

(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, 2019 and
Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

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

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, 2019, 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, 2019, 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.

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 14 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\$86,475 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 14 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.

Tax assessment notice and imposition of taxes on revenue (PIS and COFINS) fines

Why is it a KAM?

As disclosed in note 18.(g) to the individual and consolidated financial statements, in 2019, the Company received a tax assessment notice and a PIS and COFINS fine imposed against the subsidiary Ouro Fino Saúde Animal Ltda., referring to facts generated in calendar year 2014, requiring differences in PIS and COFINS calculated under the single-phase tax regime, as it disregards the operations of commercial companies Ouro Fino Agronegócio Ltda. and Ouro Fino Pet Ltda.

In the year ended December 31, 2019, Management, based on the assessment and discussion with its external legal advisors, classified the risk of loss of this tax assessment notice as possible, thus disclosing the amount of R\$49,072 thousand.

The assessment of the expectation of loss of this tax assessment notice was considered a key audit area, since: (i) the amount involved is significant; and (ii) the level of Management's judgment in the classification of the expected risk of loss is significant.

How the matter was addressed in our audit?

Our audit procedures included, among others: (i) reading the process and legal opinions obtained by the Company from external legal advisors in order to understand the possible monetary impacts to the individual and consolidated financial statements as of December 31, 2019; (ii) involvement of our tax specialists, with the objective of analyzing the reasonableness and consistency of the assessment made by the Company and its external legal advisors; and (iii) assessment of the adequacy of the disclosures in the individual and consolidated financial statements.

Other matters

Statements of value added

The individual and consolidated statements of value added ("DVA") for the year ended December 31, 2019, 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.

Audit of comparative figures

The Company's financial statements for the year ended December 31, 2018 were audited by other independent auditors, who issued a report on February 22, 2019, with an unqualified opinion on these financial statements.

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.

Responsibilities of Management 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.

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 key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

São Paulo, February 7, 2020



DELOITTE TOUCHE TOHMATSU
Auditores Independentes



Renato Foganholi Asam
Engagement Partner

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

BALANCE SHEET AS OF DECEMBER, 31

All amounts in thousands of reais

| ASSETS | Note | Parent company | | Consolidated | | LIABILITIES AND EQUITY | Note | Parent company | | Consolidated | |
|--|------|----------------|----------------|----------------|----------------|--|------|----------------|----------------|----------------|----------------|
| | | 2019 | 2018 | 2019 | 2018 | | | 2019 | 2018 | 2019 | 2018 |
| CURRENT ASSETS | | | | | | CURRENT LIABILITIES | | | | | |
| Cash and cash equivalents | 8 | 1,289 | 20 | 45,009 | 65,183 | Trade payables | 16 | | | 40,381 | 27,100 |
| Trade receivables | 10 | | | 189,076 | 174,694 | Derivative financial instruments | 9 | | | 2,252 | 28 |
| Inventories | 11 | | | 165,294 | 153,159 | Borrowings | 17 | | | 118,230 | 76,439 |
| Taxes recoverable | 12 | 355 | 386 | 12,478 | 5,840 | Salaries and payroll charges | | 258 | 208 | 20,151 | 32,890 |
| Income tax and social contribution recoverable | | | | 6,657 | 8,295 | Taxes payable | | 308 | 877 | 4,993 | 5,097 |
| Related parties | 27 | 968 | 7,238 | 393 | 636 | Income tax and social contribution payable | | | | 87 | 763 |
| Other assets | | 250 | | 6,128 | 5,300 | Dividends and interest on capital | 27 | 10,991 | 16,351 | 10,991 | 16,351 |
| | | <u>2,862</u> | <u>7,644</u> | <u>425,035</u> | <u>413,107</u> | Related parties | 27 | 67 | 50 | 172 | 145 |
| NON-CURRENT ASSETS | | | | | | NON-CURRENT LIABILITIES | | | | | |
| Long-term receivables | | | | | | Borrowings | 17 | | | 162,852 | 211,090 |
| Taxes recoverable | 12 | | 86 | 51,277 | 56,368 | Accrual for risks | 18 | | | 3,684 | 8,114 |
| Deferred income tax and social contribution | 13 | | | 15,441 | 15,963 | Total non-current liabilities | | | | 166,536 | 219,204 |
| Inventories | 11 | | | 4,342 | 5,422 | | | | | | |
| Other assets | | | | 507 | 716 | Total liabilities | | <u>11,624</u> | <u>17,486</u> | <u>377,055</u> | <u>390,040</u> |
| | | | <u>86</u> | <u>71,567</u> | <u>78,469</u> | EQUITY | | | | | |
| Investments in subsidiaries | 5 | 501,209 | 465,692 | | | Share capital | 19 | 377,065 | 358,796 | 377,065 | 358,796 |
| Property, plant and equipment | 15 | | | 279,639 | 260,632 | Capital reserve | | | (6,392) | | (6,392) |
| Intangible assets | 14 | | | 93,295 | 93,799 | Options granted | | 5,382 | 4,791 | 5,382 | 4,791 |
| Total non-current assets | | <u>501,209</u> | <u>465,778</u> | <u>444,501</u> | <u>432,900</u> | Revenue reserves | | 94,043 | 83,525 | 94,043 | 83,525 |
| | | | | | | Carrying value adjustments | | 15,957 | 15,216 | 15,957 | 15,216 |
| Total assets | | <u>504,071</u> | <u>473,422</u> | <u>869,536</u> | <u>846,007</u> | Total shareholders' equity | | 492,447 | 455,936 | 492,447 | 455,936 |
| | | | | | | Non-controlling interests | | | | 34 | 31 |
| | | | | | | Total equity | | 492,447 | 455,936 | 492,481 | 455,967 |
| | | | | | | Total liabilities and equity | | <u>504,071</u> | <u>473,422</u> | <u>869,536</u> | <u>846,007</u> |

The accompanying notes are an integral part of the individual and consolidated financial statements.

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

STATEMENT OF INCOME
YEARS ENDED DECEMBER 31

All amounts in thousands of reais unless otherwise stated

| | Note | Parent company | | Consolidated | |
|--|------|----------------|---------|--------------|-----------|
| | | 2019 | 2018 | 2019 | 2018 |
| Revenue | 20 | | | 619,585 | 589,215 |
| Cost of sales | 21 | | | (311,989) | (265,085) |
| Gross profit | | | | 307,596 | 324,130 |
| Selling expenses | 21 | | | (191,066) | (173,528) |
| General and administrative expenses | 21 | (3,953) | (3,451) | (44,874) | (43,259) |
| Equity in the results of investees | 5 | 50,247 | 72,954 | | |
| Other expenses (income), net | 22 | 112 | 95 | 140 | (9,369) |
| Operating profit | | 46,406 | 69,598 | 71,796 | 97,974 |
| Finance income | | 32 | 65 | 4,308 | 6,021 |
| Finance costs | | (160) | (816) | (15,525) | (20,959) |
| Derivative financial instruments, net | | | | (3,064) | 4,562 |
| Foreign exchange variations, net | | | | 443 | (4,774) |
| Financial result | 23 | (128) | (751) | (13,838) | (15,150) |
| Profit before income tax and social contribution | | 46,278 | 68,847 | 57,958 | 82,824 |
| Income tax and social contribution | 24 | | | (10,629) | (17,416) |
| Current | | | | (1,051) | 3,459 |
| Deferred | | | | | |
| Profit for the year | | 46,278 | 68,847 | 46,278 | 68,867 |
| Attributable to: | | | | | |
| Owners of the parent | | | | 46,278 | 68,847 |
| Non-controlling interests | | | | | 20 |
| | | | | 46,278 | 68,867 |
| Earnings per share attributable to owners of the parent (in reais) | 25 | | | | |
| Basic earnings per share | | | | 0.85781 | 1.27615 |
| Diluted earnings per share | | | | 0.85781 | 1.27615 |

The accompanying notes are an integral part of the individual and consolidated financial statements.

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

STATEMENT OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31
All amounts in thousands of reais

| | Parent company | | Consolidated | |
|---|----------------|---------------|---------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| Profit for the year | 46,278 | 68,847 | 46,278 | 68,867 |
| Other comprehensive income | | | | |
| Items that will be reclassified to profit or loss | | | | |
| Changes in the share of profit/loss of subsidiaries | 5 | (271) | | |
| Exchange variation on foreign investment | 5 | (152) | 744 | (169) |
| Total comprehensive income for the year | <u>47,019</u> | <u>68,424</u> | <u>47,022</u> | <u>68,698</u> |
| Attributable to: | | | | |
| Owners of the parent | | | 47,019 | 68,424 |
| Non-controlling interests | | | <u>3</u> | <u>274</u> |
| | | | <u>47,022</u> | <u>68,698</u> |

The accompanying notes are an integral part of the individual and consolidated financial statements.

