Labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs, considering the current stage of the production process of “work in progress”.
- Other inventories: purchase cost on a first-in/first-out basis.

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

p) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or CGU’s fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group’s CGUs to which the individual assets are allocated.

Impairment losses of continuing operations are recognized in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognized in other comprehensive income up to the amount of any previous revaluation.

For non-financial assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset’s or CGU’s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

q) Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less from the agreement date, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts, if any, as they are considered an integral part of the Group's cash management.

r) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance expense.

s) Treasury shares

The Group recognized its own equities instruments (Treasury shares) deducted from equity. No gain or loss are recognized in profit or loss on the purchase, sale, issue or cancellation of those instruments. Further details are given in Note 16 in connection with "buyback of shares".

Share-based payments

Employees of the Group (including senior executives) have received remuneration in the form of share-based payments until November 29, 2019.

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 19.

That cost is recognized in "Salaries and payroll taxes", together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss. The awards were cancelled during November 2019. The effects of the cancellation are described in Note 19.

2.4. Changes in accounting policies and disclosures

a) New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of new standards effective as of January 1, 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applied during 2019, for the first time, IFRS 16 “Leases”. Nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

The effect of the adoption of IFRS 16 is as follows:

Impact on the statement of financial position as at January 1, 2019

	January 1, 2019
ASSETS	
Non-current assets	
Right-of-use asset	25.820
Property plant and equipment	(290)
LIABILITIES	
Non-current liabilities	
Long-term lease liabilities	18.397
Current liabilities	
Short-term lease liabilities	7.423

There was no material impact on the statement of profit or loss, statement of comprehensive income, statement of cash flows and basic and diluted EPS.

a) Nature of the effect of the adoption of IFRS 16

The Group has lease contracts for various items. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in the statement of profit or loss on a straight-line basis over the lease term.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17).

Leases previously accounted for as operating leases

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Based on the foregoing, as at January 1, 2019:

- Right-of-use assets of BRL 25.820 were recognized and presented separately in the statement of financial position. Lease assets recognized previously under finance leases of BRL 290 and included under Property, plant and equipment were reclassified to right-of-use assets.
- Additional lease liabilities of BRL 25.820 were recognized and included under long- and short-term financial debt and borrowings.
- Incremental borrowing rate was calculated by country and by agreement taking into consideration the different circumstances. The average of the rates used was approximately 5.5%.

b) *Summary of new accounting policies due to IFRS 16 application*

Right-of-use asset

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. In the case of right-of-use assets related to subsidiaries located in countries declared hyperinflationary, the cost is remeasured under IAS 29 requirements. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low value assets

The Group applies the short-term lease recognition exemption to its short-term leases of certain items (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

c) Amounts recognized in the statement of financial position and profit or loss due to IFRS 16 application

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the fiscal year:

	Right-of-use asset	**Lease liabilities**
As at January 1, 2019	25.820	25.820
Additions	2.234	2.234
Depreciation expense	(8.243)	-
Interest expense	-	2.357
Payments	-	(10.640)
Translation exchange differences	1.005	(1.513)
As at December 31, 2019	20.816	18.258
Current	-	4.535
Non-current	20.816	13.723

Set out below, are the amounts recognized in the statement of profit or loss as at December 31, 2019:

	December 31, 2019
Depreciation expense of right-of-use assets	(8.243)
Interest expense on lease liabilities	(2.357)
Other leases and rentals	(105)
	(10.705)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after January 1, 2019, but certain transition reliefs are available. The Group applies interpretation from its effective date.

This interpretation does not have any material impact on the Group's consolidated financial statements and in any evaluation performed by the Group prior to the effective date of this interpretation.

Annual Improvements 2015-2017 Cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

This amendment had no impact on the consolidated financial statements of the Group as there is no business combination during the period.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

This amendment had no impact on the consolidated financial statements of the Group as there is no involving joint operations.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognized those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

They had no impact on the consolidated financial statements of the Group as a result of the changes described. See Note 20 for more information related to income tax and deferred income tax calculation.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

The Group has not borrowing cost related to the construction of qualifying assets. Consequently, this amendment has no impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group’s consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Group’s accounting policies, management has made judgements, which may have significant effect on the amounts recognized in the consolidated financial statements.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years, extrapolated for subsequent years using a growth rate, and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The cash flow is also affected by the number of new products expected to be launched and their level of success. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill recognized by the Group. Note 6 discloses more information on impairment analysis and assumptions used.

Share-based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. The Group uses a binomial model for the calculation. The assumptions and models used for estimating fair value for share-based payment transactions, including the fair value at the cancellation date, are disclosed in Note 19.

Risks and contingencies

Group companies are part of various litigation or procedures that are currently being processed before jurisdictional, administrative and arbitral bodies.

During the normal course of business, the Group companies are subject to labor, commercial and tax contingencies, among others, which may give rise to potential losses, and their materialization depends on the occurrence of one or more future events. These contingencies include pending lawsuits and potential third parties' claims for possible third-party losses on account of the activities carried out, as well as third-party claims resulting from legislative or regulatory interpretation issues. Contingent liabilities are assessed and quantified by the Group's Management based on outsourced legal counsel's and tax advisors' opinion, as applicable, and other evidence then available, such as applicable adjustment clauses, legal costs and other expenses.

Should the contingency assessment disclose the possibility of a loss and should it be possible to estimate the amount, liabilities would be classified as "Provisions and contingences". If the potential loss is not probable but fairly possible, or either probable but the amount thereof cannot be estimated, the nature of the contingent liability and an estimate of the possibility of occurrence are disclosed in a note to the financial statements. The contingencies deemed remote are not booked or disclosed. See Note 16.

Taxes

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

When a future change in tax rates that have been enacted or substantively enacted, the Group estimates the future timing of reversal of temporary differences to calculate the deferred tax assets or liabilities at the applicable tax rate. See Note 20 for more information related to income tax and deferred income tax calculation.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of certain years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Provision for expected credit losses of trade receivables

The Group defined a policy to calculate ECLs for trade receivables and record the related allowance for debtors' impairment. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision is initially based on the Group's historical observed default rates in each country and it is complemented by a case by case analysis to identify special circumstances on individual customers and/or transactions.

The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

4. SEGMENT INFORMATION

The Company comprises a single operating segment, which primarily focuses on innovative products and high quality branded specialty generics to meet significant unmet patient needs.

This segment is supported by several key functions managed in a centralized way: an R&D organization, a manufacturing organization, a supply organization, a partnering and commercialization organization, a business development organization, M&A and treasury, tax and financial functions. The heads of those functions report directly to the Chief Executive Officer (which is the Chief Operating Decision Maker).

Segment information is consistent with the financial information regularly reviewed by the Chief Executive Officer and Board of Director´s for purposes of evaluating performance, allocating resources and planning and forecasting future periods.

