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

Ouro Fino Saúde Animal Participações S.A. and Subsidiaries

Individual and Consolidated Financial Statements for the Year Ended December 31, 2020 and Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

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INDEPENDENT AUDITOR'S REPORT ON THE
INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

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

Opinion

We have audited the accompanying individual and consolidated financial statements of Ouro Fino Saúde Animal Participações S.A. ("Company"), identified as Parent Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2020, and the related statements of operations, of comprehensive income (loss), of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Ouro Fino Saúde Animal Participações S.A. as at December 31, 2020, and its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards - IFRS, issued by the International Accounting Standards Board - IASB.

Basis for opinion

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

Emphasis of matter

Corresponding figures

We draw attention to note 1.5 to the individual and consolidated financial statements, which describes the restatement of the comparative balances to separately disclose in the statement of profit and loss for the year the expenses on research and innovation, which were disclosed together with selling expenses until the reporting date. Our opinion is not qualified in respect of this matter.

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Key audit matters

Key audit matters ("KAM") are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Intangible assets arising from the development and registration of new products

Why is it a KAM?

As disclosed in note 15 to the individual and consolidated financial statements, the Company maintains, in its consolidated financial statements, balances of intangible assets resulting from the development and registration of new products, in the net amount of R$67,575 thousand. This asset has its recoverability based on projections that includes significant assumptions and judgements applied by Management, including, among others, forecasted launch date of the products, estimated life cycle of new products, expected future generation of revenues, margins and market development.

The realization of these assets was considered as a key audit area, since: (i) the amount involved is significant; and (ii) the level of Management's judgment in determining the assumptions used in estimating the products' profitability projections is significant.

How the matter was addressed in our audit?

Our audit procedures included, among others: (i) discussions with Management about feasibility studies for new products under development, as well as an understanding of the main assumptions used in these studies; (ii) understanding of the existing controls to assess the expectation of realization of these assets.

We also examined the adequacy of the disclosures made by the Company on this matter, included in notes 2.(g) and 15 to the individual and consolidated financial statements.

Based on the evidence obtained through our previously described procedures, we consider that the assessment made by Management and the respective disclosures in the explanatory notes are appropriate in the context of the individual and consolidated financial statements taken as a whole.

Recognition of investment grant

Why it is a KAM?

As disclosed in note 24 to the individual and consolidated financial statements, in 2020, the Company recognized the tax deductibility of the tax incentives relating to shipments exempt from State VAT (ICMS) in transactions carried out inside the State of São Paulo and exports and shipments with 60% relief in the ICMS tax basis in interstate transactions (ICMS Agreement 100/97), according to the law case established by the Superior Court of Justice, with tax effect in the amount of R$22,479 thousand.

This matter was considered a KAM since: (i) the amount involved is significant and (ii) the level of Management's judgment when assessing the uncertainty in the determination of the respective taxable income is significant.

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How the matter was addressed in our audit

Our audit procedures included, but were not limited to: (i) reading the internal memorandum prepared by the Company containing an assessment of the matter and legal opinions obtained by the Company from the outside legal counsel, to understand the possible impacts on the individual and consolidated financial statements for the year ended December 31, 2020; (ii) involving our tax specialists to analyze the reasonableness and consistency of the assessment made by the Company and its outside legal counsel; and (iii) assessing the appropriateness of the disclosures in the individual and consolidated financial statements.

Other matter

Statements of value added

The individual and consolidated statements of value added ("DVA") for the year ended December 31, 2020, prepared under the responsibility of the Company's Management and disclosed as supplemental information for purposes of the IFRSs, were subject to audit procedures performed together with the audit of the Company's financial statements. In forming our opinion, we evaluated whether these individual and consolidated statements of value added are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria set out in technical pronouncement CPC 09 - Statement of Value Added. In our opinion, these statements of value added were appropriately prepared, in all material respects, in accordance with the criteria set out in such technical pronouncement and are consistent in relation to the individual and consolidated financial statements taken as a whole.

Other information accompanying the individual and consolidated financial statements and the independent auditor's report

Management is responsible for the other information. The other information comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of audit conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

Management's responsibilities and those charged with governance for the individual and consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the individual and consolidated financial statements

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

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

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

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

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

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company and its subsidiaries to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

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

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

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

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

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

The accompanying individual and consolidated financial statements have been translated into English for the convenience of readers outside Brazil.

Campinas, March 1, 2021

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Renato Foganholi Asam
Engagement Partner

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

BALANCE SHEET AS OF DECEMBER 31
In thousands of Brazilian reais

		Parent company		Consolidated	
ASSETS	Note	2020	2019	2020	2019
Current assets					
Cash and cash equivalents	8	1,341	1,289	225,575	45,009
Financial investments	8	18,039		18,039	
Derivative financial instruments	9			2,298	
Trade account receivables	10			209,409	189,076
Inventories	11			190,301	165,294
Taxes recoverable	12	2,347	355	22,751	12,478
Income tax and social contribution recoverable				3,891	6,657
Related parties	27	13,633	968	427	393
Other assets			250	6,932	6,128
		35,360	2,862	679,623	425,035
Non-current assets					
Long-term receivables					
Taxes recoverable	12			44,024	51,277
Payable income tax and social contribution	13			24,121	15,441
Inventories	11			3,332	4,342
Other assets		250		1,591	507
		250		73,068	71,567
Investments in subsidiaries	5	550,524	501,209		
Property, plant and equipment	14			277,305	279,639
Intangible	15			73,941	93,295
Total non-current assets		550,774	501,209	424,314	444,501
Total assets		586,134	504,071	1,103,937	869,536

		Parent company		Consolidated	
LIABILITIES AND EQUITY	Note				
CURRENT LIABILITIES					
Trade account payables	16			55,812	40,381
Derivative financial instruments	9				2,252
Loans and financing	17			96,553	118,230
Salaries and payroll charges		934	258	39,434	20,151
Taxes payable		3,069	308	6,718	4,993
Payable income tax and social contribution					87
Dividends and interest on equity	27	21,309	10,991	21,309	10,991
Related parties	27	38	67	150	172
Commissions on sales				5,782	4,816
Other liabilities		6		12,935	8,446
Total current liabilities		25,356	11,624	238,693	210,519
Non-current liabilities					
Loans and financing	17			297,786	162,852
Provision for contingencies	18			6,384	3,684
Other liabilities				264	
Total non-current liabilities				304,434	166,536
Total liabilities		25,356	11,624	543,127	377,055
EQUITY	19				
Share capital		425,237	377,065	425,237	377,065
Options granted		5,527	5,382	5,527	5,382
Profit reserves		112,734	94,043	112,734	94,043
Equity valuation adjustments		17,280	15,957	17,280	15,957
Total equity of the controlling shareholders		560,778	492,447	560,778	492,447
Non-controlling interest				32	34
Total equity		560,778	492,447	560,810	492,481
Total liabilities and equity		586,134	504,071	1,103,937	869,536

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

STATEMENT OF PROFIT OR LOSS
YEARS ENDED DECEMBER 31
In thousands of Brazilian reais unless otherwise stated indicated

		Parent company		Consolidated	
	Note	2020	2019	2020	2019
Net sales	20			730,108	619,585
Cost of sales	21			(356,122)	(311,989)
Gross profit				373,986	307,596
Selling Expenses	21 e 1.5			(170,158)	(163,427)
Research and innovation expenses	21 e 1.5			(39,668)	(27,639)
General and administrative expenses	21	(6,128)	(3,953)	(47,225)	(44,874)
Equity in the results of investees	5	96,797	50,247		
Other income (expenses), net	22	(36)	112	(14,819)	140
Operating profit (loss)		90,633	46,406	102,116	71,796
Finance revenues		566	32	3,579	4,308
Finance expenses		(1,479)	(160)	(16,180)	(15,525)
Derivative financial instruments, net				15,597	(3,064)
Foreign exchange variation, net				(11,275)	443
Finance income (costs)	23	(913)	(128)	(8,279)	(13,838)
Income before income tax and social contribution		89,720	46,278	93,837	57,958
Income tax and social contribution	24				
Current				(11,963)	(10,629)
Deferred				7,839	(1,051)
Net income for the year		89,720	46,278	89,713	46,278
Attributable to:					
the Company's shareholders				89,720	46,278
Non-controlling interest				(7)	
				89,713	46,278
Earnings per share attributable to the company's shareholders during the year (in Brazilian Reais)	25				
Basic earnings per share				1.66305	0.85781
Diluted earnings per share				1.66305	0.85781

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

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

STATEMENT OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31
In thousands of Brazilian reais

		Parent company		Consolidated	
		2020	2019	2020	2019
Net income for the year		89,720	46,278	89,713	46,278
Other comprehensive income (loss)					
Items that will be reclassified to profit or loss					
Exchange variation on investment	5	1,323	741	1,328	744
Total comprehensive income (loss) for the year		91,043	47,019	91,041	47,022
Attributable to:					
the Company's shareholders				91,043	47,019
Non-controlling interest				(2)	3
				91,041	47,022

