

# **Financial statements**

## **Sipcam Nichino Brasil S.A.**

June 30, 2019  
with Independent Auditor's Report

# Sipcam Nichino Brasil S.A.

## Financial statements

June 30, 2019

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**A free translation from Portuguese into English of independent auditor's report on financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil.**

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## **Independent auditor's report on financial statements**

The  
Board of Directors and Shareholders  
**Sipcam Nichino Brasil S.A.**

### **Opinion**

We have audited the financial statements of Sipcam Nichino Brasil S.A. ("Company"), which comprise the statement of financial position as at June 30, 2019 and the statements of profit or loss, of comprehensive income, of changes in equity and of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Sipcam Nichino Brasil S.A. as at June 30, 2019, and its financial performance and cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

### **Basis for opinion**

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of management and those charged with governance for the financial statements**

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

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

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

## **Auditor's responsibilities for the audit of financial statements**

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

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

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

São Paulo, September 17, 2019.

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC-2SP034519/O-6

Uilian Dias Castro de Oliveira \*  
Accountant CRC-1SP223185/O-3

\*Originally signed at portuguese version.

## Sipcam Nichino Brasil S.A.

Statements of financial position  
 June 30, 2019 and 2018  
 (In thousands of reais)

	<b>Notes</b>	<b>06/30/2019</b>	<b>06/30/2018</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	44,833	46,347
Trade accounts receivable	4	238,273	169,256
Inventories	5	82,724	94,276
Taxes recoverable	6	-	16
Derivative financial instruments		-	2,989
Other receivables		4,850	9,604
<b>Total current assets</b>		<b>370,680</b>	<b>322,488</b>
<b>Noncurrent assets</b>			
Trade accounts receivable	4	10,316	3,483
Taxes recoverable	6	43,654	38,651
Assets Held for Sale	7	8,749	6,976
Deferred income and social contribution taxes	8	34,767	28,336
Judicial deposits	14	947	989
Transactions with related parties	22	82	183
Investments	9	1,025	749
Property, plant and equipment	10	36,311	34,881
Intangible assets	11	23,565	25,673
<b>Total noncurrent assets</b>		<b>159,416</b>	<b>139,921</b>
<b>Total assets</b>		<b>530,096</b>	<b>462,409</b>

	<b>Notes</b>	<b>06/30/2019</b>	<b>06/30/2018</b>
Liabilities and equity			
Current liabilities			
Loans and financing	12	<b>83,082</b>	73,155
Transactions with related parties	22	<b>804</b>	2,699
Domestic trade accounts payable – third parties		<b>10,699</b>	10,002
Domestic supplier – related parties	22	<b>405</b>	-
Foreign trade accounts payable – third parties	13	<b>44,369</b>	59,709
Foreign trade accounts payable - related parties	22	<b>53,133</b>	51,525
Payroll and related charges		<b>3,719</b>	6,747
Taxes payable		<b>779</b>	551
Derivative financial instruments		<b>354</b>	-
Other provisions		<b>4,857</b>	3,715
Total current liabilities		<b>202,201</b>	208,103
Noncurrent liabilities			
Loans and financing	12	<b>118,821</b>	59,674
Transactions with related parties	22	<b>68,237</b>	66,874
Provision for contingencies	14	<b>357</b>	499
Total noncurrent liabilities		<b>187,415</b>	127,047
Equity			
Capital	15	<b>223,897</b>	223,897
Accumulated losses		<b>(83,417)</b>	(96,638)
Total equity		<b>140,480</b>	127,259
Total liabilities and equity		<b>530,096</b>	462,409

See accompanying notes.

## Sipcam Nichino Brasil S.A.

Statements of profit or loss  
June 30, 2019 and 2018  
(In thousands of reais)

	<b>Notes</b>	<b>06/30/2019</b>	<b>06/30/2018</b>
Operating revenue, net	2.1	<b>457,531</b>	352,098
Cost of goods sold and services	17	<b>(380,215)</b>	(270,227)
Gross profit		<b>77,316</b>	81,871
Operating income (expenses)			
Selling expenses	18.a	<b>(21,640)</b>	(20,871)
General and administrative expenses	18.a	<b>(20,409)</b>	(20,844)
Other operating income (expenses), net	18.b	<b>(5,083)</b>	(5,842)
		<b>(47,132)</b>	(47,557)
Income before finance income and costs and income and social contribution taxes		<b>30,184</b>	34,314
Finance costs	19	<b>(122,059)</b>	(83,934)
Finance income	19	<b>99,473</b>	61,235
		<b>(22,586)</b>	(22,699)
Profit before income and social contribution taxes		<b>7,598</b>	11,615
Income and social contribution taxes			
Current		<b>(807)</b>	(11)
Deferred		<b>6,430</b>	(1,463)
	8	<b>5,623</b>	(1,474)
Net income for the year		<b>13,221</b>	10,141
Number of shares	15	<b>2,471,492,952</b>	2,471,492,952
Earnings per thousand shares - in reais		<b>5.35</b>	4.10

See accompanying notes.



## Sipcam Nichino Brasil S.A.

Statements of comprehensive income  
June 30, 2019 and 2018  
(In thousands of reais)

	<u>06/30/2019</u>	<u>06/30/2018</u>
Net income for the year	13,221	10,141
Other comprehensive income (loss)	-	-
Comprehensive income (loss)	<u>13,221</u>	<u>10,141</u>

See accompanying notes.

## Sipcam Nichino Brasil S.A.

Statements of changes in equity  
June 30, 2019 and 2018  
(In thousands of reais)

	<b>Capital</b>	<b>Accumulated losses</b>	<b>Total</b>
Balances at June 1, 2017	223,897	(106,779)	117,118
Net income for the year	-	10,141	10,141
Balances at June 30, 2018	223,897	(96,638)	127,259
Net income for the year	-	<b>13,221</b>	<b>13,221</b>
Balances at June 30, 2019	<b>223,897</b>	<b>(83,417)</b>	<b>140,480</b>

See accompanying notes.