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

STATEMENT OF CHANGES IN EQUITY

All amounts in thousands of reais

| | Note | Attributable to owners of the parent | | | | | | | Non-controlling interests | Total equity | |
|--|--------|--------------------------------------|-----------------|-----------------|------------------|--------------------------|----------------------------|-------------------|---------------------------|--------------|----------|
| | | Share capital | Capital reserve | Options granted | Revenue reserves | | Carrying value adjustments | Retained earnings | | | Total |
| | | | | | Legal reserve | Profit retention reserve | | | | | |
| AT JANUARY 1, 2018 | | 358,796 | (6,392) | 4,129 | 7,251 | 26,456 | 15,639 | | 405,879 | (243) | 405,636 |
| Comprehensive income for the year: | | | | | | | | | | | |
| Profit for the year | | | | | | | | 68,847 | 68,847 | 20 | 68,867 |
| Changes in the share of profit/loss of subsidiaries | 5 | | | | | | (271) | | (271) | 271 | |
| Exchange variation on foreign subsidiary | 5 | | | | | | (152) | | (152) | (17) | (169) |
| Total comprehensive income (loss) for the year | | | | | | | (423) | 68,847 | 68,424 | 274 | 68,698 |
| Contributions and distributions to owners of the parent: | | | | | | | | | | | |
| Additional proposed dividends | 19 (c) | | | | | | (1,797) | | (1,797) | | (1,797) |
| Stock options granted | 19 (e) | | | 662 | | | | | 662 | | 662 |
| Allocation of profit: | | | | | | | | | | | |
| Legal reserve | 19 (c) | | | | 3,442 | | | (3,442) | | | |
| Interest on capital and dividends | 19 (c) | | | | | | | (17,232) | (17,232) | | (17,232) |
| Profits at the disposal of the General Meeting | 19 (c) | | | | | | 48,173 | (48,173) | | | |
| Total contributions by owners | | | | 662 | 3,442 | 46,376 | | (68,847) | (18,367) | | (18,367) |
| AT DECEMBER 31, 2018 | | 358,796 | (6,392) | 4,791 | 10,693 | 72,832 | 15,216 | | 455,936 | 31 | 455,967 |
| Comprehensive income for the year: | | | | | | | | | | | |
| Profit for the year | | | | | | | | 46,278 | 46,278 | | 46,278 |
| Exchange variation on foreign subsidiary | 5 | | | | | | 741 | | 741 | 3 | 744 |
| Total comprehensive income for the year | | | | | | | 741 | 46,278 | 47,019 | 3 | 47,022 |
| Contributions and distributions to owners of the parent: | | | | | | | | | | | |
| Capital increase by incorporation of revenue reserves | 19 (a) | 18,269 | 6,392 | | | | (24,661) | | | | |
| Stock options granted | 19 (e) | | | 591 | | | | | 591 | | 591 |
| Allocation of profit: | | | | | | | | | | | |
| Legal reserve | 19 (c) | | | | 2,314 | | | (2,314) | | | |
| Interest on capital and dividends | 19 (c) | | | | | | | (11,099) | (11,099) | | (11,099) |
| Profits at the disposal of the General Meeting | 19 (c) | | | | | 32,865 | | (32,865) | | | |
| Total contributions by owners | | 18,269 | 6,392 | 591 | 2,314 | 8,204 | | (46,278) | (10,508) | | (10,508) |
| AT 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 the individual and consolidated financial statements.

STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31
All amounts in thousands of reais

| | Note | Parent company | | Consolidated | |
|--|-----------|----------------|----------|--------------|-----------|
| | | 2019 | 2018 | 2019 | 2018 |
| Cash flows from operating activities: | | | | | |
| Profit before income tax and social contribution | | 46,278 | 68,847 | 57,958 | 82,824 |
| Adjustments for: | | | | | |
| Provision for impairment of trade receivables | 10 and 18 | | | 1,180 | 419 |
| Provision for inventory losses and write-offs | 11 | | | 8,717 | 11,798 |
| Reversal of provision for sales returns | 18 | | | (94) | (453) |
| Provision for (reversal of) customer bonuses | 18 | | | 1 | (303) |
| Equity in the results of investees | 5 | (50,247) | (72,954) | | |
| Depreciation and amortization | 14 and 15 | | | 24,627 | 25,532 |
| Provision for impairment | 14 | | | (6,135) | 4,839 |
| Result on disposal of property, plant and equipment | 22 | | | (326) | 13 |
| Result on disposal of intangible assets | 22 | | | 15,835 | (73) |
| Interest and monetary/foreign exchange variations, net | | | | 15,650 | 25,656 |
| Derivative financial instruments | | | | 3,064 | (4,562) |
| Accrual for risks | 18 | | | (4,465) | 4,094 |
| Expenses with stock options | 19 (e) | 69 | 19 | 591 | 662 |
| Changes in working capital: | | | | | |
| Trade receivables | | | | (15,084) | (12,818) |
| Inventories | | | | (19,527) | (57,422) |
| Taxes recoverable | | 274 | 1,893 | (1,870) | (8,052) |
| Other assets | | (283) | 9 | (362) | 1,426 |
| Trade payables | | 41 | | 13,170 | (842) |
| Taxes payable | | (676) | (1,368) | 2,914 | (467) |
| Other liabilities | | 23 | 3 | (9,466) | 9,801 |
| Cash provided by (used in) operations | | (4,521) | (3,551) | 86,378 | 82,072 |
| Interest paid | | | | (15,646) | (18,806) |
| Income tax and social contribution paid | | | | (14,344) | (20,458) |
| Net cash provided by (used in) operating activities | | (4,521) | (3,551) | 56,388 | 42,808 |
| Cash flows from investing activities: | | | | | |
| Advances for future capital increase | | (17,000) | (17,600) | | |
| Investments in intangible assets | 14 | | | (16,998) | (23,697) |
| Purchases of property, plant and equipment | 15 | | | (35,131) | (24,627) |
| Dividends and interest on capital received | | 39,141 | 31,989 | | |
| Proceeds from sale of property, plant and equipment | | | | 1,730 | 1,699 |
| Proceeds from sale of intangible assets | | | | | 220 |
| Net cash provided by (used in) investing activities | | 22,141 | 14,389 | (50,399) | (46,405) |
| Cash flows from financing activities: | | | | | |
| New borrowings | 29 | | | 89,994 | 151,879 |
| Repayments of borrowings | 29 | | | (99,103) | (189,943) |
| Dividends and interest on capital paid | 29 | (16,351) | (10,847) | (16,351) | (10,847) |
| Realized derivative financial instruments | 29 | | | (840) | (5,861) |
| Net cash used in financing activities | | (16,351) | (10,847) | (26,300) | (54,772) |
| Net increase (decrease) in cash and cash equivalents | | 1,269 | (9) | (20,311) | (58,369) |
| Cash and cash equivalents at the beginning of the year | | 20 | 29 | 65,183 | 123,360 |
| Foreign exchange gains on cash and cash equivalents | | | | 137 | 192 |
| Cash and cash equivalents at the end of the year | 8 | 1,289 | 20 | 45,009 | 65,183 |

The accompanying notes are an integral part of the individual and consolidated financial statements.

Non-cash financing activities are presented in Note 29 (a).

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

STATEMENT OF VALUE ADDED
YEARS ENDED DECEMBER 31
All amounts in thousands of reais

| | Note | Parent company | | Consolidated | |
|--|-----------|----------------|---------------|----------------|----------------|
| | | 2019 | 2018 | 2019 | 2018 |
| Revenues: | | | | | |
| Gross sales and services | | | | 671,327 | 635,085 |
| Other expenses (income), net | | | | 3,047 | (328) |
| Income related to the construction of own assets | | | | 14,393 | 20,794 |
| Provision for impairment of trade receivables | 10 and 18 | | | (1,180) | (419) |
| | | | | <u>687,587</u> | <u>655,132</u> |
| Inputs acquired from third parties: | | | | | |
| Cost of sales and services | | | | (258,285) | (234,660) |
| Materials, electricity, third-party services and other | | (781) | (738) | (147,510) | (124,669) |
| Losses on assets, net | | | | (17,422) | (17,646) |
| | | <u>(781)</u> | <u>(738)</u> | <u>264,370</u> | <u>278,157</u> |
| Gross value added (distributed) | | | | | |
| Depreciation and amortization | 14 and 15 | | | (24,627) | (25,532) |
| Net value added (distributed) generated by the entity | | <u>(781)</u> | <u>(738)</u> | <u>239,743</u> | <u>252,625</u> |
| Value added received through transfer: | | | | | |
| Equity in the results of investees | 5 | 50,247 | 72,954 | | |
| Finance income | | 32 | 64 | 12,744 | 16,127 |
| Royalties | | 162 | 115 | 162 | 115 |
| Other | | 17 | | 366 | 428 |
| Total value added distributed | | <u>49,677</u> | <u>72,395</u> | <u>253,015</u> | <u>269,295</u> |
| DISTRIBUTION OF VALUE ADDED | | | | | |
| Personnel: | | | | | |
| Direct compensation | | 2,683 | 2,263 | 102,498 | 90,294 |
| Benefits | | 13 | 3 | 20,319 | 15,172 |
| Government Severance Indemnity Fund for Employees (FGTS) | | | | 8,450 | 6,320 |
| Taxes, charges and contributions: | | | | | |
| Federal | | 637 | 1,244 | 31,278 | 45,237 |
| State | | 4 | 3 | 11,405 | 7,991 |
| Municipal | | | | 413 | 260 |
| Remuneration of third parties' capital: | | | | | |
| Interest, foreign exchange variation, losses on derivatives etc. | | 62 | 35 | 29,170 | 31,689 |
| Rentals | | | | 2,998 | 3,247 |
| Other | | | | 206 | 218 |
| Remuneration of own capital: | | | | | |
| Retained earnings | | 35,179 | 51,615 | 35,179 | 51,615 |
| Interest on capital and dividends | | 11,099 | 17,232 | 11,099 | 17,232 |
| Non-controlling interests | | | | | 20 |
| Value added distributed | | <u>49,677</u> | <u>72,395</u> | <u>253,015</u> | <u>269,295</u> |

The accompanying notes are an integral part of the individual and consolidated financial statements.

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

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

(All amounts in thousands of 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, in the *Novo Mercado* (New Market) category.

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

The issue of these individual and consolidated financial statements was approved for disclosure by the Board of Directors on February 7, 2020.

1.2. Basis of preparation and statement of compliance

The individual and consolidated financial statements have been prepared in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), as well as the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and disclose all (and only) the applicable significant information related to the financial statements, which is consistent with the information utilized by management in the performance of its duties.

The main accounting policies applied in the preparation of these financial statements are set out in Note 30.

The financial statements have been prepared under the historical cost convention, and modified to reflect the deemed cost of land and buildings on the date of transition to CPCs and IFRS, and adjusted to reflect the fair value of available-for-sale and other financial assets and liabilities (including derivative instruments).