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

STATEMENT OF CHANGES IN EQUITY
In thousands of Brazilian reais

	Note	Attributable to the shareholders of the Parent Company									
					Profit reserve						
	Note	Share Capital	Capital reserve	Options granted	Legal reserve	Profit retention reserve	Equity valuation adjustments	Retained eanings	Total	Non-controlling interest	Total equity líquido
AS OF JANUARY 1st, 2020		377,065		5,382	13,007	81,036	15,957		492,447	34	492,481
Comprehensive income (loss) for the year											
Net income for the year								89,720	89,720	(7)	89,713
Exchange variation on investment	5						1,323		1,323	5	1,328
Total comprehensive income (loss) for the year							1,323	89,720	91,043	(2)	91,041
Contributions and distributions to shareholders:											
Capital increase with profit reserves	19 (a)	48,172				(48,172)					
Stock options granted	19 (e)			145					145		145
Allocation of profits:											
Legal reserve	19 (c)				4,486			(4,486)			
Interest on equity and dividends	19 (c)							(22,857)	(22,857)		(22,857)
Profits available to the Shareholder's Meeting	19 (c)					62,377		(62,377)			
Total shareholder contributions		48,172		145	4,486	14,205		(89,720)	(22,712)		(22,712)
AS OF DECEMBER 31, 2020		425,237		5,527	17,493	95,241	17,280		560,778	32	560,810
AS OF 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 year											
Net income for the year								46,278	46,278		46,278
Exchange variation on investment	5						741		741	3	744
Total comprehensive income (loss) for the year							741	46,278	47,019	3	47,022
Contributions and distributions to shareholders:											
Capital increase with profit reserves	19 (a)	18,269	6,392			(24,661)					
Stock options granted	19 (e)			591					591		591
Allocation of profits:											
Legal reserve	19 (c)				2,314			(2,314)			
Interest on equity and dividends	19 (c)							(11,099)	(11,099)		(11,099)
Profits available to the Shareholder's Meeting	19 (c)					32,865		(32,865)			
Total shareholder contributions		18,269	6,392	591	2,314	8,204		(46,278)	(10,508)		(10,508)
AS OF DECEMBER 31, 2019		377,065		5,382	13,007	81,036	15,957		492,447	34	492,481

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

STATEMENT OF CASH FLOW
YEARS ENDED DECEMBER 31
In thousands of Brazilian reais

		Parent company		Consolidated	
	Note	2020	2019	2020	2019
Cash flows from operating activities					
Earnings before Income tax and social contribution		89,720	46,278	93,837	57,958
Adjustments for:					
Provision for expected credit loss	10 and 18			40	1,180
Provision for inventory losses and write-offs				8,071	8,717
Provision (reversal) of returns on sales	18			47	(94)
Provision for customer bonuses	18			117	1
Equity in the results of investees	5	(96,797)	(50,247)		
Depreciation and amortization	14 and 15			26,397	24,627
Provision (reversal) for impairment of intangible assets	14			17,762	(6,135)
Gain (loss) on disposal of property, plant and equipment	22			(205)	(326)
Gain (loss) on disposal of intangible assets	22			2,902	15,835
Interest and monetary/foreign exchange variations, net		(39)		31,324	15,650
Derivative financial instruments				(15,597)	3,064
Provision for contingencies	18			2,404	(4,465)
Stock options granted	19 (e)	50	69	145	591
Changes in working capital:					
Financial investments		(18,000)		(18,000)	
Trade account receivables				(19,464)	(15,084)
Inventories				(28,926)	(19,527)
Taxes recoverable		244	274	(2,958)	(1,870)
Other assets			(283)	(1,933)	(362)
Trade account payables		(41)	41	12,994	13,170
Taxes payable		1,212	(676)	2,495	2,914
Other liabilities		694	23	24,395	(9,466)
Cash provided by (used in) operations		(22,957)	(4,521)	135,847	86,378
Interest paid				(12,755)	(15,646)
Income tax and social contribution paid				(11,156)	(14,344)
Net cash provided by (used in) operating activities		(22,957)	(4,521)	111,936	56,388
Cash flows from investment activities:					
Advances for future capital increase in subsidiaries		(23,000)	(17,000)		
Investment in intangible assets	14			(9,274)	(16,998)
Purchase of property, plant and equipment	15			(15,251)	(35,131)
Distribution of dividends and interest on equity		57,000	39,141		
Proceeds from sale of property, plant and equipment				998	1,730
Net cash provided by (used in) investing activities		34,000	22,141	(23,527)	(50,399)
Cash flows from financing activities:					
New loans and financing	29			214,000	89,994
Repayments of loan and financing	29			(122,540)	(99,103)
Payment of dividends and interest on equity	29	(10,991)	(16,351)	(10,991)	(16,351)
Realized derivative financial instruments	29			11,047	(840)
Net cash provided by (used in) financing activities		(10,991)	(16,351)	91,516	(26,300)
Increase (decrease) in cash and cash equivalents, net		52	1,269	179,925	(20,311)
Cash and cash equivalents at the beginning of the year		1,289	20	45,009	65,183
Foreign exchange gains on cash and cash equivalents				641	137
Cash and cash equivalents at the end of the year	8	1,341	1,289	225,575	45,009

Non-cash transactions in financing activities are presented in Note 29.

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

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

STATEMENT OF VALUE ADDED
YEARS ENDED DECEMBER 31
In thousands of Brazilian reais

		Parent company		Consolidated	
	Note	2020	2019	2020	2019
Revenues:					
Gross sales and services				792,547	671,327
Other income (expenses), net				(1,035)	3,047
Income from construction of own assets				8,343	14,393
Provision for expected credit loss	10 and 18			(40)	(1,180)
				799,815	687,587
Inputs acquired from third parties:					
Cost of sales and services				(264,479)	(258,285)
Materials, electricity, third-party services and other		(1,527)	(781)	(164,039)	(147,510)
Losses on assets, net				(28,858)	(17,422)
Gross value added (distributed)		(1,527)	(781)	342,439	264,370
Depreciation and amortization	14 and 15			(26,397)	(24,627)
Net value added (distributed) generated by the entity		(1,527)	(781)	316,042	239,743
Value added received through transfer:					
Equity in the results of investees	5	96,797	50,247		
Finance income		589	32	38,232	12,744
Royalties		219	162	252	162
Other			17	130	366
Total value added distributed		96,078	49,677	354,656	253,015
DISTRIBUTION OF VALUE ADDED					
Personnel:					
Direct compensation		3,929	2,683	137,320	102,498
Benefits		137	13	25,339	20,319
FGTS		95		10,318	8,450
Taxes, charges and contributions:					
Federal		2,088	637	26,745	31,278
State		10	4	14,649	11,405
Municipal				406	413
Remuneration of third parties' capital:					
Interest, foreign exchange variation, losses on derivatives etc.		99	62	46,304	29,170
Rentals				3,729	2,998
Other				133	206
Equity remuneration					
Retained earnings		66,863	35,179	66,863	35,179
Interest on equity and dividends		22,858	11,099	22,858	11,099
Non-controlling interest				(7)	
Value added distributed		96,078	49,677	354,656	253,015

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

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(All amounts in thousands of Brazilian reais (R$) unless otherwise stated)

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.

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 issuance of these individual and consolidated financial statements was approved for disclosure by the Board of Directors in March 1, 2021.

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

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

In Brazil, as well as in most other countries where the Group operates, animal health is considered an essential activity, since it is part of the agribusiness chain, which is critical for the continuity of food production and supply, in addition to the maintenance of good care for companion animals.

Within this context, the Company's operations at industrial plants, the remote customer services, and the product distribution logistics have not been impacted by the actions taken by governments so far in response to the outbreak.

On a timely basis, and aiming both at preserving the safety of employees and the continuity of operations, management has adopted the following measures:

(i) Creation of a Risk Management Committee, in charge of monitoring the situation on a regular basis, proposing and coordinating preventive measures to protect employees' health and minimize possible 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 by remote meetings; adoption of remote work where applicable for corporate functions (home office); and cancellation of national and international travels; and

(iii) Implementation of awareness and guidance campaigns for employees, enhanced cleaning of workplaces, and supply of in-house produced hand sanitizer to the staff.

Main risks and uncertainties arising from COVID-19

In view of the operational risks related to the COVID-19 pandemic, the Group assesses 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.

Risks of market and economic negative events are also being considered. Among them (but not limited to), possible impacts on sales and increased default are expected - which can be mitigated by the scattered portfolio of customers, and the possibility of activating online sales to merchants, livestock farmers and veterinarians – in addition to the devaluation of currencies against the US dollar. It should be noted, however, that part of the Group's revenue is tied to the US 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, which end up providing a natural hedge against exchange rate fluctuations.

In order to mitigate any liquidity risk, the Group carried out financial funding in 2020 in the amount of R$120,000 on favorable terms, which helped to meet financial obligations and strengthen the cash position. It should be noted that R$90,000 of these amounts, initially raised as short-term debt, were extended to a four-year final term and under even more favorable cost.

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

1.3. Basis of preparation and statement of compliance

The individual and consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board - IASB and also in compliance with accounting practices adopted in Brazil (“BR GAAP”).

The accounting policies adopted in Brazil comprise those included in Brazilian Corporate Law and technical pronouncements, guidelines and interpretations issued by the Accounting Pronouncements Committee - CPC, which were approved by the Federal Accounting Board - CFC and the Brazilian Securities and Exchange Commission - CVM.

As there is no difference between the consolidated equity and the consolidated income attributable to the shareholders of the parent company, included in the consolidated financial statements prepared in compliance with IFRSs and accounting practices adopted in Brazil, and the parent company equity and income, included in the individual financial statements prepared in compliance with IFRSs and accounting practices adopted in Brazil, the Company decided to present these individual and consolidated financial statements in a single set, side by side.

The main accounting policies applied in the preparation of these financial statements are presented in Note 31.