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Geographic information

The following table summarizes total revenues from external customers based on the customer's locations. The Company has no revenues attributable to Luxembourg, that is its domicile.

	Year ended December 31,	
	2019	**2018**
Argentina	141.922	238.285
Bolivia	11.006	8.063
Brazil	413.816	390.145
Chile	38.216	30.491
Colombia	131.622	155.922
Costa Rica	539	580
Ecuador	13.323	14.704
Guatemala	415	1.276
Mexico	19.658	8.961
Panama	-	279
Paraguay	2.992	2.790
Peru	21.495	21.130
Uruguay	8.563	13.691
Gross revenues of products	803.567	886.317
Sales´ commissions	2.909	824
Rebates	(23.276)	(36.873)
Direct taxes	(40.103)	(29.307)
Net revenues	743.097	820.961

In addition, the net book value of property, plant and equipment in Argentina, Brazil and Colombia is BRL 46.479, BRL 7.081 and BRL 1.327, respectively, as of December 31, 2019 and BRL 37.936, BRL 3.770 and BRL 1.586, respectively, as of December 31, 2018. All other individual locations accounted for less than ten percent of the total balances, and no PP&E are held on Luxembourg.

In addition, the following table summarizes the additions of property, plant and equipment in each country. No property, plant and equipment are held on Luxembourg.

	Year ended December 31,	
	2019	**2018**
Argentina	8.680	10.195
Bolivia	4	14
Brazil	5.300	1.767
Chile	31	11
Colombia	18	239
Ecuador	106	11
Mexico	101	104
Paraguay	13	14
Peru	442	72
Uruguay	50	52
Additions of PP&E	14.745	12.479

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

Revenues by therapeutic line

In the fiscal years set out below, revenues by therapeutic line are as follows:

	Year ended December 31,	
	2019	2018
Infectious Diseases	299.996	287.346
Oncology & Onco-Hematology	339.341	329.757
Specialty Treatments and I&I	104.584	113.087
Orphan and Rare Diseases	59.646	156.127
Gross revenues of products	803.567	886.317
Sales´ commissions	2.909	824
Rebates	(23.276)	(36.873)
Direct taxes	(40.103)	(29.307)
Net revenues	743.097	820.961

Revenue and credit concentration

There are no customers that concentrate 10% or more of the Company's gross revenues.

5. CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other components attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximize the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, long-term and short-term financial debt and borrowings less cash and short-term deposits.

	2019	2018
Capital management		
Long-term and short-term financial debt and borrowings	190.284	215.620
Less: cash and short-term deposits	(47.974)	(100.609)
Net debt	142.310	115.011
Equity	740.564	729.236
Equity and net debt	882.874	844.247
Gearing ratio	16%	14%

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2019 and December 31, 2018.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

6. INTANGIBLE ASSETS

	Goodwill	Clients' portfolio	R&D, trademarks and licenses	IT applications	Total
Cost					
Balance as of January 1, 2018	386.557	43.493	102.121	1.847	534.018
IAS 29 effect on beginning balances	73.632	-	13.537	32	87.201
Additions	-	-	21.681	1.734	23.415 (1)
Disposals	-	-	(989)	-	(989)
Translation exchange differences	(18.480)	-	10.325	173	(7.982)
Balance as of December 31, 2018	441.709	43.493	146.675	3.786	635.663
Additions	-	-	15.284	1.297	16.581 (1)
Disposals	-	-	(1.031)	(846)	(1.877)
Translation exchange differences	800	-	4.938	103	5.841
Balance as of December 31, 2019	442.509	43.493	165.866	4.340	656.208
Amortization					
Balance as of January 1, 2018	-	(22.264)	(13.353)	(408)	(36.025)
IAS 29 effect on beginning balances	-	-	(12.739)	(28)	(12.767)
Amortization charge for the year	-	(6.214)	(12.331)	(659)	(19.204)
Disposals	-	-	721	-	721
Translation exchange differences	-	-	1.111	(37)	1.074
Balance as of December 31, 2018	-	(28.478)	(36.591)	(1.132)	(66.201)
Amortization charge for the year	-	(6.213)	(13.246)	(1.130)	(20.589)
Impairment charge for the year	(7.682)	-	-	-	(7.682)
Disposals	-	-	2	805	807
Translation exchange differences	-	-	(1.486)	15	(1.471)
Balance as of December 31, 2019	(7.682)	(34.691)	(51.321)	(1.442)	(95.136)
Net book value					
As of December 31, 2019	434.827	8.802	114.545 (2)	2.898	561.072
As of December 31, 2018	441.709	15.015	110.084 (2)	2.654	569.462

(1) Mainly related to a license acquisition during the year to commercialize new products, including milestone´s payments.
(2) Includes BRL 3.485 and BRL 2.756 related to capitalized R&D as of December 31, 2019 and 2018, respectively.

As of December 31, 2019, and 2018, Management did not identify any impairment indicators in any intangible asset other than goodwill. Annual impairment test of goodwill is detailed below.

Goodwill impairment test

The Group performed its annual impairment test of goodwill in December 2019. For this assessment, the Group has identified three CGUs: United Medical Ltda., Latin American Pharma Company ETVE S.L.U. and Laboratorio DOSA S.A. The breakdown of the Group's goodwill by CGUs as of December 31, 2018 was as follows:

United Medical Ltda.	305.008
Latin American Pharma Company ETVE S.L.U.	93.754
Laboratorio DOSA S.A.	42.947
Total	441.709

United Medical Ltda. (UM)

The recoverable amount of UM's cash generating unit as at December 31, 2019, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the changes in demand and margins for pharmaceutical products on UM's portfolio, also considering the expected impact of the non-renewal of certain license agreed with a third party. The discount rate applied to cash flow projections is 10,70% (2018: 8,70%) nominal in USD and cash flows beyond the five-year period are extrapolated using a 1,9% growth rate (2018: 1,9%) that relates to the long-term inflation rate in United States. As a result of this impairment test, management did not identify a need for goodwill impairment.

Latin America Pharma Company ETVE S.L.U. (LAPC) and Laboratorio DOSA S.A. (DOSA)

The recoverable amount of LAPC and DOSA’s cash generating units as at December 31, 2019, has been determined based on a value in use calculation using cash flow projections from financial updated by Group and covering an eight-year period. The projected cash flows have been updated to reflect the changes in demand for pharmaceutical products on LAPC and DOSA’s portfolio due to the economic conditions expected in Argentina as described above. The discount rate applied to cash flow projections is 16.29% (2018: 15%) nominal in USD and cash flows beyond the eight-year period are extrapolated using a 1.9% growth rate (2018: 1,9%) that relates to the long-term inflation rate in United states. As a result of this impairment test, management did not identify a need for goodwill impairment for DOSA, but it was determined that the future discounted cash flows for LAPC’s CGU are below the carrying amount of goodwill, after sustain the recoverability of PP&E, so, it was determined the need for an impairment adjustment of that portion of the goodwill in the amount of BRL 7.682 and it was recording in the current period income statement.

