

Interim Financial Statements

Coruripe Energética S.A.

December 31, 2019
with Independent Auditor's Review Report

Coruripe Energética S.A.

Interim Financial Statements

December 31, 2019

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A free translation from Portuguese into English of independent auditor's review report on interim financial statements originally issued in Portuguese

Independent Auditor's Review Report

To the Shareholders, Board of Directors and Officers
Coruripe Energética S.A.
Iturama – MG

Introduction

We have reviewed the statement of financial position of Coruripe Energética S.A. (the "Company") as at December 31, 2019, and the related statements of profit or loss and of comprehensive income for the three- and nine-month periods then ended, of changes in equity and of cash flows for the nine-month period then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

Management is responsible for the preparation and fair presentation of these interim financial statements in accordance with the accounting practices adopted in Brazil. Our responsibility is to express a conclusion on this interim financial statement based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Review Engagements. A review on interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information does not fairly present, in all material respects, the financial position of Coruripe Energética S.A. as at December 31, 2019, its operating performance and its cash flows for the period then ended, in accordance with the accounting practices adopted in Brazil.

Recife, March 2, 2020.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

A handwritten signature in grey ink, appearing to read 'Henrique Piereck de Sá', is written over the printed name.

Henrique Piereck de Sá
Accountant CRC PE023398/O-3

Coruripe Energética S.A.

Statement of financial position
December 31, 2019 and March 31, 2019
(In thousands of reais)

	Note	12/31/2019	03/31/2019
Assets			
Current assets			
Cash and cash equivalents	3	2,730	1,197
Trade accounts receivable	4	2,899	1,006
Inventories		301	287
Taxes recoverable		53	55
Transactions with related parties	5	6,149	-
Other receivables		30	-
Total current assets		12,162	2,545
Noncurrent assets			
Long-term receivables			
Transactions with related parties	5	34,451	24,127
Taxes recoverable		39	75
Property, plant and equipment	6	8,810	11,137
Total noncurrent assets		43,300	35,339
Total assets		55,462	37,884
Liabilities and equity			
Current liabilities			
Trade accounts payable		308	226
Payroll and related charges		266	243
Taxes payable	7	3,934	2,627
Dividends proposed	9	-	9,421
Total current liabilities		4,508	12,517
Noncurrent liabilities			
Transactions with related parties	5	3,415	-
Total noncurrent liabilities		3,415	-
Equity			
Capital	9	11,211	11,211
Income reserves		6,133	14,156
Retained earnings		30,195	-
Total equity		47,539	25,367
Total liabilities and equity		55,462	37,884

See accompanying notes.

Coruripe Energética S.A.

Statement of profit or loss

Nine- and three-month periods ended December 31, 2019

(In thousands of reais)

	Note	Nine-month period ended		Three-month period ended	
		12/31/2019	12/31/2018	12/31/2019	12/31/2018
Net operating revenue	10	48,385	59,828	14,744	12,262
Cost of electric and steam power generation	11	(13,760)	(20,584)	(3,982)	(4,671)
Gross profit		34,625	39,244	10,762	7,591
Operating income (expenses)					
General and administrative expenses	11	(99)	(65)	(39)	3
Other operating expenses, net	11	(62)	-	(31)	-
		(161)	(65)	(70)	3
Income before finance income (costs)		34,464	39,179	10,692	7,594
Finance income (costs)					
Finance costs	12	(3,539)	(34)	(1,239)	(25)
Finance income	12	1,259	783	233	541
		(2,280)	749	(1,006)	516
Income before income and social contribution taxes		32,184	39,928	9,686	8,110
Income and social contribution taxes	8	(1,989)	(2,190)	(570)	(592)
Net income for the period		30,195	37,738	9,116	7,518

See accompanying notes.

Coruripe Energética S.A.

Statement of comprehensive income
Nine- and three-month periods ended December 31, 2019
(In thousands of reais)

	Nine-month period ended		Three-month period ended	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Net income for the period	30,195	37,738	9,116	7,518
Other comprehensive income	-	-	-	-
Comprehensive income for the year	30,195	37,738	9,116	7,518

See accompanying notes.

Coruripe Energética S.A.