The preparation of financial statements 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 parent company and consolidated financial statements, are disclosed in Note 2.

The presentation of the individual and consolidated statements of value added ("SVA"), which is required by the Brazilian corporate legislation and the accounting practices adopted in Brazil for listed companies, SVA has been prepared in compliance with the criteria defined in Technical Pronouncement CPC 09 - Statement of Value Added. 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 as a result of its involvement with the investee and has the ability to direct the significant activities of the investee.

The subsidiaries included in the consolidation are described in Note 5(a) and the accounting policies applied in the preparation of the consolidated financial statements are described in Note 31.

1.5. Restatement of comparative figures

As from the year ended December 31, 2020, the Group decided to segregate in the Statement of profit or loss the expenses related to research and innovation, which until then were shown together with selling expenses.

The change aims to provide readers of the financial statements a better understanding of the investments made for the sustainability of our business.

	Consolidated		
	2019 Released	Reclassification	2019 Restated
Net sales revenue	619,585		619,585
Cost of sales	(311,989)		(311,989)
Gross profit	307,596		307,596
Selling Expenses	(191,066)	27,639	(163,427)
Research and innovation expenses		(27,639)	(27,639)
General and administrative expenses	(44,874)		(44,874)
Other revenues, net	140		140
Operating profit	71,796		71,796
Finance income (costs)	(13,838)		(13,838)
Income tax and social contribution	(11,680)		(11,680)
Net income for the year	46,278		46,278

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.

The Management carefully assessed the impacts of the COVID19 outbreak on its business and was compliant with the requirements of accounting practices adopted in Brazil including the pronouncements issued by the Accounting Pronouncements Committee (CPC) and International Financial Reporting Standards *(IFRS*), issued by the International Accounting Standards Board - *(IASB)*, in addition to CVM/SNS/SEP Circular Letter No. 02/2020.

Based on assumptions, the Group makes estimates concerning the future. The resulting accounting estimates will, by definition, seldom be equal the 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 methods, and makes assumptions that are mainly based on market conditions existing at the balance sheet date.

b) Expected credit loss

   The method consists of assessing changes in the quality of the 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, respectively arising from income tax and social contribution losses, were recognized based on the expectation of future realization, supported by projections of results made by management, which consider the typical development of business and 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 (in which 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 to elapse 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.

g) Impairment of intangible assets

The Group annually tests intangible assets - mainly represented by product development and registration - for impairment, whenever possible using the discounted cash flow method, and 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 expenses.

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. The provision is recorded when the recoverable amount (net present value of cash flow) is below the amount of the recorded asset, pursuant to the Company's accounting policy presented in Note 31.8. The assessment of the recoverability of balances takes into account 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 that are damaged, expired and/or about to expire 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, Decree 64,213 revoked the maintenance of tax credits arising from tax-exempt transactions within the State.

Upon the 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 used 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.

As the Group's management believes that there is no material risk of not realizing these credits, no provision for impairment was recorded.

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The Group companies' activities expose them to financial risks, mainly related to foreign exchange variations, fluctuations in interest rates, credit and liquidity risks. The objective of risk management is to reduce potential unexpected variations in the results arising from the aforementioned risks. The Group manages its financial risks as the basis for its growth strategy and satisfactory cash flows. The Group has a Finance Committee that establishes management strategies regarding such exposures, which may include the utilization of derivative or non-derivative financial instruments for hedging 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 future cash flow projections.

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 amount of assets and increase liabilities. The Group is mainly exposed to fluctuation in the U.S. dollar exchange rate.

Where necessary, in order to hedge against foreign exchange risks, the Group uses derivative transactions, mainly exchange rate swaps.

Swaps are classified as derivatives at fair value through profit or loss and were entered into to exchange the charges on loans and financing initially obtained in foreign currency for charges based on the Interbank Deposit Certificate (CDI) rate.

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

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

	2020	2019
Assets in foreign currency		
Cash and cash equivalents	538	653
Trade account receivables	14,725	10,963
	15,263	11,616
Liabilities in foreign currency		
Trade account payables	(27,633)	(22,602)
	(27,633)	(22,602)
Net exposure - liabilities	(12,370)	(10,986)

(*) The table above does not include balances of working capital loans and financing denominated in foreign currency of R$ 33,540 (2019 - R$ 58,720) (Note 17), as they are hedged by a foreign exchange 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, whenever required, derivative transactions may be entered into.

The table below presents two scenarios, considering the changes in the quotations of the Brazilian real (R$) against the U.S. dollar (US$).

				Impact	
Assets/liabilities	Risk	Balance on 31/12/2020	Scenario probable (US$ 5.03)	Scenario 2 (variation US$ - 25%)	Scenario 3 (variation US$ - 50%)
Cash and cash equivalents	(US$ depreciation)	538	(17)	(147)	(278)
Trade account receivables	(US$ depreciation)	14,725	(472)	(4,036)	(7,599)
Trade account payables	(US$ appreciation)	(27,633)	886	7,573	14,260

(ii) Interest rate risk

This risk arises from the possibility that the Group may incur losses due to adverse fluctuations in interest rates. As its interest rate risk primarily arises from loans and financing, the Group seeks to maintain a stable relation between 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, the Group’s financing transactions are carried out at floating interest rates, 80.0% (2019 – 73.8%) versus 20.0% of transactions at fixed interest rates (2019 - 26.2%). However, this increase in the share of floating-rate 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 indexes (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 utilization 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 experience in the market, of more than 33 years.

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 has credit insurance to cover part of its sales.

The Group classifies its customers' portfolio through risk evaluation methodologies developed internally, with the purpose of properly assessing the real risk of its customers. 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 is defined according to ratings that rage 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, which take into consideration, in addition to all the operating plans, the plan for raising funds to support planned investments, and the maturity schedule of the debts. The treasury department monitors daily the forecasts included in the cash flow projections to ensure sufficient cash for the Group to meet its operational needs. Additionally, the Group has previously approved the use of credit facilities available to increase and strengthen its liquidity position.

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

The Group maintains its leverage ratio so that it does not jeopardize its payment capacity and investments.

The table below breaks down 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 in the table are the contractual undiscounted cash flows.

	Consolidated			
	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Above 5 years
As of December 31, 2020				
Trade account payables	55,812			
Loans and financing (*)	112,756	85,734	173,200	82,248
Derivative financial instruments, net	(2,298)			
Dividends and interest on equity	21,309			
Other liabilities	66,934	4,733		
	254,513	90,467	173,200	82,248
As of December 31, 2019				
Trade account payables	40,381			
Loans and financing (*)	129,762	52,765	90,099	42,235
Derivative financial instruments, net	2,252			
Dividends and interest on equity	10,991			
Other liabilities	39,770	2,579		
	223,156	55,344	90,099	42,235

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

3.2. Capital management

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

The Group manages and adjusts its capital structure considering changes in the economic conditions. The capital structure arises from the selection between own (capital contributions and profit retention) and third-party capital to finance the operations. Capital is monitored on the basis of the leverage ratio, which can be measured using several indexes.

The leverage ratios for 2020 and 2019 were as follows:

		Consolidated	
	Note	2020	2019
Loans and financing	17	394,339	281,082
Derivative financial instruments, net	9	(2,298)	2,252
Cash and cash equivalents	8	(225,575)	(45,009)
Financial investments	8	(18,039)	
Net debt		148,427	238,325
Equity	19	560,810	492,481
Total capital		709,237	730,806
Leverage ratio %		20.93	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 hierarchy level.

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 chief decision-maker and has determined the following operating segments based on strategic business decisions: Such segments are as follows:

- 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 dispersed, and therefore, no individual customer accounts for more than 10% of net revenue.

Assets and liabilities, general and administrative expenses, research and innovation 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:

	2020				
	Business segments				
	Production animals	Companion animals	International operations	Unallocated costs	Total
Revenues	543,259	100,135	86,714		730,108
Cost of sales	(294,669)	(30,465)	(30,988)		(356,122)
Gross profit	248,590	69,670	55,726		373,986
Selling Expenses	(120,118)	(25,109)	(24,931)		(170,158)
Results by segment	128,472	44,561	30,795		203,828
Research and innovation expenses				(39,668)	(39,668)
General and administrative expenses and other expenses				(62,044)	(62,044)
Finance income (costs)				(8,279)	(8,279)
Income tax and social contribution				(4,124)	(4,124)
Unallocated results				(114,115)	(114,115)
Net income for the year					89,713

	2019				
	Business segments				
	Production animals	Companion animals	International operations	Unallocated costs	Total
Revenues	467,083	88,234	64,268		619,585
Cost of sales	(258,553)	(27,100)	(26,336)		(311,989)
Gross profit	208,530	61,134	37,932		307,596
Selling Expenses	(115,965)	(23,235)	(24,227)		(163,427)
Results by segment	92,565	37,899	13,705		144,169
Research and innovation expenses				(27,639)	(27,639)
General and administrative expenses and other expenses				(44,734)	(44,734)
Finance income (costs)				(13,838)	(13,838)
Income tax and social contribution				(11,680)	(11,680)
Unallocated results				(97,891)	(97,891)
Net income for the year					46,278

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

	2020	2019
Colombia	27,007	21,581
Mexico	22,393	21,762
Ecuador	6,921	5,636
Uruguay	5,449	
Paraguay	4,934	2,402
Spain	3,944	1,052
Bolivia	3,744	3,519
Honduras	2,714	2,252
Arab Emirates	2,588	943
Panama	2,050	1,809
Costa Rica	2,029	1,345
Peru	1,524	372
Other	1,417	1,595
	86,714	64,268

5. INVESTMENTS (PARENT COMPANY)

a) Information on investments in 2020 and 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 third parties upon 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	
	2020	2019
Opening balance	501,209	465,692
Equity in the results of investees	96,797	50,247
Capital payment with AFACs	23,000	17,000
Stock options granted	95	522
Interest on Equity	(14,900)	(1,041)
Dividends received (i)	(57,000)	(31,952)
Exchange variation on foreign investment	1,323	741
Final balance	550,524	501,209

(i) For the year ended December 31, 2020, the quotaholders of the subsidiaries Ouro Fino Pet Ltda. and Ouro Fino Agronegócio Ltda. approved the payment of dividends to the parent company Ouro Fino Saúde Animal Participações S.A. in the amounts of R$12,000 (2019 - R$ 6,415) and R$45,000 (2019 - R$25,537), respectively.

c) Summarized financial information

The tables below present summarized financial information of the subsidiaries.