The most significant portion of LAPC and DOSA’s operations are mainly concentrated in Argentina, country that have faced some relevant changes in the past few months. The primary presidential election in Argentina occurred on August 2019 and resulted in an adverse scenario to the National Government Party, presenting significant differences with respect to the surveys that were disseminated prior to the electoral process. Subsequently, late on October 2019, the general elections have taken place, confirming the results of the Primary ones.

This issue, and specially the unexpected result of the primary elections, led to a significant decline in the capital markets during the subsequent days to primary elections, causing a significant decrease in the Argentine stock market, a significant appreciation of foreign currencies exchange rates in relation to the Argentinean pesos, and a significant decrease in the price of securities of the Argentine government debt.

Since then, the Argentinean President announced a series of economic measures to deal with the new macroeconomic scenario, including the change in the sovereign debt profile and its repayments dates and certain measures focused on control the foreign exchange market affecting, among others, the flow of foreign currency originates from export and imports, and the need of prior authorization from Central Bank to remit dividends abroad. The uncertainty produced by the results of the primary elections and the alteration in the macroeconomic variables, plus the measures taken by the government to deal with the economic emergency, were perceived in the international financial markets as an extension of the sustainability risks of the Argentine debt and, as a result, risk rating agencies lowered Argentina's sovereign rating.

On December 10, 2019, the new President took office. New administration established that finding solutions to economic and social problem is a priority. To such end, it will make the necessary efforts to renegotiate the repayment of foreign debt; at the same time, to recover the sustainability of such debt over time, it incorporated measures to maintain the BCRA’s (Central Bank of Argentina) reserves, reduce fiscal deficit and increase production capacity. In general terms, the economic measures announced by the previous government were confirmed and additional measures were announced. As of December 31, 2019, uncertainty remains and results of the adopted measures are not totally clear.

The calculation of value in use for the three units is most sensitive to the following assumptions that were considered by management in the impairment test execution:

- Volumes
- Pricing
- Gross margins
- Discount rate
- Growth rate used to extrapolate cash flows beyond the forecast period

Volumes and prices: Volumes and prices for UM were estimated with a CAGR of 0,6% that results less than expected local inflation and GDP growth. Each product net revenues evolution is in line with historical trends and with its life cycle, and also considering due dates of licenses. For LAPC and DOSA, it was considered that new launches will be in the range of 2 to 4 products per year, in line with historical evidence throughout the years. Price increases have been sensitized for certain specific products to include lower inflation pass through.

A decrease in volumes and prices would lead to a decline in gross margin values and in the projected cash-flows. A decrease in net sales with respect to budget by 3,7%, 1,3% and 38,7% would result in impairment in UM, LAPC and DOSA, respectively.

Gross margin: For UM, total gross margin evolution has been projected considering possible negative impacts of license renegotiations in certain products and devaluation effects affecting costs in USD. For LKM and UM, it has been projected by GBT in line with historical trends.

An increase in COGS would lead to a decline in gross margin values and in the projected cash-flows. An increase in COGS with respect to budget by 5,2%, 1,9% and 44,4% would result in impairment in UM, LAPC and DOSA, respectively.

Discount rates: They represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its CGUs and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. CGUs-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

A rise in the post-tax discount rate to 11,3%, 16,8% and 23% (i.e., +2,6%; +0,4% and +6,6%) would result in an impairment in UM, LAPC and DOSA, respectively.

Growth rate: Long-term growth rates used has been conservative considering a 1,9% that reflects the current USD inflation and 0% in real terms, implying a conservative position that assumes a non-growing scenario in quantities sold and only with price increases due to inflation.

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

7. PROPERTY, PLANT AND EQUIPMENT

	Lands	Buildings	Work in progress	Machinery and equipment	Information processing equipment	Office equipment	Vehicles	Total
Cost								
Balance as of January 1, 2018	3.296	16.901	7.728	17.006	7.842	5.401	2.036	60.210
IAS 29 effect on beginning balances	1.105	5.435	3.116	10.332	3.505	3.030	491	27.014
Additions	-	1.044	1.512	8.168	807	316	632	12.479
Disposals	-	(31)	(7)	(100)	(100)	57	(586)	(767)
Transfers (1)		(937)	(4.097)	83	-	-	(136)	(5.087)
Translation exchange differences	(2.346)	(344)	(2.262)	1.007	(493)	(212)	79	(4.571)
Balance as of December 31, 2018	2.055	22.068	5.990	36.496	11.561	8.592	2.516	89.278
Additions	-	2.867	452	8.883	1.312	896	335	14.745
Disposals	-	(1.052)	-	(55)	(47)	(33)	(514)	(1.701)
Transfers (2)	(127)	489	(484)	47	(191)	48	(184)	(402)
Translation exchange differences	17	3.018	(3.097)	269	212	4	(17)	406
Balance as of December 31, 2019	1.945	27.390	2.861	45.640	12.847	9.507	2.136	102.326
Depreciation								
Balance as of January 1, 2018	-	(4.589)	-	(6.343)	(5.067)	(2.571)	(739)	(19.309)
IAS 29 effect on beginning balances	-	(3.223)	-	(8.793)	(3.289)	(2.237)	(408)	(17.950)
Depreciation charge for the year	-	(3.213)	-	(2.985)	(1.426)	(637)	(385)	(8.646)
Disposals	-	3	-	17	66	5	407	498
Transfers (1)	-	(1.266)	-	2.385	-	-	-	1.119
Translation exchange differences	-	(93)	-	1.567	421	135	64	2.094
Balance as of December 31, 2018	-	(12.381)	-	(14.152)	(9.295)	(5.305)	(1.061)	(42.194)
Depreciation charge for the year	-	(3.540)	-	(4.318)	(1.424)	(731)	(413)	(10.426)
Disposals	-	12	-	14	45	33	250	354
Transfers (2)	-	-	-	-	109	-	13	122
Translation exchange differences	-	(481)	-	731	(117)	47	47	227
Balance as of December 31, 2019	-	(16.390)	-	(17.725)	(10.682)	(5.956)	(1.164)	(51.917)
Net book value								
As of December 31, 2019	1.945	11.000	2.861	27.915	2.165	3.551	972	50.409
As of December 31, 2018	2.055	9.687	5.990	22.344	2.266	3.287	1.455	47.084

(1) Corresponds to a transfer of a Colombian facility to assets held for sale during the first year ended December 31, 2018.
(2) Corresponds to a transfer to right-of-use asset recognized until 2018 under finance leases in Property, plant and equipment (see Note 2.4.)

