(Convenience Translation into English from the
Original Previously Issued in Portuguese)

Ouro Fino Saúde Animal Participações S.A. and Subsidiaries

Individual and Consolidated
Interim Financial Information for the
quarter ended June 30, 2020
and Report on Review of Interim Financial
Information

Deloitte Touche Tohmatsu Auditores Independentes

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Shareholders, Board of Directors and Management of
Ouro Fino Saúde Animal Participações S.A.

Introduction

We have reviewed the accompanying individual and consolidated interim financial information of Ouro Fino Saúde Animal Participações S.A. (the "Company") included in the Interim Financial Information Form (ITR), for the quarter ended June 30, 2020, which comprises the balance sheet as of June 30, 2020 and the related statements of operations and of comprehensive income for the three and six-month period then ended and the statements of changes in equity and of cash flows for the three and six-month period then ended, including the explanatory notes.

Management is responsible for the preparation of the individual and consolidated interim financial information in accordance with technical pronouncement CPC 21 (R1) - Interim Financial Reporting and international standard IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the presentation of such information in accordance with the standards issued by the Brazilian Securities Commission (CVM), applicable to the preparation of the Interim Financial Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and international standards on review of interim financial information (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of 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 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 on the individual and consolidated interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual and consolidated interim financial information included in the ITR referred to above was not prepared, in all material respects, in accordance with technical pronouncement CPC 21 (R1) and international standard IAS 34, applicable to the preparation of the ITR, and presented in accordance with the standards issued by CVM.

Other matters

Statements of value added

The interim financial information previously mentioned includes the individual and consolidated statements of value added (“DVA”) for the three and six-month period ended June 30, 2020, prepared under the responsibility of the Company’s Management, and presented as additional information for IAS 34 proposes. These statements have been subject to review procedures performed in connection with the interim financial information (ITR) to conclude whether they were reconciled with the interim financial information and accounting records, as applicable, and if its form and content are in accordance with the criteria defined in the Technical Pronouncement CPC 09 - Statement of Value Added. Based on our review, nothing has come to our attention that causes us to believe the statements of value added were not prepared, in all material aspects, in accordance to the criteria defined in this standard and consistently with the individual and consolidated interim financial information taken as a whole.

The accompanying individual and consolidated interim financial information has been translated into English for the convenience of readers outside Brazil.

Campinas, August 4, 2020

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Renato Foganholi Asam
Partner

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OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

BALANCE SHEET AT JUNE 30, 2020 AND DECEMBER 31, 2019

All amounts in thousands of reais

(A free translation of the original in Portuguese)

		Parent company		Consolidated	
ASSETS	Note	2020	2019	2020	2019
Current assets					
Cash and cash equivalents	8	28,277	1,289	132,762	45,009
Derivative financial instruments	9			1,690	
Trade receivables	10			146,195	189,076
Inventories	11			176,155	165,294
Taxes recoverable	12	84	355	14,650	12,478
Income tax and social contribution recoverable				4,361	6,657
Related parties	27	3,976	968	3,349	393
Other receivables		732	250	6,629	6,128
		33,069	2,862	485,791	425,035
Non-current assets					
Long-term receivables					
Taxes recoverable	12			51,575	51,277
Related parties	27	23,000			
Income tax and social contribution	13			23,202	15,441
Inventories	11			4,731	4,342
Other receivables		250		907	507
		23,250		80,415	71,567
Investments in subsidiaries	5	460,409	501,209		
Property, plant and equipment	15			282,700	279,639
Intangible assets	14			75,083	93,295
Total non-current assets		483,659	501,209	438,198	444,501
Total assets		516,728	504,071	923,989	869,536

		Parent company		Consolidated	
LIABILITIES AND EQUITY	Note	2020	2019	2020	2019
Current liabilities					
Trade payables	16	2		33,013	40,381
Derivative financial instruments	9				2,252
Borrowings	17			186,180	118,230
Salaries and social charges		617	258	32,161	20,151
Taxes payable		138	308	3,386	4,993
Income tax and social contribution payable				1,520	87
Dividends and interest on capital	27		10,991		10,991
Related parties	27	20	67	225	172
Commissions on sales				3,401	4,816
Other payables				7,761	8,446
Total current liabilities		777	11,624	267,647	210,519
Non-current liabilities					
Borrowings	17			136,652	162,852
Provision for contingencies	18			3,710	3,684
Total non-current liabilities				140,362	166,536
Total liabilities		777	11,624	408,009	377,055
EQUITY	19				
Share capital		377,065	377,065	377,065	377,065
Options granted		5,454	5,382	5,454	5,382
Revenue reserves		104,198	94,043	104,198	94,043
Carrying value adjustments		16,655	15,957	16,655	15,957
Profit		12,579		12,579	
Total equity attributable to owners of the parent		515,951	492,447	515,951	492,447
Non-controlling interests				29	34
Total equity		515,951	492,447	515,980	492,481
Total liabilities and equity		516,728	504,071	923,989	869,536

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

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

STATEMENT OF INCOME
PERIODS ENDED JUNE 30, 2020 AND 2019
All amounts in thousands of reais unless otherwise stated (A free translation of the original in Portuguese)

		Parent company			
		2020		2019	
	Note	Quarter	6-month period	Quarter	6-month period
General and administrative expenses	21	(1,917)	(3,125)	(1,048)	(2,063)
Equity in the results of investees	5	16,474	15,455	15,036	10,622
Other income (expenses), net	22	(18)	(15)	22	48
Operating profit		14,539	12,315	14,010	8,607
Finance income		217	312		
Finance costs		(22)	(48)	(15)	(29)
Finance result	23	195	264	(15)	(29)
Profit for the period		14,734	12,579	13,995	8,578

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

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

STATEMENT OF INCOME
PERIODS ENDED JUNE 30, 2020 AND 2019
All amounts in thousands of reais unless otherwise stated (A free translation of the original in Portuguese)

		Consolidated			
		2020		2019	
	Note	Quarter	6-month period	Quarter	6-month period
Net sales revenue	20	172,535	284,414	177,726	268,704
Cost of sales	21	(82,184)	(142,760)	(89,370)	(136,384)
Gross profit		90,351	141,654	88,356	132,320
Selling expenses	21	(47,483)	(89,757)	(50,034)	(90,678)
General and administrative expenses	21	(11,813)	(22,350)	(12,655)	(21,472)
Other income (expenses), net	22	(18,985)	(17,131)	417	1,361
Operating profit (loss)		12,070	12,416	26,084	21,531
Finance income		1,160	1,470	1,145	2,238
Finance costs		(3,756)	(6,502)	(4,008)	(8,184)
Derivative financial instruments, net		1,309	14,990	(948)	(1,353)
Foreign exchange variations, net		697	(12,033)	381	272
Finance result	23	(590)	(2,075)	(3,430)	(7,027)
Profit (loss) before income tax and social contribution		11,480	10,341	22,654	14,504
Income tax and social contribution	24				
Current		(3,071)	(5,008)	(4,776)	(7,412)
Deferred		6,325	7,239	(3,886)	1,484
Profit for the period		14,734	12,572	13,992	8,576
Attributable to:					
Owners of the parent company		14,734	12,579	13,995	8,578
Non-controlling interests			(7)	(3)	(2)
		14,734	12,572	13,992	8,576
Earnings per share attributable to the owners of the parent during the period (in reais)	25				
Basic earnings per share		0.27311	0.23316	0.25941	0.15900
Diluted earnings per share		0.27311	0.23316	0.25941	0.15900

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

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

STATEMENT OF COMPREHENSIVE INCOME
PERIODS ENDED JUNE 30, 2020 AND 2019
All amounts in thousands of reais (A free translation of the original in Portuguese)

		Parent company			
		2020		2019	
	Note	Quarter	6-month period	Quarter	6-month period
Profit for the period		14,734	12,579	13,995	8,578
Other comprehensive income (loss)					
Items that will be reclassified to profit or loss					
Exchange variation on investment	5	352	698	(70)	172
Total comprehensive income for the period		15,086	13,277	13,925	8,750

		Consolidated			
		2020		2019	
		Quarter	6-month period	Quarter	6-month period
Profit for the period		14,734	12,572	13,992	8,576
Other comprehensive income (loss)					
Items that will be reclassified to profit or loss					
Exchange variation on investment	5	353	700	(70)	173
Total comprehensive income for the period		15,087	13,272	13,922	8,749
Attributable to:					
Owners of the parent		15,086	13,277	13,925	8,750
Non-controlling interests		1	(5)	(3)	(1)
		15,087	13,272	13,922	8,749

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

STATEMENT OF CHANGES IN EQUITY
All amounts in thousands of reais (A free translation of the original in Portuguese)

	Note	Attributable to owners of the parent			Revenue reserves						
		Share capital	Capital reserve	Options granted	Legal reserve	Profit retention reserve	Carrying value adjustments	Retained earnings	Total	Non-controlling interests	Total equity
AT JANUARY 1, 2020		377,065		5,382	13,007	81,036	15,957		492,447	34	492,481
Comprehensive income (loss) for the quarter:											
Profit for the period								12,579	12,579	(7)	12,572
Exchange variation on investment	5						698		698	2	700
Total comprehensive income (loss) for the quarter							698	12,579	13,277	(5)	13,272
Contributions by and distributions to owners of the parent:											
Special revenue reserve	19 (c)					10,155			10,155		10,155
Stock options granted	19 (e)			72					72		72
Total contributions by owners				72		10,155			10,227		10,227
At June 30, 2020		377,065		5,454	13,007	91,191	16,655	12,579	515,951	29	515,980
At January 1, 2019		358,796	(6,392)	4,791	10,693	72,832	15,216		455,936	31	455,967
Comprehensive income (loss) for the quarter:											
Profit for the period								8,578	8,578	(2)	8,576
Exchange variation on investment	5						172		172	1	173
Total comprehensive income (loss) for the quarter							172	8,578	8,750	(1)	8,749
Contributions by and distributions to owners of the parent:											
Capital increase by incorporation of revenue reserves	19 (a)	18,269	6,392			(24,661)					
Stock options granted	19 (e)			325					325		325
Total contributions by owners		18,269	6,392	325		(24,661)			325		325
At June 30, 2019		377,065		5,116	10,693	48,171	15,388	8,578	465,011	30	465,041

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

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

STATEMENT OF CASH FLOWS
PERIODS ENDED JUNE 30, 2020 AND 2019
All amounts in thousands of reais (A free translation of the original in Portuguese)

		Parent company		Consolidated	
	Note	2020	2019	2020	2019
Cash flows from operating activities:					
Profit before income tax and social contribution		12,579	8,578	10,341	14,504
Adjustments for:					
Provision for impairment of trade receivables	10 and 18			103	255
Provision for inventory losses and write-offs				4,135	2,052
Changes in the provision for sales returns	18			119	(124)
Reversal of provision for customer bonuses	18			(900)	(808)
Equity in the results of investees	5	(15,455)	(10,622)		
Depreciation and amortization	14 and 15			13,190	11,997
Provision for impairment of intangible assets	14			16,749	140
Gain (loss) on disposal of property, plant and equipment	22			(330)	(143)
Gain (loss) on disposal of intangible assets	22			2,330	
Interest and monetary/foreign exchange variations, net				22,304	7,658
Derivative financial instruments				(14,990)	1,353
Changes in the provision for contingencies	18			(210)	138
Stock options granted	19 (e)	25	26	72	325
Changes in working capital:					
Trade receivables				44,590	27,954
Inventories		(464)		(12,906)	(5,073)
Taxes recoverable		271	86	(3,238)	(1,049)
Other receivables		(3,277)	(80)	(3,303)	(991)
Trade payables		(41)		(9,661)	14,187
Taxes payable		(170)	(773)	806	(1,667)
Other payables		356	52	9,868	(4,036)
Cash provided by (used in) operations		(6,176)	(2,733)	79,069	66,672
Interest paid				(6,093)	(8,127)
Income tax and social contribution paid				(2,688)	(8,532)
Net cash provided by (used in) operating activities		(6,176)	(2,733)	70,288	50,013
Cash flows from investing activities:					
Advances for future capital increase in subsidiaries		(23,000)	(17,000)		
Investments in intangible assets	14			(4,904)	(9,095)
Purchases of property, plant and equipment	15			(11,727)	(16,370)
Dividends and interest on capital received		57,000	36,106		
Proceeds from sale of property, plant and equipment				485	888
Net cash provided by (used in) investing activities		34,000	19,106	(16,146)	(24,577)
Cash flows from financing activities:					
Proceeds from borrowings	29			120,000	30,000
Payments of borrowings	29			(97,152)	(31,234)
Dividends and interest on capital paid	29	(836)	(16,351)	(836)	(16,351)
Realized derivative financial instruments	29			11,048	(581)
Net cash provided by (used in) financing activities		(836)	(16,351)	33,060	(18,166)
Increase in cash and cash equivalents, net		26,988	22	87,202	7,270
Cash and cash equivalents at the beginning of the period		1,289	20	45,009	65,183
Foreign exchange gains on cash and cash equivalents				551	(43)
Cash and cash equivalents at the end of the period	8	28,277	42	132,762	72,410