## Sipcam Nichino Brasil S.A.

### Cash flow statements – indirect method June 30, 2019 and 2018 (In thousands of reais)

	<b>06/30/2019</b>	<b>06/30/2018</b>
Operating activities		
Profit before income and social contribution taxes	7,598	11,615
Noncash expenses (income)		
Write-off of property, plant and equipment and intangible assets	506	19
Equity pick-up	(276)	(230)
Restated balances - customers	6,502	(6,529)
Customer discounts	310	(517)
Allowance for (reversal of) expected credit losses	(1,107)	2,134
Provision for inventory obsolescence and realization	2,633	(17)
Exchange differences – foreign trade accounts payable	1,165	10,797
Depreciation and amortization	7,531	5,604
Provision (reversal) for losses on derivative financial instruments	3,343	(2,824)
Other provisions	1,143	160
Provision for contingencies	124	325
Interest on loans, financing and debentures	11,324	11,391
Monetary and exchange difference, net	1,469	10,749
Change in debit	(2,133)	-
Decrease (increase) in operating assets		
Trade accounts receivable	(81,556)	(32,632)
Inventories	8,919	(38,838)
Taxes recoverable	(4,987)	7,193
Assets held for sale	(1,773)	-
Transactions with related parties	101	(37)
Judicial deposits	42	(18)
Other receivables	4,753	(7,424)
Increase (decrease) in operating liabilities		
Domestic trade accounts payable	1,102	4,258
Foreign trade accounts payable	(14,897)	19,541
Payroll and related charges	(3,028)	3,742
Taxes paid	(579)	195
Contingencies paid	(266)	(917)
Cash used in operating activities	<b>(52,037)</b>	<b>(2,260)</b>
Investing activities		
Increase in PP&E and intangible assets	(7,357)	(6,872)
Financial investments	-	474
Cash used in investing activities	<b>(7,357)</b>	<b>(6,398)</b>
Financing activities		
Loans and financing taken out	206,610	74,754
Loans and financing taken out - cost	(1,009)	186
Repayment of loans and financing	(144,682)	(85,060)
Loans and financing repaid to related parties	(3,039)	-
Net cash from (used in) financing activities	<b>57,880</b>	<b>(10,120)</b>
Net decrease in cash and cash equivalents	<b>(1,514)</b>	<b>(18,778)</b>
Cash and cash equivalents at beginning of year	46,347	65,125
Cash and cash equivalents at end of year	44,833	46,347
Net decrease in cash and cash equivalents	<b>(1,514)</b>	<b>(18,778)</b>

See accompanying notes.

## **Sipcam Nichino Brasil S.A.**

Notes to financial statements

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### **1. Operations**

Sipcam Nichino Brasil S.A., hereinafter referred to as the “Company” or “Sipcam-Nichino”, is primarily engaged in the production, formulation, repackaging, import, export, sale and distribution of agrochemicals, e.g. herbicides, insecticides, acaricides, fungicides, fertilizers, plant nutrition products and chemicals for agriculture in general.

### **2. Presentation of financial statements and summary of significant accounting practices**

The Company’s financial statements for the year ended June 30, 2019 were prepared in accordance with accounting practices adopted in Brazil.

The Company management authorized the conclusion of the financial statements on September 17, 2019, considering the subsequent events until that date that had an effect on the financial statements.

The financial statements were prepared based on different measurement bases used to prepare accounting estimates. Accounting estimates involved in the preparation of the financial statements were based on both objective and subjective factors, and in line with management's judgment for determination of appropriate amounts to be recorded in the financial statements. Significant items subject to these estimates and assumptions include selection of the useful lives and impairment of property, plant and equipment items, measurement of financial assets at fair value, credit risk analysis in determining the allowance for expected credit losses as well as analysis of other risks in determining other provisions, including the provision for contingencies.

The Company’s functional currency is the Brazilian Real, which is also its reporting currency. All financial information presented in thousands of reais was rounded to the nearest value, unless otherwise stated.

The settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to uncertainties inherent in the estimate process.

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 2. Presentation of financial statements and summary of significant accounting practices (Continued)

The Company reviews its estimates and assumptions on an annual basis. See Note 2.12 for further details on estimates.

The financial statements were prepared based on the historical cost, unless otherwise stated, as described in the summary of significant accounting practices. The historical cost is generally based on the fair value of the considerations paid in exchange for assets.

#### 2.1. Determination of profit or loss

Profit or loss from transactions is recorded on an accrual basis. Revenue from sales is recognized net, i.e., less sales taxes and discounts, which are stated as a reduction thereof, as follows:

	<u>06/30/2019</u>	<u>06/30/2018</u>
Gross revenue from sale of goods	465,492	349,346
Gross service revenue	8,075	14,720
Gross revenue	<u>473,567</u>	364,066
Sales taxes	(5,780)	(5,446)
Sales returns	<u>(10,256)</u>	(6,522)
Taxes on sales and services and sales returns	<u>(16,036)</u>	(11,968)
Net revenue	<u>457,531</u>	352,098

Sales revenue is recognized in the statement of profit or loss when its amount can be reliably measured, when all risks and rewards of ownership of the products are transferred to the buyer, when the Company no longer holds control over or responsibility for the goods sold and when economic benefits are likely to flow to the Company. Revenue is not recognized if there is a significant uncertainty about its realization.

Interest income and expenses are recognized using the effective interest rate method in "Finance income (costs)".

## **Sipcam Nichino Brasil S.A.**

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### **2. Presentation of financial statements and summary of significant accounting practices (Continued)**

#### **2.2. Foreign currency-denominated transactions**

Foreign currency-denominated monetary assets and liabilities are translated into the functional currency (Brazilian real) at the exchange rate prevailing at the corresponding statement of financial position date. Gains and losses arising from the restatement of these assets and liabilities between the foreign exchange rate of the transaction dates and the reporting period closing dates are recognized in profit or loss as finance income or costs.

#### **2.3. Cash and cash equivalents**

Cash and cash equivalents are held to meet short-term cash commitments rather than for investment or other purposes. The Company considers cash and cash equivalents a short-term investment readily convertible into a known cash amount and subject to insignificant risk of change in value. Therefore, an investment normally qualifies as a cash equivalent when it has short-term maturity, for example, three months or less from the investment date.

#### **2.4. Trade accounts receivable**

These are stated at realizable values. An allowance was set up in an amount deemed sufficient by management to cover doubtful accounts.

#### **2.5. Inventories**

Inventories are carried at the average acquisition or production cost, not exceeding market value. Provisions for slow-moving or obsolete inventories are set up when deemed necessary by management.

## **Sipcam Nichino Brasil S.A.**

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### **2. Presentation of financial statements and summary of significant accounting practices (Continued)**

#### **2.6. Property, plant and equipment**

These are recorded at acquisition cost. Depreciation is calculated on a straight-line basis at the rates mentioned in Note 10, which take into consideration the assets' estimated useful lives.

A property, plant and equipment item is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses on derecognition of an asset (measured as the difference between the net disposal proceeds and the book value of the asset) are recognized in the statement of profit or loss for the year in which the asset is derecognized.

The net book value and useful lives of the assets and the depreciation methods are reviewed every year, and adjusted prospectively, when applicable.

#### **2.7. Intangible assets**

Intangible assets acquired separately are measured upon their initial recognition at acquisition cost and subsequently deducted from their accumulated amortization and impairment losses, where applicable.

Internally generated intangible assets, excluding capitalized amounts of product development costs, are recognized in profit or loss for the year in which they are generated. Intangible assets with finite useful lives are amortized according to their estimated economic useful lives and, when evidence of impairment losses is found, tested for impairment.

## **Sipcam Nichino Brasil S.A.**

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### **2. Presentation of financial statements and summary of significant accounting practices (Continued)**

#### **2.8. Provision for impairment of nonfinancial assets**

Management annually tests the net book value of the assets to determine whether there are any events or changes in economic, operating or technological circumstances that may indicate impairment. When such evidence is identified, and the net book value exceeds the recoverable amount, a provision for impairment is set up so as to adjust the net book value to the recoverable amount.

The recoverable amount of an asset or a cash-generating unit is defined as the higher of value in use and fair value less costs to sell.