As of December 31, 2019, and 2018, Management did not identify any impairment indicators. However, as mentioned in Note 2.1.1, Argentine economy is considered to be hyperinflationary in accordance with the criteria in IAS 29 since July 1, 2018. According to IAS 29, non-monetary assets and liabilities are restated by applying the relevant index. After the restatement of non-monetary assets, it is necessary to consider whether the restated amount of the assets exceed its recoverable amount. As a result of the impairment test carried out, management did not identify a need for impairment. See Note 6 to learn more about criteria in impairment test of Argentine assets.

As of December 31, 2019, and 2018 there are no assets subject to property limitations or committed as civil liability collateral or pledges.

The Group did not record decommissioning or restoration costs related to fixed assets because according to the Group Management, they are not significant to the Group.

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

8. INVENTORIES

The break-down of inventories as of December 31, 2019 and 2018 is as follows:

	2019	2018
Raw materials	26.416	28.362
Products in transit	9.518	33.025
Finished products	166.258	110.113
Work in progress products	19.044	14.511
Other inventories	11.226	7.699
Allowance for impairment in value	(18.588)	(11.220)
Total	213.874	182.490

The movement of the allowance for impairment in value is shown below:

	2019	2018
Balance at the beginning of the year	(11.220)	(10.684)
Effect on beginning balances under IAS 29	-	(635)
Charges for impairment in value	(6.340)	(5.192)
Other increase (decreases), net	(1.028)	5.291
Balance at year end	(18.588)	(11.220)

As of December 31, 2019, and 2018 there are neither restrictions to the ownership of inventories nor limitation to their free disposal.

The Group has agreed several insurance policies to cover the risks stocks are exposed to based on the Management's desired level of coverage.

The provision for impairment in value recorded is due to the obsolescence and slow movement of some products.

9. FINANCIAL ASSETS

Trade receivables and other accounts receivables essentially correspond to trade accounts receivable derived from the Group's normal activity and other accounts receivables detailed as follows:

	2019		
	Non-current	Current	Total
Trade receivables	12.928	291.956	304.884
Allowance for debtors' impairment	-	(33.968)	(33.968)
Sundry debtors	-	8.262	8.262
Subtotal	12.928	266.250	279.178
Other tax receivables	817	7.406	8.223
Income tax receivables	-	15.840	15.840
Total	13.745	289.496	303.241

BIOTOSCANA INVESTMENTS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

	2018		
	Non-current	**Current**	**Total**
Trade receivables	42	292.523	292.565
Allowance for debtors' impairment	-	(31.020)	(31.020)
Sundry debtors	-	21.695	21.695
Subtotal	42	283.198	283.240
Other tax receivables	438	12.868	13.306
Income tax receivables	-	19.365	19.365
Total	480	315.431	315.911

Credit quality (worthiness) analysis and allowance for expected credit losses

The Group assesses the credit quality of the financial assets that have not expired taking into account the historic ratio of failed credits and records the related provision. The provision is initially based on the Group's historical observed default rates in each country and it is complemented by a case by case analysis to identify special circumstances on individual customers and/or transactions.

The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions.

As at December 31, 2019 and 2018, the maturity analysis of trade receivables is as follows:

		Overdue		**To fall due**				
	Total	**<90 days**	**>90 days**	**<30 days**	**30-60 days**	**61-90 days**	**91-180 days**	**>180 days**
2019	304.884	58.122	60.606	63.273	52.462	36.770	20.228	13.423
2018	292.565	57.560	48.390	69.379	22.563	83.516	10.402	755

The movement of the allowance for debtors' impairment is as follows:

	2019	**2018**
Balance at the beginning of the year	(31.020)	(39.059)
Decrease (increase) for debtor impairment	(7.487)	2.750
Uses of allowance for debtors´ impairments	4.539	5.289
Balance at year end	(33.968)	(31.020)

The fair values of items receivable do not differ from their book values; they essentially are balances receivable in less than one year.

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

10. FINANCIAL DEBT AND OTHER LIABILITIES

10.1 Financial debt

	Currency	Interest rate	Maturity	2019	2018
Non-current	-				
Citibank				-	13.683
Itaú Unibanco	BRL	1,65% (+100% CDI)	See Note below	-	131.152
Santander	BRL	2,00% (+100% CDI)	13/12/2021	15.589	31.084
Total debt with financial institutions - Non-current				15.589	175.919
Creditors for leases				13.723	-
Total financial debt - Non-current				29.312	175.919
Current					
Citibank	ARS	18,40%	02/11/2020	9.266	14.692
Itaú Unibanco	BRL	1,65% (+100% CDI)	See Note below	131.635	16.775
Santander	BRL	2,00% (+100% CDI)	19/06/2020 and 13/12/2020	15.533	7.796
Others				3	212
Total debt with financial institutions – Current				156.437	39.475
Creditors for leases				4.535	226
Total financial debt – Current				160.972	39.701

During November 2017, Laboratorio LKM S.A. contracted Argentinian pesos denominated debt for a total of ARS 531 million, in two separate contracts with Citibank.

The first one, disbursed on November 2, 2017, for ARS 266 million, was an off-shore ARS-linked loan with Citibank N.A. (New York) at a fixed rate of 18,40% p.a. (21,66% all-in after including withholding tax). Total tenor of 3 years; quarterly payments with amortization starting on month 15; and certain penalties in case of an early prepayment.

The second one was disbursed on November 3, 2017 and was fully pre-paid in November 2018.

For both loans granted by Citibank the only guarantee was a First Demand Corporate Guarantee issued by Biotoscana Investments S.A. (Guarantor).

Below, the main obligations derived from both loan contracts:

Negative covenants:

- The Debtor may not carry out changes of control without prior bank's approval. To this effect, "Change of Control" means: (i) with respect to the borrower, the parent shall cease to own at least 50% of the shares of capital stock or other equity interest in the borrower or shall cease to have the power to exercise, directly or indirectly, a controlling influence over the management or policies of the borrower; (ii) with respect to Biotoscana Investments S.A., any person or group (a) is or becomes the "beneficial owner", directly or indirectly, of share of capital stock or other interest (including partnership interests) of the parent then outstanding and normally entitled to vote in the election of directors, managers or similar supervisory positions of the parent representing 50% or more of the total voting power of all outstanding classes of the parent, or (b) has the power, directly or indirectly, to elect a majority of the members of the parent´s board or similar governing body.

Debtor's financial covenants:

- The Debtor must comply with the financial obligations, which shall be measured on an annual basis:

  Total "Financial Debt" / "Adjusted EBITDA" < 2.5x

Guarantor's financial covenants (Biotoscana Investments S.A.):

- "Adjusted EBITDA" / "Financial expenses" > 3,5x
- "Net Financial Debt" / "Adjusted EBITDA" < 3,5x

In addition, the loan agreement prohibits Biotoscana Investments S.A. from paying dividends until the first amortization of capital for each loan.