(i) Summarized balance sheet

	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	425,721	211,623	51,263	13,479	24,085
Liabilities	(181,944)	(51,826)	(14,736)	(10,099)	(22,785)
Current assets, net	243,777	159,797	36,527	3,380	1,300
Non-current					
Assets	406,501	13,295	1,928	5,648	4,148
Liabilities	(299,201)	(2,784)	(172)		(2,533)
Non-current assets, net	107,300	10,511	1,756	5,648	1,615
Equity	351,077	170,308	38,283	9,028	2,915

	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

	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	473,171	508,055	104,857	22,393	27,007
Income (loss) before income tax and social contribution	23,255	49,742	29,312	(1,977)	(1,772)
Income tax and social contribution	3,190	1,921	(9,595)	16	(187)
Net income (loss) for the year	26,445	51,663	19,717	(1,961)	(1,959)

	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	372,051	439,759	91,987	21,762	21,581
Income (loss) before income tax and social contribution	(6,720)	38,452	28,437	(129)	(1,835)
Income tax and social contribution	1,974	(3,362)	(9,722)	43	(3)
Net income (loss) for the year	(4,746)	35,090	18,715	(86)	(1,838)

(iii) Statement of comprehensive income (loss)

	2020	2019
Ouro Fino Saúde Animal Ltda. (direct subsidiary)		
Net income (loss) for the year	26,445	(4,746)
Other comprehensive income (loss)	1,323	741
Total comprehensive income (loss)	27,768	(4,005)

(iv) Summarized statement of cash flows

	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 from operating activities	63,390	52,173	31,952	2,057	9,233
Interest paid	(12,074)	(55)	(25)		(601)
Income tax and social contribution paid	(543)	(124)	(10,489)		
Net cash from operating activities	50,773	51,994	21,438	2,057	8,632
Net cash used in investing activities	(22,931)	(218)	(59)	(146)	(173)
Net cash provided by (used in) financing activities	127,360	(45,828)	(12,354)		(671)
Increase in cash and cash equivalents, net	155,202	5,948	9,025	1,911	7,788
Cash and cash equivalents at the beginning of the year	14,586	17,740	8,237	1,847	1,310
Foreign exchange gains on cash and cash equivalents	619	20	1		
Cash and cash equivalents at the end of the year	170,407	23,708	17,263	3,758	9,098

	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 from operating activities	28,372	38,215	22,368	1,081	864
Interest paid	(14,989)	(148)	(60)		(449)
Income tax and social contribution paid		(3,904)	(10,440)		
Net cash from operating activities	13,383	34,163	11,868	1,081	415
Net cash used in investing activities	(45,395)	(3,503)	(951)	(476)	(76)
Net cash provided by (used in) financing activities	8,841	(33,789)	(6,734)		(407)
Increase (decrease) in cash and cash equivalents, net	(23,171)	(3,129)	4,183	605	(68)
Cash and cash equivalents at the beginning of the year	37,620	20,869	4,054	1,242	1,378
Foreign exchange gains on cash and cash equivalents	137				
Cash and cash equivalents at the end of the year	14,586	17,740	8,237	1,847	1,310

d) Reconciliation of the financial information on investments

	Subsidiaries							
	Ouro Fino Saúde Animal Ltda.		Ouro Fino Agronegócio Ltda.		Ouro Fino Pet Ltda.		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Equity as of January 1	314,214	300,903	163,645	153,995	31,466	20,098	509,325	474,996
Net income (loss) for the year	26,445	(4,746)	51,663	35,090	19,717	18,715	97,825	49,059
Capital payment with AFACs	23,000	17,000					23,000	17,000
Stock options granted	95	316		97		109	95	522
Interest on Equity	(14,000)				(900)	(1,041)	(14,900)	(1,041)
Dividends paid			(45,000)	(25,537)	(12,000)	(6,415)	(57,000)	(31,952)
Exchange variation on foreign investment	1,323	741					1,323	741
Equity as of December 31	351,077	314,214	170,308	163,645	38,283	31,466	559,668	509,325
Percentage holding - %	99.99%	99.99%	99.99%	99.99%	99.99%	99.99%		
Share of investments	351,077	314,214	170,308	163,645	38,283	31,466	559,668	509,325
Unrealized profit on inventories	(9,144)	(8,116)					(9,144)	(8,116)
Carrying amount of the investment in Parent Company	341,933	306,098	170,308	163,645	38,283	31,466	550,524	501,209

6. FINANCIAL INSTRUMENTS BY CATEGORY

	Parent company		Consolidated		
	2020	2019	2020		2019
	Amortized cost	Amortized cost	Assets measured at fair value through profit or loss	Amortized cost	Amortized cost
Assets as per balance sheet					
Cash and cash equivalents	1,341	1,289		225,575	45,009
Financial investments	18,039			18,039	
Derivative financial instruments (i)			2,298		
Trade account receivables				209,409	189,076
Related parties	13,633	968		427	393
Other assets, except prepaid expenses	250	250		4,436	3,467
	33,263	2,507	2,298	457,886	237,945

	Parent company		Consolidated		
	2020	2019	2020	2019	
	Amortized cost	Amortized cost	Amortized cost	Liabilities measured at fair value through profit or loss	Amortized cost
Liabilities as per balance sheet					
Trade account payables			55,812		40,381
Derivative financial instruments (i)				2,252	
Loans and financing			394,339		281,082
Related parties	38	67	150		172
Commissions on sales			5,782		4,816
Other liabilities	6		13,199		8,446
	44	67	469,282	2,252	334,897

(i) The notional amounts of exchange rate swap contracts in 2020 corresponded to EUR 5,217 thousand (2019 - EUR12,945 thousand).

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$243,512 (2019 - R$44,926) are held in top-tier financial institutions all of them rated BB by Standard & Poor’s.

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

	Consolidated	
	2020	2019
AA	75,342	65,257
A	88,277	73,770
B	21,626	19,102
C	14,396	19,975
D	11,543	13,020
E	4,014	4,669
	215,198	195,793

8. CASH AND CASH EQUIVALENTS AND FINANCIAL INVESTMENTS

Cash and cash equivalents comprise cash on hand and at banks, as well as investments consisting of repurchase agreements and CDBs, earning on average 101.37% of the Interbank Deposit Certificate (CDI) rate variation (2019 - average variation of up to 95.6% of the CDI rate).

	Parent company		Consolidated	
	2020	2019	2020	2019
Cash:				
In local currency			7	11
In foreign currency			95	72
			102	83
Banks:				
In local currency	18	104	7,025	6,187
In foreign currency			443	581
	18	104	7,468	6,768
Cash equivalent financial investments (i):				
In local currency				
Bank Deposit Certificate (CDB)	1,323	1,185	209,106	32,089
Repurchase agreements				6,069
Other			8,899	
	1,323	1,185	218,005	38,158
Total cash and cash equivalents	1,341	1,289	225,575	45,009
Financial investments (ii):				
In local currency				
Bank Deposit Certificate (CDB)	18,039		18,039	
Total financial investments	18,039		18,039	

(i) Financial investments as cash equivalents in the amount of R$ 218,005 (2019 - R$ 38,158) are due to debt extensions and raising of funds carried out in 2020 and are mainly intended for maintaining the Group's liquidity to cover investments in R&D and working capital. Such investments include the feature of immediate redemption with no loss of profitability.

(ii) Financial investments in the amount of R$ 18,039 arise from transactions with redemption terms over 90 days, which were contracted with bank BTG Pactual S.A. with return of 114% of CDI.

9. DERIVATIVE FINANCIAL INSTRUMENTS (CONSOLIDATED)

	2020	2019
	Assets	Liabilities
Exchange rate swap	2,298	(2,252)
Current	2,298	(2,252)

Derivatives are used only for economic protection purposes and not as speculative investments. However, the Group decided not to designate such instruments as Hedge Accounting.

The notional amounts of exchange rate swap contracts in 2020 corresponded to EUR 5,217 thousand (2019 - EUR12,945 thousand).

10. TRADE ACCOUNTS RECEIVABLE (CONSOLIDATED)

	2020	2019
In local currency		
Trade account receivables	199,460	184,044
Expected credit loss	(4,776)	(5,931)
	194,684	178,113
In foreign currency		
Trade account receivables	15,738	11,749
Expected credit loss	(1,013)	(786)
	14,725	10,963
Current	209,409	189,076

The analysis of the maturity of trade receivables is as follows:

	2020	2019
Not yet due:		
Up to three months	169,138	137,229
From three to six months	37,168	43,476
Over six months	683	3,857
	206,989	184,562
Past due:		
Up to three months	1,169	3,132
From three to six months	70	809
Over six months	6,970	7,290
	8,209	11,231
	215,198	195,793

The Group 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 over 180 days represent a significant indication of loss, and are assessed individually, considering existing guarantees.