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

STATEMENT OF VALUE ADDED
PERIODS ENDED JUNE 30, 2020 AND 2019
All amounts in thousands of reais

(A free translation of the original in Portuguese)

		Parent company		Consolidated	
	Note	2020	2019	2020	2019
Revenue:					
Gross sales and services				308,974	291,262
Other income (expenses), net				648	(190)
Income from construction of own assets				4,443	7,695
Provision for impairment of trade receivables	10 and 18			(103)	(255)
				313,962	298,512
Inputs acquired from third parties:					
Cost of sales and services				(101,549)	(112,224)
Materials, electricity, third-party services and other		(986)	(427)	(68,873)	(64,559)
Losses on assets, net				(23,025)	(2,461)
Gross value added (distributed)		(986)	(427)	120,515	119,268
Depreciation and amortization	14 and 15			(13,190)	(11,997)
Net value added (distributed) generated by the entity		(986)	(427)	107,325	107,271
Value added received through transfer:					
Equity in the results of investees	5	15,455	10,622		
Finance income		312	1	28,470	5,603
Royalties		100	60	100	60
Other				67	283
Total value added distributed		14,881	10,256	135,962	113,217
DISTRIBUTION OF VALUE ADDED					
Personnel:					
Direct compensation		1,804	1,371	57,392	51,284
Benefits		45	5	11,368	8,635
Government Severance Indemnity Fund for Employees (FGTS)		44		5,253	3,471
Taxes, charges and contributions:					
Federal		356	270	9,243	17,474
State		5	3	6,640	7,742
Municipal				212	196
Remuneration of third parties' capital:					
Interest, foreign exchange loss, losses on derivatives, etc.		48	29	31,483	14,089
Rentals				1,702	1,675
Other				97	75
Remuneration of own capital:					
Retained earnings		12,579	8,578	12,579	8,578
Non-controlling interests				(7)	(2)
Value added distributed		14,881	10,256	135,962	113,217

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

1. GENERAL INFORMATION

1.1. Operations

Ouro Fino Saúde Animal Participações S.A. (the "Company") is a listed corporation headquartered in the city of Cravinhos, State of São Paulo. The Company's shares are traded on the Brazilian stock exchange, B3 S.A. - Brasil, Bolsa, Balcão, in the *Novo Mercado* (New Market) segment.

The Company and its subsidiaries (together the "Group") operate in the animal health industry, specifically in the development, production and sale of veterinary drugs, vaccines, and other products for production and companion animals.

The issue of this individual and consolidated interim financial information was authorized by the Board of Directors on August 4, 2020.

1.2. Impact of COVID-19 on the preparation of financial statements

According to the Organization for Economic Cooperation and Development (OECD), the coronavirus (COVID-19) outbreak, which was declared a pandemic by the World Health Organization (WHO) in March 2020, is causing the global economy to face its worst scenario since the 2008 financial crisis.

In Brazil, as well as in most other countries where the Company operates, the manufacture of animal health products is considered an essential activity, since it is a critical part of the agribusiness chain for the continuity of food production and supply, not to mention its importance to ensure the proper care of companion animals.

Against this backdrop, the Company's manufacturing operations, its remote customer service, and its logistics chain for product distribution have not been impacted by the control measures imposed by the governments in response to the pandemic.

On a timely basis, and aiming at maintaining both the safety of employees and the continuity of operations, management has implemented the following procedures:

(i) Creation of a Risk Management Committee, in charge of monitoring the situation on a regular basis, proposing and coordinating preventive measures to protect the employees' health and minimize potential impacts on the business;

(ii) Compliance with the recommendations of the Ministry of Health to reduce social contact, with the consequent replacement of face-to-face meetings with remote meetings; adoption of remote working where applicable for corporate functions; cancellation of national and international travel; and

(iii) Implementation of awareness and guidance campaigns for employees, enhanced workplace cleaning, and supply of hand sanitizers produced by the Company itself to the staff.

Main risks and uncertainties arising from COVID-19

In view of the operational risks related to the COVID-19 pandemic, the Company is assessing the impacts of possible scenarios of delays in imports of inputs, particularly from China and India. Such impacts are minimized by the Company's current inventories of both raw materials and finished products in Brazil, Mexico, and Colombia.

Market and economic risks are also being considered, such as, but not limited to, potential impacts on sales and a higher rate of default, which are mitigated by the widely spread customer portfolio, in addition to the possibility of activating online sales to merchants, livestock farmers and veterinarians, and the devaluation of currencies against the US dollar. It should be noted that the Company benefits from a natural hedge against exchange rate fluctuations, since part of its revenue is tied to the U.S. dollar, due to its operations in international markets, and the characteristics of sales that are translated from US dollars into Brazilian reais in the poultry and swine chains for producers in Brazil.

In order to mitigate a potential liquidity risk, in the six-month period ended June 30, 2020, the Company obtained borrowings amounting to R$120,000 on favorable terms, which helped it to honor its financial obligations, and reinforce its cash position. The Company also reduced expenditures and non-strategic investments, which, combined with the cash provided by operations, enabled the reduction of in its net debt in the period by R$50,500.

The critical accounting estimates and judgments revisited for the preparation of these financial statements considering the effects of COVID-19 on our business are reflected in Note 2.

1.3. Basis of preparation and statement of compliance

The main accounting policies applied in the preparation of this interim financial information are set out in Note 30.

The interim financial information was prepared in accordance with the Brazilian technical pronouncement CPC 21 - Interim Financial Reporting, and with the international accounting standard IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), and is presented in accordance with the standards issued by the Brazilian Securities Commission (CVM) applicable to the preparation of quarterly information (ITR).

The preparation of interim financial information requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the individual and consolidated interim financial information, are disclosed in Note 2.

a) Individual interim financial information

The Parent company (Individual) financial information was prepared in accordance with the Brazilian technical pronouncement CPC 21 - Interim Financial Reporting, and the international accounting standard IAS 34 - Interim Financial Reporting issued by the IASB. This individual interim financial information is disclosed together with the consolidated financial information.

b) Consolidated interim financial information

The consolidated interim financial information was prepared in accordance with the Brazilian technical pronouncement CPC 21 - Interim Financial Reporting, and the international accounting standard IAS 34 - Interim Financial Reporting issued by the IASB.

c) Statement of value added

The presentation of the individual and consolidated statements of value added is required by the Brazilian corporate legislation and the accounting practices adopted in Brazil for listed companies. The Statement of Value Added has been prepared in accordance with the criteria defined in Technical Pronouncement CPC 09 - Statement of Value Added. The International Financial Reporting Standards (IFRS) do not require the presentation of this statement. Therefore, under IFRS, the presentation of such statement is considered supplementary information.

1.4. Consolidation

The Company consolidates all entities which it controls, that is, when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to direct the significant activities of the investee.

The subsidiaries included in consolidation are described in Note 5(a), and the accounting policies applied in the preparation of the consolidated interim financial information are described in Note 30.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Critical accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the six-month period ended June 30, 2020, management carefully assessed the impacts of the COVID-19 pandemic on its businesses, and complied with the requirements of the accounting practices adopted in Brazil, including the accounting pronouncement CPC 21 - Interim Financial Reporting, IAS 34 - Interim Financial Reporting issued by the IASB, and CVM/SNS/SEP Circular Letter 02/2020.

Based on assumptions, the Group makes estimates concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

a) Fair value of derivative financial instruments

The fair value of derivative financial instruments is determined by using valuation techniques. The Group uses judgment to select among a variety of methods and make assumptions that are mainly based on market conditions existing at the balance sheet date.

b) Estimated losses on trade receivables

The method consists of assessing changes in the quality of receivables since their initial recognition, taking into consideration three stages: (i) expected loss upon initial recognition; (ii) significant increase in credit risk after initial recognition; and (iii) credit-impaired assets.

c) Deferred income tax and social contribution

The balances of deferred income tax and social contribution assets, calculated on income tax and social contribution losses, were accounted for based on the expectation of future realization, supported by income projections made by management, which consider the typical development of the business and operating markets, according to the currently known scenarios.

d) Impairment of property, plant and equipment

The Group reviews the recoverable value of the assets used in its activities for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable on the basis of future cash flows. If the carrying amount of these assets is higher than their recoverable value, the net value is adjusted, and the useful lives revised to new levels.

e) Provision for contingencies

A provision is recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. The amount recognized as a provision is the best estimate of the expenditures required to settle the obligation at the end of the reporting period, taking into consideration the risks and uncertainties related to the obligation. When the provision is measured based on the estimated cash flows required to settle the present obligation, its carrying amount corresponds to the present value of these cash flows (where the effect of the time value of money is relevant). When some or all the economic benefits required to settle a provision are expected to be recovered from a third party, the receivables are recognized in assets if, and only if, the reimbursement is virtually certain, and the amount can be measured reliably.

f) Fair value of the stock option plan

The fair value attributed to the options granted was determined using the Black-Scholes-Merton pricing model, which takes into consideration the value of the share, the strike price, the time remaining before the option is exercised, the likelihood of the option being exercised, the historical volatility, the dividend rate, and the risk-free interest rate.

g) Impairment of intangible assets

At least on an annual basis, the Group tests intangible assets - mainly represented by product development and registration - for impairment, whenever practicable, using the discounted cash flow method, considering, among other aspects:

(i) Assumptions of future revenue generation based on market size (current and estimated) and on the Group's expected market share.

(ii) Estimates of direct and indirect manufacturing costs.

(iii) Trading expenditures, such as marketing, commission, freight and storage.

The projection period covers five or more years, beginning on the estimated launch date, and considers the estimated life cycle, market development and level of associated technological innovation of the products. A provision is recorded when the recoverable amount (net present value of the cash flow) is below the amount of the recorded asset, pursuant to the Company's accounting policy presented in Note 30.8. The analysis of the recoverability of the balances takes into consideration strategic, technical and market aspects.

h) Provision for inventory losses

The provision for inventory losses is recognized when there is uncertainty regarding the realization of these balances. Products whose expiration dates are approaching, and/or damaged products are recognized in this provision.

i) Taxes recoverable

Up to April 30, 2019, the subsidiary Ouro Fino Saúde Animal Ltda. accumulated ICMS credits on tax-exempt shipments in operations within the State of São Paulo, exports, and the 60% reduction in the ICMS tax base in interstate operations, with full/partial maintenance of credits on purchases, pursuant to ICMS Agreement 100/97. As from May 1, 2019, the maintenance of the tax credits was revoked for tax-exempt operations within the State of São Paulo, through Decree 64,213.

Upon submission of the file addressed by Ordinance 83/2009 of the Coordinating Committee of Tax Administration Board (CAT), the remaining credit balances are converted into accumulated credits, which may be utilized in purchases of inputs and machinery and equipment and/or transferred to other Group companies which have an interdependence relationship, and calculate ICMS payable on a regular basis.

The Company's management believes that there is no material risk of not realizing these credits, and therefore, no provision for impairment was recorded.