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 individual and consolidated financial statements are disclosed in Note 2.

a) Individual financial statements

The individual financial statements have been prepared in accordance with accounting practices adopted in Brazil issued by the CPC. They are also in conformity with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). These individual financial statements are disclosed together with the consolidated financial statements.

b) Consolidated financial statements

The consolidated financial statements have been prepared and are being presented in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the CPC, as well as according to the IFRS issued by the IASB.

c) Statement of value added

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

1.3. Changes in accounting policies and disclosures

The following standards were adopted for the first time for the financial year beginning on January 1, 2019 and had no material impacts on the Group:

IFRS 16 / CPC 06 - Leases

The purpose of this new standard is to provide a single accounting model, which requires lessees to recognize the liabilities assumed with a corresponding entry to the right-of-use assets for all contracts that grant the right to control an identifiable asset, including lease agreements and potentially some components of service agreements, unless the contract presents the characteristics below, which allow the entity to apply the recognition exemptions provided for in this standard:

- i. Leases with a lease term of 12 months or less;
- ii. Leases of low-value assets or based on variable amounts.

For the year ended December 31, 2019, the Company's management reviewed all lease contracts and concluded that, under all contracts identified as leases (according to the criteria of the new standard), the exemption criteria apply, and there were no material impacts on balance sheet or income statement accounts.

IFRIC 23 - Uncertainty Over Income Tax Treatments

This interpretation clarifies the accounting for tax positions not yet accepted by the tax authorities. Both IAS 12/CPC 32 - Income Taxes and the new IFRIC 23 interpretation apply only to income tax and social contribution. IFRIC 23 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 statements. The Group performed a review and did not identify any relevant impacts from the adoption of this interpretation on its financial statements.

Other amendments which are effective are not material to the Group.

1.4. Consolidation

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

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

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

a) Fair value of derivative financial instruments

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

b) Provision for impairment of trade receivables

The provision for impairment of trade receivables is measured using the "expected loss" criterion. 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, calculated on income tax and social contribution losses, were accounted for based on the expectation of future realization, supported by income projections made by management, which consider the typical development of the business and operating markets, according to the currently known scenarios.

d) Impairment of property, plant and equipment

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

e) Accrual for risks

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Fair value of the stock option plan

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

f) Impairment of intangible assets

The Group annually tests intangible assets - mainly represented by product development and registration - for impairment, whenever practicable using the discounted cash flow method, considering, among other aspects:

- (i) Assumptions of future revenue generation, based on market size (current and estimated) and on the Group's expected market share.
- (ii) Estimates of direct and indirect manufacturing costs.
- (iii) Trading expenditures, such as marketing, commission, freight and storage 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 30.8.

g) Provision for inventory losses

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

h) 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 a 60% reduction in the ICMS tax base in interstate operations, with full/partial maintenance of credits on purchases, pursuant to ICMS Agreement 100/97. As from May 1, 2019, the maintenance of the tax credits was revoked for tax-exempt transactions within the state of São Paulo through Decree 64,213.

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 utilized in purchases of inputs and machinery and equipment and/or transferred to other Group companies which have an interdependence relationship, and calculate ICMS payable on a regular basis. Currently, the subsidiary, with the support of tax consulting and IT system firms, is diligently working on the submission of the files, which must be uploaded in chronological order.

The Company's management believes that there is no material risk of these credits not being realized; therefore, no provision for impairment is necessary.

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The activities of the Group companies 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.

In order to protect itself from foreign exchange risks, when necessary, the Group utilizes derivative transactions, mainly exchange rate swaps and non-deliverable forward (NDF) contracts.

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

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

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

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

| | <u>2019</u> | <u>2018</u> |
|---------------------------------|-----------------|-----------------|
| Assets in foreign currency | | |
| Cash and cash equivalents | 653 | 3,260 |
| Trade receivables | <u>10,963</u> | <u>9,337</u> |
| | <u>11,616</u> | <u>12,597</u> |
| Liabilities in foreign currency | | |
| Borrowings (*) | | (11,650) |
| Trade payables | (22,602) | (13,796) |
| Other liabilities | | <u>(440)</u> |
| | <u>(22,602)</u> | <u>(25,886)</u> |
| Net exposure - liabilities | <u>(10,986)</u> | <u>(13,289)</u> |

(*) The table above does not include balances of working capital borrowings denominated in foreign currency of R\$58,720 (R\$6,560 in 2018) (Note 17), because 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 five scenarios, considering the changes in the quotations of the Brazilian real (R\$) against the U.S. dollar (US\$).

| | | Impact of appreciation/depreciation of the U.S. dollar on the portfolio balance | | | |
|---------------------------|---------|---|------------|---------------------------|---------------------------|
| | | 4.03 | 4.07 | 3.05 | 2.04 |
| Assets/liabilities | Risk | 2019 | Scenario 1 | Scenario 2 | Scenario 3 |
| | | | | (US\$ depreciation - 25%) | (US\$ depreciation - 50%) |
| Cash and cash equivalents | High \$ | 653 | 6 | (165) | (330) |
| Trade receivables | High \$ | 10,963 | 107 | (2,767) | (5,535) |
| Trade payables | High \$ | (22,602) | (220) | 5,706 | 11,411 |

(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 borrowings, the Group seeks to maintain a stable relation between short- and long-term debts. As regards financial investments, the index used is 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 73.8% of the Group's transactions (54.6% in 2018), are carried out at floating interest rates, against 26.2% of transactions at fixed interest rates (45.4% in 2018). 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 risk

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 more than 32 years of experience in the market.

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

In addition to the risk mitigating factors established in the credit policies, the Group 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 range from "AA" (the lowest risk) to "E" (the highest risk) (Note 7).

c) Liquidity risk

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

Cash flow forecasting is based on the approved budget and subsequent adjustments, which takes into consideration, in addition to all the operating plans, the plan for raising funds to support planned investments and complying with the maturity schedule of debts. The treasury department daily monitors the forecasts included in the cash flow projections to ensure the Group has sufficient cash to meet its operational needs. Additionally, the Group has previously approved credit facilities available to increase and strengthen its liquidity position.

Cash and cash equivalents are primarily invested in Repurchase Agreements and CDBs, corresponding to highly liquid instruments.

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

The table below analyzes the financial liabilities into relevant maturity groupings, 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 | Over 5 years |
| At December 31, 2019: | | | | |
| Trade payables | 40,381 | | | |
| Borrowings (*) | 129,762 | 52,765 | 90,099 | 42,235 |
| Derivative financial instruments, net | 2,252 | | | |
| Dividends and interest on capital | 10,991 | | | |
| Other liabilities | 39,770 | 2,579 | | |
| | <u>223,156</u> | <u>55,344</u> | <u>90,099</u> | <u>42,235</u> |
| At December 31, 2018: | | | | |
| Trade payables | 27,100 | | | |
| Borrowings (*) | 91,946 | 62,063 | 124,291 | 56,229 |
| Derivative financial instruments, net | 28 | | | |
| Dividends and interest on capital | 16,351 | | | |
| Other liabilities | 53,352 | 5,680 | | |
| | <u>188,777</u> | <u>67,743</u> | <u>124,291</u> | <u>56,229</u> |

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

3.2. Capital management

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

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

The gearing ratios at December 31, 2019 and December 31, 2018 may be summarized as follows:

| | | Consolidated | |
|---------------------------------------|------|--------------|----------|
| | Note | 2019 | 2018 |
| Borrowings | 17 | 281,082 | 287,529 |
| Derivative financial instruments, net | 9 | 2,252 | 28 |
| Cash and cash equivalents | 8 | (45,009) | (65,183) |
| Net debt | | 238,325 | 222,374 |
| Equity | 19 | 492,481 | 455,967 |
| Total capital | | 730,806 | 678,341 |
| Gearing ratio - % | | 32.61 | 32.78 |

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 group of financial assets is impaired.

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

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

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

4. SEGMENT REPORTING

The Board of Directors is the chief decision-maker and has determined the operating segments based on strategic business decisions. These segments are:

- 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 manufacture of the products takes place at the Company's industrial facilities in the city of Cravinhos, state of São Paulo.

Sales are widely dispersed, and therefore there are no customers accounting for more than 10% of net revenue.

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

The results by segment are as follows:

| | 2019 | | | |
|------------------------|--------------------|-------------------|--------------------------|-----------|
| | Business segment | | | |
| | Production animals | Companion animals | International operations | Total |
| Revenue | 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 | (132,272) | (32,079) | (26,715) | (191,066) |
| Result - segmented | 76,258 | 29,055 | 11,217 | 116,530 |
| Result - non-segmented | | | | (70,252) |
| Profit for the year | | | | 46,278 |

| | 2018 | | | |
|------------------------|--------------------|-------------------|--------------------------|-----------|
| | Business segment | | | |
| | Production animals | Companion animals | International operations | Total |
| Revenue | 458,584 | 75,615 | 55,016 | 589,215 |
| Cost of sales | (222,632) | (22,415) | (20,038) | (265,085) |
| Gross profit | 235,952 | 53,200 | 34,978 | 324,130 |
| Selling expenses | (120,931) | (28,880) | (23,717) | (173,528) |
| Result - segmented | 115,021 | 24,320 | 11,261 | 150,602 |
| Result - non-segmented | | | | (81,735) |
| Profit for the year | | | | 68,867 |

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

| | 2019 | 2018 |
|------------|--------|--------|
| Mexico | 21,762 | 19,529 |
| Colombia | 21,581 | 17,831 |
| Ecuador | 5,636 | 4,580 |
| Paraguay | 2,402 | 1,049 |
| Honduras | 2,252 | 1,439 |
| Costa Rica | 1,345 | 1,797 |
| Panama | 1,809 | 1,866 |
| Bolivia | 3,519 | 3,140 |
| Other | 3,962 | 3,785 |
| | 64,268 | 55,016 |

5. INVESTMENTS (PARENT COMPANY)

a) Information on the investments

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

b) Changes in investments

| | Parent company | |
|--|----------------|----------------|
| | 2019 | 2018 |
| Opening balance | 465,692 | 403,742 |
| Equity in the results of investees | 50,247 | 72,954 |
| Capital contribution with Advances for Future Capital Increase (i) | 17,000 | 23,600 |
| Stock options granted | 522 | 643 |
| Interest on capital | (1,041) | (8,456) |
| Dividends distributed (i) | (31,952) | (26,368) |
| Changes in the share of profit/loss of subsidiaries | | (271) |
| Exchange variation on foreign investments | 741 | (152) |
| Closing balance | <u>501,209</u> | <u>465,692</u> |

- (i) In 2019, the quotaholders of the subsidiaries Ouro Fino Pet Ltda. and Ouro Fino Agronegócio Ltda. approved the distribution of dividends to the parent company Ouro Fino Saúde Animal Participações S.A. in the amounts of R\$6,415 (R\$21,134 in 2018) and R\$25,537 (R\$5,234 in 2018), respectively.

c) Summarized financial information

The tables below present summarized financial information of the subsidiaries.