Changes in the provision were as follows:

	2020	2019
Opening balance	6,717	6,414
Additions, net	40	1,180
Foreing exchange variation	367	64
Final write-offs	(1,335)	(941)
Final balance	5,789	6,717

Additions to and reversals of the expected credit loss on trade account receivables were recorded in the statement of profit or loss for the year under "Selling expenses" (Note 21). The Group's Management analyzes on an annual basis the provisioned balance and the amounts are written off from the provision account when there is no expectation of recovering the funds.

11. INVENTORIES (CONSOLIDATED)

	2020	2019
Finished products	63,861	66,118
Raw materials	66,433	51,250
Packaging materials	14,562	13,494
Work in process	7,591	12,398
Imports in transit	28,125	11,162
Advances to suppliers	7,891	11,251
Other	9,304	10,046
Provision for inventory losses (Note 18)	(4,134)	(6,083)
Total	193,633	169,636
Current	190,301	165,294
Non-current (*)	3,332	4,342

(*) The amount of R$3,332 (2019 - R$4,342) relates to a loan agreement between the subsidiary Ouro Fino Saúde Animal Ltda. and the supplier Laboratório Biomega S.A. ("Biomega"), which has been settled as the goods are delivered.

12. TAXES RECOVERABLE

	Parent company		Consolidated	
	2020	2019	2020	2019
Value-Added Tax on Sales and Services (ICMS)			52,353	51,402
PIS and COFINS			7,580	7,791
IRRF	2,347	355	2,705	849
ICMS, PIS and COFINS on purchase of PP&E			1,165	736
Excise Tax (IPI)			100	220
Other			2,872	2,757
Total	2,347	355	66,775	63,755
Current	2,347	355	22,751	12,478
Non-current			44,024	51,277

ICMS credits were mostly generated by Ouro Fino Saúde Animal Ltda. (2020 - R$49,056; 2019 - R$50,853) and are not subject to inflation adjustment. 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 transactions, 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 Ouro Fino Saúde Animal Ltda. was no longer entitled to maintain full credits on transactions within the State of São Paulo, and started to reverse them in the monthly calculations.

Upon the submission of the file addressed by Ordinance 83/2009 of the Coordinating Committee of Tax Administration Board (CAT) and the approval by the tax authorities, the credit balances are converted into accumulated credits pursuant to the applicable tax legislation, and may be used 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 working on the upload of the retroactive costing files (CAT Ordinance 83/2009), which must be submitted in a chronological order, with a view to enabling the conversion of the credit balance into accumulated credits to be used as previously described.

On January 18, 2021, the remaining amounts due to the costing methodology from the period 2010 to 2013 were released, through a writ of mandamus, in the amount of R$ 5,813.

In this context, management understands that there is no material risk of not realizing the amounts recorded; therefore, no provision for impairment of receivables was necessary.

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. calculate 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 calculate their taxes based on the respective local regulations. Therefore, there is no direct correlation between the amounts presented in the consolidated statement of profit or loss 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

	2020	2019
Tax credits on:		
Accumulated income tax and social contribution losses	6,779	7,149
Temporary differences		
Provisions	20,810	10,792
Unrealized profit on inventories	4,711	4,181
Pre-operating expenses writen-off		191
Derivative financial instruments		766
Revaluation surplus - business combination	987	802
	33,287	23,881
Tax debts on:		
Temporary differences		
Deemed cost of lands	(7,878)	(7,878)
Derivative financial instruments	(781)	
Provisions	(257)	(171)
Accelerated depreciation	(250)	(391)
	(9,166)	(8,440)
Total assets, net	24,121	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:

	2020	2019
Opening balance	15,441	15,963
Pre-operating costs written off	(191)	(192)
Accumulated income tax and social contribution losses	(370)	5,313
Derivative financial instruments	(766)	660
Provisions	10,018	(5,856)
Unrealized profit on inventories	530	(475)
Revaluation surplus - business combination	185	22
Accelerated depreciation	(726)	6
Final balance	24,121	15,441

The amounts by estimated offset period are as follows:

	2020	2019
Deferred tax assets to be recovered		
In 2021	16,470	20,509
In 2022	14,121	2,570
In 2023	1,709	
After 2024	987	802
	33,287	23,881
Deferred tax liability to be settled		
In 2021	1,074	252
In 2022	36	34
In 2023	36	74
After 2024 (*)	8,020	8,080
	9,166	8,440

(*) Deferred tax liability to be realized beyond 2024 mainly reflects the adoption of the deemed cost method for lands in subsidiaries occurred on January 1, 2009 in the amount of R$ 7,878 (2019 - R$ 7,878).

14. PROPERTY, PLANT AND EQUIPMENT (CONSOLIDATED)

Change	As of January 1st, 2020	Additions	Foreing exchange variation	Transfers	Write-Offs	Depreciation	As of December 31, 2020
Land	24,985						24,985
Buildings and improvements	138,770	418		6,650		(3,834)	142,004
Machinery, equipment and industrial facilities	83,586	8,025	1	1,125	(19)	(8,034)	84,684
Vehicles and tractors	14,527	1,209	653		(580)	(3,832)	11,977
Furniture and fixtures	3,022	690	(75)		(21)	(1,007)	2,609
IT equipment	3,609	1,615	91		(36)	(1,272)	4,007
Construction in progress (i)	9,742	3,339		(7,535)			5,546
Other	1,398	712	2	(240)	(137)	(242)	1,493
	279,639	16,008	672		(793)	(18,221)	277,305

Change	As of January 1st, 2019	Additions	Foreing exchange variation	Transfers	Write-Offs	Depreciation	As of December 31, 2019
Land	24,985						24,985
Buildings and improvements	134,339	311		7,711		(3,591)	138,770
Machinery, equipment and industrial facilities	77,214	11,718	1	2,078	(247)	(7,178)	83,586
Vehicles and tractors	11,038	8,274	178	(20)	(1,131)	(3,812)	14,527
Furniture and fixtures	2,990	646	1		(8)	(607)	3,022
IT equipment	2,995	1,866	10	18	(32)	(1,248)	3,609
Construction in progress (i)	5,402	14,123		(9,783)			9,742
Other	1,669	16	1	(4)		(284)	1,398
	260,632	36,954	191		(1,418)	(16,720)	279,639

	2020			2019			
Balance breakdown:	Cost	Accrued depreciation	Net	Cost	Accrued depreciation	Net	Average annual depreciation rates
Land	24,985		24,985	24,985		24,985	
Buildings and improvements	170,844	(28,840)	142,004	163,776	(25,006)	138,770	2.35%
Machinery, equipment and industrial facilities	147,765	(63,081)	84,684	138,765	(55,179)	83,586	6.12%
Vehicles, tractors and aircraft	21,240	(9,263)	11,977	20,137	(5,610)	14,527	19.26%
Furniture and fixtures	9,115	(6,506)	2,609	8,664	(5,642)	3,022	6.04%
IT equipment	13,045	(9,038)	4,007	11,758	(8,149)	3,609	9.35%
Construction in progress (i)	5,546		5,546	9,742		9,742	
Other	4,413	(2,920)	1,493	4,071	(2,673)	1,398	5.92%
	396,953	(119,648)	277,305	381,898	(102,259)	279,639	

(i) In 2020, the balance of the construction in progress refers mainly to the substation building in the amount of R$2,911 (2019 - R$1,910), refurbishment of the corporate building in the amount of R$583 and expansion of the Biological Products unit building in the amount of R$ 605.

In 2020, the balance of costs of capitalized loans and financing amounted to R$2,156 (2019 - R$1,775), at an annual average rate of 5.67% (2019 – 5.52%).

Land, buildings, and machinery and equipment amounting to R$80,674 (2019 - R$84,317) were pledged as collateral for loans and financing (Note 17).

15. INTANGIBLE (CONSOLIDATED)

Change	As of January 1st, 2020	Additions	Provision for impairment	Foreing exchange variation	Write-Offs	Amortization	As of December 31, 2020
Goodwill on acquisition of subsidiary	618						618
Product development and registration	86,475	7,904	(17,762)	278	(2,902)	(6,418)	67,575
Computer software	6,024	1,370		31	(97)	(1,580)	5,748
Other	178					(178)	
	93,295	9,274	(17,762)	309	(2,999)	(8,176)	73,941

Change	As of January 1st, 2019	Additions	Reversal of provision for impairmen	Foreing exchange variation	Write-Offs	Amortization	As of December 31, 2019
Goodwill on acquisition of subsidiary	618						618
Trademarks and licenses purchased	4					(4)	
Product development and registration	87,665	14,366	6,135	94	(15,835)	(5,950)	86,475
Computer software	5,063	2,632		11		(1,682)	6,024
Other	449					(271)	178
	93,799	16,998	6,135	105	(15,835)	(7,907)	93,295

	2020			
Balance breakdown:	Cost	Provision for impairment	Accrued amortization	Net
Goodwill on acquisition of subsidiary	618			618
Trademarks and licenses purchased	2,200		(2,200)	
Product development and registration	125,599	(20,936)	(37,088)	67,575
Computer software	38,480		(32,732)	5,748
Other	1,335		(1,335)	
	168,232	(20,936)	(73,355)	73,941

	2019			
Balance breakdown:	Cost	Provision for impairment	Accrued 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 refer to expenses incurred in new drugs. The amortization of intangible assets related to product development and registration was recognized within "Cost of sales" (Note 21).