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The activities of the Group companies expose them to financial risks mainly related to fluctuations in foreign exchange and inflation rates, credit and liquidity risks. The objective of risk management is to reduce potential unexpected variations in the Group’s results arising from the aforementioned risks. The Group’s management of financial risks provides the basis for its growth strategy and satisfactory cash flows. The Group’s Finance Committee establishes strategies for managing such exposures, which may include the utilization of derivative or non-derivative financial instruments to hedge potential risks.

The Group monitors the levels of exposure to each market risk (foreign exchange variation and interest rate) through an analysis based on accounting exposure and cash flow forecasting.

a) Market risks

(i) Foreign exchange risk

This risk arises from the possibility of the Group incurring unexpected losses due to fluctuations in foreign exchange rates, which reduce the value of assets and increase the value of liabilities. The Group is mainly exposed to fluctuations in the U.S. dollar exchange rate.

Where necessary to hedge against foreign exchange risks, derivative transactions are used, mainly exchange rate swaps and non-deliverable forward (NDF) contracts.

The swaps are classified as derivatives at fair value through profit or loss and have been contracted to exchange the charges on borrowings initially obtained in foreign currency for charges based on the variation of the Interbank Deposit Certificate (CDI) rate.

The NDFs are classified as derivatives at fair value through profit or loss and have been contracted to mitigate potential foreign exchange gains or losses that may be incurred by the Group.

Gains and losses are recognized within "Finance income (costs)" in the statement of income.

The following table presents the consolidated accounting balances of assets and liabilities denominated in U.S. dollars:

	6/30/2020	12/31/2019
Assets in foreign currency		
Cash and cash equivalents	1,503	653
Trade receivables	11,542	10,963
	13,045	11,616
Liabilities in foreign currency		
Trade payables	(13,375)	(22,602)
	(13,375)	(22,602)
Net exposure - liabilities	(330)	(10,986)

(*) The table above does not include balances of working capital borrowings denominated in foreign currency totaling R$32,175 (R$58,720 at December 31, 2019) (Note 17), because they are hedged by a currency swap.

Assets and liabilities denominated in foreign currency are regularly monitored through projected cash inflows and outflows related to foreign exchange assets and liabilities. The amount of assets and liabilities in foreign currency fluctuates throughout the year, which may or may not give rise to a mismatch. Consequently, in order to mitigate risks arising from any possible foreign exchange exposure, derivative transactions may be entered into if necessary.

The table below presents two scenarios, considering the changes in the Brazilian real (R$) to U.S. dollar (US$) exchange rate:

		Impact of appreciation/depreciation of the U.S. dollar on the portfolio balance			
		5.48	5.06	3.80	2.53
Assets/liabilities	Risk	6/30/2020	Scenario 1	Scenario 2	Scenario 3
			(probable)	(US$ depreciation - 25%)	(US$ depreciation - 50%)
Cash and cash equivalents	US$ depreciation	1,503	(114)	(347)	(694)
Trade receivables	US$ depreciation	11,542	(877)	(2,666)	(5,333)
Trade payables	US$ appreciation	(13,375)	1,016	3,090	6,179

(ii) Interest rate risk

This risk arises from the possibility that the Group may incur losses due to adverse fluctuations in interest rates. As the interest rate risk primarily arises from borrowings, the Group seeks to maintain a stable relation between its short- and long-term debts. Financial investments are linked to the CDI rate.

The Group continuously monitors market interest rates in order to assess the need to enter into new derivative transactions to hedge against the volatility risk of these rates.

Currently, 70% of the Group’s borrowing transactions (73.8% at December 31, 2019) are carried out at floating interest rates, and 30.0% at fixed interest rates (26.2% at December 31, 2019). However, this increase in the share of floating-rate borrowing transactions does not lead to higher volatility in the average cost of the transactions due to a decrease in the rates of the main market indices (Special System for Settlement and Custody (SELIC), Interbank Deposit Certificate (CDI), Long-term Interest Rate (TJLP), etc.).

b) Credit risks

The Group is potentially subject to credit risk related to trade receivables, financial investments and derivatives. To limit the risk associated with financial assets, especially financial investments and derivative contracts, the Group carries out transactions with prime financial institutions.

Credit risk is mitigated through a broad customer base and careful selection of customers by business segment (production animals, companion animals, and international operations), in addition to the use of guarantees, establishment of individual exposure limits, and a well-defined credit policy that utilizes credit risk modeling, through which a credit rating is assigned to each customer, based on the Group's more than 32 years of experience in the market.

The Group has a Credit Committee that establishes guidelines and assesses and monitors the levels of credit risk that the Group is willing to accept in the course of its business.

In addition to the risk mitigating factors established in the credit policies, the Group takes out credit insurance to cover part of its sales.

For the purpose of properly assessing the actual risk level posed by its customers, the Group classifies its customer portfolio based on internally developed risk evaluation methodologies. Weights are assigned to each variable, such as the history of payments, length of the business relationship with the Group, how long the company has been operating in the market etc., and a rating is defined for each customer based on a combination of the variables. This classification uses ratings that range from "AA" (the lowest risk) to "E" (the highest risk) (Note 7).

c) Liquidity risk

The Group adopts a responsible policy for managing its financial assets and liabilities, which is monitored by the Chief Financial Officer through operating strategies to ensure liquidity, profitability and security.

Cash flow forecasting is based on the approved budget and subsequent adjustments, taking into consideration, in addition to all the operating plans, the strategy for raising funds to support the investments projected, and the maturity schedule of the debts. The treasury department monitors daily the forecasts included in the cash flow projections, to ensure sufficient cash to meet the Group’s operational needs. Additionally pre-approved credit facilities are available to increase and strengthen the Group’s liquidity position.

Cash and cash equivalents are primarily invested in highly liquid Repurchase Agreements and CDBs.

The Group maintains its gearing ratio in a manner that does not jeopardize its payment capacity and investments.

The table below analyzes the financial liabilities into relevant maturity buckets, based on the remaining period between the balance sheet date and the contractual maturity date.

The amounts disclosed below are the contractual undiscounted cash flows.

	Consolidated			
	Up to 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years
At June 30, 2020:				
Trade payables	33,013			
Borrowings (*)	198,642	38,824	80,173	40,963
Derivative financial instruments, net	(1,690)			
Other payables	49,567	2,597		
	279,532	41,421	80,173	40,963
At December 31, 2019:				
Trade payables	40,381			
Borrowings (*)	129,762	52,765	90,099	42,235
Derivative financial instruments, net	2,252			
Dividends and interest on capital	10,991			
Other payables	39,770	2,579		
	223,156	55,344	90,099	42,235

(*) As the amounts included in the table are the contractual undiscounted cash flows, and therefore include future financial charges, these amounts will not reconcile to the amounts disclosed on the balance sheet for borrowings.

3.2. Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and provide returns for the stockholders, as well as to maintain a strong credit rating in order to support the business and maximize value for the stockholders.

The Group manages and adjusts its capital structure considering changes in the economic conditions. The capital structure arises from the selection between own capital (capital contributions and profit retention) and third-party’s capital to fund the Group's operations. Capital is managed on the basis of the gearing ratio, which can be measured using several indicators.

At June 30, 2020 and December 31, 2019, the gearing ratio was as follows:

		Consolidated	
	Note	6/30/2020	12/31/2019
Borrowings	17	322,832	281,082
Derivative financial instruments, net	9	(1,690)	2,252
Cash and cash equivalents	8	(132,762)	(45,009)
Net debt		188,380	238,325
Equity	19	515,980	492,481
Total capital		704,360	730,806
Gearing ratio - %		26.74	32.61

3.3. Fair value estimation

The fair value of the financial instruments contracted by the Group is measured based on information obtained from the financial institutions and prices quoted in an active market, using a standard market pricing methodology, which consists of measuring their nominal value up to the due date, and discounting it to present value at future market rates.

The Group assesses, at the reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

The carrying amounts of trade receivables, less provision for impairment, and trade payables are assumed to approximate their fair values, especially considering their term and nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Derivative financial instruments are measured at fair value in the balance sheet, which requires the disclosure of fair value measurements by level of a fair value hierarchy.

All the Group's derivative financial instruments have been classified as Level 2 - “Significant other observable inputs.”

4. SEGMENT REPORTING

The Board of Directors is the Group's chief decision-maker and has determined the following operating segments, based on strategic business decisions:

- Production animals – sale, in the domestic market, of veterinary drugs, vaccines and other products for cattle, pigs, poultry, sheep, horses and goats.
- Companion animals – sale, in the domestic market, of veterinary drugs and other products for dogs and cats.
- International operations – sale, in the foreign market, mainly to Latin American countries, of veterinary drugs, vaccines and other products for production and companion animals.

The products are manufactured at the Company's industrial facilities in the city of Cravinhos, State of São Paulo.

Sales are widely spread, and no sales to individual customers account for more than 10% of net revenue.

Assets and liabilities, general and administrative expenses, RD&I expenses, other income (expenses) - net, finance income (costs), and income tax and social contribution are analyzed on an aggregate basis, and therefore are not presented by business segment.

The results by segment were as follows:

	Quarter ended June 30, 2020				
	Business segment				
	Production animals	Companion animals	International operations	Unallocated costs	Total
Revenue	135,688	18,179	18,668		172,535
Cost of sales	(70,658)	(5,532)	(5,994)		(82,184)
Profit for the period	65,030	12,647	12,674		90,351
Selling expenses	(26,511)	(4,718)	(5,928)		(37,157)
Result by segment	38,519	7,929	6,746		53,194
General and administrative expenses other expenses				(30,798)	(30,798)
RD&I expenses				(10,326)	(10,326)
Finance result				(590)	(590)
Income tax and social contribution				3,254	3,254
Non-segmented result				(38,460)	(38,460)
Profit for the period					14,734

	Six-month period ended June 30, 2020				
	Business segment				
	Production animals	Companion animals	International operations	Unallocated costs	Total
Revenue	207,163	39,219	38,032		284,414
Cost of sales	(116,314)	(12,748)	(13,698)		(142,760)
Gross profit	90,849	26,471	24,334		141,654
Selling expenses	(49,937)	(10,525)	(11,044)		(71,506)
Result by segment	40,912	15,946	13,290		70,148
General and administrative expenses other expenses				(39,481)	(39,481)
RD&I expenses				(18,251)	(18,251)
Finance result				(2,075)	(2,075)
Income tax and social contribution				2,231	2,231
Non-segmented result				(57,576)	(57,576)
Profit for the period					12,572

	Quarter ended June 30, 2019				
	Business segment				
	Production animals	Companion animals	International operations	Unallocated costs	Total
Revenue	138,664	23,522	15,540		177,726
Cost of sales	(75,812)	(6,989)	(6,569)		(89,370)
Gross profit	62,852	16,533	8,971		88,356
Selling expenses	(29,930)	(6,844)	(6,387)		(43,161)
Result by segment	32,922	9,689	2,584		45,195
General and administrative expenses other expenses				(12,238)	(12,238)
RD&I expenses				(6,873)	(6,873)
Finance result				(3,430)	(3,430)
Income tax and social contribution				(8,662)	(8,662)
Non-segmented result				(31,203)	(31,203)
Profit for the period					13,992

	Six-month period ended June 30, 2019				
	Business segment				
	Production animals	Companion animals	International operations	Unallocated costs	Total
Revenue	198,360	43,147	27,197		268,704
Cost of sales	(111,691)	(13,096)	(11,597)		(136,384)
Gross profit	86,669	30,051	15,600		132,320
Selling expenses	(53,791)	(12,664)	(11,680)		(78,135)
Result by segment	32,878	17,387	3,920		54,185
General and administrative expenses other expenses				(20,111)	(20,111)
RD&I expenses				(12,543)	(12,543)
Finance result				(7,027)	(7,027)
Income tax and social contribution				(5,928)	(5,928)
Non-segmented result				(45,609)	(45,609)
Profit for the period					8,576

The breakdown, by country, of revenue from international operations is as follows:

	2020		2019	
	Quarter	6-month period	Quarter	6-month period
Colombia	5,453	10,857	4,973	9,914
Mexico	4,806	8,849	5,123	10,711
Uruguay		5,449		
Ecuador	1,391	2,749	1,483	2,525
United Arab Emirates		2,588		
Spain	2,135	2,135	456	477
Panama	1,101	1,101	375	375
Honduras	1,100	1,100	1,249	1,249
Peru	843	1,009	212	212
Other	1,839	2,195	1,669	1,734
	18,668	38,032	15,540	27,197