In determining the value in use of assets, the estimated future cash flows are discounted to their present value by using a pre-tax discount rate that reflects the weighted average cost of capital for the industry in which the cash-generating unit operates. Net sales value is determined, where possible, based on firm sales agreements in a transaction carried out on an arm's length basis among knowledgeable and willing parties, adjusted by expenses attributable to the sale of the asset or, when there is no firm sales agreement, based on the market price in an active market or at the most recent transaction price with similar assets.

#### **2.9. Other assets and liabilities**

An asset is recognized in the statement of financial position when its future economic benefits are likely to flow to the Company, and its cost or value can be reliably measured.

Liabilities are recognized in the statement of financial position when the Company has a legal or constructive obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits.



## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

## 2. Presentation of financial statements and summary of significant accounting practices (Continued)

### 2.10. Taxation

Sales and service revenues are subject to the taxes and contributions below, at the following statutory rates:

State Value-Added Tax	State value-added tax (ICMS)	Between 4% and 18%
Federal Value-Added Tax	Federal VAT Tax (IPI)	0%
Contribution Tax on Gross Revenue for Social Security Financing	Contribution Tax on Gross Revenue for Social Security Financing (COFINS)	0%
Contribution Tax on Gross Revenue for Social Integration Program	Contribution Tax on Gross Revenue for Social Integration Program (PIS)	0%

Pursuant to Decree No. 3777, dated March 23, 2001, amended by Decree No. 6006 of December 28, 2006, sales of agrochemicals are subject to IPI reduced to 0%.

The Company has been granted a 60% reduction in the ICMS base, as established by Agreement No. 100/97 and amended and extended by ICMS Agreement No. 028/2019 up to October 30, 2020. Some of its goods in accordance with Brazil's federal Senate Resolution No. 13 of 2013 are subject to a 4% tax rate.

PIS and COFINS rates were reduced to 0%, pursuant to Law No. 10925/2004, and ratified by Decree No. 5630/2005.

#### Current income and social contribution taxes

Income taxes comprise both income and social contribution taxes. Income tax is calculated at a rate of 15%, plus a 10% surtax on taxable profit exceeding R\$240 over 12 months, whereas social contribution tax is computed at a rate of 9% on taxable profit, both recognized on an accrual basis; therefore, additions to book income deriving from temporarily nondeductible expenses or exclusions from temporarily nontaxable income upon determination of current taxable profit generate deferred tax assets or liabilities. Tax prepayments or taxes recoverable are stated as current and noncurrent assets, based on their expected realization.

## **Sipcam Nichino Brasil S.A.**

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### **2. Presentation of financial statements and summary of significant accounting practices (Continued)**

#### **2.10. Taxation (Continued)**

##### Deferred income and social contribution taxes

Deferred taxes arise from temporary differences and income and social contribution tax losses at the statement of financial position date between the tax bases of assets and liabilities and their book value.

Deferred tax assets are recognized on all unused deductible differences, credits or tax losses to the extent that it is probable that taxable profit will be available to allow realization of temporarily deductible differences, as well as use of unused tax credits and tax losses.

The book value of deferred tax assets is reviewed at each reporting date and written off to the extent that taxable profits will not likely be available so that deferred tax assets can be used in total or in part. Deferred tax assets written off are reviewed at each statement of financial position date and recognized to the extent that future taxable profits are likely to allow deferred tax assets 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 settled, based on tax rates (and tax laws) in force at the statement of financial position date.

Deferred tax assets and liabilities are stated at their net amount when the Company has a legal or constructive right to offset deferred tax assets against deferred tax liabilities and when deferred taxes refer to the same taxpayer and are subject to the same tax authorities.

#### **2.11. Other employee benefits**

The Company's employee and management benefits include, in addition to fixed compensation (salaries and social security contributions (INSS), vacation pay and 13<sup>th</sup> monthly salary), variable compensation, such as profit sharing and bonuses. These benefits are recognized in profit or loss for the year, under "Selling expenses" and "General and administrative expenses", as incurred.

## **Sipcam Nichino Brasil S.A.**

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### **2. Presentation of financial statements and summary of significant accounting practices (Continued)**

#### **2.12. Significant accounting judgments, estimates and assumptions**

##### Judgments

Preparation of the financial statements by the Company requires that management make professional judgments, estimates and assumptions that impact disclosed revenues, expenses, assets and liabilities, in addition to disclosed contingent liabilities at the financial statement date. Uncertainties about such assumptions and estimates may lead to significant adjustments, in future periods, to the book value of the impacted asset or liability.

##### Accounting estimates and assumptions

Significant assumptions about sources of uncertainty in future estimates and other important sources of uncertainty in estimates at the statement of financial position date, involving a significant risk of causing a material adjustment to the book value of the assets and liabilities in the following year, are discussed below:

##### *Impairment of nonfinancial assets*

Impairment loss exists when the book value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of fair value less cost to sell and value in use. The calculation of fair value less costs to sell is based on information available on sales transactions of similar assets or market prices less additional costs for the disposal of the asset.

Management annually tests the net book value of the assets to determine whether there are any events or changes in economic, operating or technological circumstances that may indicate impairment.

When such evidence is identified, and the net book value exceeds the recoverable amount, a provision for impairment is set up so as to adjust the net book value to the recoverable amount.

## **Sipcam Nichino Brasil S.A.**

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### **2. Presentation of financial statements and summary of significant accounting practices (Continued)**

#### **2.12. Significant accounting judgments, estimates and assumptions (Continued)**

##### Accounting estimates and assumptions (Continued)

###### *Taxes*

There are uncertainties about the interpretation of complex tax regulations and the amount and timing of future taxable profit (loss). Given the extensive international trading relationships, in addition to the long-term nature and complexity of existing contractual instruments, the differences between actual results and the assumptions used, or future changes in such assumptions, could lead to future adjustments to tax revenues and expenses already recorded. The Company set up provisions considering reasonable estimates for possible consequences of tax audits by tax authorities to which it is subordinated. The provision amounts are based on various factors, such as experience with prior audits and diverging interpretations of tax legislation by the taxpayer and the relevant tax authority. Such differences in interpretations may involve a number of matters, based on the conditions prevailing in the jurisdiction to which the Company is subject.

A significant level of professional judgment is expected from management in order to determine the deferred tax asset that may be recognized based on the probable term and level of future taxable profits, combined with future tax planning strategies.

The Company recognizes a provision for civil and labor claims. Assessment of the likelihood of loss includes an evaluation of available evidence, hierarchy of laws, available case law, most recent court rulings and their relevance to the legal system, as well as the opinion of external legal advisors. Provisions are reviewed and adjusted considering changes in circumstances, such as applicable statute of limitations, tax audit conclusions or additional exposures identified based on new matters or court decisions.

The settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to uncertainties inherent in the estimate process. The Company reviews its estimates and assumptions at least on an annual basis.