Provisions of R$17,762 and write-offs of R$2,902 are related to projects that were discontinued or postponed due to management's decision. After a reassessment, the company identified the need for technical adjustment of some projects and the postponement of others. However, the Group emphasizes that this decision does not change the growth plan for the coming years, based on the portfolio expansion, mainly in biological products, as outlined in the strategic planning.

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

16. TRADE ACCOUNT RECEIVABLES (CONSOLIDATED)

	2020	2019
In local currency	14,916	12,664
In foreign currency	40,896	27,717
	55,812	40,381

17. LOANS AND FINANCING (CONSOLIDATED)

	Financial charges incurred	Final Maturity	2020	2019
In foreign currency				
Working capital	Exchange variation and weighted average rate of 4.85% p.a. (2019 - 4.76% p.a)	2021	33,540	58,720
In local currency				
FINEP (Technological Innovation)	Weighted average rate of 5.67% p.a. (2019 - 5.52% p.a)	2032	178,415	142,572
NCE (Export Credit Note)	Average rate of 3.95% p.a. (2019 - 5.30% p.a)	2024	103,902	40,041
Working capital	Average rate of 4.10% p.a.	2024	40,077	
BNDES - FINEM	Weighted average rate of 6.46% p.a. (2019 - 8.26% p.a)	2025	27,830	29,419
BNDES - FINAME	Weighted average rate of 9.34% p.a. (2019 - 7.73% p.a)	2023	101	239
Working capital (i)	Average rate of 5.14% p.a. (2019 - 7.75% p.a)	2021	7,615	6,149
Financial lease	Weighted average rate of 7.17% p.a. (2019 - 10.22% p.a)	2023	1,731	3,522
Drawee risk	Not applicable		1,128	420
			394,339	281,082
Current			96,553	118,230
Non-current			297,786	162,852
			394,339	281,082

(i) Loans and financing obtained by the subsidiary Ouro Fino Colombia S.A.S

a) Guarantees for loans and financing

Financing for Research, Innovation and Product Development, contracted by Ouro Fino Saúde Animal Ltda. subsidiary with FINEP, is collateralized by: (i) bank-issued guarantees, in the amount of R$ 141,174; (ii) performance bond, in the amount of R$ 24,000; (iii) security interest constituted by its industrial plant located in the municipality of Cravinhos-SP; and (iv) guarantee from the parent company Ouro Fino Saúde Animal Participações S.A., under which no charges are levied.

Working capital loans are collateralized by personal guarantees of the parent company and/or controlling shareholders, as well as lease transactions and transactions under Finame program, which are also backed by security interest through the fiduciary sale of financed assets.

BNDES-FINEM transaction requires compliance with ratios previously defined in the agreement: Net Debt/EBITDA ratio equal to or lower than 3.0, and General Indebtedness equal to or lower than 0.70, both on a consolidated basis. For the years ended 2020 and 2019, these ratios were met by the Company.

The carrying amounts of loans and financing are close to their fair values.

The composition of long-term loans and financing is as follows:

	2020
From 1 to 2 years	72,812
From 2 to 3 years	73,207
From 3 to 4 years	61,950
From 4 to 5 years	17,668
Over five years	72,149
	297,786

b) Working capital loans denominated in foreign currency

Exchange rate swap transactions were contracted for working capital loans and financing denominated in foreign currency (EUR), which amounted to R$33,540 (2019 - R$58,720), to replace the loan contractual charges with charges based on the CDI rate variation (Note 9).

18. PROVISIONS (CONSOLIDATED)

	2020				
Balances recognized in Assets:	Opening balance	Additions and reversals, net	Final write-offs	Foreing exchange variation	Final Balance
Bonuses on sales	957	2,548	(2,431)		1,074
Provision for impairment of intangible assets	3,174	18,333	(571)		20,936
Expected credit loss	6,717	40	(1,335)	367	5,789
Provision for inventory losses	6,083	5,611	(7,599)	39	4,134
	16,931	26,532	(11,936)	406	31,933
Balances recognized in liabilities:	Opening balance	Net additions and reversals	Final write-offs	Foreing exchange variation	Final Balance
Provision for contingencies	3,684	3,529	(1,125)	296	6,384
	3,684	3,529	(1,125)	296	6,384

	2019				
Balances recognized in assets:	Opening balance	Additions and reversals, net	Final write-offs	Foreing exchange variation	Final Balance
Bonuses on sales	954	1,625	(1,624)	2	957
Provision for impairment of intangible assets	9,309	1,587	(7,722)		3,174
Expected credit loss	6,414	1,180	(941)	64	6,717
Provision for inventory losses	7,087	7,013	(8,007)	(10)	6,083
	23,764	11,405	(18,294)	56	16,931
Balances recognized in liabilities:	Opening balance	Net additions and reversals	Inflation Adjustment :	Foreing exchange variation	Final Balance
Provision for contingencies	8,114	(4,567)	102	35	3,684
	8,114	(4,567)	102	35	3,684

a) 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 profit or loss under "Cost of sales".

b) Provision for contingencies

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

The provisions are as follows:

	2020	2019
Labor	4,357	2,529
Tax	1,078	5
Civil	949	1,150
	6,384	3,684

c) Expected credit loss

The expected credit loss ("*impairment*") Is calculated based on the criterion of expected losses based on the entire life of the instruments. In view of all the Group's controls to mitigate credit risk, and the consequent low historical delinquency level, there were no significant effects for the year (Note 10).

d) Provision for inventory losses

The Group recognizes a provision for inventory losses when there is uncertainty regarding the realization of these balances (damaged, expired and/or about to expire products) (Note 11).

e) Provision for impairment of intangible assets

The Group tests for impairment product development balances in intangible assets, whenever possible, through the discounted cash flow method (Notes 2 (g) and 15).

f) 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 for estimated possible losses has been recorded.

Possible contingencies are as follows:

	2020			2019		
	Administrative	Judicial	Total	Administrative	Judicial	Total
Tax	91,758	1,106	92,864	95,106	1,924	97,030
Labor		2,777	2,777		2,278	2,278
Civil	3	2,259	2,262	3	2,364	2,367
	91,761	6,142	97,903	95,109	6,566	101,675

Tax risks are relate mainly to tax assessment notices related to PIS, COFINS, and ICMS. The tax assessment notice related to PIS/COFINS, amounting to R$50,382 (2019 – R$49,072), was issued against the subsidiary Ouro Fino Saúde Animal Ltda. in May 2019, regarding taxable events that took place in 2014, and requiring the payment of PIS and COFINS differences calculated under the one-time tax treatment, for not including the transactions of Ouro Fino Agronegócio Ltda. and Ouro Fino Pet Ltda. In relation to ICMS, the dispute involves issues related to alleged debts, in the amount of R$17,114 (2019 – R$22,636), arising from a different interpretation of the tax authorities about the application of the exemption provided for in ICMS Agreement 100/97 on imports of technical inputs to be used in products for the livestock sector.

In addition, the Group is involved in other less relevant tax proceedings involving total amounts of R$25,368 (2019 - R$25,322), which discuss issues involving ICMS, at the state level, such as alleged undue credits and debts of said tax due to a divergent understanding of inspection, as well as the imposition of fines for undue tax offsets at the federal level.

g) Contingent assets

Subsidiaries Ouro Fino Saúde Animal Ltda. and Ouro Fino Agronegócio Ltda. obtained favorable, final and unappealable decisions regarding the right to offset tax credits arising from the exclusion of ICMS from the calculation bases of PIS/COFINS contributions. On October 18, 2018, the Brazilian Federal Revenue Secretariat 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 calculation bases of these contributions. Considering that said Internal Ruling brings legal uncertainty to the taxpayers, the Group’s management understands that the recognition of such credits, in the amount of R$4,654 (2019 – R$3,800), is considered 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 Shareholders' Meeting held on May 8, 2020, the shareholders approved an increase in the Company's capital of R$48,172 (2019 - R$18,269), without the issue of registered common shares and with no par value, through the use of profit reserves.

In 2020, fully subscribed and paid-up capital comprises 53,949,006 common shares (2019 – 53,949.006 common shares) all of them with no par value and fully subscribed and paid-up.

b) Capital reserve

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

c) Allocation of profit

According to the 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 Shareholders' Meeting by shareholders representing at least 2/3 (two thirds) of the voting shares, in compliance with the applicable legal provisions.

Allocation of profits	2020	2019
Net income for the year	89,720	46,278
Legal reserve (5%)	(4,486)	(2,314)
Basis for calculating minimum dividends	85,234	43,964
Dividends paid (25%)	21,309	10,991
Interest on Equity	13,522	944
IRRF on Interest on Equity (i)	(1,548)	(108)
Minimum mandatory dividends	9,335	10,155

(i) Withholding income tax on interest on equity is calculated at the rate of 15%, however some shareholders are not subject to withholding due to their taxation regime.

d) Equity valuation adjustments

These relate to the effect 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 shareholders with those of the eligible individuals; (iii) enabling the attraction and retention of professionals and service providers, thus stimulating the generation of value for the Company, and (iv) sharing risks and gains equally among shareholders, 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 comprising 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, monetarily restated by the General Market Price Index (IGP-M).