As of December 31, 2019, the Group is in compliance of the above-mentioned financial covenants. Regarding the 'Change of control' clause and taking into consideration the acquisition of the Group by Knight mentioned in Note 1, the Company obtained the appropriate waiver and approval from Citibank on November 26, 2019.

On December 2017, United Medical Ltda. contracted Reais denominated debt for BRL 150 million with Itaú Unibanco Brasil. This loan was disbursed on December 8, 2017 and its key conditions are as follow: the loan was a CCB (Brazilian Bank Credit Note). Total tenor of 5 years, with semi-annual payments and a one-year grace period for amortization. The applicable interest rate was the Interbank Market references interest rate (known in Brazil as CDI) +1.65% (with a step-up clause whereby the interest rate increases 25bps for every 0.25x increase in the "Net Debt" / "EBITDA" ratio after 2,0x).

Pre-payment is allowed with a penalty fee that declines with the passing of time.

Two guarantees were granted in favour of Itaú with relation to this loan: a First Demand Corporate Guarantee issued by Biotoscana Investments S.A. (Guarantor) and a Pledge of Receivables (Cessao Fiduciaria).

On October 2, 2018, an amendment to this loan was signed between United Medical and Itaú. The purpose of the amendment was to add one extra year of grace period and extend the final maturity of the loan by one year. Interest charges remain the same. Applicable fees for the amendment were BRL 675.

Below, the main obligations derived from the loan contract with Itaú:

Negative covenants:

- The Debtor may not carry out changes of control without prior Bank's approval. To this effect, "Change of Control" means: (i) with respect to the borrower, the parent shall cease to own at least 50% of the shares of capital stock in the borrower or shall cease to have the power to exercise, directly or indirectly, a controlling influence over the management or policies of the borrower; (ii) with respect to the Guarantor, if Advent International (former shareholder – See Note 1) ceases to own, directly or indirectly, more than 10% of capital stock in Biotoscana Investments S.A.; and (iii) with respect to the Guarantor, if individual or entity (different from Advent International) becomes the effective owner of more than 50% of the capital stock with voting rights of Biotoscana Investments S.A. or achieves the power to directly or indirectly elect the majority of the Board of Director's members of Biotoscana Investments S.A..

Guarantor’s financial covenants (Biotoscana Investments S.A.):

- “Net Financial Debt” / “Adjusted EBITDA” < 3,0x

As of December 31, 2019, the Group is in compliance of the above-mentioned financial covenant. However, due to the acquisition of the Group by Knight mentioned in Note 1 and considering the “Change of Control” clause, the Company is in non-compliance of the “change of control” clause and it should obtain the approval of the transaction from Itaú Unibanco Brasil. Taking into account as of December 31, 2019, the above-mentioned approval has not been obtained, total amount of the financial debt was classified as current considering the Company does not have the unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

As of the date of issuance of the financial statements, the waiver of Itaú Unibanco Brasil has not been obtained yet, but the Company is optimistic in the success of obtaining of that waiver. In case that the waver is not finally obtained, the Group has the financial support commitment of its main shareholder to repay the Itau Unibanco Brasil loan on demand.

On December 2018, United Medical Ltda. contracted Reais denominated debt for BRL 38.855 with Banco Santander. This loan was disbursed on December 28, 2018. This loan was a CCB (Brazilian Bank Credit Note) based on Law 4.131. Total tenor of 3 years, with semi-annual payments and a one-year grace period for amortization. The applicable interest rate was CDI +2.00% all in (1.87% interest and 0,13% Stand by).

Pre-payment is allowed with some restrictions.

For this loan granted by Santander the guarantee was a First Demand Corporate Guarantee issued by Biotoscana Investments S.A. (Guarantor).

Below, the main obligations derived from the loan contract with Santander:

Negative covenants:

- The Debtor may not carry out changes of control without prior Bank’s approval. To this effect, “Change of Control” means: with respect to the borrower, the parent (Biotoscana Investments) shall cease to own at least 50% of the shares of capital stock in the borrower (United Medical Ltda.) or shall cease to have the power to exercise, directly or indirectly, a controlling influence over the management or policies of the borrower.

Guarantor’s financial covenants (Biotoscana Investments S.A.):

- “Net Financial Debt” / “Adjusted EBITDA” < 3,0x

As of December 31, 2019, the Group is in compliance of the above-mentioned financial covenants.

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

The table below summarises the maturity profile of the Group´s financial debt and borrowings:

			To fall due		
	Total	**Overdue**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**
2019	190.284	131.635 (1)	3	29.334	29.312
2018	215.620	-	438	39.263	175.919

(1) It includes the loan with Itau Unibanco. See comments above about the “Change of control” situation.

10.2 Trade payables

The break-down of trade payables as of December 31, 2019 and 2018 is as follows:

	2019	**2018**
Suppliers in local currency	19.833	24.076
Suppliers in foreign currency	181.917	151.325
Total	201.750	175.401

As of December 31, 2019, and 2018, the maturity analysis of suppliers is as follows:

			To fall due				
	Total	**Overdue**	**< 30 days**	**30-60 days**	**61-90 days**	**91-180 days**	**> 180 days**
2019	201.750	94.992	53.372	6.852	30.722	15.707	104
2018	175.401	21.887	46.497	47.789	32.017	26.704	507

10.3 Taxes payables

The break-down of taxes payables as of December 31, 2019 and 2018 is as follows:

	2019		
	Non-current	**Current**	**Total**
Income tax payable	-	2.328	2.328
VAT payable	-	7.766	7.766
Other taxes payable	347	966	1.313
Total	347	11.060	11.407

	2018		
	Non-current	**Current**	**Total**
Income tax payable	-	8.480	8.480
VAT payable	-	5.430	5.430
Other taxes payable	862	1.256	2.118
Total	862	15.166	16.028

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

10.4 Other liabilities

The break-down of other liabilities as of December 31, 2019 and 2018 is as follows:

	2019		
	Non-current	**Current**	**Total**
Deferred income	-	143	143
Sundry creditors	-	13.257 (1)	13.257
Total	-	13.400	13.400

	2018		
	Non-current	**Current**	**Total**
Deferred income	-	9.256	9.256
Sundry creditors	14	25.550 (1)	25.564
Total	14	34.806	34.820

(1) Includes milestone´s payments for a licence acquisition to commercialize ned products (Note 6).

11. FAIR VALUE

Management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, other receivables and payables approximate their carrying amounts largely due to the short-term maturities of these instruments. Non-current financial assets and liabilities are measured at amortized cost using applicable interest rates that approximates to their fair value.

The fair value of the financial assets and liabilities is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

As of December 31, 2019 and 2018 the Company does not maintain in its consolidated statement of financial position any financial assets or liabilities measured at fair value.

12. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

12.1 Financial risk factors

The Group’s activities are exposed to different financial risks: market risks (exchange rate, interest rate, etc.), credit risk and liquidity risk. The Group’s risk management strategy is focused on managing the uncertainty of financial markets and attempting to minimize the possible adverse effects on financial profitability.

The Group’s risk management strategy and their results are monitored by Senior Management. Risks are identified, analyzed and managed on a regular basis.

a) Market risk

i. Exchange rate risk

The Group is exposed to foreign exchange risk from various currency exposures arising from its underlying operations and financial debt profile.

The operational exposure is derived from the mismatch between the Group’s imports, mainly denominated in USD, and its sales in each local currency. Also, there is an exposure due to certain intra-group transactions denominated in currencies other than the functional currency of the respective subsidiary.

The Group does not allow trading speculative foreign exchange derivatives but it celebrates, from time to time, non-deliverable forwards (NDFs) to partially cover certain foreign exchange exposure.

The Group manages its financial debt profile to naturally hedge its foreign exchange risk, since the current financial debt is denominated in the Group´s main two sales currencies: Brazilian Reais and Argentinian Pesos.

ii. Price risk

The management team continuously assesses changes in the environment to resume pricing negotiations with client and suppliers and partially mitigates this risk by virtue of the clauses agreed to and established in the sundry agreements existing with certain suppliers.

iii. Cash flow interest rate and fair value risk

The Group is exposed to interest rate risk arising from its long-term loans with Itaú Brazil and Santander Brazil set at a variable interest rate that floats with the CDI (Certificados de Depositos Interfinancieros rate for 252 working days´ year).

The applicable CDI is the average of the CDI rate applicable during each interest period. Thus, the accrued interests with those banks at year-end are not exposed to any changes related to variation of the respective floating rates.

The loan with Citibank New York is set at a fixed rate, thus not being exposed to interest rate risk.

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

iv. Credit risk

The Group is exposed to two types of credit risk:

Credit sales to clients: individual credit limits are established after an analysis of the client's credit history, credit ratings, and forward-looking information provided by internal and external sources. There is a credit policy in place to ensure that these limits are periodically reviewed and immediately adjusted if needed.

Counterparty credit risk: to mitigate counterparty credit risk with financial institutions, the Group operates only with banks which have strong international credit ratings and the Corporate Treasury Team approves all new account openings, ISDAs and investments.

v. Liquidity risk

The Group manages its liquidity risk by periodically forecasting projected cash flows both at subsidiary and group level. If any issues are identified, the Corporate Treasury Team works with the local teams to provide liquidity support. The Group negotiates lines of credit with several global and regional banks to diversify its options and ensure better financing rates.

12.2 Evaluation of fair value

The book value of the receivables and payables corresponding to commercial transactions is approximated to its fair value. The most significant portion of financial liabilities accrue interest at a variable market interest rates, for which their book value is also approximate to its fair value.

12.3 Foreign currency sensitivity

The following tables demonstrate the sensitivity to a possible change in +/- 10%, 25% and 50% exchange rates, with all other variables held constant.

		Effect on profit before tax			
	Change in exchange rate	**USD**	**COP**	**BRL**	**ARS**
2019	+50%	(3.822)	598	43.391	2.504
	+25%	(1.911)	299	21.696	1.252
	+10%	(764)	119	8.678	501
	-10%	764	(119)	(8.678)	(501)
	-25%	1.911	(299)	(21.696)	(1.252)
	-50%	3.822	(598)	(43.391)	(2.504)
2018	+50%	(865)	1.546	18.409	173
	+25%	(433)	773	9.204	87
	+10%	(173)	309	3.682	35
	-10%	173	(309)	(3.682)	(35)
	-25%	433	(773)	(9.204)	(87)
	-50%	865	(1.546)	(18.409)	(173)

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

13. EARNING PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. During November 2019, as a consequence of the change of control mentioned in Note 1, the Group offered to beneficiaries of share based plans a cash payment in replacement of those plans, therefore there have been no transactions involving ordinary shares or potential ordinary shares for the effect of dilution.

Net income and weighted average number of common shares used in the calculation of basic earnings per share are as follows:

	2019	2018
Income attributable to equity holders of the parent	1.602	63.462
Weighted average number of common shares used to calculate basic earnings per share	106.083.212	106.083.338
Basic earnings per share in BRL	0,02	0,60

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements.

14. CASH AND SHORT-TERM DEPOSITS

The balance of the “Cash and short-term deposits” item is immediately available.

	2019	2018
Cash at banks and on hand	31.408	78.210
Short-term deposits	16.566	22.399
Total	47.974	100.609

15. EQUITY

Issued capital and share premium

The Company was incorporated on July 26, 2011 with a subscribed and fully paid up capital of USD 50.000 represented by 1 management share and 49.999 ordinary shares of USD 1,00 each. The Company´s issued capital is nominated in USD.

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

After different modifications to share capital occurred on November 8, 2011, March 26, 2014, June 3, 2014 and April 3, 2017, the subscribed and fully paid up capital amounted to USD 89.746,08 (BRL 164) represented by 8.974.608 shares of a nominal value of USD 0,01 per share, before considering the share split effect mentioned in next paragraph. The amount of the share premium at December 31, 2016 was 349.306.

On May 5, 2017, the Company´s shareholder approved a split of the shares. After this share split (and the cancellation of management shares approved on April 3, 2017), issued capital was represented by 89.746.080 ordinary shares with a nominal value of USD 0,001 each.

On July 21, 2017, a Board of Directors meeting took place and resolved to increase the share capital of the Company within the limits of the authorized share capital by an amount of USD 16.000 (BRL 50) so as to increase it from its current amount of USD 89.746,08 (BRL 164) represented by 89.746.080 shares to an amount USD 105.746,08 (BRL 214) represented by 105.746.080 shares, issuing 16.000.000 new shares having a nominal value of USD 0,001 each and having the same rights and obligations as the existing shares. The Company recognized the amount in excess of par value of shares issued in share premium (considering the deduction of share issued costs - BRL 44.501).

On January 19, 2018, a Board of Directors took place and resolved to increase the share capital of the Company within the limits of the authorized share capital by an amount of USD 876,23 (BRL 3) so as to increase it from its current amount of USD 105.746,08 (BRL 214) represented by 105.746.080 shares to an amount of USD 106.622,31 (BRL 217) represented by 106.622.306 shares. The Company recognized the amount in excess of par value of shares issued in share premium. The amount of the share premium in connection with January 19, 2018 capital increase is 19.819. This transaction was in connection with the first vesting of the Stock Grant.

Considering the acquisition of the Group by Knight mentioned in Note 1, Knight became the controlling shareholder of the Company.