5. INVESTMENTS (PARENT COMPANY)

a) Information on investments at June 30, 2020 and December 31, 2019

	Name	Country	Business	Direct holding	Indirect holding
(i)	Ouro Fino Saúde Animal Ltda.	Brazil	Research, development, production and sale of veterinary drugs, vaccines and other products. Sales in the domestic market are carried out through the companies mentioned in items (ii) and (iii) below. Sales in the foreign market are carried out directly with third parties and through the companies mentioned in items (iv) and (v) below. This company also manufactures to order.	99.99%	
(ii)	Ouro Fino Agronegócio Ltda.	Brazil	Sales in the domestic market of veterinary drugs, vaccines and other products for production animals purchased from the company mentioned in item (i) and from third parties.	99.99%	
(iii)	Ouro Fino Pet Ltda.	Brazil	Sales in the domestic market of veterinary drugs and products and related goods for companion animals purchased from the company mentioned in item (i) and from third parties.	99.99%	
(iv)	Ouro Fino de México, S.A. de CV	Mexico	Sales, exclusively in Mexico, of veterinary drugs and other products purchased from the company mentioned in item (i).		99.64%
(v)	Ouro Fino Colômbia S.A.S	Colombia	Sales, exclusively in Colombia, of veterinary drugs and other products purchased from the company mentioned in item (i).		100.00%

b) Changes in investments

	Parent company	
	6/30/2020	6/30/2019
Opening balance	501,209	465,692
Equity in the results of investees	15,455	10,622
Stock options granted	47	299
Dividends received (i)	(57,000)	(28,918)
Exchange variation on foreign investments	698	172
Closing balance	460,409	447,867

(i) At June 30, 2020, the quotaholders of the subsidiaries Ouro Fino Pet Ltda. and Ouro Fino Agronegócio Ltda. approved the distribution of dividends to the parent company Ouro Fino Saúde Animal Participações S.A. totaling R$12,000 (R$3,381 at June 30, 2019) and R$45,000 (R$25,537 at June 30, 2019), respectively.

c) Summarized financial information

The tables below present summarized financial information of the subsidiaries.

(i) Summarized balance sheet

	6/30/2020				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Current					
Assets	293,693	161,763	34,916	14,094	17,862
Liabilities	(233,084)	(42,435)	(10,141)	(11,393)	(19,951)
Current assets (liabilities), net	60,609	119,328	24,775	2,701	(2,089)
Non-current					
Assets	415,122	12,443	1,962	5,401	3,810
Liabilities	(159,734)	(1,072)	(172)		(2,384)
Non-current assets, net	255,388	11,371	1,790	5,401	1,426
Equity (net capital deficiency)	315,997	130,699	26,565	8,102	(663)

	31/12/2019				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Current					
Assets	220,837	190,371	37,341	12,532	11,648
Liabilities	(169,826)	(39,496)	(7,765)	(8,040)	(13,092)
Current assets (liabilities), net	51,011	150,875	29,576	4,492	(1,444)
Non-current					
Assets	425,636	14,357	2,103	4,851	3,411
Liabilities	(162,433)	(1,587)	(213)		(1,238)
Non-current assets, net	263,203	12,770	1,890	4,851	2,173
Equity	314,214	163,645	31,466	9,343	729

(ii) Summarized statement of operations

	Quarter ended June 30, 2020				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Net sales revenue	109,560	129,377	19,021	4,806	5,453
Profit (loss) before income tax and social contribution	(7,005)	14,153	5,142	(80)	344
Income tax and social contribution	6,409	(1,108)	(1,730)		
Profit (loss) for the period	(596)	13,045	3,412	(80)	344

	Six-month period ended June 30, 2020				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Net sales revenue	197,725	190,709	40,921	8,849	10,857
Profit (loss) before income tax and social contribution	(2,925)	12,626	10,713	(2,093)	(1,254)
Income tax and social contribution	3,963	(572)	(3,614)	16	
Profit (loss) for the period	1,038	12,054	7,099	(2,077)	(1,254)

	Quarter ended June 30, 2019				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Net sales revenue	91,475	124,026	24,446	5,123	4,973
Profit (loss) before income tax and social contribution	(3,023)	15,906	7,396	(743)	(889)
Income tax and social contribution	456	(5,357)	(2,597)		
Profit (loss) for the period	(2,567)	10,549	4,799	(743)	(889)

	Six-month period ended June 30, 2019				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Net sales revenue	162,613	178,755	44,623	10,711	9,914
Profit (loss) before income tax and social contribution	(11,936)	13,600	13,927	(540)	(1,585)
Income tax and social contribution	3,693	(4,521)	(4,803)	43	
Profit (loss) for the period	(8,243)	9,079	9,124	(497)	(1,585)

(iii) Statement of comprehensive income (loss)

	2020		2019	
	Quarter	6-month period	Quarter	6-month period
Ouro Fino Saúde Animal Ltda. (direct subsidiary)				
Profit (loss) for the period	(596)	1,038	(2,567)	(8,243)
Other comprehensive income (loss)	352	698	(70)	172
Total comprehensive income (loss)	(244)	1,736	(2,637)	(8,071)

(iv) Summarized statement of cash flows

	Six-month period ended June 30, 2020				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Cash flows from operating activities:					
Cash provided by operating activities	18,464	45,629	17,403	1,606	2,145
Interest paid	(5,705)	(38)	(17)		(333)
Income tax and social contribution paid		(124)	(2,564)		
Net cash provided by operating activities	12,759	45,467	14,822	1,606	1,812
Net cash used in investing activities	(15,770)	(237)	(51)	(89)	
Net cash provided by (used in) financing activities	57,880	(45,458)	(12,172)		(354)
Net increase (decrease) in cash and cash equivalents	54,869	(228)	2,599	1,517	1,458
Cash and cash equivalents at the beginning of the period	14,586	17,740	8,237	1,847	1,310
Foreign exchange gains on cash and cash equivalents	528	21	1		
Cash and cash equivalents at the end of the period	69,983	17,533	10,837	3,364	2,768

	Six-month period ended June 30, 2019				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Cash flows from operating activities:					
Cash provided by (used in) operating activities	10,790	41,155	17,056	(376)	780
Interest paid	(7,755)	(85)	(34)		(253)
Income tax and social contribution paid		(3,410)	(5,122)		
Net cash provided by (used in) operating activities	3,035	37,660	11,900	(376)	527
Net cash used in investing activities	(20,272)	(3,422)	(565)	(262)	(56)
Net cash provided by (used in) financing activities	15,987	(33,332)	(3,535)		(41)
Net increase (decrease) in cash and cash equivalents	(1,250)	906	7,800	(638)	430
Cash and cash equivalents at the beginning of the period	37,620	20,869	4,054	1,242	1,378
Foreign exchange gains on cash and cash equivalents	(42)	(1)			
Cash and cash equivalents at the end of the period	36,328	21,774	11,854	604	1,808

d) Reconciliation of the financial information of investments

	Subsidiaries							
	Ouro Fino Saúde Animal Ltda.		Ouro Fino Agronegócio Ltda.		Ouro Fino Pet Ltda.		Total	
	6/30/2020	6/30/2019	6/30/2020	6/30/2019	6/30/2020	6/30/2019	6/30/2020	6/30/2019
Equity at January 1	314,214	300,903	163,645	153,995	31,466	20,098	509,325	474,996
Profit (loss) for the period	1,038	(8,243)	12,054	9,079	7,099	9,124	20,191	9,960
Stock options granted	47	180		64		55	47	299
Dividends distributed			(45,000)	(25,537)	(12,000)	(3,381)	(57,000)	(28,918)
Exchange variation on foreign investments	698	172					698	172
Equity at June 30	315,997	293,012	130,699	137,601	26,565	25,896	473,261	456,509
Percentage holding (%)	99.99%	99.99%	99.99%	99.99%	99.99%	99.99%		
Share of investments	315,997	293,012	130,699	137,601	26,565	25,896	473,261	456,509
Unrealized profit on inventories	(12,852)	(8,642)					(12,852)	(8,642)
Carrying amount of the investment in the parent	303,145	284,370	130,699	137,601	26,565	25,896	460,409	447,867

6. FINANCIAL INSTRUMENTS BY CATEGORY

	Parent company		Consolidated		
	6/30/2020	12/31/2019	6/30/2020		12/31/2019
	At amortized cost	At amortized cost	At fair value through profit or loss	At amortized cost	At amortized cost
Assets as per balance sheet					
Cash and cash equivalents	28,277	1,289		132,762	45,009
Derivative financial instruments			1,690		
Trade receivables				146,195	189,076
Related parties	26,976	968		3,349	393
Other assets, except prepaid expenses	962	250		3,521	3,467
	56,215	2,507	1,690	285,827	237,945

	Parent company		Consolidated		
	6/30/2020	12/31/2019	6/30/2020	12/31/2019	
	At amortized cost	At amortized cost	At amortized cost	At fair value through profit or loss	At amortized cost
Liabilities as per balance sheet:					
Trade payables	2		33,013		40,381
Derivative financial instruments				2,252	
Borrowings			322,832		281,082
Related parties	20	67	225		172
Commissions on sales			3,401		4,816
Other payables			7,761		8,446
	22	67	367,232	2,252	334,897

7. CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

The balances of bank accounts and financial investments, amounting to R$132,654 (R$44,926 at December 31, 2019, are held in prime financial institutions rated BB by Standard & Poor's).

The balances of trade receivables are classified as described in Note 3.1 (b), as follows:

	Consolidated	
	6/30/2020	12/31/2019
AA	50,563	65,257
A	58,920	73,770
B	15,584	19,102
C	12,993	19,975
D	9,908	13,020
E	5,401	4,669
	153,369	195,793

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and at banks, as well as investments consisting of repurchase agreements and Bank Certificates of Deposit (CDBs) with an average return of 100.69% of the Interbank Deposit Certificate (CDI) rate variation (up to 95.6% of the CDI rate at December 31, 2019).

	Parent company		Consolidated	
	6/30/2020	12/31/2019	6/30/2020	12/31/2019
Cash:				
In local currency			10	11
In foreign currency			98	72
			108	83
Banks:				
In local currency	160	104	7,265	6,187
In foreign currency			1,405	581
	160	104	8,670	6,768
Financial investments (i):				
In local currency				
Repurchase agreements			9,085	6,069
Bank Deposit Certificate (CDB)	28,117	1,185	112,605	32,089
Other			2,294	
	28,117	1,185	123,984	38,158
	28,277	1,289	132,762	45,009

(i) The purpose of financial investments, amounting to R$123,984 (R$38,158 at December 31, 2019), is to maintain the Company’s daily liquidity, without significant penalty for early redemption and have redemption terms less than 90 days.

9. DERIVATIVE FINANCIAL INSTRUMENTS (CONSOLIDATED)

	6/30/2020	12/31/2019
	Assets	Liabilities
Exchange rate swap	1,690	2,252
Current	1,690	2,252

The notional amounts of the exchange rate swap contracts in effect at June 30, 2020 corresponded to EUR 5.217 thousand (EUR 12.945 thousand at December 31, 2019).

10. TRADE RECEIVABLES (CONSOLIDATED)

	6/30/2020	12/31/2019
In local currency:		
Trade receivables	140,759	184,044
Estimated losses on trade receivables	(6,106)	(5,931)
	134,653	178,113
In foreign currency:		
Trade receivables	12,610	11,749
Estimated losses on trade receivables	(1,068)	(786)
	11,542	10,963
Current	146,195	189,076

The trade receivables mature as follows:

	6/30/2020	12/31/2019
Not yet due:		
Up to 3 months	121,853	137,229
From 3 to 6 months	20,330	43,476
Over 6 months	1,277	3,857
	143,460	184,562
Past due:		
Up to 3 months	1,393	3,132
From 3 to 6 months	259	809
Over 6 months	8,257	7,290
	9,909	11,231
	153,369	195,793

The Company has adopted the measurement of estimated losses on trade receivables during the lifetime of the instruments, using the simplified approach, and considering the history of changes and losses. As a general rule, notes overdue for more than 180 days (365 days for the subsidiary Ouro Fino de México, S.A. de CV) provide significant indication of impairment, and are assessed individually, considering the guarantees in effect.