## **Sipcam Nichino Brasil S.A.**

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### **2. Presentation of financial statements and summary of significant accounting practices (Continued)**

#### **2.13. Statements of cash flows**

Statements of cash flows were prepared by using the indirect method and are presented in accordance with accounting pronouncement CPC 03 (R2) - Statement of Cash Flows, issued by the Brazilian FASB (CPC).

The Company classifies interest paid from the loans and financing transactions in Financing activities.

#### **2.14. Financial instruments**

Financial assets

##### **(i) Initial recognition and measurement**

Those financial assets are classified as financial assets at fair value through profit or loss and loans and receivables. The Company determines the classification of its financial asset upon initial recognition thereof, when it becomes part of the contract provisions of the instrument.

Sales and purchases of financial assets that require the delivery of goods within a schedule established by regulation or convention on the market (regular purchases) are recognized on the date of the transaction, i.e. the date on which the Company undertakes to buy or sell the goods. The Company's financial assets include cash and cash equivalents and trade accounts receivable, derivative financial instruments, and transactions with related parties.

Trade accounts receivable are initially recognized at fair value, less the allowance for expected credit losses.

##### **(ii) Subsequent measurement**

Assets are classified into one of the following categories, according to the purpose for which they were acquired or issued:

## **Sipcam Nichino Brasil S.A.**

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### **2. Presentation of financial statements and summary of significant accounting practices (Continued)**

#### **2.14. Financial instruments (Continued)**

- Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if acquired to be sold in the short term.

Financial assets at fair value through profit or loss are stated in the statement of financial position at fair value, and their net changes are recognized in the statement of profit or loss.

The Company evaluated its financial assets at fair value through profit or loss considering its ability to trade them within short term. When the Company is not able to trade these financial assets as a result of inactive markets, and the intention of management to sell them in a near future will undergo significant changes, one may choose to reclassify these financial assets in certain circumstances. The classification for loans and accounts receivable, available for sale or held to maturity depends on the nature of the asset. This measurement does not affect any financial assets designated at fair value through profit or loss using the fair value option at the time of reporting.

- Receivables: Receivables are non-derivative financial assets with fixed or determinable payments not traded in an active market. After their initial measurement, financial assets are carried at amortized cost using the effective interest rate method, less impairment. The amortized cost is measured by taking into consideration any discount or premium on acquisition and fees or costs incurred. Impairment losses are recognized as financial expenses under P&L.

#### Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the assets expire.

## **Sipcam Nichino Brasil S.A.**

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### **2. Presentation of financial statements and summary of significant accounting practices (Continued)**

#### **2.14. Financial instruments (Continued)**

##### (iii) Impairment of financial assets

At each statement of financial position date, the Company measures whether there is any objective evidence of impairment of a financial asset or group of financial assets. A financial asset or a group of financial assets is considered to be impaired only if there is an objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset (an incurred "loss event") and this loss event has effect on estimated future cash flows from financial asset or group of financial assets that may be reasonably estimated. Evidence of impairment loss may include indication that the borrowing parties are going through significant financial hardship.

##### Financial liabilities

##### (i) Initial recognition and measurement

Financial liabilities are classified as financial liabilities measured at fair value through profit or loss, or loans and financing, as the case may be. The Company determines the classification of its financial liabilities upon their initial recognition.

Financial liabilities are initially recognized at fair value plus, in the case of loans and financing, transaction cost directly attributable thereto. The Company's financial liabilities include loans and financing (including debentures), trade accounts payable, derivative financial instruments and transactions with related parties.

##### (ii) Subsequent measurement

After their initial recognition, financial liabilities classified as interest-bearing loans and financing are subsequently measured at amortized cost, using the effective interest rate method.

## **Sipcam Nichino Brasil S.A.**

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### **2. Presentation of financial statements and summary of significant accounting practices (Continued)**

#### **2.14. Financial instruments (Continued)**

##### (iii) Derecognition of financial liabilities

A financial liability is derecognized when the liability has been discharged, cancelled or expired.

When an existing financial liability is replaced with another of the same lender with substantially different terms, or the terms of an existing liability are significantly changed, this replacement or change is treated as derecognition of the original liability with recognition of a new one, and the difference in the respective carrying amounts is recognized in the statement of profit or loss.

##### Net balances

Financial assets and financial liabilities are presented net in the statement of financial position if, and only if, there is a current enforceable legal right of offsetting the amounts recognized and if there is the intention to offset or realize the asset and settle the liability simultaneously.

##### Other current and noncurrent assets and liabilities

Assets are recognized in the statement of financial position when their future economic benefits are likely to inure to the Company and their cost or value may be reliably measured. Liabilities are recognized in the statement of financial position when the Company has a legal or constructive obligation as result of a past event, the settlement of which is expected to result in an outflow of economic benefits. They are increased, where applicable, by the corresponding charges and monetary or exchange variations incurred. The provisions are recorded on the basis of the best estimates of the risk involved.



## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

## 2. Presentation of financial statements and summary of significant accounting practices (Continued)

### 2.15. New accounting standards and interpretations

#### Adoption of new accounting pronouncements as of July 1, 2018

As of January 1, 2018, the Company adopted CPC 47/IFRS 15 – Revenue from Contracts with Customers and CPC 48/IFRS 9-financial instruments. In measuring the effects, no impacts were observed in the financial statements that would require any restatement of amounts corresponding to the year ended June 30, 2019.

#### New accounting pronouncements adopted as of July 1, 2019

The Company has decided not to early adopt any other standard, interpretation or amendment that have been issued, but which are not yet effective. The nature and effectiveness of the new standard and amendments are described below:

<b>Pronouncement</b>	<b>Description</b>	<b>Effectiveness</b>
IFRS 16 – CPC 06 (R2) – Leases	In accordance with International Financial Reporting Standard – IFRS 16, this pronouncement refers to the definition of and guidance on leases provided for in IAS 17.	This standard will take effect as from January 1, 2019
IAS12/CPC 32 – Income taxes	IFRIC 23 - Uncertainty over Income Tax Treatment Refers to the treatment, accounting and disclosure of tax uncertainties	This standard will take effect as from January 1, 2019

The Company intends to adopt the new standards and/or amendments on the required effective date on the basis of the method applicable to each pronouncement, and they may be presented retrospectively or prospectively. After a preliminary assessment, the Company expects that the changes applicable from 2019 onwards have no significant impact on its financial statements.

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 3. Cash and cash equivalents

	<u>06/30/2019</u>	<u>06/30/2018</u>
Cash and banks	1,973	366
Short-term investments (a)	42,860	45,981
Total cash and cash equivalents	<u>44,833</u>	<u>46,347</u>

(a) These refer to floating-rate Bank Deposit Certificates (CDBs) that reflect the usual market conditions, whose maturity at the statement of financial position date is within 90 days. They have immediate liquidity and no risk of significant changes due to interest rate fluctuation, bearing interest ranging from 97.5% to 99.0% of CDI in June 2019 (95.0% to 98.5% of CDI in June 2018) and measured at fair value in a contra account of profit or loss.