Buyback of shares

The General Meeting of Shareholders dated April 25, 2018, approved a Buyback of Shares Program of BDRs and authorize the Board of Directors to implement it under the following conditions:

Maximum number of BDRs to be acquired	up to 1.522.208 BDRs
Minimum and maximum consideration in case of acquisition for value	minimum amount of BRL 2 up to maximum amount of BRL 30

BDRs acquired within the scope of the Buyback Program will be held in treasury, cancelled or allocated to any other plan approved by the Company's Shareholders General Meeting.

Company's objective with the Buyback Program is to create value for shareholders by properly managing the Company's capital structure.

Following IAS 32, the Company recognized its own equities instruments (Treasury shares) deducted from equity and no gain or loss are recognized in profit or loss related to those instruments. See below the data as at December 31, 2019.

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

Number of BDRs held in treasury as of December 31, 2019	490.236
Number of BDRs acquired	1.346.300. BDRs have been acquired at an average price of BRL 10,49 with prices ranging from BRL 14,30 to BRL 9,16 (total consideration paid amounted BRL 14.117)
Number of BDRs delivered to employees to fulfill the second vesting of the Stock Grant	856.064
Total amount presented as Treasury shares, deducted from equity	BRL 4.676

Treasury shares have been acquired by two subsidiaries of the Group (United Medical Ltda and Wisteny Trading S.A.).

Legal reserve

In accordance with Luxembourg company law, the Company is required to appropriate annually to a legal reserve, a minimum of 5% of the available profit (net profit for the year less any previous year losses). Such appropriation ceases to be compulsory when the balance in the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to shareholders except upon the liquidation of the Company.

16. PROVISIONS AND CONTINGENCIES

During the normal course of business, the Group companies are subject to labor, commercial and tax contingencies, among others, which may give rise to potential losses, and their materialization depends on the occurrence of one or more future events. These contingencies include pending lawsuits and potential third parties' claims for possible third-party losses on account of the activities carried out, as well as third-party claims resulting from legislative or regulatory interpretation issues. Contingent liabilities are assessed and quantified by the Group's Management based on outsourced legal counsel's and tax advisors' opinion, as applicable, and other evidence then available, such as applicable adjustment clauses, legal costs and other expenses.

In addition, the Group record other provisions in order to properly accrue all existing liabilities as each closing date.

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

The table below shows the provisions of the consolidated balance sheet at the closing of the 2019 and 2018, accumulated in the normal course of business, as well as the main movements recorded during the years:

	2019			
	Opening balance	**Increase**	**Decrease**	**Final balance**
Other provisions	146	58	(23)	181
Long-term provisions				
Litigation provisions	3.170	1.157	(2.099)	2.228
Other provisions	6.241	3.785	(8.133)	1.893
Short-term provisions	9.411	4.942	(10.232)	4.121
Total	9.557	5.000	(10.255)	4.302

	2018			
	Opening balance	**Increase**	**Decrease**	**Final balance**
Litigation provisions	302	196	(352)	146
Long-term provisions	302	196	(352)	146
Litigation provisions	2.183	2.179	(1.192)	3.170
Other provisions	19.581	6.390	(19.730)	6.241
Short-term provisions	21.764	8.569	(20.922)	9.411
Total	22.066	8.765	(21.274)	9.557

17. NET REVENUES

	2019	**2018**
Gross sales of products	803.567	886.317
Sales´ commissions	2.909	824
Rebates	(23.276)	(36.873)
Direct taxes	(40.103)	(29.307)
Net revenues	743.097	820.961

BIOTOSCANA INVESTMENTS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

18. COST OF SALES AND OPERATING EXPENSES

18.1 Cost of sales

	2019	2018
Stock at the beginning of the year	182.490	140.187
Purchases	397.488	410.870
Production expenses	31.557	30.242
Stock at end of the year	(213.874)	(182.490)
Total	397.661	398.809

18.2 Operating expenses

A summary of other operating expenses for the fiscal year 2019 and 2018 is as follows:

	2019					
	Production expenses	Selling and marketing expenses	General and administrative expenses	R&D, medical, regulatory and business development expenses	Reorganization, integration and acquisition expenses (1)	Total
Salaries and payroll taxes (2)	(19.333)	(57.348)	(38.512)	(20.262)	(12.063)	(147.518)
Taxes	(208)	(6.928)	(764)	(58)	(91)	(8.049)
Intangible assets amortization	-	(19.929)	(660)	-	-	(20.589)
Property, plant and equipment depreciation	(3.303)	(305)	(6.562)	(256)	-	(10.426)
Property plant and equipment depreciation leasing	-	(1.524)	(6.494)	(225)	-	(8.243)
Fees for services	(96)	(5.289)	(16.369)	(6.978)	(2.138)	(30.870)
Leases and rentals	(214)	(699)	(563)	(77)	(7)	(1.560)
Debtors' impairment	-	(7.487)	-	-	-	(7.487)
Transportation and freights	(3)	(13.791)	(5)	(1)	-	(13.800)
Advertising and promotion	-	(26.544)	-	-	-	(26.544)
Others	(8.400)	(3.224)	(14.106)	(5.770)	(5)	(31.505)
Total 2019	(31.557)	(143.068)	(84.035)	(33.627)	(14.304)	(306.591)

BIOTOSCANA INVESTMENTS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

	2018					
	Production expenses	**Selling and marketing expenses**	**General and administrative expenses**	**R&D, medical, regulatory and business development expenses**	**Reorganization, integration and acquisition expenses (1)**	**Total**
Salaries and payroll taxes (2)	(18.388)	(58.614)	(53.288)	(22.006)	(7.285)	(159.581)
Taxes	(273)	(9.639)	(247)	(53)	(60)	(10.272)
Intangible assets amortization	-	(18.545)	(659)	-	-	(19.204)
Property, plant and equipment depreciation	(2.275)	(284)	(5.994)	(93)	-	(8.646)
Fees for services	(323)	(6.739)	(17.716)	(13.724)	(2.082)	(40.584)
Leases and rentals	(1.235)	(385)	(4.951)	(1.030)	-	(7.601)
Debtors' impairment	-	2.750	-	-	-	2.750
Transportation and freights	(29)	(13.330)	(152)	-	-	(13.511)
Advertising and promotion	-	(22.649)	-	-	-	(22.649)
Others	(7.719)	(3.760)	(15.491)	(4.505)	(1.912)	(33.387)
Total 2018	(30.242)	(131.195)	(98.498)	(41.411)	(11.339)	(312.685)

(1) As of December 31, 2019, and 2018, "Reorganization, integration and acquisition expenses" includes:

	2019	**2018**
Corporate reorganization and new structure set-up	(14.137)	(8.746)
M&A expenses	-	(450)
Others	(167)	(2.143)
Total	(14.304)	(11.339)

(2) Includes 4.861 and 9.458 in "General and administrative expenses" related to shared-based payments for the fiscal years ended December 31, 2019 and 2018, respectively.