(i) Summarized balance sheet

| | 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 | <u>(169,826)</u> | <u>(39,496)</u> | <u>(7,765)</u> | <u>(8,040)</u> | <u>(13,092)</u> |
| 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 | <u>(162,433)</u> | <u>(1,587)</u> | <u>(213)</u> | | <u>(1,238)</u> |
| Non-current assets, net | 263,203 | 12,770 | 1,890 | 4,851 | 2,173 |
| Equity | <u>314,214</u> | <u>163,645</u> | <u>31,466</u> | <u>9,343</u> | <u>729</u> |

| | 2018 | | | | |
|----------------------------|------------------------------------|-----------------------------------|------------------------|---|--------------------------------|
| | 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 | 218,664 | 189,183 | 24,499 | 14,294 | 12,694 |
| Liabilities | (119,310) | (47,919) | (5,309) | (9,946) | (10,639) |
| Current assets, net | 99,354 | 141,264 | 19,190 | 4,348 | 2,055 |
| Non-current | | | | | |
| Assets | 415,229 | 16,484 | 1,476 | 4,356 | 1,697 |
| Liabilities | (213,680) | (3,753) | (568) | | (1,203) |
| Non-current assets, net | 201,549 | 12,731 | 908 | 4,356 | 494 |
| Equity | 300,903 | 153,995 | 20,098 | 8,704 | 2,549 |

(ii) Summarized statement of income

| | 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 |
| Profit (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) |
| Profit (loss) for the year | (4,746) | 35,090 | 18,715 | (86) | (1,838) |
| | 2018 | | | | |
| | 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 | 342,291 | 427,241 | 79,973 | 19,529 | 17,831 |
| Profit (loss) before income tax and social contribution | 19,263 | 46,674 | 24,615 | 1,741 | (610) |
| Income tax and social contribution | (1,096) | (12,680) | (3,128) | 2,157 | 433 |
| Profit (loss) for the year | 18,167 | 33,994 | 21,487 | 3,898 | (177) |

(iii) Statement of comprehensive income (loss)

| | 2019 | 2018 |
|--|---------|--------|
| Ouro Fino Saúde Animal Ltda. (direct subsidiary) | | |
| Profit (loss) for the year | (4,746) | 18,167 |
| Other comprehensive income (loss) | 741 | (423) |
| Total comprehensive income (loss) | (4,005) | 17,744 |

(iv) Summarized statement of cash flows

| | 2019 | | | | |
|--|-----------------------------|---------------------|-----------------------------------|--------------------------|---------|
| | Subsidiaries | | | | |
| | Direct | | | Indirect | |
| Ouro Fino Saúde Animal Ltda. | Ouro Fino Agronegócio Ltda. | Ouro Fino Pet Ltda. | Ouro Fino de México, S.A. de C.V. | Ouro Fino Colômbia S.A.S | |
| Cash flows from operating activities: | | | | | |
| Cash provided by (used in) operating activities | 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 provided by 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) |
| Net increase (decrease) in cash and cash equivalents | (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 |
| | | | | | |
| | 2018 | | | | |
| | Subsidiaries | | | | |
| | Direct | | | Indirect | |
| Ouro Fino Saúde Animal Ltda. | Ouro Fino Agronegócio Ltda. | Ouro Fino Pet Ltda. | Ouro Fino de México, S.A. de C.V. | Ouro Fino Colômbia S.A.S | |
| Cash flows from operating activities: | | | | | |
| Cash provided by (used in) operating activities | 3,211 | 61,421 | 18,399 | 3,649 | (1,058) |
| Interest paid | (17,189) | (636) | (83) | (301) | (597) |
| Income tax and social contribution paid | (389) | (17,283) | (2,786) | | |
| Cash provided by (used in) operating activities | (14,367) | 43,502 | 15,530 | 3,348 | (1,655) |
| Net cash used in investing activities | (49,082) | (3,822) | (452) | (1,207) | (292) |
| Net cash provided by (used in) financing activities | 3,143 | (27,854) | (21,398) | (1,895) | (1,858) |
| Net increase (decrease) in cash and cash equivalents | (60,306) | 11,826 | (6,320) | 246 | (3,805) |
| Cash and cash equivalents at the beginning of the year | 97,736 | 9,041 | 10,374 | 996 | 5,183 |
| Foreign exchange gains on cash and cash equivalents | 190 | 2 | | | |
| Cash and cash equivalents at the end of the year | 37,620 | 20,869 | 4,054 | 1,242 | 1,378 |

d) Reconciliation of the financial information of investments

| | Subsidiaries | | | | | | | |
|--|------------------------------|---------|-----------------------------|---------|---------------------|----------|----------|----------|
| | Ouro Fino Saúde Animal Ltda. | | Ouro Fino Agronegócio Ltda. | | Ouro Fino Pet Ltda. | | Total | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Equity at January 1 | 300,903 | 259,164 | 153,995 | 133,543 | 20,098 | 19,645 | 474,996 | 412,352 |
| Profit (loss) for the year | (4,746) | 18,167 | 35,090 | 33,994 | 18,715 | 21,487 | 49,059 | 73,648 |
| Capital contribution with Advances for Future Capital Increase | 17,000 | 23,600 | | | | | 17,000 | 23,600 |
| Stock options granted | 316 | 395 | 97 | 148 | 109 | 100 | 522 | 643 |
| Interest on capital | | | | (8,456) | (1,041) | | | |
| Dividends distributed | | | (25,537) | (5,234) | (6,415) | (21,134) | (31,952) | (26,368) |
| Changes in the share of profit/loss of subsidiaries | | (271) | | | | | - | (271) |
| Exchange variation on foreign investment | 741 | (152) | | | | | 741 | (152) |
| Equity at December 31 | 314,214 | 300,903 | 163,645 | 153,995 | 31,466 | 20,098 | 510,366 | 483,452 |
| Percentage holding | 99.99% | 99.99% | 99.99% | 99.99% | 99.99% | 99.99% | | |
| Share of investments | 314,214 | 300,903 | 163,645 | 153,995 | 31,466 | 20,098 | 509,325 | 474,996 |
| Unrealized profit on inventories | (8,116) | (9,304) | | | | | (8,116) | (9,304) |
| Carrying amount of the investment in the parent company | 306,098 | 291,599 | 163,645 | 153,995 | 31,466 | 20,098 | 501,209 | 465,692 |

6. FINANCIAL INSTRUMENTS BY CATEGORY

| | Parent company | | Consolidated | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | Amortized cost | Amortized cost | Amortized cost | Amortized cost |
| Assets as per balance sheet | | | | |
| Cash and cash equivalents | 1,289 | 20 | 45,009 | 65,183 |
| Trade receivables | | | 189,076 | 174,694 |
| Related parties | 968 | 7,238 | 393 | 636 |
| Other assets, except prepaid expenses | 250 | | 3,467 | 3,205 |
| | <u>2,507</u> | <u>7,258</u> | <u>237,945</u> | <u>243,718</u> |

| | Parent company | | Consolidated | | | |
|-----------------------------------|----------------|----------------|---|----------------|---|----------------|
| | 2019 | 2018 | 2019 | | 2018 | |
| | Amortized cost | Amortized cost | Liabilities measured at fair value through profit or loss | Amortized cost | Liabilities measured at fair value through profit or loss | Amortized cost |
| Liabilities as per balance sheet: | | | | | | |
| Trade payables | | | | 40,381 | | 27,100 |
| Derivative financial instruments | | | 2,252 | | 28 | |
| Borrowings | | | | 281,082 | | 287,529 |
| Related parties | 67 | 50 | | 172 | | 145 |
| Commissions on sales | | | | 4,816 | | 5,446 |
| Other liabilities | | | | 8,446 | | 6,577 |
| | <u>67</u> | <u>50</u> | <u>2,252</u> | <u>334,897</u> | <u>28</u> | <u>326,797</u> |

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\$44,926 (R\$65,131 in 2018) are held in prime financial institutions rated as BB by Standard & Poor's.

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

| | Consolidated | |
|----|----------------|----------------|
| | 2019 | 2018 |
| AA | 65,257 | 54,278 |
| A | 73,770 | 71,817 |
| B | 19,102 | 20,658 |
| C | 19,975 | 16,276 |
| D | 13,020 | 12,281 |
| E | 4,669 | 5,798 |
| | <u>195,793</u> | <u>181,108</u> |

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and at banks, as well as investments consisting of repurchase agreements and Bank Deposit Certificates (CDBs) with an average return of 95.6% of the Interbank Deposit Certificate (CDI) rate variation (2018 – up to 95.7% of the CDI rate).

| | Parent company | | Consolidated | |
|--------------------------------|----------------|------|--------------|--------|
| | 2019 | 2018 | 2019 | 2018 |
| Cash: | | | | |
| In local currency | | | 11 | 12 |
| In foreign currency | | | 72 | 40 |
| | | | 83 | 52 |
| Banks: | | | | |
| In local currency | 104 | 20 | 6,187 | 3,899 |
| In foreign currency | | | 581 | 3,220 |
| | 104 | 20 | 6,768 | 7,119 |
| Financial investments (i): | | | | |
| In local currency | | | | |
| Repurchase agreements | | | 6,069 | 7,907 |
| Bank Deposit Certificate (CDB) | 1,185 | | 32,089 | 50,024 |
| Other | | | | 81 |
| | 1,185 | | 38,158 | 58,012 |
| | 1,289 | 20 | 45,009 | 65,183 |

- (i) Financial investments, amounting to R\$38,158 (R\$58,012 in 2018), can be redeemed at any time with no loss on yields.