### 4. Trade accounts receivable

	<u>06/30/2019</u>	<u>06/30/2018</u>
Trade notes receivable	261,999	187,256
Allowance for expected credit losses	(13,410)	(14,517)
Third parties	<u>248,589</u>	<u>172,739</u>
Current	238,273	169,256
Noncurrent	10,316	3,483

At June 30, 2019, trade notes receivable had also been offered as guarantee for loans and financing in the amount of R\$ 60,173 (R\$50,289 at June 30, 2018).

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 4. Trade accounts receivable (Continued)

#### Allowance for expected credit losses

Changes in the allowance for expected credit losses are as follows:

	<u>07/01/2017</u>	<u>Additions</u>	<u>06/30/2018</u>	<u>Reversal</u>	<u>06/30/2019</u>
Allowance for expected credit losses	12,383	<b>2,134</b>	14,517	<b>(1,107)</b>	<b>13,410</b>
Less current portion	(11,764)	<b>(2,452)</b>	(14,216)	<b>11,550</b>	<b>(2,666)</b>
Noncurrent assets	619	<b>(318)</b>	301	<b>10,443</b>	<b>10,744</b>

Management sets up an allowance for expected credit losses at an amount considered sufficient to cover possible accounts receivable realization risks, considering historical losses and collateral for amounts overdue.

Below is the breakdown of the allowance for expected credit losses in percentage terms:

	<u>%</u>	
	<u>06/30/2019</u>	<u>06/30/2018</u>
Falling due	<b>1.05%</b>	1.63%
Overdue within 90 days	<b>1.31%</b>	2.04%
Overdue for more than 90 days	<b>100.00%</b>	100.00%

### 5. Inventories

	<u>06/30/2019</u>	<u>06/30/2018</u>
Finished goods	<b>39,188</b>	29,237
Raw, packaging and auxiliary materials	<b>14,874</b>	25,286
Import in transit	<b>31,689</b>	40,147
Provision for obsolete inventories	<b>(364)</b>	(394)
Provision for inventory realization, net	<b>(2,663)</b>	-
	<b>82,724</b>	94,276

The Company records provisions for 100% of its inventories not moving for more than 360 days, in addition to analyzing inventory items individually.

Changes in provisions are as follows:

	<u>06/30/2018</u>	<u>Additions</u>	<u>Reversals</u>	<u>06/30/2019</u>
Provision for obsolescence	394	<b>48</b>	<b>(78)</b>	<b>364</b>
Provision for inventory realization, net	-	<b>2,703</b>	<b>(40)</b>	<b>2,663</b>
	394	<b>2,751</b>	<b>(118)</b>	<b>3,027</b>

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 6. Taxes recoverable

	<u>06/30/2019</u>	<u>06/30/2018</u>
State value-added tax (ICMS)	27,222	23,172
Federal VAT Tax (IPI)	6,377	6,019
PIS and COFINS	5,001	1,329
Income and social contribution taxes	5,054	8,147
	<u>43,654</u>	<u>38,667</u>
Current	-	16
Noncurrent	43,654	38,651

The Company intends to realize the ICMS, IPI, PIS and COFINS balances through its transactions and requests for tax refund. Income and social contribution taxes will be realized through generation of future taxable profits. From July 2018 to June 2019, the Company received a refund of R\$6.466 (six million, four hundred and sixty-six thousand reais) from the Brazilian Internal Revenue Service, of which R\$5,322 refers to Income Tax, R\$214 to IPI and R\$930 to PIS and COFINS.

### 7. Assets held for sale

The group of Assets held for sale is measured based on the lowest of book and fair value.

The amount of R\$8,749 at June 30, 2019 (R\$6,976 at June 30, 2018) refers to property received in payment for customer debts, which are under negotiation.

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 8. Current and deferred income and social contribution taxes

Deferred income and social contribution taxes were set up at the effective rates as under:

	<u>06/30/2019</u>	<u>06/30/2018</u>
Deferred income tax assets on:		
Temporarily nondeductible provisions	4,894	3,217
Income and social contribution tax losses	44,587	46,484
Deferred social contribution tax assets on:		
Temporarily nondeductible provisions	1,761	1,158
Income and social contribution tax losses	15,366	16,049
	<u>66,608</u>	<u>66,908</u>
Less write-off due to no expectation of realization	(31,841)	(38,572)
Noncurrent assets	<u>34,767</u>	<u>28,336</u>

Main provisions are as follows:

	<u>06/30/2019</u>	<u>06/30/2018</u>
Allowance for expected credit losses	13,410	14,517
Provision for customer discounts	1,168	525
Audit and advisory services	73	198
Sales commissions	626	560
Incineration	601	394
Legal proceedings	357	499
Provision for inventory obsolescence/realization of losses	3,573	394
Profit sharing and bonuses	-	3,400
Provision for freight	-	10
Provision for derivative losses	354	-
Unrealized (gains) – derivatives	-	(2,989)
(Gains)/losses on restatement of accounts receivable	-	(6,396)
Customer campaign	1,438	1,384
Change in debit	(2,133)	-
Other	108	372
	<u>19,575</u>	<u>12,868</u>
Current rate of 25% for income tax	4,894	3,217
Current rate of 9% for social contribution tax	1,761	1,158
	<u>6,655</u>	<u>4,375</u>

Based on future taxable profit generation, determined in a technical study approved by the Board of Directors, the Company recognized tax credits on temporary differences and tax losses. The book value and the realization of tax credits are annually reviewed by the Company.

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 8. Current and deferred income and social contribution taxes (Continued)

Based on this technical study on future taxable profit generation, the Company expects to recover these tax credits in the next 06 years.

	<u>R\$</u>	<u>%</u>
2019	1,391	4
2020	1,738	5
2021	9,735	28
2022	9,735	28
2023	10,430	30
2024	1,738	5
	<u>34,767</u>	<u>100</u>

The recovery of tax credits was estimated based on projections of taxable profit taking into consideration various financial and business assumptions for the period ended June 30, 2019. Consequently, these estimates may not materialize in the future considering uncertainties inherent in these forecasts.

#### Reconciliation of income and social contribution tax expenses

Reconciliation of the expense calculated by applying combined statutory tax rates and of the income and social contribution tax expense recorded in profit or loss is as follows:

	<u>06/30/2019</u>	<u>06/30/2018</u>
Income before taxes	<b>7,598</b>	11,615
Tax expenses at statutory rate of 34%	<b>(2,583)</b>	(3,949)
Effective rate adjustments:		
Permanent differences	<b>1,475</b>	458
Tax credits set up on tax losses	<b>6,731</b>	2,017
Net tax charges recorded in statement of profit or loss	<b>5,623</b>	(1,474)
Effective rate	<u><b>74.01%</b></u>	<u>12.69%</u>

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 8. Current and deferred income and social contribution taxes (Continued)

Accumulated income and social contribution tax losses are broken down as follows:

	<u>06/30/2019</u>	<u>06/30/2018</u>
Income tax losses	<b>178,349</b>	185,936
Social contribution tax losses	<b>170,731</b>	178,318

Income and social contribution tax losses may be carried indefinitely, however, their offset is limited to 30% of taxable profit each year.