Statement of changes in equity
 Nine-month period ended December 31, 2019
 (In thousands of reais)

	Capital	Income reserves			Retained earnings	Total
		Legal reserve	Retained profits	Additional dividends		
Balances at March 31, 2018	11,211	2,242	15,831	-	-	29,284
Approval of prior years' additional dividends (Note 9 b)	-	-	(11,940)	-	-	(11,940)
Net income for the period	-	-	-	-	37,738	37,738
Balances at December 31, 2018	11,211	2,242	3,891	-	37,738	55,082
Balances at March 31, 2019	11,211	2,242	3,891	8,023	-	25,367
Approval of prior years' additional dividends (Note 9 b)	-	-	-	(8,023)	-	(8,023)
Net income for the period	-	-	-	-	30,195	30,195
Balances at December 31, 2019	11,211	2,242	3,891	-	30,195	47,539

See accompanying notes.

Coruripe Energética S.A.

Statement of cash flows

Nine-month period ended December 31, 2019

(In thousands of reais)

Note	Nine-month period ended	
	12/31/2019	12/31/2018
Operating activities		
Income before income and social contribution taxes	32,184	39,928
Adjustments to reconcile pre-tax income to cash:		
Financial charges, net	1,321	(24)
Depreciation	3,820	3,189
	37,325	43,093
(Increase) decrease in assets		
Trade accounts receivable	(1,893)	(2,027)
Inventories	(14)	53
Taxes recoverable	38	32
Other receivables	(36)	(20)
Increase (decrease) in liabilities		
Trade accounts payable	82	(597)
Payroll and related charges	29	38
Taxes payable	702	(272)
Cash from operating activities	36,379	40,300
Income and social contribution taxes paid	(1,384)	(621)
Net cash from operating activities	34,995	39,679
Investing activities		
Investments in property, plant and equipment	(1,493)	(1,346)
Net cash used in investing activities	(1,493)	(1,346)
Financing activities		
Intercompany loans taken out	(796,608)	(23,097)
Amortization of intercompany loans	788,377	(185)
Dividends paid	(17,444)	-
Prepaid dividends	(6,149)	(11,581)
Net cash used in financing activities	(31,824)	(34,863)
Increase in cash and cash equivalents	1,533	3,470
Cash and cash equivalents		
At beginning of period	1,197	238
At end of period	2,730	3,708
Increase in cash and cash equivalents	1,533	3,470

See accompanying notes.

Coruripe Energética S.A.

Notes to interim financial statements

December 31, 2019

(In thousands of reais)

1. Operations

Coruripe Energética S.A. ("Company"), a privately held company headquartered in the city of Iturama, state of Minas Gerais (MG), was incorporated on November 8, 2001 and started its operations in September 2002. Its sole business purpose consists in the production and sale of electric power, water steam power and items deriving from the co-generation of electric power, as well as the purchase of sugar cane fiber (bagasse) or any other raw materials possibly used in energy production.

ANEEL Authorizations

Resolutions No. 11, of January 11, 2002, and No.1363, of May 13, 2008, issued by the Brazilian Electric Power Regulatory Agency (ANEEL) authorized the Company to operate as an Independent Electric Power Producer. The electric power produced by the Company will be sold in the form of independent power production, pursuant to the conditions established in articles 12, 15 and 16 of Law No.9074 dated July 7, 1995, as regulated by Decree No. 2003, of September 10, 1996. The authorizations shall remain effective for 30 (thirty) years as from the date of the related resolutions, and may be extended at ANEEL's discretion and as requested by the authorized company.

The Company's installed generating capacity is 54 MW, including 24 MW at the main plant in Iturama and 30 MW in the Campo Florido unit. The Company operates three steam generating turbo units in a conventional cogeneration thermal cycle, using the sugar cane bagasse as fuel, and having high pressure steam as supplementary energy input, both supplied by related party S/A Usina Coruripe Açúcar e Alcool. The Company is located in the facilities of S/A Usina Coruripe Açúcar e Alcool, which is the Company's exclusive raw material supplier.

On January 16, 2018, the Electric Energy Trade Chamber (CCEE) approved the Company as CCEE agent, in the Generation category, as an Independent Producer. In the previous model, the Company was subject to an agent. Approval by CCEE of the Company's registration as an Agent that may sell power directly opened a series of commercial opportunities, through which the Company may leverage its margins.