Changes in the provisions were as follows:

	6/30/2020	6/30/2019
Opening balance	6,717	6,414
Additions, net	103	255
Foreign exchange variation	374	(4)
Final write-offs	(20)	
Closing balance	7,174	6,665

Additions to and reversals of the estimated losses on trade receivables were recorded under "Selling expenses" in the statement of income (Note 21). The amounts are generally written off from the provision account when the funds are no longer expected to be recovered.

11. INVENTORIES (CONSOLIDATED)

	6/30/2020	12/31/2019
Finished products	66,297	66,118
Raw materials	63,106	51,250
Packaging materials	15,773	13,494
Work in progress	12,460	12,398
Imports in transit	12,105	11,162
Advances to suppliers	9,296	11,251
Other	10,991	10,046
Provision for inventory losses (Note 18)	(9,142)	(6,083)
	180,886	169,636
Non-current (*)	(4,731)	(4,342)
Current	176,155	165,294

(*) The amount of R$4,731 (R$4,342 at December 31, 2019) relates to a loan agreement entered into between the subsidiary Ouro Fino Saúde Animal Ltda. and the supplier Laboratório Biomega S.A. (“Biomega”), which has been settled through the delivery of goods.

12. TAXES RECOVERABLE

	Parent company		Consolidated	
	6/30/2020	12/31/2019	6/30/2020	12/31/2019
ICMS			51,337	51,402
PIS and COFINS			8,257	7,791
IRRF	84	355	1,915	849
ICMS, PIS and COFINS on acquisitions of PP&E			1,287	736
IPI			147	220
Other			3,282	2,757
	84	355	66,225	63,755
Non-current			(51,575)	(51,277)
Current	84	355	14,650	12,478

ICMS credits, amounting to R$50,638 at June 30, 2020, and R$50,853 at December 31, 2019, were substantially generated by Ouro Fino Saúde Animal Ltda. and are not subject to monetary restatement. Up to April 30, 2019, the subsidiary Ouro Fino Saúde Animal Ltda. accumulated ICMS credits on tax-exempt shipments in transactions within the State of São Paulo, exports, and the 60% reduction in the ICMS tax base in interstate operations, with full/partial credits on purchases, pursuant to ICMS Agreement 100/97. As from May 1, 2019, upon the enactment of Decree 64,213 of 2019, the subsidiary was no longer entitled to full credits on operations within the State of São Paulo and started to reverse them in the monthly calculations.

Upon submission of the file addressed by Ordinance 83/2009 of the Coordinating Committee of Tax Administration Board (CAT) and approval by the tax authorities, the credit balances are converted into accumulated credits pursuant to the applicable tax legislation, and may be utilized in purchases of inputs, and machinery and equipment, and/or transferred to other Group companies which have an interdependence relationship, and calculate ICMS payable on a regular basis.

Currently, Ouro Fino Saúde Animal Ltda. is in the process of filing, on a retroactive basis, the electronic files pursuant to CAT Ordinance 83/2009, which must be submitted in chronological order to enable the conversion of the credit balance into an accumulated credit, to be used as described above.

In view of the above, the Company's management understands that there is no material risk of not using the amounts recorded, and therefore, no provision for impairment is required.

13. CURRENT AND DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION (CONSOLIDATED)

The Company and its subsidiaries Ouro Fino Saúde Animal Ltda., Ouro Fino Agronegócio Ltda., and Ouro Fino Pet Ltda. compute income tax and social contribution under the taxable income method, at the rates of 25% for income tax and 9% for social contribution. The subsidiaries located in Mexico and Colombia compute their taxes based on the respective local regulations. Therefore, there is no direct correlation between the amounts presented in the consolidated statement of income and those that would have been obtained by applying the aforementioned standard rates.

a) Composition, nature and realization of deferred taxes

(i) Deferred income tax and social contribution

	6/30/2020	12/31/2019
Tax credits on:		
Accumulated income tax and social contribution losses	6,806	7,149
Temporary differences		
Provisions	17,450	10,792
Unrealized profit on inventories	6,621	4,181
Pre-operating costs written off	96	191
Derivative financial instruments		766
Revaluation surplus - business combination	954	802
	31,927	23,881
Tax liabilities on:		
Temporary differences		
Deemed cost of land	(7,878)	(7,878)
Derivative financial instruments	(575)	
Provisions	(12)	(171)
Accelerated depreciation	(260)	(391)
	(8,725)	(8,440)
Total assets, net	23,202	15,441

Deferred income tax and social contribution are presented net, by entity, in the balance sheet.

Net changes in the deferred tax account were as follows:

	6/30/2020	6/30/2019
Opening balance	15,441	15,963
Pre-operating costs written off	(95)	(96)
Accumulated income tax and social contribution losses	(343)	6,057
Derivative financial instruments	(766)	165
Provisions	6,658	(4,113)
Unrealized profit on inventories	2,440	(204)
RD&I benefit - accelerated depreciation		10
Revaluation surplus - business combination	152	
Accelerated depreciation	(285)	
Closing balance	23,202	17,782

The amounts, by estimated offset period, are as follows:

	6/30/2020	12/31/2019
Deferred tax assets to be recovered		
In 2020	11,521	20,509
In 2021	12,910	2,570
In 2022	6,540	
After 2023	956	802
	31,927	23,881
Deferred tax liabilities to be settled		
In 2020	12	252
In 2021	575	34
In 2022		74
After 2023	8,138	8,080
	8,725	8,440

14. INTANGIBLE ASSETS (CONSOLIDATED)

	January 1, 2020	Additions	Provision for impairment	Foreign exchange variation	Write-offs	Amortization	June 30, 2020
Goodwill on acquisition of subsidiary	618						618
Product development and registration	86,475	3,954	(16,749)	151	(2,330)	(3,225)	68,276
Computer software	6,024	950		14		(842)	6,146
Other	178					(135)	43
	93,295	4,904	(16,749)	165	(2,330)	(4,202)	75,083

	January 1, 2019	Additions	Provision for impairment	Foreign exchange variation	Amortization	June 30, 2019
Goodwill on acquisition of subsidiary	618					618
Trademarks and licenses purchased	4				(4)	
Product development and registration	87,665	8,333	(140)	14	(2,986)	92,886
Computer software	5,063	762		1	(858)	4,968
Other	449				(133)	316
	93,799	9,095	(140)	15	(3,981)	98,788

	6/30/2020			
	Cost	Provision for impairment	Accumulated amortization	Net
Goodwill on acquisition of subsidiary	618			618
Trademarks and licenses purchased	2,200		(2,200)	
Product development and registration	122,096	(19,923)	(33,897)	68,276
Computer software	38,043		(31,897)	6,146
Other	1,333		(1,290)	43
	164,290	(19,923)	(69,284)	75,083

	12/31/2019			
	Cost	Provision for impairment	Accumulated amortization	Net
Goodwill on acquisition of subsidiary	618			618
Trademarks and licenses purchased	3,139		(3,139)	
Product development and registration	120,326	(3,174)	(30,677)	86,475
Computer software	37,079		(31,055)	6,024
Other	1,333		(1,155)	178
	162,495	(3,174)	(66,026)	93,295

Product development and registration relates to expenses incurred in connection with new drugs, which totaled R$68,276 (R$86,475 at December 31, 2019). The amortization of intangible assets related to product development and registration is recognized within "Cost of sales” (Note 21).

The provisions and write-offs, totaling R$19,079, relate to projects that have been discontinued or postponed at management’s decision, after a reassessment conducted at the end of June, which identified the need to make technical adjustments to certain projects and to postpone others, in order to avoid capital expenditure in the current circumstances. However, the Company points out that this decision has not affected its growth plan for the coming years, which is supported by the expansion of its portfolio, particularly of biological products, as set out in its strategic planning.

The assumptions adopted to analyze evidence of impairment are disclosed in Note 2(g).

15. PROPERTY, PLANT AND EQUIPMENT (CONSOLIDATED)

	January 1, 2020	Additions	Foreign exchange variation	Transfers	Write-offs	Depreciation	June 30, 2020
Land	24,985						24,985
Buildings and improvements	138,770	368		4,741		(1,877)	142,002
Machinery, equipment and industrial facilities	83,586	6,189		863	(19)	(3,980)	86,639
Vehicles and tractors	14,527	784	457		(111)	(1,903)	13,754
Furniture and fittings	3,022	644	(53)			(498)	3,115
IT equipment	3,609	1,287	69		(22)	(607)	4,336
Construction in progress (i)	9,742	2,222		(5,376)			6,588
Other	1,398	233	1	(228)		(123)	1,281
	279,639	11,727	474		(152)	(8,988)	282,700

	January 1, 2019	Additions	Foreign exchange variation	Transfers	Write-offs	Depreciation	June 30, 2019
Land	24,985						24,985
Buildings and improvements	134,339			25		(944)	133,420
Machinery, equipment and industrial facilities	77,214	2,860		2	(207)	(4,159)	75,710
Vehicles and tractors	11,038	7,353	50	(20)	(745)	(1,780)	15,896
Furniture and fittings	2,990	335			70	(328)	3,067
IT equipment	2,995	731		18	134	(654)	3,224
Construction in progress (i)	5,402	6,907		(25)			12,284
Other	1,669	7				(151)	1,525
	260,632	18,193	50		(748)	(8,016)	270,111

	6/30/2020			12/31/2019			
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net	Average annual depreciation rates
Land	24,985		24,985	24,985		24,985	
Buildings and improvements	168,885	(26,883)	142,002	163,776	(25,006)	138,770	2.41%
Machinery, equipment and industrial facilities	145,666	(59,027)	86,639	138,765	(55,179)	83,586	6.17%
Vehicles, tractors and aircraft	21,341	(7,587)	13,754	20,137	(5,610)	14,527	19.11%
Furniture and fittings	9,262	(6,147)	3,115	8,664	(5,642)	3,022	6.27%
IT equipment	12,850	(8,514)	4,336	11,758	(8,149)	3,609	11.09%
Construction in progress (i)	6,588		6,588	9,742		9,742	
Other	4,081	(2,800)	1,281	4,071	(2,673)	1,398	9.28%
	393,658	(110,958)	282,700	381,898	(102,259)	279,639	

(ii) At June 30, 2020, the balance of construction in progress related substantially to the expansion of the area dedicated to hormonal implants in the amount of R$891 (R$891 at December 31, 2019), a substation building in the amount of R$2,850 (R$1,910 at December 31, 2019), and a new plant for animal health products in the amount of R$759.

At June 30, 2020, the balance of capitalized borrowing costs totaled R$2,010 (R$ 1,775 at December 31, 2019), at an annual average rate of 5.68% (5.52% at December 31, 2019).

Land, buildings, and machinery and equipment amounting to R$82,325 (R$84,317 at December 31, 2019) have been pledged as collateral for borrowings (Note 17).

16. TRADE PAYABLES (CONSOLIDATED)

	6/30/2020	12/31/2019
In local currency	15,344	12,664
In foreign currency	17,669	27,717
	33,013	40,381

17. BORROWINGS (CONSOLIDATED)

	Financial charges incurred	Final maturity	6/30/2020	12/31/2019
In foreign currency				
Working capital	Exchange variation and weighted average rate of 4.85% per year (2019 - 4.76% p.a.)	2021	32,175	58,720
In local currency				
FINEP (Technological Innovation)	Weighted average rate of 5.68% p.a. (2019 - 5.52% p.a.)	2029	133,730	142,572
BNDES - FINEM	Weighted average rate of 6.78% p.a. (2019 - 8.26% p.a.)	2025	28,769	29,419
BNDES - FINAME	Weighted average rate of 9.26% p.a. (2019 - 7.73% p.a.)	2023	124	239
Export credit note (NCE)	Average rate of 4.21% p.a. (2019 - 5.30% p.a.)	2021	117,219	40,041
Working capital (i)	Average rate of 5.86% p.a. (2019 - 7.75% p.a.)	2020	7,315	6,149
Finance lease	Weighted average rate of 8.78% p.a. (2019 - 10.22% p.a.)	2022	2,497	3,522
Drawee risk	N/A	2020	1,003	420
			322,832	281,082
Non-current			(136,652)	(162,852)
Current			186,180	118,230

(i) Borrowings obtained by the subsidiary Ouro Fino Colombia S.A.S.

a) Guarantees for borrowings

The borrowings for product research, innovation and development obtained from the Fund for Financing of Studies and Projects (FINEP) are secured by a surety of the related party Ouro Fino Saúde Animal Participações S.A. and bank guarantees totaling R$105,174, in addition to the plant of animal health products located in the city of Cravinhos, State of São Paulo, pledged as collateral. No amounts are charged for the guarantees provided.