18.3 Other operating income, net

	2019	**2018**
Revenues related to non-compete Argentina	8.055	-
Income related to sale of shares	-	1.770
Others	(229)	(461)
Total	7.826	1.309

18.4 Interest and other financial (expenses) gains, net

	2019	**2018**
Interest Citibank	(2.975)	(16.143)
Interest Itaú Unibanco	(11.847)	(12.577)
Interest Santander	(2.828)	-
Interest Ieases liabilities	(2.357)	-
Taxes on financial transactions	(1.138)	(1.914)
Non-derivable forward	355	-
Others	(5.739)	(519)
Total	(26.529)	(31.153)

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

18.5 Foreign exchange expenses, net

	2019	2018
Related to trade receivables and accounts payable	(4.403)	(22.419)
Related to other assets and liabilities	(1.915)	(5.254)
Total	(6.318)	(27.673)

19. SHARE-BASED PAYMENTS

The Company has approved during 2017 a stock-based payment (Stock Plan) during the second quarter of fiscal year 2017 whereby certain persons selected by the Company receive a benefit for its services in the form of share-based payments, whereby beneficiaries render services as consideration for equity instruments (equity-settled transactions). The purpose of the plan was to offer to the beneficiaries an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, by acquiring common shares of the Company.

The related cost was recognized as an expense, together with a corresponding increase in equity (other capital reserves), over the period in which the services are rendered (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

According to the Stock Plan, the mentioned beneficiaries were granted with (i) rights to directly receive common shares or rights to purchase shares and/or (ii) options to purchase common shares (Stock Option plan), in each case subject to certain conditions set forth in the stock-based compensation plans.

However, during November 2019, as a consequence of the change of control mentioned in Note 1, the Group offered to the related beneficiaries a cash payment in replacement of the stock option plan, signing the related agreements. Because the settlement occurred during the vesting period, following IFRS 2, the Group treated it as an acceleration of vesting, and recognized immediately the amount that would otherwise have been recognized for services received over the remainder of the vesting period in the following manner: the compensation amount paid (i) up to the fair value of the award at settlement date was accounted for as a deduction from equity in the amount of 1.461 (as being equivalent to the redemption of an equity instrument), and (ii) in excess of the fair value of the award at settlement date was accounted for as an expense in profit or loss in the amount of 1.094.

The expense (gain) recognized for employee services received during the year and presented in “General and administrative expenses” in the consolidated statement of profit or loss, is shown in the following table:

	2019	2018
Stock Grant	2.249	10.068
Stock Option plan	2.612	(610)
Total	4.861	9.458

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

20. INCOME TAX

The main components of income tax expense for the years ended December 31, 2019 and 2018 are:

	2019	2018
Current income tax charge	(19.668)	(23.744)
Deferred income tax charge	(13.928)	(7.797)
Income tax expense reported in the statement of profit or loss	(33.596)	(31.541)

Reconciliation of tax expense and the accounting profit multiplied by Group's weighted average tax rate for 2019 and 2018 are:

	2019	2018
Income before income tax	35.198	95.003
Permanent differences		
- Non-deductible interest and other financial expenses	-	976
- Non-taxable income	(50.577)	(28.427)
- Other permanent differences	32.202	5.340
- Effect of hyperinflation accounting	28.466	29.043
Subtotal	45.289	101.935
Weighted average legal rate	27%	31%
Subtotal	(12.182)	(31.570)
Allowance for impairment in value (1)	(21.021)	-
Effect of change in income tax rate	-	29
Adjustments in respect of current income tax of previous years	(421)	-
Translation exchange differences	28	-
Income tax expense reported in the statement of profit or loss	(33.596)	(31.541)

(1) The Group recorded an impairment of the tax loss carry forwards recorded in Brazil based on the expected taxable income for the next years.

Deferred tax relates to the following:

	2019	2018
Trade receivables	11.380	8.700
Inventories	3.130	7.080
PP&E and intangible assets	(89.967)	(67.379)
Provisions and contingencies	1.774	4.645
Others	351	19.427
Carry forwards	51.688	-
Subtotal	(21.644)	(27.527)
Allowance for impairment in value	(21.021)	-
Net deferred tax liabilities	(42.665)	(27.527)
Deferred tax assets	19.098	17.481
Deferred tax liabilities	(61.763)	(45.008)

The deferred tax assets mainly correspond to temporary differences of the subsidiaries Laboratorio LKM S.A. (Argentina), Biotoscana Farma S.A. (Argentina), Biotoscana Farma S.A. (Colombia) and United Medical Ltda. (Brazil). The Group concluded that, after the impairment recorded during the current fiscal year, they are recoverable prior to their statute of limitation period based on the business plans approved for each subsidiary. Except for Brazil, where there is not a limitation period, the statute of limitation in the rest of the countries where the Group operates does not exceed five years.

(Amounts stated in thousands of Brazilian Reais - BRL - except for share information and as otherwise indicated. See Note 2.1.)

Reconciliation of net deferred tax liabilities is as follows:

	2019	2018
Net deferred tax liabilities as of December 31, 2018 and 2017	(27.527)	(11.839)
Tax income/expense recognized during the period recognized in profit or loss	7.146	(7.797)
Allowance for impairment in value	(21.021)	-
Effect of change in income tax rate	-	29
Translation exchange differences	(1.263)	(7.123)
Others	-	(797)
Net deferred tax liabilities as of December 31, 2019 and 2018	(42.665)	(27.527)

21. RELATED PARTIES

Note 1 provides information about Group´s structure, including details of the subsidiaries and the holding company.

Related party transactions were made on terms equivalent to those that prevail in arm´s length transactions.

In addition, Senior Management receives remuneration as determined by the Board of Directors. In the years 2019 and 2018, total compensation to our Board of Directors and Senior Management amounted to BRL 18.988 and BRL 22.980, respectively.

22. EVENTS AFTER REPORTED PERIOD - COVID-19

With the recent and rapid development of the COVID-19 outbreak, certain countries where the Group has significant operations, have required entities to limit or suspend business operations and implemented travel restrictions and quarantine measures. The Group is working on contingency planning for continuous supply and, at this stage, it does not foresee any near-term inventories shortages.

However, over the time, the outbreak may have a negative impact on the activities of the Group including namely on its revenue, supply of inventories and raw materials, and profitability but also on the recoverability of its receivables and the need for impairment of long-lived assets.

Until to the date of these financial statements, the outbreak has not had a material impact on the results of the Group.

As the outbreak continues to progress and evolve, it is uncertain at this point of time to predict the extent of the potential impact on the Group’s financial and operating results that cannot be reasonable estimated, but the impact could be material.