Coruripe Energética S.A.

Notes to interim financial statements (Continued)

December 31, 2019

(In thousands of reais)

2. Presentation of financial statements and summary of accounting practices

These financial statements were prepared in accordance with several measurement bases used in accounting estimates. Accounting estimates involved in the preparation of the interim financial statements were based on both objective and subjective factors and use of professional judgment by management to determine the adequate amounts to be recorded in the interim financial statements.

Significant items subject to these estimates and assumptions include the selection of useful lives and recoverability of property, plant and equipment in operations, fair value measurement of financial assets, as well as analysis of other risks in determining other provisions, including provision for contingencies. Asset and liability financial instruments are recorded at their fair values in finance income (costs) for the period.

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

The interim financial statements are prepared and presented in accordance with CPC 21 (R1) – Interim Financial Statements, approved by Brazil's National Association of State Boards of Accountancy (CFC). All significant information included in these interim financial statements, and only such information, is evidenced and corresponds to the information used by management for managing the Company's activities.

These interim financial statements were prepared in accordance with accounting principles, practices and criteria consistent with those adopted in the preparation of the financial statements for the year ended March 31, 2019, described in Note 2 of those statements. As such, these interim financial statements should be read in conjunction with referred to Company annual financial statements.

Authorization to issue Company financial statements for the nine-month periods ended December 31, 2019 was provided by resolution of the Executive Board on March 2, 2020.

Coruripe Energética S.A.

Notes to interim financial statements (Continued)
December 31, 2019
(In thousands of reais)

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

2.2. New pronouncements and interpretations not yet in effect and not early adopted

CPC 06 (R2) – Leases

Issued on January 13, 2016 and in effect as from January 01, 2019 (with effects as from April 01, 2019 for the Company), this pronouncement established, for lessees, a new model to account for leases currently classified as operating leases, which therefore began to be recorded similarly to finance leases. For lessors, CPC 06 (R1) requirements were practically maintained and only certain additional disclosure aspects were included.

CPC 06 (R2) replaces the existing lease pronouncements, including CPC 06 (R1) - Leases and ICPC 03 - Supplementary Aspects of Leases.

CPC 06 (R2) introduced a single model for accounting for leases in the statement of financial positions for lessees. A lessee recognizes a right-of-use asset representing the lessee's right to use the leased asset and a lease liability representing the lessee's obligation to make the lease payments. Exemptions are available for short-term leases and leases of low-value assets. Lessors continue to account for leases as provided for in the current standard, i.e. classifying leases into finance or operating leases.

Management reviewed Company agreements in light of the new pronouncement and concluded that there is no impact on the interim financial statements.

3. Cash and cash equivalents

	<u>12/31/2019</u>	<u>03/31/2019</u>
Bank checking accounts	<u>2,730</u>	<u>1,197</u>
	<u>2,730</u>	<u>1,197</u>

Coruripe Energética S.A.

Notes to interim financial statements (Continued)
December 31, 2019
(In thousands of reais)

4. Trade accounts receivable

	12/31/2019	03/31/2019
CCEE	1,621	1,006
EDP – Comercialização e Serviços de Energia Ltda.	945	-
Other	333	-
	<u>2,899</u>	<u>1,006</u>

As at December 31, 2019, trade accounts receivable refer to amounts maturing within 60 days. Since the Company has no overdue amounts, management concluded that allowance for doubtful accounts was not required.

5. Transactions with related parties

		12/31/2019	03/31/2019
Current assets			
Advanced dividends		6,149	-
		<u>6,149</u>	<u>-</u>
Noncurrent assets			
Intercompany loans			
S/A Usina Coruripe Açúcar e Álcool	(a)	34,451	24,127
		<u>34,451</u>	<u>24,127</u>
Noncurrent liabilities			
Intercompany loans			
S/A Usina Coruripe Açúcar e Álcool	(a)	3,415	-
		<u>3,415</u>	<u>-</u>
Statement of profit or loss			
Steam power sales	(b)	5,610	1,155
Purchase of sugar cane fiber (bagasse)	(b)	(4,291)	(944)
Purchase of steam power	(b)	(984)	(211)
		<u>335</u>	<u>-</u>
Finance costs			
S/A Usina Coruripe Açúcar e Álcool		(73)	(459)
		<u>(73)</u>	<u>(459)</u>

Intercompany transactions were performed under specific conditions agreed between the parties, as follows:

Coruripe Energética S.A.