9. DERIVATIVE FINANCIAL INSTRUMENTS (CONSOLIDATED)

| | 2019 | 2018 | |
|--------------------|-------------|--------|-------------|
| | Liabilities | Assets | Liabilities |
| Exchange rate swap | 2,252 | | 313 |
| NDF | | 285 | |
| Current | 2,252 | 285 | 313 |

In 2019, the notional amounts of outstanding exchange rate swap contracts totaled EUR12,945 thousand (US\$1,667 thousand in 2018), and the notional amounts of NDF contracts in 2018 totaled US\$850 thousand.

10. TRADE RECEIVABLES (CONSOLIDATED)

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|-----------------------|
| In local currency: | | |
| Trade receivables | 184,044 | 171,015 |
| Provision for impairment of trade receivables | <u>(5,931)</u> | <u>(5,658)</u> |
| | 178,113 | 165,357 |
| In foreign currency: | | |
| Trade receivables | 11,749 | 10,093 |
| Provision for impairment of trade receivables | <u>(786)</u> | <u>(756)</u> |
| | 10,963 | 9,337 |
| Current | <u><u>189,076</u></u> | <u><u>174,694</u></u> |

Trade receivables mature as follows:

| | <u>2019</u> | <u>2018</u> |
|--------------------|-----------------------|-----------------------|
| Not yet due: | | |
| Up to 3 months | 137,229 | 126,947 |
| From 3 to 6 months | 43,476 | 40,148 |
| Over 6 months | <u>3,857</u> | <u>2,799</u> |
| | 184,562 | 169,894 |
| Past due: | | |
| Up to 3 months | 3,132 | 3,276 |
| From 3 to 6 months | 809 | 750 |
| Over 6 months | <u>7,290</u> | <u>7,188</u> |
| | 11,231 | 11,214 |
| | <u><u>195,793</u></u> | <u><u>181,108</u></u> |

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

Changes in the provision were as follows:

| | <u>2019</u> | <u>2018</u> |
|----------------------------|---------------------|---------------------|
| Opening balance | 6,414 | 7,495 |
| Additions, net | 1,180 | 419 |
| Foreign exchange variation | 64 | 173 |
| Final write-offs | <u>(941)</u> | <u>(1,673)</u> |
| Closing balance | <u><u>6,717</u></u> | <u><u>6,414</u></u> |

Additions to and reversals of the provision for impairment of trade receivables have been recorded under "Selling expenses" in the statement of income (Note 21). The amounts are generally written off from the provision account when there is no expectation of recovering the funds.

11. INVENTORIES (CONSOLIDATED)

| | 2019 | 2018 |
|--|-----------------------|-----------------------|
| Finished products | 66,118 | 82,121 |
| Raw materials | 51,250 | 37,855 |
| Packaging materials | 13,494 | 11,683 |
| Work in process | 12,398 | 9,051 |
| Imports in transit | 11,162 | 7,264 |
| Advances to suppliers | 11,251 | 8,976 |
| Other | 10,046 | 8,718 |
| Provision for inventory losses (Note 18) | (6,083) | (7,087) |
| | <u>169,636</u> | <u>158,581</u> |
| Non-current (*) | <u>(4,342)</u> | <u>(5,422)</u> |
| Current | <u><u>165,294</u></u> | <u><u>153,159</u></u> |

The amount of R\$4,342 (R\$5,422 at December 31, 2018) relates to an agreement entered into between the subsidiary Ouro Fino Saúde Animal Ltda. and the supplier Laboratório Biomega S.A. ("Biomega"), and the settlement has been occurring upon the delivery of the goods.

12. TAXES RECOVERABLE

| | Parent company | | Consolidated | |
|---|-------------------|-------------------|----------------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Value-Added Tax on Sales and Services (ICMS) | | | 51,402 | 56,461 |
| Social Integration Program (PIS) and Social Contribution on Revenues (COFINS) | | | 7,791 | 1,514 |
| Withholding Income Tax (IRRF) | 355 | 472 | 849 | 907 |
| ICMS, PIS and COFINS on acquisitions of PP&E | | | 736 | 568 |
| Excise Tax (IPI) | | | 220 | 374 |
| Other | | | 2,757 | 2,384 |
| | <u>355</u> | <u>472</u> | <u>63,755</u> | <u>62,208</u> |
| Non-current | | (86) | (51,277) | (56,368) |
| Current | <u><u>355</u></u> | <u><u>386</u></u> | <u><u>12,478</u></u> | <u><u>5,840</u></u> |

The ICMS credits, amounting to R\$50,853 in 2019 (R\$56,055 in 2018), were mainly generated by Ouro Fino Saúde Animal Ltda., and were not subject to monetary restatement. Up to April 30, 2019, the subsidiary Ouro Fino Saúde Animal Ltda. accumulated ICMS credits on tax-exempt shipments in transactions within the state of São Paulo, exports, and a 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 they may be utilized in purchases of inputs and machinery and equipment and/or transferred to other Group companies which have an interdependence relationship, and calculate ICMS payable on a regular basis. In both cases, the credits are recovered at historical values. 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 chronological order, with a view to enabling the conversion of the credit balance into accumulated credits to be used as previously described. Management, with the support of tax advisory and IT system firms, is working diligently on the submission of the files.

ICMS credits related to the period from 2010 to 2013, amounting to R\$18,846, were approved by the tax authorities, and R\$11,048 was released for immediate use during the audit conducted by tax authorities in 2013 and 2014.

Subsequently, amounts which had been previously withheld in connection with tax assessment notices were released - R\$3,123 in June 2018 and R\$672 in February 2019 - through the filing of a writ of mandamus, totaling R\$3,795, and supported by guarantee insurance.

Finally, the residual balance of R\$4,003 remains withheld due to the obligations related to the submission of electronic files pursuant to CAT Ordinance 83/2009.

The credit balance accounted for corresponds to all the credit balances for the period from 2014 to 2018; the requests for accumulated credits will be made by submitting the related files through the Electronic System for Management of Accumulated Credit (e-CredAc), pursuant to CAT Ordinance 83/2009, which have been consistently prepared by management on the dates established by law.

In this context, the Company's management understands that there is no material risk of not realizing the amounts recorded; therefore, no provision for impairment of receivables is 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 (the subsidiary Ouro Fino Pet Ltda. adopted the deemed profit method up to December 31, 2018), 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 regulations of those countries. Therefore, there is no direct correlation between the amounts presented in the consolidated statement of income and those that would have been obtained by applying the standard rates mentioned above.

a) Composition, nature and realization of deferred taxes

(i) Deferred income tax and social contribution

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Tax credits on: | | |
| Accumulated income tax and social contribution losses | 7,149 | 1,836 |
| Temporary differences | | |
| Provisions | 10,792 | 16,648 |
| Unrealized profit on inventories | 4,181 | 4,656 |
| Pre-operating costs written off | 191 | 383 |
| Derivative financial instruments | 766 | 106 |
| Revaluation surplus - business combination | 802 | 780 |
| | <u>23,881</u> | <u>24,409</u> |
| Tax debts on: | | |
| Temporary differences | | |
| Deemed cost of land | (7,878) | (7,878) |
| Provisions | (171) | (158) |
| Accelerated depreciation | (391) | (410) |
| | <u>(8,440)</u> | <u>(8,446)</u> |
| Total assets, net | <u><u>15,441</u></u> | <u><u>15,963</u></u> |

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:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Opening balance | 15,963 | 12,412 |
| Pre-operating costs written off | (192) | (193) |
| Accumulated income tax and social contribution losses | 5,313 | 1,510 |
| Derivative financial instruments | 660 | (3,447) |
| Provisions | (5,856) | 5,449 |
| Unrealized profit on inventories | (475) | 221 |
| RD&I benefit - Accelerated depreciation | | (46) |
| Revaluation surplus - business combination | 22 | 57 |
| Accelerated depreciation | 6 | |
| Closing balance | <u><u>15,441</u></u> | <u><u>15,963</u></u> |

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

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Deferred tax assets to be recovered | | |
| In 2019 | | 17,835 |
| In 2020 | 20,509 | 5,795 |
| In 2021 | 2,570 | |
| After 2023 | 802 | 779 |
| | <u><u>23,881</u></u> | <u><u>24,409</u></u> |
| Deferred tax liabilities to be settled | | |
| In 2019 | | 178 |
| In 2020 | 252 | 27 |
| In 2021 | 34 | 11 |
| In 2022 | 74 | 26 |
| After 2023 | 8,080 | 8,204 |
| | <u><u>8,440</u></u> | <u><u>8,446</u></u> |

14. INTANGIBLE ASSETS (CONSOLIDATED)

| | At January 1, 2018 | Additions | Provision for impairment | Foreign exchange variation | Write-offs | Amortization | At December 31, 2018 |
|---|-----------------------|---------------|-------------------------------------|----------------------------------|-------------------------------------|-----------------|----------------------------|
| Goodwill on acquisition of subsidiary | 618 | | | | | | 618 |
| Trademarks and licenses purchased | | 9 | | 1 | | (6) | 4 |
| Product development and registration | 74,591 | 22,788 | (3,357) | 150 | (1,631) | (4,876) | 87,665 |
| Computer software | 10,791 | 900 | | | | (6,628) | 5,063 |
| Other | 721 | | | | | (272) | 449 |
| | <u>86,721</u> | <u>23,697</u> | <u>(3,357)</u> | <u>151</u> | <u>(1,631)</u> | <u>(11,782)</u> | <u>93,799</u> |
| | At January 1, 2019 | Additions | Provision for impairment | Foreign exchange variation | Write-offs | Amortization | At 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 |
| | <u>93,799</u> | <u>16,998</u> | <u>6,135</u> | <u>105</u> | <u>(15,835)</u> | <u>(7,907)</u> | <u>93,295</u> |
| 2018 | | | | | | | |
| | <u>Cost</u> | | <u>Provision for impairment</u> | | <u>Accumulated amortization</u> | | <u>Net</u> |
| Goodwill on acquisition of subsidiary | 618 | | | | | | 618 |
| Trademarks and licenses purchased | 3,147 | | | | (3,143) | | 4 |
| Product development and registration | 122,148 | | | (9,309) | (25,174) | | 87,665 |
| Computer software | 34,440 | | | | (29,377) | | 5,063 |
| Other | 1,333 | | | | (884) | | 449 |
| | <u>161,686</u> | | <u>(9,309)</u> | | <u>(58,578)</u> | | <u>93,799</u> |
| 2019 | | | | | | | |
| | <u>Cost</u> | | <u>Provision for impairment</u> | | <u>Accumulated amortization</u> | | <u>Net</u> |
| 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 |
| | <u>162,495</u> | | <u>(3,174)</u> | | <u>(66,026)</u> | | <u>93,295</u> |

Product development and registration refers to expenses incurred with new drugs totaling R\$86,475 (R\$87,665 in 2018). The amortization of intangible assets related to product development and registration was recognized within "Cost of sales" (Note 21).