Working capital borrowings are secured by sureties of the parent company and/or controlling stockholders. Leases are secured by sureties of the parent company and/or controlling stockholders, and financing transactions under the FINAME program are guaranteed by a statutory lien on the assets financed, in addition to sureties of the parent company and/or controlling stockholders.

The BNDES-FINEM transaction also requires compliance with ratios previously defined in the contract: Net Debt/EBITDA ratio equal to or lower than 3.0, and a General Indebtness ratio equal to or lower than 0.70. These ratios were complied with in the periods ended June 30, 2020 and December 31, 2019.

The carrying amounts of borrowings approximate their fair values.

The composition of non-current borrowings is as follows:

	6/30/2020
From 1 to 2 years	32,123
From 2 to 3 years	31,201
From 3 to 4 years	23,857
From 4 to 5 years	13,594
Over 5 years	35,877
	136,652

b) Working capital borrowings denominated in foreign currency

Exchange rate swap transactions were contracted for working capital borrowings denominated in foreign currency (EUR), which amounted to R$32,175 at June 30, 2020 (R$58,720 at December 31, 2019), and exchange the borrowing contractual charges for charges based on the CDI rate variation (Note 9).

18. PROVISIONS (CONSOLIDATED)

	Quarter ended June 30, 2020				
Balances recognized in assets:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Sales returns	81	187	(81)		187
Bonuses on sales	590	291	(824)		57
Provision for impairment of intangible assets	3,153	16,770			19,923
Estimated losses on trade receivables	6,978	94	(20)	122	7,174
Provision for inventory losses	7,861	2,107	(845)	19	9,142
	18,663	19,449	(1,770)	141	36,483
Balances recognized in liabilities:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Provision for contingencies	3,891	289	(651)	181	3,710
	3,891	289	(651)	181	3,710

	Six-month period ended June 30, 2020				
Balances recognized in assets:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Sales returns	68	251	(132)		187
Bonuses on sales	957	377	(1,277)		57
Provision for impairment of intangible assets	3,174	16,770	(21)		19,923
Estimated losses on trade receivables	6,717	103	(20)	374	7,174
Provision for inventory losses	6,083	3,891	(857)	25	9,142
	16,999	21,392	(2,307)	399	36,483
Balances recognized in liabilities:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Provision for contingencies	3,684	495	(705)	236	3,710
	3,684	495	(705)	236	3,710

	Quarter ended June 30, 2019				
Balances recognized in assets:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Sales returns	454			(416)	38
Bonuses on sales	599		(453)	2	148
Provision for impairment of intangible assets	9,309	140			9,449
Estimated losses on trade receivables	6,555	130		(20)	6,665
Provision for inventory losses	8,110	885	(4,111)	(6)	4,878
	25,027	1,155	(4,564)	(440)	21,178
Balances recognized in liabilities:	Opening balance	Additions and reversals, net	Monetary restatemen t	Foreign exchange variation	Closing balance
Provision for contingencies	8,434	(152)		(29)	8,253
	8,434	(152)		(29)	8,253

	Six-month period ended June 30, 2019				
Balances recognized in assets:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Sales returns	162	292	(416)		38
Bonuses on sales	954		(808)	2	148
Provision for impairment of intangible assets	9,309	140			9,449
Estimated losses on trade receivables	6,414	255		(4)	6,665
Provision for inventory losses	7,087	1,935	(4,143)	(1)	4,878
	23,926	2,622	(5,367)	(3)	21,178
Balances recognized in liabilities:	Opening balance	Additions and reversals, net	Monetary restatement	Foreign exchange variation	Closing balance
Provision for contingencies	8,114	36	102	1	8,253
	8,114	36	102	1	8,253

a) Product returns

The Group recognizes a provision for cases in which the customers are entitled to return the product within a given period. Revenue is adjusted for the expected value of the returns, and cost of sales is adjusted for the value of the corresponding goods to be returned.

b) Bonuses on sales

The provisions for bonuses on sales are related to sales campaigns which have already been negotiated with customers but are still pending completion. These provisions are recognized in the statement of income under "Cost of sales".

c) Provision for contingencies

The Group companies are parties to labor, civil and tax lawsuits in progress, and are discussing these matters at the administrative and judicial levels, which, where applicable, are supported by judicial deposits. The provisions for probable losses arising from these matters are estimated and periodically adjusted by management, supported by the opinion of its external legal advisors.

The provisions set up are as follows:

	6/30/2020	12/31/2019
Labor	2,525	2,529
Civil	893	1,150
Tax	292	5
	3,710	3,684

d) Provision for impairment of trade receivables

The provision for impairment of trade receivables is measured using the "expected loss" criterion. Considering all the controls the Group has in place to mitigate credit risk, and the low historical delinquency rate, there were no significant effects during the quarter under analysis (Note 10).

e) Provision for inventory losses

The Group recognizes a provision for inventory losses when there is uncertainty regarding the realization of these balances (products whose expiration dates are approaching and/or damaged products) (Note 11).

f) Provision for impairment of intangible assets

The Group tests for impairment the balances related to product development recognized in intangible assets using the discounted cash flow method (Notes 2 (g) and 14), whenever practicable.

g) Possible losses not provided for in the balance sheet

The Group companies are parties to tax, labor and civil lawsuits involving risks of loss classified by management as possible, based on the evaluation of the legal advisors, for which no provision has been recorded.

Possible contingencies are broken down as follows:

	6/30/2020			12/31/2019		
	Administrative	Legal	Total	Administrative	Legal	Total
Tax (*)	90,537	1,444	91,981	95,106	1,924	97,030
Labor		2,073	2,073		2,278	2,278
Civil	3	2,293	2,296	3	2,364	2,367
	90,540	5,810	96,350	95,109	6,566	101,675

(*) These correspond mainly to tax assessment notices related to State Value-Added Tax (ICMS), Social Integration Program (PIS), and Social Contribution on Revenues (COFINS). The PIS/COFINS tax assessment notice, amounting to R$49,488 (R$49,072 at December 31, 2019), was issued against the subsidiary Ouro Fino Saúde Animal Ltda. in May 2019, in connection with taxable events that took place in 2014, and requiring the payment of PIS and COFINS differences calculated under the single-stage tax system, for failure to include operations of Ouro Fino Agronegócio Ltda. and Ouro Fino Pet Ltda. With regard to ICMS, the dispute involves issues related to alleged debts, totaling R$17,012 (R$22,636 at December 31, 2019), due to a different interpretation by the tax authorities concerning the application of the exemption provided for under ICMS Agreement 100/97 to imports of technical inputs to be used in products for the livestock sector.

h) Contingent assets

The subsidiaries Ouro Fino Saúde Animal Ltda. and Ouro Fino Agronegócio Ltda. obtained favorable, final and unappealable court decisions regarding the right to offset tax credits arising from the exclusion of ICMS from the PIS/COFINS tax base. On October 18, 2018, the Brazilian Federal Revenue Service issued Internal Ruling 13 of the General Coordination of the Taxation System (COSIT), which provides for the criteria and procedures to be followed for calculating the amount to be excluded from the monthly PIS/COFINS tax base. Considering that said Internal Ruling brings legal uncertainty to the taxpayers that exclude from the tax base the ICMS amounts separately disclosed in the related invoices, the recognition of such credits, totaling R$3,800 (R$3,800 at December 31, 2019), is considered by management as probable but not virtually certain, and therefore, they have not been recorded, and are being disclosed as contingent assets.

19. EQUITY

a) Share capital

At the Annual and Extraordinary General Meeting held on March 29, 2019, the stockholders approved an increase in the Company's share capital of R$18,269, without the issue of new registered common shares with no par value, through the use of revenue reserves net of the capital reserve.

At June 30, 2020, fully subscribed and paid-up capital comprised 53,949,006 common shares with no par value.

b) Capital reserve

The amounts considered as "Capital reserve" related to expenditures incurred with the Initial Public Offering (IPO), and were included in the capital increase approved at the Annual and Extraordinary General Meeting held on March 29, 2019.

c) Allocation of profit

According to the Company’s bylaws, profit will be allocated as follows:

- 5% to the legal reserve, limited to 20% of share capital.
- Minimum dividend of 25% of profit adjusted according to Article 202 of Law 6,404.
- The remaining balance will be distributed as approved at a General Meeting by stockholders representing at least 2/3 (two thirds) of the voting shares, in compliance with the applicable legal provisions.
- Due to the current uncertainties caused by the COVID-19 pandemic and its potential impacts on the Brazilian and global economies, and aiming at preserving liquidity for the future investments projected by the Company, management submitted to the approval of the Annual and Extraordinary General Meeting held on May 8, 2020 a proposal for partial distribution of the minimum mandatory dividends for the year ended December 31, 2019, payment of interest on capital in the net amount of R$ 836 (gross amount of R$ 945), and retention of the remaining balance of the minimum mandatory dividends in the amount of R$ 10,155. The amounts not distributed as dividends will be retained in a special reserve, pursuant to paragraphs 4 and 5 of Article 202 of the Brazilian Corporate Law.

d) Carrying value adjustments

These relate to the effect arising from adoption of the deemed cost method to record land in subsidiaries from January 1, 2009, as well as to all foreign exchange rate differences resulting from the translation of the balance sheet and profit or loss of subsidiaries abroad.

e) Stock option plan

The Group has a Stock Option Plan (the "Plan") in place, aiming at: (i) stimulating the Company's growth, success and achievement of objectives; (ii) aligning the interests of the Company's stockholders with those of the eligible individuals; (iii) enabling the attraction and retention of professionals and service providers, thus contributing to the generation of value for the Company, and (iv) sharing risks and gains equally among stockholders, management and employees.

The Plan is managed by the Board of Directors and, according to its rules, the following beneficiaries are eligible: members of management, employees, and service providers of the Company or of other companies under its control. The total number of common shares for which options may be granted cannot exceed 1.5% of the total common shares representing the Company's share capital. Data on the Company's Stock Option Plan is available at the Brazilian Securities Commission (CVM).

The vesting period considers that the beneficiaries may exercise their right in installments of 1/5 (one fifth) of the total shares granted as from the end of the first year from the date of signature of the Adhesion Agreement, and the same number of shares annually up to the end of the fifth year, provided that the beneficiaries remain continually linked to the Company.

The strike price will be set based on the average quoted price of the Company's shares on the Brazilian stock exchange (B3), weighted by the trading volume within the 60 (sixty) trading sessions prior to the grant, and monetarily restated by the General Market Price Index (IGP-M).

The maximum term for exercising these options is 4 (four) years from the end of the vesting period. Options that are not exercised according to the terms and conditions established will be automatically canceled, without any compensation.

On December 30, 2014, the Board of Directors defined the persons eligible for the first grant, which totaled 809,135 stock options, distributed among 17 beneficiaries, as follows:

	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Number of options	161,827	161,827	161,827	161,827
Strike price	28.22	28.22	28.22	28.22
Fair value of options granted	11.16	12.48	13.74	14.90
Maximum exercise date	12/31/2020	12/31/2021	12/31/2022	12/31/2023

On September 28, 2016, the Board of Directors approved an additional grant of 40,000 stock options, as detailed below.