### 9. Investments

	Interest (%)	<u>07/01/2017</u>	Equity pickup	<u>06/30/2018</u>	Equity pickup	<u>06/30/2019</u>
Campo Limpo Reciclagem e Transformação de Plásticos S/A.	5%	405	131	536	<b>269</b>	<b>805</b>
SICOB – Sistema de Cooperativas de Crédito do Brasil - Credicitrus	0.019%	114	99	213	<b>7</b>	<b>220</b>
		<u>519</u>	<u>230</u>	<u>749</u>	<u><b>276</b></u>	<u><b>1,025</b></u>

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 10. Property, plant and equipment

	06/30/2019									
	Land	Buildings and improvements	Machinery	Tools, presses and molds	Facilities	Furniture and fixtures	Vehicles	Hardware	Constructi on in progress	Total
Acquisition cost										
Balance at beginning of year	1,375	18,847	27,153	185	20,524	5,158	82	1,819	5,194	80,337
Additions	-	-	-	-	1	14	-	30	6,754	6,799
Write-offs	-	-	(802)	(7)	(108)	(103)	(41)	(257)	(49)	(1,367)
Transfers	-	2,904	1,285	12	2,685	347	77	243	(7,553)	-
Balance at end of year	1,375	21,751	27,636	190	23,102	5,416	118	1,835	4,346	85,769
Depreciation										
Balance at beginning of year	-	(10,111)	(16,364)	(126)	(13,682)	(3,858)	(82)	(1,233)	-	(45,456)
Additions	-	(758)	(1,403)	(16)	(2,264)	(242)	(7)	(260)	-	(4,950)
Write-offs	-	-	557	6	3	100	41	240	-	947
Transfer	-	(1,368)	-	-	1,368	-	-	-	-	-
Balance at end of year	-	(12,237)	(17,210)	(136)	(14,575)	(4,000)	(48)	(1,253)	-	(49,459)
<b>Net balance</b>	<b>1,375</b>	<b>9,514</b>	<b>10,426</b>	<b>54</b>	<b>8,527</b>	<b>1,417</b>	<b>70</b>	<b>582</b>	<b>4,346</b>	<b>36,311</b>
Average annual depreciation rates	-	4%	10% and 20%	10%	10% and 20%	10% and 20%	20%	20%	-	-



## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 10. Property, plant and equipment (Continued)

	06/30/2018									
	Land	Buildings and improvements	Machinery	Tools, presses and molds	Facilities	Furniture and fixtures	Vehicles	Hardware	Constructi on in progress	Total
Acquisition cost										
Balance at beginning of year	1,375	18,101	26,873	170	18,279	4,727	82	1,568	2,869	74,044
Additions	-	-	-	-	42	45	-	261	6,010	6,358
Write-offs	-	-	-	-	(1)	(39)	-	(22)	-	(62)
Transfers	-	746	280	15	2,204	425	-	12	(3,685)	(3)
Balance at end of year	1,375	18,847	27,153	185	20,524	5,158	82	1,819	5,194	80,337
Depreciation										
Balance at beginning of year	-	(9,358)	(14,886)	(113)	(11,991)	(3,644)	(82)	(1,044)	-	(41,118)
Additions	-	(752)	(1,478)	(13)	(1,693)	(255)	-	(195)	-	(4,386)
Write-offs	-	-	-	-	1	41	-	6	-	48
Balance at end of year	-	(10,110)	(16,364)	(126)	(13,683)	(3,858)	(82)	(1,233)	-	(45,456)
<b>Net balance</b>	<b>1,375</b>	<b>8,737</b>	<b>10,789</b>	<b>59</b>	<b>6,841</b>	<b>1,300</b>	<b>-</b>	<b>586</b>	<b>5,194</b>	<b>34,881</b>
Average annual depreciation rates	-	4%	10% and 20%	10%	10% and 20%	10% and 20%	20%	20%	-	-

Depreciation is determined on a straight-line basis taking useful lives into consideration.

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 11. Intangible assets

	06/30/2019					
	Trademarks and patents	Software	Products under registration	Products being sold	Intangible assets in progress	Total
Acquisition cost						
Balance at beginning of year	138	3,549	16,856	11,328	331	32,202
Additions	-	23	157	-	382	562
Write-offs	-	(45)	(76)	-	(4)	(125)
Transfers	-	368	(3,198)	3,198	(368)	-
Balance at end of year	138	3,895	13,739	14,526	341	32,639
Amortization						
Balance at beginning of year	-	(2,723)	-	(3,806)	-	(6,529)
Additions	-	(294)	-	(2,287)	-	(2,581)
Write-offs	-	36	-	-	-	36
Balance at end of year	-	(2,981)	-	(6,093)	-	(9,074)
<b>Net balance</b>	<b>138</b>	<b>914</b>	<b>13,739</b>	<b>8,433</b>	<b>341</b>	<b>23,565</b>
Average annual amortization rates	-	20%	-	20%	-	-
	06/30/2018					
	Trademarks and patents	Software	Products under registration	Products being sold	Intangible assets in progress	Total
Acquisition cost						
Balance at beginning of year	138	3,549	22,094	5,798	111	31,690
Additions	-	-	297	-	217	514
Write-offs	-	-	(5)	-	-	(5)
Transfers	-	-	(5,530)	5,530	3	3
Balance at end of year	138	3,549	16,856	11,328	331	32,202
Amortization						
Balance at beginning of year	-	(2,512)	-	(2,996)	-	(5,508)
Additions	-	(211)	-	(810)	-	(1,021)
Write-offs	-	-	-	-	-	-
Balance at end of year	-	(2,723)	-	(3,806)	-	(6,529)
<b>Net balance</b>	<b>138</b>	<b>826</b>	<b>16,856</b>	<b>7,522</b>	<b>331</b>	<b>25,673</b>
Average annual amortization rates	-	20%	-	20%	-	-

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 11. Intangible assets (Continued)

Out of the total intangible assets at June 30, 2019, R\$13,703 refer to products under registration (R\$16,856 at June 30, 2018). Once these registrations are obtained from the relevant bodies, the products will start to be sold and the amounts recorded under intangible assets will be amortized over a period of 5 (five) years.

### 12. Loans and financing

	<u>Interest rate</u>	<u>06/30/2019</u>	<u>06/30/2018</u>
Foreign currency			
Working capital	VC + 4.24% p.a.	<b>19,223</b>	-
Local currency			
Working capital	8.50% p.a.	-	50,289
Working capital	CDI + 1.88% p.a.	<b>60,173</b>	-
Change in debit	-	<b>(2,133)</b>	-
Debentures – 2 <sup>nd</sup> issue	CDI + 2.00% p.a.	-	61,239
Debentures 3 <sup>rd</sup> issue – series 1	CDI+ 1.55% p.a.	<b>61,154</b>	-
Debentures 3 <sup>rd</sup> issue – series 2	CDI + 1.75% p.a.	<b>30,591</b>	-
Debenture raising costs	-	<b>(1,334)</b>	(326)
Agricultural credit (a)	-	-	2,906
Agricultural credit – Free funds (a)	-	<b>34,229</b>	18,721
		<b>201,903</b>	132,829
Less portion classified under current liabilities		<b>(83,082)</b>	(73,155)
Noncurrent liabilities		<b>118,821</b>	59,674

(a) Line of credit referring to the financing of agricultural activities of our customers, to which Sipcam Nichino is a guarantor.