The maximum term for the exercise of these options is 4 (four) years as 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 those that were eligible for the first grant, totaling 809,135 stock options, distributed among 17 beneficiaries, as follows:

	12/31/16	12/31/17	12/31/18	12/31/19
Qty. 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	12/31/20	12/31/21	12/31/22	12/31/23

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				
	09/28/17	09/28/18	09/28/19	09/28/20	09/28/21
Qty. 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	09/28/21	09/28/22	09/28/23	09/28/24	09/28/25

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 31, 2014	General assumptions and information on the valuation			
End of the vesting period	12/31/16	12/31/17	12/31/18	12/31/19
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
Expected 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 28 September 2016	General assumptions and information on the valuation			
End of the vesting period	09/28/18	09/28/19	09/28/20	09/28/21
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
Expected 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%

Expenses in the amount of R$145 incurred in connection with stock options were recognized for the year ended December 31, 2020 (2019 – R$591). The number of shares totaled 143,813 (2019 - 143,813).

20. REVENUES (CONSOLIDATED)

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

	Consolidated	
	2020	2019
In Brazil		
Gross sales and services	710,622	614,833
Taxes and deductions on sales	(67,228)	(59,516)
	643,394	555,317
Abroad:		
Gross sales	87,373	65,492
Taxes and deductions on sales	(659)	(1,224)
	86,714	64,268
	730,108	619,585

21. COSTS AND EXPENSES BY NATURE

	Parent company		Consolidated	
	2020	2019	2020	2019
Cost of sales				
Variable costs (raw materials and consumables)			212,836	180,413
Personnel expenses			77,121	75,834
Outsourced services			25,832	22,148
Depreciation and amortization			17,229	16,182
Electricity			9,906	8,114
Provision (reversal) for inventory losses			(1,988)	(994)
Provision for impairment of intangible assets				140
Other			15,186	10,152
			356,122	311,989
Selling Expenses				
Personnel expenses			76,108	65,121
Sales team expenses			39,350	47,337
Freight expenses			25,122	22,558
Outsourced services			16,657	16,356
Depreciation and amortization			4,353	4,205
Telecommunications and energy			679	747
Other			7,889	5,923
			170,158	163,427
Research and innovation expenses				
Personnel expenses			19,412	11,248
Outsourced services			14,496	12,276
Depreciation and amortization			2,062	1,949
Telecommunications and energy			425	464
Other			3,273	1,702
			39,668	27,639
General and administrative expenses				
Personnel expenses	4,824	3,222	32,468	27,653
Outsourced services	813	333	6,933	9,511
Depreciation and amortization			2,753	2,291
Travel expenses	7	34	268	935
Telecommunications and energy			825	886
Vehicle expenses			155	233
Donations and sponsorships			62	102
Other	484	364	3,761	3,263
	6,128	3,953	47,225	44,874
	6,128	3,953	573,505	520,290

22. OTHER INCOME (EXPENSES), NET

	Parent company		Consolidated	
	2020	2019	2020	2019
Federal, state, municipal taxes and fees (i)	(11)	(5)	8,953	6,046
Gain on disposal and write-off of PP&E			205	326
Gains (losses) on sales of scrap, rentals and other	198	165	(884)	(604)
Final write-off of intangible assets (ii)			(2,902)	(15,835)
Provision (reversal) for impairment of intangible assets (ii)			(17,762)	6,275
Other gains (losses)	(223)	(48)	(2,429)	3,932
	(36)	112	(14,819)	140

(i) Refers, substantially, to extemporaneous credits from PIS/COFINS contributions, in the amount of R$6,223, of which: (i) R$2,240 related to essential inputs and relevant to the production process, for which COSIT Normative Opinion No. 5/2018, published on December 18, 2018, concluded that the concept of input should be sought in light of the essentiality and relevance of the good in the Taxpayer's production chain, and thus, the Group, by analyzing the characteristics and specificities of its activity, based on understanding established by the STJ, appropriated these credits from the period 2016 to 2020, which meet the concept of the opinion and (ii) R$ 3,983 related to credits on expenses with freight and storage of products subject to single-phase taxation.

(ii) Refers to the provision for impairment and definitive write-offs of projects that were under development in intangible assets (Note 15).

23. FINANCE INCOME (COSTS)

	Parent company		Consolidated	
	2020	2019	2020	2019
Finance income				
Revenue from financial investments	563	8	2,697	2,980
Interest received			295	716
Inflation adjustment	3	24	542	495
Other			45	117
	566	32	3,579	4,308
Finance costs				
Interest paid	(5)		(12,686)	(13,154)
Pis and cofins on interest on equity	(1,378)	(97)	(1,378)	(97)
Finance charges	(1)		(1,252)	(1,539)
Other	(95)	(63)	(864)	(735)
	(1,479)	(160)	(16,180)	(15,525)
Derivative financial instruments, net:				
Gains (losses) on derivatives (foreign exchange variation)			16,823	(1,617)
Derivative losses (interest)			(1,226)	(1,447)
			15,597	(3,064)
Foreign exchange variation, net			(11,275)	443
Finance income (costs)	(913)	(128)	(8,279)	(13,838)

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		Consolidated	
	2020	2019	2020	2019
Earnings before income tax and social contribution	89,720	46,278	93,837	57,958
Statutory tax rates	34%	34%	34%	34%
	(30,505)	(15,735)	(31,905)	(19,706)
Reconciliation for effective tax:				
Permanent differences:				
PD&I Benefit			4,001	
Equity in the results of investees	32,911	17,084		
Investment Subsidies (i)			22,479	9,520
Adjustment of calculation of subsidiaries abroad taxed at the rate in effect in their respective countries			(1,446)	(628)
Interest on Equity	(468)	(33)	5,066	(33)
Unrecognized deferred taxes	(1,938)	(1,316)	(1,938)	(1,316)
Other			(381)	483
Income tax and social contribution			(4,124)	(11,680)
Reconciliation with the statement of profit or loss				
Current			(11,963)	(10,629)
Deferred			7,839	(1,051)
			(4,124)	(11,680)

(i) The Group recognized the tax deductibility of the amounts of tax incentives related to exits with exemption from ICMS in transactions within the state of São Paulo and exports and exits with a 60% reduction in the ICMS calculation basis in interstate operations (ICMS Agreement 100/1997), according to the law case established by the Superior Court of Justice.

25. EARNINGS PER SHARE

a) Basic

Basic earnings per share is calculated by dividing the earnings attributable to the Company’s shareholders by the weighted average number of common shares during the year.

	2020	2019
Net income for the year attributable to the Company's shareholders	89,720	46,278
Weighted average number of common shares in the year (in	53,949	53,949
Basic earnings per share	1.66305	0.85781

b) Diluted

Diluted earnings per share is calculated by dividing the earnings attributable to the Company’s shareholders by the weighted average number of common shares during the year, adjusted by the weighted average number of instruments with dilutive effects.

	2020	2019
Net income for the year attributable to the Company's shareholders	89,720	46,278
Weighted average number of common shares in the year, considering instruments with dilutive effects (in thousands of shares)	53,949	53,949
Diluted earnings per share	1.66305	0.85781

26. EMPLOYEE BENEFITS

a) Private pension plan - defined contribution

The Group companies sponsor a defined contribution pension plan for their employees. The plan started in August 2008 and until September 30, 2020, it was managed by Itaú Vida e Previdência S.A. As of October 2020, the plan became to be managed by Brasilprev Seguros e Previdência S.A. Contributions from the companies to the plan in 2020 amounted to R$1,039 (2019 - R$1,130).

b) Short-term incentive

The Group offers a short-term incentive program ("ICP") to its employees, calculated based on quantitative and qualitative goals established by management. In the year ended December 31, 2020, the impact of the short-term incentive was R$19,378 (2019 - R$2,457).

27. RELATED-PARTY BALANCES AND TRANSACTIONS

a) Balances and main transactions

	Parent company							
	2020				2019			
	Assets		Liabilities		Assets		Liabilities	
	Interest on Equity	Other assets (i)	Dividends and interest on equity	Other liabilities (i)	Interest on Equity	Other assets (i)	Dividends and interest on equity	Other liabilities (i)
Subsidiaries:								
Ouro Fino Saúde Animal Ltda.	11,900			38				67
Ouro Fino Pet Ltda.	1,650				885			
Other related parties:								
Ouro Fino Química Ltda.		83				83		
Shareholders			21,309				10,991	
	13,550	83	21,309	38	885	83	10,991	67

	Parent company					
	Main transactions:					
	2020			2019		
	Royalties	Shared Services Center (CSC) reimbursement (i)	Other income (expenses), net	Royalties	Shared Services Center (CSC) reimbursement (i)	Other expenses, net
Subsidiaries:						
Ouro Fino Saúde Animal Ltda.		(56)	(382)		(251)	(62)
Ouro Fino Agronegócio Ltda.		26	(5)		52	
Ouro Fino Pet Ltda.					13	
Other related parties:						
Ouro Fino Química Ltda.	219			162		
	219	(30)	(387)	162	(186)	(62)

	Consolidated							
	Balances:							
	2020				2019			
	Assets	Liabilities			Assets	Liabilities		
	Other assets (i)	Dividends and interest on equity	Other liabilities (i)	Loans and financing (ii)	Other assets (i)	Dividends and interest on equity	Other liabilities (i)	Loans and financing (ii)
Other related parties:								
Ouro Fino Química Ltda.	338		150		239		150	
Condomínio Rural Ouro Fino	89				154			
BNDES Participações S.A.				27,931				29,658
Shareholders		21,309				10,991		
Other							22	
	427	21,309	150	27,931	393	10,991	172	29,658