	End of the vesting period				
	9/28/2017	9/28/2018	9/28/2019	9/28/2020	9/28/2021
Number of options	8,000	8,000	8,000	8,000	8,000
Strike price	39.38	39.38	39.38	39.38	39.38
Fair value of options granted	12.89	14.87	16.62	18.23	19.66
Maximum exercise date	9/28/2021	9/28/2022	9/28/2023	9/28/2024	9/28/2025

The fair value attributed to the options granted was determined using the Black-Scholes-Merton pricing model, which takes into consideration the value of the share, the strike price, the remaining period up to the exercise of the option, the likelihood of the option being exercised, the historical volatility, the dividend rate, and the risk-free interest rate, in accordance with the assumptions below:

Grant on December 30, 2014	General assumptions and valuation information			
End of the vesting period	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Share price on the grant date	30.61	30.61	30.61	30.61
Estimated strike price for the period	35.41	37.46	39.35	41.38
Estimated lifetime (in years)	4.00	5.00	6.00	7.00
Expected volatility	26.20%	26.20%	26.20%	26.20%
Risk-free interest rate	12.60%	12.40%	12.30%	12.20%

Grant on September 28, 2016	General assumptions and valuation information			
End of the vesting period	9/28/2018	9/28/2019	9/28/2020	9/28/2021
Share price on the grant date	39.00	39.00	39.00	39.00
Estimated strike price for the period	43.91	46.40	49.07	51.91
Estimated lifetime (in years)	4.00	5.00	6.00	7.00
Expected volatility	30.40%	30.40%	30.40%	30.40%
Risk-free interest rate	11.60%	11.70%	11.70%	11.80%

In the six-month period ended June 30, 2020, an expense totaling R$72 (R$325 at June 30, 2019) was recognized with respect to stock options, and the total shares granted totaled 143,813 (213,076 at June 30, 2019).

20. REVENUE (CONSOLIDATED)

The reconciliation between gross and net sales revenue is as follows:

	2020		2019	
	Quarter	6-month period	Quarter	6-month period
In Brazil:				
Gross sales and services	168,509	273,652	178,736	268,266
Taxes and deductions on sales	(14,642)	(27,270)	(16,550)	(26,759)
	153,867	246,382	162,186	241,507
Abroad:				
Gross sales	18,851	38,392	15,766	27,578
Taxes and deductions on sales	(183)	(360)	(226)	(381)
	18,668	38,032	15,540	27,197
	172,535	284,414	177,726	268,704

21. COSTS AND EXPENSES BY NATURE

	Parent company			
	2020		2019	
	Quarter	6-month period	Quarter	6-month period
General and administrative expenses				
Personnel expenses	1,267	2,231	921	1,639
Outsourced services	510	504	81	150
Travel expenses	3	7	9	16
Other	137	383	37	258
	1,917	3,125	1,048	2,063

	Consolidated			
	2020		2019	
	Quarter	6-month period	Quarter	6-month period
Cost of sales (*)				
Variable costs (raw and consumption materials)	47,554	80,760	52,854	78,255
Personnel expenses	17,135	29,815	22,789	33,358
Depreciation and amortization	4,431	8,615	4,299	7,998
Outsourced services	5,909	9,979	6,258	9,262
Provision for inventory losses	1,262	3,034	(3,226)	(2,208)
Electricity	2,272	3,934	2,271	3,243
Provision for impairment			140	140
Other	3,621	6,623	3,985	6,336
	82,184	142,760	89,370	136,384
Selling expenses				
Personnel expenses	22,035	41,982	20,497	39,278
Sales team expenses	7,664	14,680	11,723	20,379
Outsourced services	7,769	14,286	7,077	13,656
Freight charges	6,348	10,497	6,329	9,887
Depreciation and amortization	1,606	3,194	1,507	2,857
Telecommunications and electricity	380	631	297	564
Other	1,681	4,487	2,604	4,057
	47,483	89,757	50,034	90,678
General and administrative expenses				
Personnel expenses	7,799	14,900	7,184	13,602
Outsourced services	2,087	3,557	3,677	4,392
Depreciation and amortization	737	1,381	594	1,142
Travel expenses	54	163	278	409
Telecommunications and electricity	284	401	204	395
Vehicle expenses	7	120	47	143
Donations and sponsorships	15	28	28	47
Other	830	1,800	643	1,342
	11,813	22,350	12,655	21,472
	141,480	254,867	152,059	248,534

(*) The breakdown of costs of sales is estimated based on the percentage of the production cost over the last 12 months.

22. OTHER INCOME (EXPENSES), NET

	Parent company			
	2020		2019	
	Quarter	6-month period	Quarter	6-month period
Gains on sales of scrap, rentals and other	46	91	27	55
Federal, state and municipal taxes and fees	(3)	(5)	(5)	(7)
Other losses	(61)	(101)		
	(18)	(15)	22	48

	Consolidated			
	2020		2019	
	Quarter	6-month period	Quarter	6-month period
Federal, state and municipal taxes and fees (i)	44	1,803	(148)	774
Gain on disposal and write-off of PP&E	267	330	81	143
Gains on sales of scrap, rentals and other	41	111	(249)	(204)
Write off of intangible assets (ii)	(2,309)	(2,330)		
Provision for impairment of intangible assets (ii)	(16,770)	(16,749)		
Other gains (losses)	(258)	(296)	733	648
	(18,985)	(17,131)	417	1,361

(i) Relates substantially to extemporaneous credits of PIS/COFINS contributions, in the amount of R$1,994, referring to inputs that are essential and relevant to the production process.

(ii) Relates to the provision for impairment and write-offs of projects under development which were recognized as intangible assets (Note 14).

23. FINANCE INCOME AND COSTS

	Parent company			
	2020		2019	
	Quarter	6-month period	Quarter	6-month period
Finance income:				
Income from financial investments	216	311		
Monetary variation	1	1		
	217	312		
Finance costs:				
Interest paid		(2)		
Financial charges	(1)	(1)		
Other	(21)	(45)	(15)	(29)
	(22)	(48)	(15)	(29)
Finance result	195	264	(15)	(29)

	Consolidated			
	2020		2019	
	Quarter	6-month period	Quarter	6-month period
Finance income:				
Income from financial investments	1,043	1,149	847	1,664
Interest received	98	249	255	400
Monetary variation	11	52	7	106
Other	8	20	36	68
	1,160	1,470	1,145	2,238
Finance costs:				
Interest paid	(3,458)	(5,545)	(3,429)	(7,087)
Financial charges	(298)	(500)	(417)	(784)
Other		(457)	(162)	(313)
	(3,756)	(6,502)	(4,008)	(8,184)
Derivative financial instruments, net:				
Gains (losses) on derivatives (foreign exchange variation)	952	14,304	(612)	(985)
Gains (losses) on derivatives (interest)	357	686	(336)	(368)
	1,309	14,990	(948)	(1,353)
Foreign exchange variations, net	697	(12,033)	381	272
Finance result	(590)	(2,075)	(3,430)	(7,027)

24. INCOME TAX AND SOCIAL CONTRIBUTION EXPENSE

The income tax and social contribution expense is reconciled to the standard rates as shown below:

	Parent company			
	2020		2019	
	Quarter	6-month period	Quarter	6-month period
Profit before income tax and social contribution	14,734	12,579	13,995	8,578
Standard rates	34%	34%	34%	34%
	(5,010)	(4,277)	(4,758)	(2,916)
Reconciliation to the effective rate:				
Permanent differences:				
Equity in the results of investees	5,602	5,255	5,112	3,611
Unrecognized deferred taxes	(592)	(978)	(354)	(695)
Income tax and social contribution				

	Consolidated			
	2020		2019	
	Quarter	6-month period	Quarter	6-month period
Profit (loss) before income tax and social contribution	11,480	10,341	22,654	14,504
Standard rates	34%	34%	34%	34%
	(3,903)	(3,516)	(7,702)	(4,931)
Reconciliation to the effective rate				
Permanent differences:				
RD&I benefit	3,911	4,080		
Investment grant (i)	3,675	3,675		
Adjustment related to the calculation of subsidiaries abroad taxed at the rate in effect in their respective country	90	(1,122)	(555)	(679)
Deferred taxes, not recorded	(592)	(978)	(354)	(695)
Other	73	92	(51)	377
Income tax and social contribution	3,254	2,231	(8,662)	(5,928)
Reconciliation to the statement of income:				
Current	(3,071)	(5,008)	(4,776)	(7,412)
Deferred	6,325	7,239	(3,886)	1,484
	3,254	2,231	(8,662)	(5,928)

(i) The Group recognized deductible tax incentives related to ICMS-exempt shipments in operations within the State of São Paulo, exports, and shipments with a 60% reduction in the ICMS tax base in interstate operations, which are considered as investment grants due to the fact that they fulfill the requirements of ICMS Agreement 100/1997 arising from Complementary Law 160/2017.

25. EARNINGS PER SHARE

a) Basic

Basic earnings per share are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of common shares during the period.

	2020		2019	
	Quarter	6-month period	Quarter	6-month period
Profit for the period attributable to owners of the Company	12,098	9,943	13,995	8,578
Weighted average number of common shares in the period (in thousands of shares)	53,949	53,949	53,949	53,949
Basic earnings per share	0.22425	0.18430	0.25941	0.15900

b) Diluted

Diluted earnings per share are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of common shares during the year, adjusted by the weighted average number of instruments with dilutive effects.

	2020		2019	
	Quarter	6-month period	Quarter	6-month period
Profit for the period attributable to owners of the Company	12,098	9,943	13,995	8,578
Weighted average number of common shares in the period, considering instruments with dilutive effects (in thousands of shares)	53,949	53,949	53,949	53,949
Diluted earnings per share	0.22425	0.18430	0.25941	0.15900

26. EMPLOYEE BENEFITS

a) Private pension plan - defined contribution

The Group companies sponsor a defined contribution pension plan for their employees. The plan was implemented in August 2008 and is managed by Itaú Vida e Previdência S.A. The companies' contributions to the plan at June 30, 2020 totaled R$ 509 (R$561 at June 30, 2019).

b) Profit sharing

The Group companies offer a variable compensation program to their employees, calculated based on quantitative and qualitative targets established by management. In the six-month period ended June 30, 2020, the effect of profit sharing was R$3,860 (R$5,851 at June 30, 2019).

27. RELATED-PARTY BALANCES AND TRANSACTIONS

a) Balances and main transactions

	Parent company							
	6/30/2020				12/31/2019			
	Assets			Liabilities	Assets		Liabilities	
	Interest on capital	Advances for future capital increase	Other assets (i)	Other liabilities (ii)	Interest on capital	Other assets (i)	Dividends and interest on capital	Other liabilities (ii)
Subsidiaries:								
Ouro Fino Saúde Animal Ltda.		23,000		20				67
Ouro Fino Pet Ltda.	885				885			
Other related parties:								
Ouro Fino Química Ltda.			183			83		
BNDES Participações S.A.			1,221					
Shareholders			1,687				10,991	
	885	23,000	3,091	20	885	83	10,991	67

	Parent company				
	Main transactions:				
	6/30/2020			6/30/2019	
	Royalties	Reimbursement of CSC expenses (i)	Other expenses, net	Royalties	Reimbursement of CSC expenses (i)
Subsidiaries:					
Ouro Fino Saúde Animal Ltda.		(66)	(128)		(141)
Ouro Fino Agronegócio Ltda.		119			
Ouro Fino Pet Ltda.		23	(5)		
Other related parties:					
Ouro Fino Química Ltda.	100			60	
	100	76	(133)	60	(141)

	Consolidated						
	Balances:						
	6/30/2020			12/31/2019			
	Assets	Liabilities		Assets	Liabilities		
	Other assets (i)	Other liabilities (ii)	Borrowings (*)	Other assets (i)	Dividends and interest on capital	Other liabilities (ii)	Borrowings (*)
Other related parties:							
Ouro Fino Química Ltda.	326	225		239		150	
Condomínio Rural Ouro Fino	115			154			
BNDES Participações S.A.	1,221		28,893				29,658
Shareholders	1,687				10,991		
Other						22	
	3,349	225	28,893	393	10,991	172	29,658

	Consolidated									
	Main transactions:									
	6/30/2020					6/30/2019				
	Gross profit on sales of goods	Reimbursement of CSC expenses (i)	Royalties	Other expenses, net	Finance result	Gross profit on sales of goods	Reimbursement of CSC expenses (i)	Royalties	Other expenses, net	Finance result
Other related parties:										
Ouro Fino Química Ltda.		612	100	(468)			718	60	(416)	
Condomínio Rural Ouro Fino	2			(1,123)		2			(960)	
BNDES Participações S.A.					(1,054)					(1,535)
Other				(116)					(105)	
	2	612	100	(1,707)	(1,054)	2	718	60	(1,481)	(1,535)

(i) Other assets and liabilities

Other assets and liabilities are represented by the reimbursement of expenses, especially those incurred with the Shared Services Center ("CSC"), under the expense sharing agreement entered into on September 30, 2014.