The aging list of long-term loans is as follows:

	<u>06/30/2019</u>	<u>06/30/2018</u>
June 2020	-	59,674
June 2021	<b>28,868</b>	-
June 2022	<b>29,290</b>	-
June 2023	-	-
June 2024	<b>60,663</b>	-
	<b>118,821</b>	59,674

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 12. Loans and financing (Continued)

At June 30, 2019, the Company granted as guarantees for loans trade notes receivable amounting to R\$60,173 (R\$50,289 at June 30, 2018).

#### Debentures

<u>Issue</u>	<u>Principal</u>	<u>Annual yield</u>	<u>Final maturity</u>	<u>06/30/2019</u>	<u>06/30/2018</u>
2 <sup>nd</sup> issue	60,000	100% of CDI + 2.00% p.a.	March 30, 2020	-	61.239
3 <sup>rd</sup> issue - series 1	60,000	100% of CDI + 1.55% p.a.	March 28, 2024	<b>61,155</b>	-
3 <sup>rd</sup> issue - series 2	30,000	100% of CDI + 1.75% p.a.	March 29, 2022	<b>30,591</b>	-
Less portion classified under current liabilities				<b>(10,592)</b>	<b>(1,239)</b>
Noncurrent liabilities				<b>81,154</b>	<b>60,000</b>

The Company obtained approval for the 3<sup>rd</sup> issue of unsecured nonconvertible debentures amounting to R\$90,000, in two series, in which series 1 matures at March 28, 2024 and series 2 matures at March 29, 2022. Interest of this transaction has been paid for the year in which it is incurred. No guarantees were given.

The loan transactions have no financial covenants.

### 13. Foreign trade accounts payable – third parties

	<u>06/30/2019</u>	<u>06/30/2018</u>
Raw material	<b>36,882</b>	56,173
Packaging material	<b>294</b>	255
Consumables	-	81
Material for resale	<b>7,158</b>	3,200
Services	<b>35</b>	-
	<b>44,369</b>	<b>59,709</b>

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 14. Provision for contingencies

The Company is a party to tax, civil and labor claims arising from the ordinary course of business. The Company management believes that the provision for contingencies set up is sufficient to cover adventitious losses in lawsuits. The provisions for contingencies were set up for proceedings whose likelihood of loss was assessed as probable, based on the opinion of lawyers and outside legal advisors. The unfavorable outcome of proceedings, whether individually or in aggregate, will not have a material adverse effect on the Company's financial position or business. Judicial deposits were made for some of these proceedings when required by the judicial branch.

Changes in provision for contingencies, by nature, are as follows:

	30/06/2017	Provision	Payments	06/30/2018	Provision /Reversal	Payments	06/30/2019
Tax	94	136	(38)	192	202	(160)	234
Civil	89	6	(5)	90	6	(5)	91
Labor	908	183	(874)	217	(84)	(101)	32
Total provision	1,091	325	(917)	499	124	(266)	357
Judicial deposits	(971)	-	(18)	(989)	-	42	(947)

Cases with likelihood of success:

	06/30/2019	06/30/2018
Tax	3,468	3,288
Civil	-	-
Labor	15	48
Total	3,483	3,336

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 15. Equity

#### a. Capital

At June 30, 2019 and 2018, the Company capital totals R\$223,897 and is divided into 2,471,492,952 common shares.

The Company's shareholding structure at June 30, 2019 and 2018 is as follows:

	<u>Number of shares</u>	<u>%</u>
Sipcam Nederland Holding N.V.	150,127,424	6.08
Obras Latin América Participações Ltda.	518,134,294	20.96
Obras S.R.L.	567,484,758	22.96
Nihon Nohyaku CO. Ltd.	1,235,746,476	50.00
	<u>2,471,492,952</u>	<u>100.00</u>

#### b. Income reserve and dividends

Due to accumulated losses, the Company does not set up reserves and/or dividends in the year.

### 16. Risk considerations

#### a) Credit risk

The Company's sales policies are subordinated to the credit policies established by management and are designed to minimize any problems arising from customer default. This goal is achieved through a careful selection of customer portfolio that takes into consideration their creditworthiness (credit rating) and the diversification of sales (risk dilution).

#### b) Liquidity risk

The Company prepares cash flow forecasts as a means to monitor its future needs in advance in order to ensure it has enough cash to meet the operational demands. The Company maintains excess cash, if any, in interest bearing short-term investments and by choosing instruments that provide liquidity adequate to its needs.

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 16. Risk considerations (Continued)

#### b) Liquidity risk (Continued)

The aging list of the Company's major financial liabilities (loans and financing) is as follows:

	<u>06/30/2019</u>	<u>06/30/2018</u>
June 2019	-	73,155
June 2020	<b>83,082</b>	59,674
June 2021	<b>28,868</b>	-
June 2022	<b>29,290</b>	-
June 2023	-	-
June 2024	<b>60,663</b>	-
	<b><u>201,903</u></b>	<b><u>132,829</u></b>

#### c) Interest rate risk

The Company's profit or loss is subject to losses arising from changes in floating interest rates, such as: CDI, Long-Term Interest Rate (TJLP) and changes in inflation indices, such as the Extended Consumer Price Index (IPCA), on its financial assets and liabilities. The amounts relating to these transactions are stated in Notes 3 and 12.

#### d) Currency risk

The Company's income is subject to significant variation since part of inputs used in the production process is impacted by the foreign exchange rate fluctuation, particularly the US dollar and Yen, referring to intercompany loan transactions.

To reduce certain effects of exchange rate fluctuation, the Company hedges against the effects of exchange rate devaluation of local currency on its financial assets and liabilities denominated in dollars and/or euros through *Swap* transactions and *Non Deliverable Forwards* – commitment to purchase US currency at previously agreed-upon rates – linked to the US dollar fluctuation. The amounts of such transactions are summarized below:

	<u>06/30/2019</u>	<u>06/30/2018</u>
Forward/swap contracts:		
Original amount taken out	<b>US\$1,355 thousand</b>	US\$4,785 thousand
Equivalent in local currency	<b>5,399</b>	17,811
Provision for gain (loss) on hedging transactions	<b>(142)</b>	651
	<b>JPY1,942,642</b>	JPY1,997,504
Original amount taken out	<b>thousand</b>	thousand
Equivalent in local currency	<b>69,119</b>	67,274
Provision for gain (loss) on hedging transactions	<b>(78)</b>	2,338
Interest rate swap – provision for gain (loss)	<b>(134)</b>	-

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 17. Cost of goods sold and services, by type