	Consolidated									
	Main transactions:									
	2020					2019				
	Gross profit on sales of goods	Services Center (CSC)	*Royalties*	Other expenses, net	Finance income (costs)	Gross profit on sales of goods	Services Center (CSC)	*Royalties*	Other expenses, net	Finance income (costs)
Other related parties:										
Ouro Fino Química Ltda.		1,373	219	(855)			1,420	162	(566)	
Condomínio Rural Ouro Fino	6		33	(2,350)		3			(2,040)	
Neotech Soluções Ambientais Ltda.				(655)					(451)	
Shareholders										
BNDES Participações S.A.					(1,989)					(2,897)
	6	1,373	252	(3,860)	(1,989)	3	1,420	162	(3,057)	(2,897)

(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) Loans and financing

These refer to loans and financing 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 members of the Board of Directors and the officers appointed pursuant to the Company's bylaws whose compensation is approved at the Annual Shareholders' Meeting. The compensation paid or payable to key management for their services is described below:

	2020	2019
Wages and salaries	3,201	2,875
Variable compensation	854	2
Labor charges	779	658
Direct and indirect benefits	185	155
Share-based payments	146	246
	5,165	3,936

Despite the fact that management does not consider share-based payments as compensation, the amounts under this heading are recorded in this Note, as required by 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 goods	Risks covered	2020	2019
Property, plant and equipment ar	Fire, lightning, explosion, electrical damage, windstorm, loss of profits	497,281	403,980
General civil liability	Damage to third parties caused 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. OTHER DISCLOSURES ON CASH FLOWS

	Loans and financing	Derivative financial instruments, net	Cash and cash equivalents	Financial investments	Net debt
Balance as of January 1st, 2020	281,082	2,252	(45,009)		238,325
Funding	214,000				214,000
Repayment of principal	(122,540)	11,047			(111,493)
Payment of interest	(12,755)				(12,755)
Drawee risk	708				708
Increase (decrease) in cash and cash equivalents			(179,925)	(18,000)	(197,925)
Changes that affected cash flow	79,413	11,047	(179,925)	(18,000)	(107,465)
Purchase of property, plant and equipment	279				279
Foreign exchange variations and interest	33,565	(15,597)	(641)	(39)	17,288
Non-cash changes	33,844	(15,597)	(641)	(39)	17,567
Balance as of December 31, 2020	394,339	(2,298)	(225,575)	(18,039)	148,427
Balance as of January 1st, 2019	287,529	28	(65,183)		222,374
Funding	89,994				89,994
Repayment of principal	(99,103)	(840)			(99,943)
Payment of interest	(15,646)				(15,646)
Drawee risk	420				420
Increase (decrease) in cash and cash equivalents			20,311		20,311
Changes that affected cash flow	(24,335)	(840)	20,311		(4,864)
Purchase of property, plant and equipment	1,823				1,823
Foreign exchange variations and interest	16,065	3,064	(137)		18,992
Non-cash changes	17,888	3,064	(137)		20,815
Balance as of December 31, 2019	281,082	2,252	(45,009)		238,325

30. COMMITMENTS

The Group establishes several commitments in the normal course of its activities and on November 17, 2020, the Group assumed a relevant commitment to purchase electric energy from Votener - Votorantim Comercializadora de Energia Ltda. The following are the commercial terms of the agreement:

Supply period		Volume in average-megawatt	Price
Beginning	End		
01/01/2022	12/31/2022	2.500000	R$ 157.00 MWh
01/01/2023	12/31/2023	2.500000	R$ 150.00 MWh
01/01/2024	12/31/2024	2.500000	R$ 147.00 MWh

The prices indicated above will be adjusted through IPCA index and initially between the base date (June 30, 2020) and the month of the start of supply of each year.

31. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies applied in the preparation of these financial statements are defined below. These policies have been consistently applied to the years presented, unless otherwise stated.

31.1 Consolidation

The following accounting policies are applied in the preparation of the consolidated financial statements:

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 on the acquisition of subsidiaries in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed 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 subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

31.2 Foreign currency translation

a) Functional and reporting currency

Items included in the financial statements 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 and, therefore, the individual and consolidated financial statements are 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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss as "Finance income (costs)".

c) Group companies with a different functional currency

The results and the 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 reporting currency are translated into the reporting currency as follows:

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

All the resulting exchange variations are recognized as a separate component of equity in the "Equity valuation adjustments" account.

31.3 Financial assets

31.3.1 Classification

The Group classifies its financial assets, upon initial recognition, in the following categories: amortized cost and measured 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 which are not classified in the "at fair value through profit or loss" category. They are included in current assets, except for 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".

31.3.2 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 profit or loss. 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 measured 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.

31.3.3 Impairment of financial assets

Assets carried 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 if that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets and provided that such impact can be reliably estimated.

The new standard CPC 48/IFRS 9 "Financial Instruments", which has been in effect since January 1, 2018, introduces a new impairment model for financial assets, whereby it replaces the provision for incurred losses with expected losses. Considering the low historical default rates, the criterion change from losses incurred to expected losses did not have major effects on Company.

31.4 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 profit or loss within "Finance income (costs)".

CPC 48/*IFRS* 9 - “Financial instruments” new standard has entered into force on January 1, 2018. Its major amendment was the establishment of new criteria for the classification of financial assets and the loosening of 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 transactions classified as hedge.

31.5 Trade Receivables

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

31.6 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.

31.7 Current and deferred income tax and social contribution

The income tax and social contribution expenses for the year comprise current and deferred taxes. Taxes on profit are recognized in the statement of profit or loss, 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 utilized.

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 financial statement. 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.

The interpretation IFRIC 23 - Uncertainty Over Income Tax Treatment clarifies the accounting for tax positions not yet accepted by the tax authorities and only applies 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 financial statement.

In this context, the Group recognized the tax deductibility of the amounts of tax incentives related to exits with exemption from ICMS in transactions within the state of São Paulo and exports and exits with a 60% reduction in the ICMS calculation basis in interstate operations (ICMS Agreement 100/1997), according to the law case established by the Superior Court of Justice.

The Group assessed and did not identify any relevant impacts on its financial statement.

31.8 Intangible assets

a) Product research and development

Research expenditures are recognized as expenses when incurred. Expenditures incurred with the development of products 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 assesses its projects based on its own methodology, covering several milestones of analysis and clinical studies. Therefore, projects are considered successful based on the development of "pilot lots" and field tests, carried out in compliance with the requirements of regulatory bodies, accompanied by analyzes of financial and technical feasibility.

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

Finance charges on loans to finance a project are capitalized during the year required to develop the products.

b) Trademarks and licenses purchased

Separately purchased 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) Computer 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 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 recorded as "Intangible assets" in the consolidated financial statements. 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.

31.9 Property, plant and equipment

Property, plant and equipment are stated at historical cost, less accumulated depreciation. This cost was adjusted in 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 14. 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 repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

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

The costs of loans used to finance the construction of property, plant and equipment are capitalized during the period necessary 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 profit or loss.

31.10 Impairment of non-financial assets

Assets that are subject to depreciation or 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.

31.11 Trade account payables

Trade account 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 account 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.

31.12 Loans and financing

Loans and financing 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.

Loans and financing 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.

31.13 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 profit or loss 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 executives and third parties as consideration for the stock options granted. The cost of these options, calculated on the grant date, is recognized as an expense against equity during the vesting period.

31.14 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 has a corresponding entry in "Trade account receivables", and its realization is recorded in "Finance income," according to maturity.

31.15 Distribution of dividends and interest on capital

The payment of dividends and interest on equity to shareholders is recognized as a liability in the financial statements, in compliance with the Company's bylaws. Any amount that exceeds the minimum required is only provided on the date it is approved by the shareholders at the Annual Shareholders' Meeting.

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

31.16 Leases

The accounting for leases requires lessees to recognize liabilities assumed in exchange for the respective assets corresponding to their right to use for all contracts that give the right to control an identifiable asset, including lease agreements and, potentially, some components of service agreements, unless it presents the following characteristics that are within the scope of the standard exemption, such as (i) Leases with a lease term of 12 months or less and (ii) Leases of low-value assets or based on variable amounts.

For the year ended December 31, 2020, the Group's Management reviewed all lease agreements and applied the exemption criteria to all agreements identified as leases (according to IFRS16/CPC06). Therefore, there were no material impacts on the balance sheet or statement of profit or loss.

31.17 New standards that are not yet effective

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

32. SUBSEQUENT EVENTS

At the Extraordinary Shareholder’s Meeting held on January 29, 2021, Management approved the Long-Term Incentive Plan Based on Shares (“Plan”) of the Company. The Plan aims to allow eligible persons, subject to certain conditions established in the Programs, to receive Shares with the purpose of: (i) stimulating the Company's social purpose expansion, (ii) aligning the Company's Shareholders interests to those of Eligible persons, (iii) encourage the value creation for the Company and (iv) share risks and gains equitably among shareholders, managers and employees.

The Plan will be managed by the Board of Directors and the compensation in Shares will be made through the signing of ILP agreements, which shall specify the base number of shares, terms and conditions for the transfer of shares by the Company to the beneficiaries, final term for receiving compensation in Shares, share price and payment conditions.

The Plan will be effective as of the date of its approval by the Extraordinary Shareholder's Meeting and will remain in force for five years. The shares were granted on February 1, 2021 and the vesting will be from three years.