Notes to interim financial statements (Continued)

December 31, 2019

(In thousands of reais)

5. Transactions with related parties (Continued)

- (a) This refers to a loan agreement entered into with parent S.A. Usina Coruripe Açúcar e Alcool, subject to interest of 7.7% p.a. on which Tax on Financial Transactions (IOF) is recognized;
- (b) The Company has a purchase and sale agreement whereby it sells raw sugarcane bagasse and purchases steam from its affiliate Coruripe Energética S.A., effective until March 31, 2023, subject to extensions if so agreed upon by the parties. The prices were defined by the parties and are annually restated based on the accumulated IGP-M rate variation for the period;
- (c) The Company has a contract for free assignment of certain chattels and areas of the industrial plant of S.A. Usina Coruripe Açúcar e Alcool, in the Iturama unit, in force until December 2022, and in the Campo Florido unit, effective until December 2037, which are used by the Company for its renewable electric power generation business. Since this refers to free assignment, subject to no consideration, referred to agreement is not classified as a lease under the terms of CPC 06 (R2).

Key management personnel compensation

As at December 31, 2019 and 2018, the Company paid management no compensation.

6. Property, plant and equipment

a) Breakdown of balances

	Average depreciation rate (% p.a.)	12/31/2019		03/31/2019	
		Cost	Accumulated depreciation	Net	Net
Property, plant and equipment in use					
Buildings	7	85	(47)	38	40
Improvements	2	1,675	(817)	858	894
Machinery and equipment	5	50,702	(44,567)	6,135	6,449
Facilities	6	1,651	(1,309)	342	362
Furniture and fixtures	10	22	(10)	12	13
Major maintenance	100	19,059	(19,059)	-	1,403
		73,194	(65,808)	7,385	9,161
Construction in progress	-	583	-	583	78
Advance to suppliers	-	7	-	7	7
Funding of major maintenance	-	835	-	835	1,891
		74,618	(65,809)	8,810	11,137

Coruripe Energética S.A.

Notes to interim financial statements (Continued)

December 31, 2019

(In thousands of reais)

6. Property, plant and equipment (Continued)

b) Changes in balances

	Balance at 03/31/2019	Additions	Depreciation	Transfers	Balance at 12/31/2019
Buildings	40	-	(2)	-	38
Improvements	894	-	(36)	-	858
Machinery and equipment	6,449	75	(467)	78	6,135
Facilities	362	-	(20)	-	342
Furniture and fixtures	13	-	(1)	-	12
Major maintenance	1,403	-	(3,294)	1,891	-
Construction in progress	78	583	-	(78)	583
Advance to suppliers	7	-	-	-	7
Funding of major maintenance	1,891	835	-	(1,891)	835
	11,137	1,493	(3,820)	-	8,810

7. Taxes payable

	12/31/2019	03/31/2018
Corporate Income Tax (IRPJ)	323	136
Social Contribution on Net Profit (CSLL)	207	66
Tax on Financial Transactions (IOF)	2,876	2,358
Other	528	67
	3,934	2,627

Coruripe Energética S.A.

Notes to interim financial statements (Continued)

December 31, 2019

(In thousands of reais)

8. Income and social contribution taxes

Income and social contribution tax expenses for the period ended December 31, 2019 and March 31, 2019 are reconciled to statutory rates, as follows:

	Nine-month period ended			
	12/31/2019		12/31/2018	
	IRPJ	CSLL	IRPJ	CSLL
Gross sales revenue (Note 10)	51,266	51,266	63,052	63,052
Taxable profit computed as a percentage of gross sales (%)	8%	12%	8%	12%
Taxable profit computed as a percentage of gross sales	4,101	6,152	5,044	7,566
Finance income (Note 12)	1,259	1,259	783	783
	5,360	7,411	5,827	8,349
Deductible amount	180	-	180	-
Tax base of taxable profit computed as a percentage of gross sales	5,180	7,411	5,647	8,349
Income tax - 15%	804	-	874	-
Surtax - 10% (net of deductible amount)	518	-	565	-
Social contribution tax	-	667	-	751
IRPJ and CSLL expenses accounted for	1,322	667	1,439	751
Effective rate	26%	9%	25%	9%
	Three-month period ended			
	12/31/2019		12/31/2018	
	IRPJ	CSLL	IRPJ	CSLL
Gross sales revenue (Note 10)	15,719	15,719	13,038	13,038
Taxable profit computed as a percentage of gross sales (%)	8%	12%	8%	12%
Taxable profit computed as a percentage of gross sales	1,258	1,886	1,043	1,565
Finance income (Note 12)	233	233	541	541
	1,491	2,119	1,584	2,106
Deductible amount	60	-	60	-
Tax base of taxable profit computed as a percentage of gross sales	1,551	2,119	1,524	2,106
Income tax - 15%	224	-	238	-
Surtax - 10% (net of deductible amount)	155	-	164	-
Social contribution tax	-	191	-	190
IRPJ and CSLL expenses accounted for	379	191	402	190
Effective rate	24%	9%	24%	9%

Coruripe Energética S.A.

Notes to interim financial statements (Continued)

December 31, 2019

(In thousands of reais)

9. Equity

a) Capital

As at December 31 and March 31, 2019, paid-in capital totaled R\$ 11,211 and is represented by 30,465 common shares with par value of R\$368.00 each in 2016 and 2015, distributed as follows:

Shareholder	Shares	%
S/A Usina Coruripe Açúcar e Álcool	30,465	100.00%
	30,465	100.00%

b) Allocation of profits

On July 31, 2019, the General Shareholders' Meeting approved the allocation of profits for the year ended March 31, 2019, amounting to R\$ 37,684, of which R\$ 20,240 were offset against advanced dividends paid in the year, R\$ 9,421 were allocated as mandatory minimum dividends and R\$ 8,023 as additional dividends.

	12/31/2019	03/31/2019
Opening balance	9,421	3,980
Additional dividends approved	8,023	32,180
Payments	(17,444)	(36,160)
Mandatory minimum dividends	-	9,421
Closing balance	-	9,421

In addition, management distributed R\$ 6,149 in advance referring to current period profits (Note 5).

c) Income reserves

i) *Legal reserve*

The legal reserve is recorded based on the allocation of 5% of net income for the year, limited, however, to 20% of total capital.

ii) *Retained profits*

The remaining retained profits are available for allocation by shareholders.

(*) At March 31, 2019, legal reserve is capped at the amount set forth by law in item "c.1".

Coruripe Energética S.A.

Notes to interim financial statements (Continued)

December 31, 2019

(In thousands of reais)

10. Net operating revenue

	Nine-month period ended		Three-month period ended	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Gross revenue				
Revenue from power generation	45,124	45,218	12,956	8,518
Revenue from power - resale	532	12,708	532	2,853
Revenue from steam generation	5,610	5,126	2,231	1,667
	51,266	63,052	15,719	13,038
Deductions from gross revenue:				
Sales taxes	(2,881)	(3,224)	(975)	(776)
	(2,881)	(3,224)	(975)	(776)
	48,385	59,828	14,744	12,262

11. Operating costs and expenses

	Nine-month period ended		Three-month period ended	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Costs and expenses by function:				
Cost of electric and steam power generation	(13,760)	(20,584)	(3,982)	(4,671)
General and administrative expenses	(99)	(65)	(39)	3
Other operating expenses, net	(62)	-	(31)	-
	(13,921)	(20,649)	(4,052)	(4,668)
	Nine-month period ended		Three-month period ended	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Cost of electric and steam power generation				
Power – resale	(280)	(7,989)	(280)	(2,060)
Raw materials	(5,137)	(4,834)	(1,824)	(1,482)
Depreciation	(3,819)	(3,189)	(981)	(870)
Third-party services	(1,019)	(1,020)	(130)	164
Personnel	(1,076)	(1,044)	(390)	(372)
Distribution rates	(1,442)	(1,696)	(215)	(353)
Taxes	(175)	(123)	(59)	(32)
Materials and supplies	(812)	(689)	(103)	334
	(13,760)	(20,584)	(3,982)	(4,671)
General and administrative expenses				
Third-party services	(55)	(38)	(21)	7
Personnel	(8)	(4)	-	(1)
Taxes	(8)	(14)	(4)	(2)
Materials and supplies and other	(28)	(9)	(14)	(1)
	(99)	(65)	(39)	3
Other operating income (expenses)				
Expense with fine on IOF	(62)	-	(31)	-
	(62)	-	(31)	-

Coruripe Energética S.A.