	<u>06/30/2019</u>	<u>06/30/2018</u>
<b>General Manufacturing Costs (GMC)</b>		
Direct labor costs - own	(4,289)	(3,991)
Direct labor costs - third parties	(1,102)	(1,423)
Electricity	(1,517)	(1,319)
Depreciation and amortization	(2,767)	(2,613)
Maintenance of property, plant and equipment	(1,051)	(1,061)
Other direct costs	(1,054)	(886)
<b>Indirect costs</b>		
Indirect labor costs - own	(6,960)	(6,405)
Indirect labor costs - third parties	(91)	(81)
Electricity	(290)	(249)
Depreciation and amortization	(1,376)	(1,234)
Maintenance of property, plant and equipment	(685)	(570)
Incineration	(1,457)	(1,677)
Other indirect costs	(1,755)	(1,860)
	<u>(24,394)</u>	<u>(23,369)</u>
<b>Inputs</b>		
Raw and packaging materials	(303,656)	(198,785)
Goods for resale	(26,829)	(28,940)
	<u>(330,485)</u>	<u>(227,725)</u>
<b>Other costs</b>		
Freight on sales	(10,322)	(9,270)
Insurance on sales	(393)	(377)
Storage	(2,651)	(1,655)
Taxes on transfers	(2,501)	(1,639)
Inpev	(1,021)	(682)
Provision for (reversal of provision for) inventories	(2,633)	17
Promotional campaign	(878)	(1,325)
Equalization	(411)	(975)
Derecognition of inventory	(590)	(847)
Sales discounts	(588)	(1,538)
Sales commissions	(2,281)	-
Other	(1,067)	(842)
	<u>(25,336)</u>	<u>(19,133)</u>
	<u>(380,215)</u>	<u>(270,227)</u>



## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 18. Operating income (expenses)

a) Selling, general and administrative expenses

	06/30/2019		06/30/2018	
	Selling	General and administrative	Selling	General and administrative
Payroll and related charges	(12,216)	(9,002)	(9,995)	(10,511)
Fees and labor engaged	(713)	(2,660)	(260)	(2,474)
Travel	(1,142)	(388)	(1,005)	(383)
Vehicles	(1,689)	(147)	(1,349)	(123)
Meetings	(1,156)	(105)	(1,009)	(107)
Associations	(41)	(186)	(1)	(132)
Outsourced services	(1,060)	(4,023)	(2,641)	(3,619)
Communication	(127)	(295)	(108)	(285)
Cleaning supplies	(33)	(614)	(28)	(542)
Insurance	(47)	(121)	(44)	(104)
Safety equipment	-	(798)	(1)	(820)
Amortization and depreciation	(2,379)	(889)	(882)	(731)
Reversal of provision (provision) for expected credit losses	1,107	-	(2,134)	-
Other	(2,144)	(1,181)	(1,414)	(1,013)
	<b>(21,640)</b>	<b>(20,409)</b>	<b>(20,871)</b>	<b>(20,844)</b>

b) Other operating income (expenses), net

	06/30/2019	06/30/2018
General manufacturing costs	(5,130)	(5,088)
Depreciation	(1,257)	(1,075)
Maintenance of property, plant and equipment	(456)	(430)
Other production costs	(401)	(338)
Income from restatement of federal taxes	93	250
Reversal of provision (provision) for contingencies	(325)	(124)
Income from tax restatement	444	358
Other revenue	1,949	605
	<b>(5,083)</b>	<b>(5,842)</b>

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 19. Finance income (costs)

	<u>06/30/2019</u>	<u>06/30/2018</u>
<u>Finance costs</u>		
Interest on financial transactions	<b>(5,849)</b>	(5,809)
Change in debit	<b>(466)</b>	-
Losses on financial instruments, realized	<b>(6,574)</b>	(2,597)
Losses on financial instruments, accrued	<b>(3,343)</b>	(819)
Discounts given to customers	<b>(1,575)</b>	(2,029)
Trade receivables difference, realized	<b>(167)</b>	(709)
Trade receivables difference, accrued	<b>(6,502)</b>	-
Exchange difference, realized	<b>(12,740)</b>	(6,309)
Exchange difference, accrued	<b>(75,887)</b>	(59,046)
Tax on Financial Transactions (IOF)	<b>(220)</b>	(41)
Interest on debentures	<b>(5,475)</b>	(5,582)
Other finance costs	<b>(3,261)</b>	(993)
	<b><u>(122,059)</u></b>	<b><u>(83,934)</u></b>
Gains on financial instruments, realized	<b>5,357</b>	3,266
Gains on financial instruments, accrued	-	3,644
Trade receivables difference, realized	<b>1,467</b>	420
Trade receivables difference, accrued	-	6,529
Exchange difference, realized	<b>3,730</b>	1,784
Exchange difference, accrued	<b>82,263</b>	42,025
Short-term investment yield	<b>2,170</b>	2,402
Interest income	<b>1,298</b>	686
Change in debit	<b>2,599</b>	-
Other finance income	<b>589</b>	479
	<b><u>99,473</u></b>	<b><u>61,235</u></b>

### 20. Key management personnel compensation

On October 23, 2018, the Annual and Special General Meeting approved the management compensation for the period from November 2017 to October 2018, amounting to R\$3,146 for fixed and variable compensation. It also approved, for the period from November 2018 to October 2019, a fixed and variable compensation of up to R\$3,800.

## **Sipcam Nichino Brasil S.A.**

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### **21. Insurance coverage**

The Company maintains insurance coverage for operational risks and other risks to safeguard its property, plant and equipment and inventories.

Insurance taken out as of June 30, 2019 is considered sufficient, based on the opinion of the Company's insurance advisors, to cover losses, if any.

Our auditor's work scope does not include expressing an opinion on the sufficiency of the insurance coverage, the adequacy of which was determined and assessed by the Company management.

## Sipcam Nichino Brasil S.A.

Notes to financial statements (Continued)

June 30, 2019 and 2018

(Amounts expressed in thousands of reais, unless otherwise stated)

### 22. Transactions with related parties

	Oxon Brasil Defensivos Agrícolas Ltda.		Oxon Itália S.p.A.		Nihon Nohyaku CO.Ltd.		Total	
	06/30/2019	06/30/2018	06/30/2019	06/30/2018	06/30/2019	06/30/2018	06/30/2019	06/30/2018
<b>Balances</b>								
Noncurrent assets:								
Other accounts receivable	82	183	-	-	-	-	82	183
Current liabilities:								
Trade accounts payable	405	-	50,987	50,524	2,146	1,001	53,538	51,525
Intercompany loan (*)	-	-	-	-	804	2,699	804	2,699
Noncurrent liabilities								
Intercompany loan (*)	-	-	-	-	68,237	66,874	68,237	66,874
<b>Transactions</b>								
Purchases	-	-	131,298	93,559	6,742	837	138,040	94,396
Other expenses	(763)	(300)	-	-	-	-	(763)	(300)
Finance income (costs)	-	-	352	(8,678)	(2,239)	(11,718)	(1,887)	(20,396)

Transactions with related parties are carried out at specific prices and conditions agreed-upon between the parties.

(\*) This balance refers to an intercompany loan agreement entered into with Nihon Nohyaku CO., Ltd in August 2015, amounting to R\$56,774 (JPY1,920,000,000), subject to interest of 1.4% p.a. and with maturity on August 31, 2020.