(ii) Borrowings

These refer to borrowings from the related party BNDES Participações S.A., under market conditions similar to those adopted by BNDES in transactions with third parties (Note 17).

b) Management compensation

Key management personnel include the Board of Directors' members and the officers appointed pursuant to the Company's bylaws, whose compensation is approved at the Annual General Meeting. The compensation paid or payable to key management personnel for their services is described below:

	6/30/2020	6/30/2019
Salaries	1,557	1,464
Labor charges	355	331
Variable compensation	172	168
Compensation and fringe benefits	78	75
Share-based payments	72	121
	2,234	2,159

Although management understands that share-based payments are not compensation, the amounts related to these payments are presented in this explanatory note to comply with the disclosure requirements of Technical Pronouncement CPC 05 – Related-party Disclosures.

28. INSURANCE

As part of its risk management policy, the Group maintains insurance coverage for operational and civil liability risks. The current policies are in effect for one year, as shown in the table below:

Insured assets	Risks covered	2020	2019
Property, plant and equipment and inventories	Fire, lightning, explosion, electrical damage, windstorm, loss of profit	403,980	407,000
General civil liability	Damage to third parties during operations	10,000	10,000
Civil risks - Management	Damage to third parties arising from acts by members of management in the performance of their duties	30,000	30,000

29. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies applied in the preparation of this interim financial information are set out below. These policies have been consistently applied to the periods presented, unless otherwise stated.

29.1 Consolidation

The following accounting policies have been applied in the preparation of this consolidated interim financial information:

a) Subsidiaries are all entities over which the Group has control. They are fully consolidated from the date on which control is transferred to the Group and deconsolidated from the date that control ceases.

Identifiable assets acquired and liabilities and contingent liabilities assumed for the acquisition of subsidiaries in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are accounted for in the statement of income as incurred.

b) Transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

29.2 Foreign currency translation

a) Functional and presentation currency

Items included in the interim financial information of each of the Group companies are measured using the currency of the primary economic environment in which the entities operate (the "functional currency"), which is substantially the Brazilian real, except as mentioned in item (c) below. Therefore, the individual and consolidated interim financial information is presented in this currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or the dates of valuation when items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income under "Finance income (costs)".

c) Group companies with a different functional currency

The results and financial position of Ouro Fino de México, S.A. de CV and Ouro Fino Colombia S.A.S (subsidiaries of Ouro Fino Saúde Animal Ltda.), whose functional currency is different from the presentation currency, are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate prevailing on the reporting date.

(ii) Income and expenses for each statement of income are translated at average foreign exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate in effect on the dates of the transactions).

(iii) All the resulting exchange variations are recognized as a separate component of equity, in the "Carrying value adjustments" account.

29.3 Financial assets

29.3.1 Classification

The Group classifies its financial assets, upon initial recognition, in the following categories: at amortized cost and at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired.

a) Amortized cost

Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and are not classified in the "at fair value through profit or loss" category. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Financial assets classified at amortized cost comprise trade and other receivables, and cash equivalents.

b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. All financial assets in this category are classified as current assets. Derivatives are also classified as "held for trading".

29.3.2 Recognition and measurement

Normal purchases and sales of financial assets are recognized on the trade date. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of income. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred, and the Group has transferred substantially all the risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value.

For financial assets carried at amortized cost the effective interest rate method is adopted.

29.3.3 Impairment of financial assets

Assets measured at amortized cost

Management assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event"), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The new standard CPC 48/IFRS 9 "Financial Instruments", which became effective on January 1, 2018, introduced a new impairment model for financial assets, replacing the provision for incurred losses with the provision for expected losses. Considering the low historical default rates, the new model did not have material effects on the Company.

29.4 Derivative financial instruments

Derivative financial instruments are contracted with the purpose of hedging transactions against the risks of fluctuations in foreign exchange and interest rates, and are not used for speculative purposes. The Group operates mainly with exchange rate swaps. Derivatives are initially recognized at their fair value on the date on which the contract is entered into, and are subsequently remeasured at fair value. Since the Group does not adopt hedge accounting, the changes in the fair value of derivative instruments are recognized immediately in the statement of income within "Finance income (costs)".

The new standard IFRS 9 "Financial instruments", which became effective on January 1, 2018, introduced new criteria for the classification of financial assets and relaxation of the requirements for adoption of hedge accounting. Management believes that there will be no significant changes in the classification and measurement of its financial assets, especially considering that the Group has not entered into hedging transactions.

29.5 Trade receivables

Trade receivables are stated at the original sales amount, plus, where applicable, monetary and foreign exchange variations, and less the estimated less on trade receivables. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

29.6 Inventories

Inventories are stated at the lower of average cost of purchase or production and net realizable value. Cost is determined using the fixed weighted average method. The cost of finished goods and work in process comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less completion costs and selling expenses. Imports in transit are stated at the accumulated cost of each transaction.

29.7 Current and deferred income tax and social contribution

The income tax and social contribution expenses for the period comprise current and deferred taxes. Taxes on profit are recognized in the statement of income, except to the extent that they relate to items recognized directly in equity. In such cases, the taxes are also recognized directly in equity.

Current and deferred income tax and social contribution are calculated on the basis of the tax laws enacted at the balance sheet date in the countries where the Group entities operate. The currently defined tax rates in Brazil of 25% for income tax and 9% for social contribution are applied.

Current and deferred income tax and social contribution are presented net, separated by taxpaying entity, in liabilities when there are amounts payable, or in assets when the amounts prepaid exceed the total amount due on the reporting date.

Deferred income tax and social contribution are recognized on accumulated tax losses and temporary differences between the tax bases of assets and liabilities and their carrying amounts in the interim financial information. They are determined based on tax rates in effect at the balance sheet date, which are expected to apply when the related deferred tax asset is realized, or the deferred tax liability is settled.

Deferred tax assets are recognized only to the extent it is probable that future taxable profit will be available against which the temporary differences and/or tax losses can be utilized.

IFRIC 23 – "Uncertainty over Income Tax Treatments" clarifies the accounting for tax positions that have not yet been accepted by the tax authorities and applies only to Income Tax and Social Contribution. It does not introduce new disclosures but reinforces the need to comply with existing disclosure requirements related to (i) judgments made; (ii) assumptions or other estimates used; and (iii) the potential impact of uncertainties that are not reflected in the interim financial information. The Group has not identified any material impacts arising from the adoption of this interpretation on its interim financial information.

29.8 Intangible assets

a) Product research and development

Research expenditures are recognized as expenses when incurred. Product development expenditures are recognized as intangible assets only if the cost can be reliably measured, and when it is probable that they will bring future economic benefits.

The Group evaluates its projects based on an in-house methodology, which considers a number of analysis milestones. The projects rely on the development of product pilots, carried out in accordance with the requirements of the regulatory agencies, and accompanied by financial feasibility analyses.

Capitalized development expenditures are amortized as from the beginning of the sales of the product, on a straight-line basis over the period of the expected benefit, which is of 10 years, on average.

Finance charges on borrowings to finance a project are capitalized during the period required to develop the products.

b) Trademarks and licenses purchased

Separately acquired trademarks and licenses are initially stated at historical cost. Since trademarks and licenses have a finite useful life, they are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of approximately 10 years.

c) Software

Computer software licenses acquired are capitalized on the basis of the costs incurred to purchase and bring to use the specific software. These costs are amortized over their estimated useful lives of five years using the straight-line method.

Costs associated with maintaining computer software programs are expensed as incurred.

d) Goodwill on the acquisition of subsidiaries

Goodwill arises from the acquisition of subsidiaries and represents the excess of (i) the consideration transferred, and (ii) the acquisition-date fair value of identifiable assets acquired, and liabilities assumed. Goodwill on acquisitions of subsidiaries is included in "Intangible assets" in the consolidated interim financial information. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

29.9 Property, plant and equipment

Property, plant and equipment are measured at historical cost, less accumulated depreciation. This cost was adjusted in the subsidiaries to reflect the deemed cost of land on the date of transition to IFRS, and depreciation is calculated using the straight-line method, considering the estimated useful lives of the respective assets. The annual depreciation rates are disclosed in Note 15. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced items or parts is derecognized. All other repair and maintenance costs are charged to the statement of income during the financial period in which they are incurred.

If the carrying amount of an asset is higher than its recoverable value, the Group records a provision for impairment to adjust the carrying amount to the estimated recoverable value.

Charges on the borrowings obtained to finance the construction of property, plant and equipment are capitalized over the period required to construct and prepare the asset for its intended use.

Gains and losses on disposals are determined by comparing the amounts of sales with the carrying amounts and are recognized within "Other income (expenses), net" in the statement of income.

29.10 Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

29.11 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. They are classified as current liabilities if payment is due in one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value, and subsequently measured at amortized cost using the effective interest rate method. In practice, they are usually recognized at the amount of the related invoice.

29.12 Borrowings

Borrowings are initially recognized upon receipt of the funds, net of transaction costs, and are subsequently presented at cost plus charges and interest in proportion to the period elapsed (on a *pro rata temporis* basis), using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

29.13 Employee benefits

a) Private pension plan

The Group companies sponsor a defined contribution pension plan for their employees. Under the defined contribution plan, the companies pay contributions to private pension plans on contractual bases. After the contributions have been made, the companies have no further obligations for additional payments. The regular contributions comprise the net periodic costs for the year in which they are due, and are included in personnel expenses.

b) Profit sharing

The provision is calculated based on quantitative and qualitative targets established by management, and are recorded as personnel expenses in the statement of income for the year.

c) Share-based compensation

The Company has a share-based compensation plan (stock option plan), duly approved by the Board of Directors, under which it receives services from its executive officers and third parties as consideration for the stock options granted. The cost of these stock options, calculated on the grant date, is recognized as an expense against equity during the vesting period.

29.14 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognized when the control of a good or service is transferred to a customer, thus replacing the principle of risks and rewards.

Sales revenues are adjusted to reflect the effects of a significant financing component when it is expected, at the beginning of the contract, that the period between the sale of products and services and the time the customer pays for those products or services exceeds one year. Where applicable, the adjustment to present value in long-term sales transactions is recognized with a corresponding entry to "Trade receivables", and its realization is recognized within "Finance income," according to the related maturity.

29.15 Distribution of dividends and interest on capital

The distribution of dividends and interest on capital to stockholders is recognized as a liability in the interim financial information, in accordance with the Company's bylaws. Any amount that exceeds the minimum required is only provided on the date it is approved by the stockholders at the Annual General Meeting.

The tax benefit of interest on capital is recognized in the statement of income, because, in substance, it represents a decrease in the effective rate of income tax and social contribution.

29.16 Leases

Lessees are required to recognize the liabilities assumed and the right-of-use assets for all contracts that give right to control an identifiable asset, including lease contracts and, potentially, some components of service contracts, unless they fall within the scope of exemptions provided for in the standard, such as (i) low-term contracts (up to 12 months) and (ii) low-value contracts (with immaterial or variable value).

For the period ended June 30, 2020, the Company's management reviewed all lease contracts and concluded that the exemption criteria provided for in IFRS 16/CPC 06 applied to all of them. Accordingly, there were no material impacts on balance sheet or income statement accounts.

29.17 New standards that are not yet effective

There are no other IFRSs or IFRIC interpretations that are not yet effective, which would be expected to have a material impact on the Group's financial statements.