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

In the year ended December 31, 2019, there were reversals totaling R\$15,835 (R\$1,551 in 2018) related to discontinued projects (2018 - sales of product registrations).

15. PROPERTY, PLANT AND EQUIPMENT (CONSOLIDATED)

| | At January 1, 2018 | Additions | Foreign exchange variation | Transfers | Write-offs | Depreciation | At December 31, 2018 |
|---|-----------------------|-----------------------------|----------------------------------|----------------|-----------------------------|-----------------|---|
| Land | 24,985 | | | | | | 24,985 |
| Buildings and improvements | 124,777 | | | 13,440 | (737) | (3,141) | 134,339 |
| Machinery, equipment and industrial facilities | 79,306 | 4,257 | (1) | 181 | (119) | (6,410) | 77,214 |
| Vehicles and tractors | 3,518 | 10,703 | (26) | | (751) | (2,406) | 11,038 |
| Furniture and fittings | 2,972 | 575 | 3 | | (2) | (558) | 2,990 |
| IT equipment | 1,276 | 2,776 | | | (100) | (957) | 2,995 |
| Construction in progress (i) | 8,415 | 10,608 | | (13,621) | | | 5,402 |
| Other | 1,618 | 328 | 1 | | | (278) | 1,669 |
| | <u>246,867</u> | <u>29,247</u> | <u>(23)</u> | | <u>(1,709)</u> | <u>(13,750)</u> | <u>260,632</u> |
| | At January 1, 2019 | Additions | Foreign exchange variation | Transfers | Write-offs | Depreciation | At 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 fittings | 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 |
| | <u>260,632</u> | <u>36,954</u> | <u>191</u> | | <u>(1,418)</u> | <u>(16,720)</u> | <u>279,639</u> |
| | | 2019 | | 2018 | | | Average annual depreciatio n rates |
| | Cost | Accumulated depreciation | Net | Cost | Accumulated depreciation | Net | |
| Land | 24,985 | | 24,985 | 24,985 | | 24,985 | |
| Buildings and improvements | 163,776 | (25,006) | 138,770 | 155,755 | (21,416) | 134,339 | 2.38% |
| Machinery, equipment and industrial facilities | 138,765 | (55,179) | 83,586 | 125,861 | (48,647) | 77,214 | 5.77% |
| Vehicles, tractors and aircraft | 20,137 | (5,610) | 14,527 | 14,902 | (3,864) | 11,038 | 19.62% |
| Furniture and fittings | 8,664 | (5,642) | 3,022 | 8,074 | (5,084) | 2,990 | 6.02% |
| IT equipment | 11,758 | (8,149) | 3,609 | 10,281 | (7,286) | 2,995 | 9.56% |
| Construction in progress (i) | 9,742 | | 9,742 | 5,402 | | 5,402 | |
| Other | 4,071 | (2,673) | 1,398 | 4,058 | (2,389) | 1,669 | 6.61% |
| | <u>381,898</u> | <u>(102,259)</u> | <u>279,639</u> | <u>349,318</u> | <u>(88,686)</u> | <u>260,632</u> | |

(i) In 2019, the balance of "Construction in progress" relates substantially to the new plant of biological products (vaccines), totaling R\$474 (R\$2,365 in 2018); the expansion of the hormonal implant area, totaling R\$891; the construction of a new generator shed, totaling R\$1,628; the expansion of the Guatapar Vivarium, totaling R\$1,590; and a substation building totaling R\$1,910.

In 2019, the balance of capitalized borrowing costs totaled R\$1,775 (R\$1,209 in 2018), at an annual average rate of 5.89% (6.66% in 2018).

Land, buildings, machinery and equipment amounting to R\$84,317 (R\$86,275 in 2018) are pledged as collateral for borrowings (Note 17).

In 2019, there were purchases of property, plant and equipment amounting to R\$1,823 (R\$4,620 in 2018), financed under the FINAME program or through lease transactions, which are considered non-cash transactions, and, therefore, were not included in the statement of cash flows as investing and financing activities.

16. TRADE PAYABLES (CONSOLIDATED)

| | 2019 | 2018 |
|---------------------|---------------|---------------|
| In local currency | 12,664 | 13,304 |
| In foreign currency | 27,717 | 13,796 |
| | <u>40,381</u> | <u>27,100</u> |

17. BORROWINGS (CONSOLIDATED)

| | Financial charges incurred | Maturity final | 2019 | 2018 |
|--|---|-------------------|------------------|------------------|
| In foreign currency | | | | |
| Working capital | Exchange variation and weighted average rate of 4.76% per year (2018 - 3.75% p.a.) | 2020 | 58,720 | 6,560 |
| Advance on foreign exchange contract (ACC) | Exchange variation and weighted average rate of 4.55% per year (2018 - 4.20% p.a.) | 2019 | | 11,650 |
| In local currency | | | | |
| FINEP (Technological Innovation) | Weighted average rate of 5.89% p.a. (2018 - 6.66% p.a.) | 2029 | 142,572 | 159,937 |
| BNDES - FINEM | Weighted average rate of 8.26% p.a. (2018 - 9.99% p.a.) | 2025 | 29,419 | 33,534 |
| BNDES - FINAME | Weighted average rate of 7.73% p.a. (2018 - 6.76% p.a.) | 2023 | 239 | 538 |
| Export Credit Note (NDE) | Average rate of 5.30% p.a. (2018 - 7.30% p.a.) | 2021 | 40,041 | 40,045 |
| Working capital | Average rate of 7.70% p.a. (2018 - 7.70% p.a.) | 2019 | | 25,140 |
| Working capital (i) | Average rate of 7.75% p.a. (2018 - 8.04% p.a.) | 2020 | 6,149 | 5,975 |
| Finance lease | Weighted average rate of 10.22% p.a. (2018 - 10.93% p.a.) | 2022 | 3,522 | 4,150 |
| Drawee risk | Not applicable | 2020 | 420 | |
| | | | <u>281,082</u> | <u>287,529</u> |
| Current | | | <u>(162,852)</u> | <u>(211,090)</u> |
| Non-current | | | <u>118,230</u> | <u>76,439</u> |

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

a) Guarantees for borrowings

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

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

The BNDES-FINEM transaction also requires compliance with ratios previously defined in the contract: Net Debt/EBITDA ratio equal to or lower than 3.0, and General Indebtedness ratio equal to or lower than 0.70. For the years ended December 31, 2019 and 2018, the Company complied with these ratios.

The carrying amounts of borrowings approximate their fair values.

a) Sales returns

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

b) Bonuses on sales

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

c) Accrual for risks

The Group companies are parties to labor, civil and tax litigation in progress, and are discussing such matters at the administrative and judicial levels, which, when 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 set up are summarized as follows:

| | <u>2019</u> | <u>2018</u> |
|-------|--------------|--------------|
| Labor | 2,529 | 2,525 |
| Civil | 1,150 | 972 |
| Tax | 5 | 4,617 |
| | <u>3,684</u> | <u>8,114</u> |

d) Provision for impairment of trade receivables

According to CPC 48/IFRS 9, as from January 1, 2018, the provision for impairment of trade receivables has been accrued based on expected losses rather than incurred losses. In view of all the Group's controls to mitigate credit risk, and the consequent low historical delinquency level, there were no significant effects arising from the first-time application (Note 10).

e) Provision for inventory losses

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

f) Provision for impairment of intangible assets

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

g) Possible losses not provided for in the balance sheet

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

Possible risks are broken down as follows:

| | 2019 | | | 2018 | | |
|---------|----------------|--------------|----------------|----------------|--------------|---------------|
| | Administrative | Litigation | Total | Administrative | Litigation | Total |
| Tax (*) | 95,106 | 1,924 | 97,030 | 50,595 | | 50,595 |
| Labor | | 2,278 | 2,278 | | 5,249 | 5,249 |
| Civil | 3 | 2,364 | 2,367 | | 2,131 | 2,131 |
| | <u>95,109</u> | <u>6,566</u> | <u>101,675</u> | <u>50,595</u> | <u>7,380</u> | <u>57,975</u> |

(*) Refer mainly to PIS, COFINS and ICMS tax assessment notices. The PIS / COFINS tax assessment notice and fine imposed, in the amount of R\$49,072, was issued by the tax authorities against the subsidiary Ouro Fino Saúde Animal Ltda., in May 2019, referring to taxable events occurring in calendar year 2014, requiring differences in PIS and COFINS calculated under the single-phase regime, disregarding the operations of commercial companies Ouro Fino Agronegócio Ltda. and Ouro Fino PET Ltda. Within the scope of the ICMS, the discussion involves questions related to alleged ICMS debts arising from a different understanding of the tax authority, regarding the application of the exemption provided for in the 100/97 tax agreement, for imports of technical products used in the formulation of products for the livestock sector, in the amount of R\$22,636.

h) Contingent assets

The 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 PIS/COFINS tax base. On October 18, 2018, the Brazilian Federal Revenue Secretariat issued Internal Ruling No. 13 of the General Coordination of the Taxation System (COSIT), providing for the criteria and procedures to be followed for calculating the amount to be excluded from the monthly PIS/COFINS tax base. Considering that this Internal Ruling brings legal uncertainty to the taxpayers that exclude from the tax base the ICMS amounts separately disclosed in the related invoices, the recognition of such credits, in the amount of R\$3,800, is considered by management as probable but not virtually certain, and, consequently, they have not been recorded and are being disclosed as contingent assets.