Notes to interim financial statements (Continued)

December 31, 2019

(In thousands of reais)

12. Finance income (costs)

	Nine-month period ended		Three-month period ended	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Finance costs				
IOF on loan transactions	(3,415)	-	(1,153)	-
Other finance costs	(124)	(34)	(86)	(25)
	(3,539)	(34)	(1,239)	(25)
Finance income				
Interest on intercompany loans	-	25	-	25
Short-term investment yield	1,259	758	233	516
	1,259	783	233	541
	(2,280)	749	(1,006)	516

13. Commitments

The Company entered into energy sales agreements for the following amounts of MWh/year:

Year	Amount in MWh
2019/2020 crop	192,723
	192,723

14. Financial instruments and financial risk management objectives and policies

a) Financial instruments

The Company's main financial instruments include cash and cash equivalents, trade accounts receivable, trade accounts payable, dividends proposed and transactions with related parties.

Fair value of financial assets and liabilities is the amount for which an asset or a liability may be exchanged or settled, between known parties willing to carry out a fair market transaction, rather than in a sale or distressed liquidation. As at December 31 and March 31, 2019, there was no significant difference between book and market values for Company financial instruments.

The Company does not perform hedge, swap, or any other transactions involving derivative financial instruments.

Coruripe Energética S.A.

Notes to interim financial statements (Continued)

December 31, 2019

(In thousands of reais)

14. Financial instruments and financial risk management objectives and policies (Continued)

b) Objectives and policies for financial risk management

Company management oversees the management of these risks. The main financial risk-taking activities are governed by appropriate policies and procedures and the financial risks are identified, measured and managed in accordance with the Company's policies and risk appetite.

The Company's main financial liabilities comprise trade accounts payable and transactions with related parties. The main purpose of these financial liabilities is to raise funds for Company operations.

The Company has trade accounts receivable and cash and cash equivalents resulting directly from its operations. The Company is exposed to market, credit and liquidity risk.

Management reviews and establishes policies for management of each of these risks, as follows:

Market risk

This is the risk that the fair value of the future cash flows of a financial instrument will fluctuate due to changes in market prices. Considering that the Company is part of the electric power market chain, this risk may occur as a result of the price policy regulation by regulatory agencies, among other factors. This possibility is considered remote in management's opinion.

Credit risk

Credit risk is the risk that a counterparty of a business will not meet an obligation under a financial instrument or agreement with the customer, which would lead to financial loss. The Company is exposed to credit risk in its operating (particularly with relation to accounts receivable) and financing activities, including deposits in banks and financial institutions and other financial instruments.

Coruripe Energética S.A.

Notes to interim financial statements (Continued)

December 31, 2019

(In thousands of reais)

14. Financial instruments and financial risk management objectives and policies (Continued)

b) Financial risk management objectives and policies (Continued)

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's Treasury Department in accordance with its policy. Exceeding funds are invested only in approved counterparties and within the limits established for each one. Credit limit of counterparties is reviewed annually by the Company management and may be adjusted over the year. These limits are established in order to minimize risk concentration and thus mitigate financial loss in case of potential bankruptcy of a counterparty.

Liquidity risk

The main purpose of the Company is to use funds arising only from its operating cash flow, using long-term bank loans only when its operating cash flows are insufficient to meet its cash and financing needs.

15. Insurance coverage

As at December 31, 2019 and March 31, 2016, the Company and its related party S/A Usina Coruripe Açúcar e Alcool had their assets covered by joint insurance policies against fire and multiple perils in the amount of R\$ 624,000 (R\$ 624,000 at March 31, 2019).

The amount of insurance taken out is deemed sufficient to cover any losses in the opinion of Company insurance advisors.

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