19. EQUITY

a) Share capital

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

In 2019, fully subscribed and paid-up share capital comprised 53,949,006 common shares with no par value.

b) Capital reserve

At December 31, 2018, the amounts recognized within "Capital reserve" relate to the expenditures incurred with the Initial Public Offering (IPO). This amount was considered in the share capital increase approved at the Annual and Extraordinary General 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 at the rate of 25% of profit adjusted according to Article 202 of Law 6,404.
- The remaining balance will be distributed as approved at a General Meeting by stockholders representing at least 2/3 (two thirds) of the voting shares, in compliance with the applicable legal provisions.

| Allocation of profit | 2019 | 2018 |
|---|----------------|----------------|
| Profit for the year | 46,278 | 68,847 |
| Legal reserve (5%) | <u>(2,314)</u> | <u>(3,442)</u> |
| Basis for calculating the minimum dividend | 43,964 | 65,405 |
| Dividends distributed (25%) | 10,991 | 16,351 |
| Interest on capital | 944 | 7,674 |
| Withholding income tax on interest on capital | (108) | (881) |
| Minimum mandatory dividends | 10,155 | 9,558 |

At the Annual General Meeting held on March 29, 2019, stockholders decided on the allocation of the profit for 2018, and approved the retention of the residual balance of R\$48,173 as a reserve for expansion.

d) Carrying value adjustments

These refer to the effect of the adoption of the deemed cost method to record land in subsidiaries that took place on 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 foreign subsidiaries.

e) Stock option plan

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

The plan is managed by the Board of Directors and, according to its rules, members of management, employees and service providers of the Company or other companies under its control are eligible as beneficiaries. The total number of common shares for which options may be granted cannot exceed 1.5% of the total common shares representing the Company's capital. Information on the Company's Stock Option Plan is available from 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 exercising 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 the persons eligible for the first grant, totaling 809,135 stock options, distributed among 17 beneficiaries, as follows:

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

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

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

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

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

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

In 2019, expenses totaling R\$591 (R\$662 in 2018) incurred in connection with stock options were recognized.

Changes in stock options are shown below:

| | Number of stock options | |
|--------------------------------------|----------------------------|----------------|
| | 2019 | 2018 |
| Balance at the beginning of the year | 213,076 | 316,853 |
| Number of options canceled (i) | (69,263) | (103,777) |
| Balance at the end of the year | <u>143,813</u> | <u>213,076</u> |

(i) These refer to terminated employees whose options were canceled as provided for in the Plan's regulations.

20. REVENUE (CONSOLIDATED)

The reconciliation between gross and net revenue is as follows:

| | 2019 | 2018 |
|-------------------------------|----------------|----------------|
| In Brazil: | | |
| Gross sales and services | 614,833 | 583,626 |
| Taxes and deductions on sales | (59,516) | (49,427) |
| | <u>555,317</u> | <u>534,199</u> |
| Abroad: | | |
| Gross sales | 65,492 | 55,678 |
| Taxes and deductions on sales | (1,224) | (662) |
| | <u>64,268</u> | <u>55,016</u> |
| | <u>619,585</u> | <u>589,215</u> |

21. COSTS AND EXPENSES BY NATURE

| | Parent company | | Consolidated | |
|--|----------------|--------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Cost of sales (*) | | | | |
| Variable costs (raw and consumption materials) | | | 180,413 | 162,766 |
| Personnel expenses | | | 75,834 | 62,481 |
| Depreciation and amortization | | | 16,182 | 16,375 |
| Outsourced services | | | 22,148 | 17,672 |
| Provision for inventory losses | | | (994) | (1,036) |
| Electricity | | | 8,114 | 5,657 |
| Provision for impairment | | | 140 | 49 |
| Other | | | 10,152 | 1,121 |
| | | | <u>311,989</u> | <u>265,085</u> |
| Selling expenses | | | | |
| Personnel expenses | | | 76,369 | 72,332 |
| Sales team expenses | | | 47,736 | 48,741 |
| Outsourced services | | | 28,632 | 21,229 |
| Freight charges | | | 22,558 | 20,478 |
| Depreciation and amortization | | | 6,154 | 5,860 |
| Telecommunications and electricity | | | 1,211 | 1,098 |
| Provision for impairment of trade receivables | | | 1,180 | 419 |
| Other | | | 7,226 | 3,371 |
| | | | <u>191,066</u> | <u>173,528</u> |
| General and administrative expenses | | | | |
| Personnel expenses | 3,222 | 2,715 | 27,653 | 28,859 |
| Outsourced services | 333 | 345 | 9,511 | 6,405 |
| Depreciation and amortization | | | 2,291 | 3,297 |
| Travel expenses | 34 | 16 | 935 | 817 |
| Telecommunications and electricity | | | 886 | 786 |
| Vehicle expenses | | | 233 | 215 |
| Donations and sponsorships | | | 102 | 111 |
| Other | 364 | 375 | 3,263 | 2,769 |
| | <u>3,953</u> | <u>3,451</u> | <u>44,874</u> | <u>43,259</u> |
| | <u>3,953</u> | <u>3,451</u> | <u>547,929</u> | <u>481,872</u> |

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

22. OTHER INCOME, (EXPENSES), NET

| | Parent company | | Consolidated | |
|---|----------------|-----------|--------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Gain on disposal and write-off of PP&E | | | 326 | (13) |
| Gain on disposal and write-off of intangible assets (i) | | | (15,835) | (24) |
| Gains on sales of scrap, rentals and other | 165 | 102 | (604) | 863 |
| Federal, state and municipal taxes and fees (iv) | (5) | (4) | 6,046 | 488 |
| Provision for impairment and write-off of intangible assets (iii) | | | 6,275 | (4,790) |
| Provision for tax contingencies (ii) | | | 3,739 | (4,413) |
| Other gains (losses) | (48) | (3) | 193 | (1,480) |
| | <u>112</u> | <u>95</u> | <u>140</u> | <u>(9,369)</u> |

- (i) Relates to discontinued projects (2018 - sale of product registrations) (Note 14).
- (ii) Relates substantially to the reversal of an accrual for risks in connection with Tax Assessment Notices and Fines (AIIMs) addressing the transfer of credit balances between establishments of the subsidiaries Ouro Fino Saúde Animal Ltda. and Ouro Fino Agronegócio Ltda., which had been recognized in 2018.
- (iii) Relates to the provision for impairment and final write-offs of projects that were under development.
- (iv) Refers to out-of-date credits from PIS/COFINS contributions, in the amount of R\$5,693, related to essential and relevant inputs for the production process.

23. FINANCE INCOME (COSTS)

| | Parent company | | Consolidated | |
|--|----------------|--------------|-----------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Finance income: | | | | |
| Income from financial investments | 8 | | 2,980 | 4,433 |
| Interest received | | | 716 | 928 |
| Monetary variation gains | 24 | 65 | 495 | 456 |
| Other | | | 117 | 204 |
| | <u>32</u> | <u>65</u> | <u>4,308</u> | <u>6,021</u> |
| Finance costs: | | | | |
| Interest paid | | | (13,154) | (16,981) |
| PIS and COFINS on interest on capital paid | (97) | (781) | (97) | (781) |
| Financial charges | | | (1,539) | (2,115) |
| Other | (63) | (35) | (735) | (1,082) |
| | <u>(160)</u> | <u>(816)</u> | <u>(15,525)</u> | <u>(20,959)</u> |
| Derivative financial instruments, net: | | | | |
| Gains (losses) on derivatives (foreign exchange variation) | | | (1,617) | 8,853 |
| Losses on derivatives (interest) | | | (1,447) | (4,291) |
| | | | <u>(3,064)</u> | <u>4,562</u> |
| Foreign exchange variations, net | | | 443 | (4,774) |
| Finance income (costs) | <u>(128)</u> | <u>(751)</u> | <u>(13,838)</u> | <u>(15,150)</u> |

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 | |
|--|----------------|----------|--------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| Profit before income tax and social contribution | 46,278 | 68,847 | 57,958 | 82,824 |
| Statutory tax rates | 34% | 34% | 34% | 34% |
| | (15,735) | (23,408) | (19,706) | (28,160) |
| Reconciliation to the effective rate | | | | |
| Permanent differences: | | | | |
| RD&I Benefit | | | | 4,187 |
| Equity in the results of investees | 17,084 | 24,804 | | |
| Adjustment related to the calculation of subsidiary taxed under the deemed profit method | | | | 5,241 |
| Investment grant (i) | | | 9,520 | |
| Adjustment related to the calculation of foreign subsidiaries taxed at the rate in effect in their country | | | (628) | 2,975 |
| Interest on capital | (33) | (266) | 321 | 2,609 |
| Unrecognized deferred taxes | (1,316) | (1,130) | (1,670) | (1,130) |
| Other | | | 483 | 321 |
| Income tax and social contribution | | | (11,680) | (13,957) |
| Reconciliation to the statement of income: | | | | |
| Current | | | (10,629) | (17,416) |
| Deferred | | | (1,051) | 3,459 |
| | | | (11,680) | (13,957) |
| Effective rate | | | 20.15% | 16.85% |

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

25. EARNINGS PER SHARE

a) Basic

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

| | 2019 | 2018 |
|---|---------|---------|
| Profit for the year attributable to the owners of the parent company | 46,278 | 68,847 |
| Weighted average number of common shares in the year (in thousands of shares) | 53,949 | 53,949 |
| Basic earnings per share | 0.85781 | 1.27615 |

b) Diluted

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

| | 2019 | 2018 |
|--|---------|---------|
| Profit for the year attributable to the owners of the parent company | 46,278 | 68,847 |
| 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 | 0.85781 | 1.27615 |

26. EMPLOYEE BENEFITS

a) Private pension plan - defined contribution

The Group companies sponsor a defined contribution pension plan for their employees. The plan was implemented in August 2008 and is managed by Itaú Vida e Previdência S.A. In 2019, the companies' contributions to the plan totaled R\$1,130 (R\$1,007 in 2018).

b) Profit sharing

The Group companies offer a variable compensation program to their employees, calculated based on quantitative and qualitative targets established by management. In 2019, the effect of profit sharing on results was R\$2,457 (R\$13,892 in 2018), and was recorded based on the minimum amount established in the collective bargaining agreement.

27. RELATED-PARTY BALANCES AND TRANSACTIONS

a) Balances and main transactions

| | Parent company | | | | | | | |
|------------------------------|---------------------|------------------|-----------------------------------|------------------------|---------------------|------------------|-----------------------------------|------------------------|
| | 2019 | | | | 2018 | | | |
| | Assets | | Liabilities | | Assets | | Liabilities | |
| | Interest on capital | Other assets (i) | Dividends and interest on capital | Other liabilities (ii) | Interest on capital | Other assets (i) | Dividends and interest on capital | Other liabilities (ii) |
| Subsidiaries: | | | | | | | | |
| Ouro Fino Saúde Animal Ltda. | | | | 67 | | | | 33 |
| Ouro Fino Agronegócio Ltda. | | | | | 7,188 | | | |
| Ouro Fino Pet Ltda. | 885 | | | | | | | |
| Other related parties: | | | | | | | | |
| Ouro Fino Química Ltda. | | 83 | | | | 50 | | |
| Stockholders | | | 10,991 | | | | 16,351 | 17 |
| | <u>885</u> | <u>83</u> | <u>10,991</u> | <u>67</u> | <u>7,188</u> | <u>50</u> | <u>16,351</u> | <u>50</u> |

| | Parent company | | | | | |
|------------------------------|--|---------------------|-------------|--|----------------|--|
| | Main transactions: | | | | | |
| | 2019 | | | 2018 | | |
| Royalties | Shared Services Center (CSC) reimbursement | Other expenses, net | Royalties | Shared Services Center (CSC) reimbursement | Finance result | |
| Subsidiaries: | | | | | | |
| Ouro Fino Saúde Animal Ltda. | | (251) | (62) | | (267) | |
| Ouro Fino Agronegócio Ltda. | | 52 | | | 29 | |
| Ouro Fino Pet Ltda. | | 13 | | | 8 | |
| Other related parties: | | | | | | |
| Ouro Fino Química Ltda. | 162 | | | 115 | 9 | |
| | <u>162</u> | <u>(186)</u> | <u>(62)</u> | <u>115</u> | <u>9</u> | |

| | Consolidated | | | | | | | |
|----------------------------|---|---------------------------|------------------|---------------------|---|---------------------------|----------------|---------------|
| | Balances: | | | | | | | |
| | 2019 | | | | 2018 | | | |
| | Assets | | Liabilities | | Assets | | Liabilities | |
| Other assets (i) | Dividends and interest on capital | Other liabilities (ii) | Borrowings (iii) | Other assets (i) | Dividends and interest on capital | Other liabilities (ii) | Borrowings (*) | |
| Other related parties: | | | | | | | | |
| Ouro Fino Química Ltda. | 239 | | 150 | | 224 | | 115 | |
| Condomínio Rural Ouro Fino | 154 | | | | 178 | | | |
| BNDES Participações S.A. | | | | 29,658 | | | | 34,072 |
| Stockholders | | 10,991 | | | | 16,351 | 17 | |
| Other | | | 22 | | 234 | | 13 | |
| | <u>393</u> | <u>10,991</u> | <u>172</u> | <u>29,658</u> | <u>636</u> | <u>16,351</u> | <u>145</u> | <u>34,072</u> |

| | Consolidated | | | | | | | | | |
|----------------------------|---|--------------|---------------------------|---------------------|--------------------------|---|--------------|---------------------------|---------------------|----------------|
| | Main transactions: | | | | | | | | | |
| | 2019 | | | | | 2018 | | | | |
| Gross profit on sales | Services Center (CSC) reimburseme | Royalties | Other expenses, net | Financial result | Gross profit on sales | Services Center (CSC) reimburseme | Royalties | Other expenses, net | Financial result | |
| Other related parties: | | | | | | | | | | |
| Ouro Fino Química Ltda. | | 1,420 | 162 | (566) | | 1,550 | 115 | (831) | 9 | |
| Condomínio Rural Ouro Fino | 3 | | | (2,040) | | 26 | | (1,726) | | |
| BNDES Participações S.A. | | | | | (2,897) | | | | (5,936) | |
| Other | | | | (451) | | | | (409) | | |
| | <u>3</u> | <u>1,420</u> | <u>162</u> | <u>(3,057)</u> | <u>(2,897)</u> | <u>26</u> | <u>1,550</u> | <u>115</u> | <u>(2,966)</u> | <u>(5,927)</u> |

(i) Other assets and liabilities

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

(ii) Borrowings

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

b) Management compensation

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

| | <u>2019</u> | <u>2018</u> |
|------------------------------|---------------------|---------------------|
| Salaries | 2,875 | 2,531 |
| Labor charges | 658 | 600 |
| Share-based payments | 246 | 224 |
| Direct and indirect benefits | 155 | 139 |
| Variable compensation | <u>2</u> | <u>233</u> |
| | <u><u>3,936</u></u> | <u><u>3,727</u></u> |

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

28. INSURANCE

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

| <u>Insured assets</u> | <u>Risks covered</u> | <u>2019</u> | <u>2018</u> |
|--------------------------|---|-------------|-------------|
| PP&E and inventories | Fire, lightning, explosion, electrical damage, windstorm, and loss of profits | 407,000 | 442,000 |
| General civil liability | Damage to third parties during operations | 10,000 | 10,000 |
| Civil risks - Management | Damage to third parties due to acts by members of management in the performance of their duties | 30,000 | 30,000 |

29. OTHER DISCLOSURES ON CASH FLOWS

| | Borrowings | Derivative financial instruments, net | Cash and cash equivalents | Net debt |
|--|------------|---------------------------------------|---------------------------|-----------|
| At January 1, 2018 | 313,100 | 10,451 | (123,360) | 200,191 |
| Funding | 151,879 | | | 151,879 |
| Repayment of principal | (189,943) | (5,861) | | (195,804) |
| Interest payments | (18,806) | | | (18,806) |
| Increase (decrease) in cash and cash equivalents | | | 58,369 | 58,369 |
| Changes affecting cash flow | (56,870) | (5,861) | 58,369 | (4,362) |
| Purchases of property, plant and equipment | 4,620 | | | 4,620 |
| Foreign exchange variation and interest | 26,679 | (4,562) | (192) | 21,925 |
| Changes not affecting cash flow | 31,299 | (4,562) | (192) | 26,545 |
| At December 31, 2018 | 287,529 | 28 | (65,183) | 222,374 |
| Funding | 89,994 | | | 89,994 |
| Repayment of principal | (99,103) | (840) | | (99,943) |
| Interest payments | (15,646) | | | (15,646) |
| Drawee risk | 420 | | | 420 |
| Increase (decrease) in cash and cash equivalents | | | 20,311 | 20,311 |
| Changes affecting cash flow | (24,335) | (840) | 20,311 | (4,864) |
| Purchases of property, plant and equipment | 1,823 | | | 1,823 |
| Foreign exchange variation and interest | 16,065 | 3,064 | (137) | 18,992 |
| Changes not affecting cash flow | 17,888 | 3,064 | (137) | 20,815 |
| At December 31, 2019 | 281,082 | 2,252 | (45,009) | 238,325 |

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

30.1 Consolidation

The following accounting policies are applied in the preparation of the 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 for the acquisition of subsidiaries in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are accounted for in the statement of income as incurred.

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

30.2 Foreign currency translation

a) Functional and presentation 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. Therefore, the individual and consolidated financial statements is presented in this currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or the dates of valuation when items are measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income 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 Colômbia S.A.S (subsidiaries of Ouro Fino Saúde Animal Ltda.), whose functional currency is different from the presentation currency, are translated into the presentation currency as follows:

- (i) The assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date.
- (ii) Income and expenses for each statement of income are translated at the average foreign exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate in effect on the dates of the transactions);
- (iii) All resulting exchange differences are recognized as a separate component of equity, under "Carrying value adjustments".

30.3 Financial assets

30.3.1 Classification

The Group classifies its financial assets, upon initial recognition, in the following categories: at 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 those with maturities greater than 12 months after the end of the reporting period. These 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".

30.3.2 Recognition and measurement

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

30.3.3 Impairment of financial assets

Assets measured at amortized cost

Management assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and 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" came into effect on January 1, 2018, introducing a new impairment model for financial assets, whereby it replaces the incurred-loss model with an expected credit loss model. Considering the low historical default rates, this change did not have major effects on the Company.

30.4 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 mainly operates with exchange rate swaps and NDFs. Derivatives are initially recognized at their fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value. Since the Group does not adopt hedge accounting, the changes in the fair value of derivative instruments are recognized immediately in the statement of income within "Finance income (costs)".

The new standard IFRS 9 - "Financial instruments" came into effect on January 1, 2018, establishing new criteria for the classification of financial assets and relaxing the hedge effectiveness requirements. Management believes that there will be no significant changes in the classification and measurement of financial assets, particularly considering that the Group does not have any hedging transactions.

30.5 Trade receivables

Trade receivables are stated at the original invoice amount, plus, when applicable, monetary and foreign exchange variations, and less the provision for impairment of trade receivables. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

30.6 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.

30.7 Current and deferred income tax and social contribution

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

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

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

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

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

b) Trademarks and licenses purchased

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

c) 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 programs are expensed as incurred.

d) Goodwill on acquisition of subsidiaries

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

30.9 Property, plant and equipment

Property, plant and equipment are measured 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 15. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced items or parts is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

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

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

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

30.10 Impairment of non-financial assets

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

30.11 Trade payables

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

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

30.12 Borrowings

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

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

30.13 Employee benefits

a) Private pension plan

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

b) Profit sharing

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

c) Share-based compensation

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

30.14 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, replacing the principle of risks and benefits.

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

30.15 Distribution of dividends and interest on capital

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

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

30.16 New standards that are not yet effective

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