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

Ouro Fino Saúde Animal Participações S.A. and Subsidiaries

Individual and Consolidated Interim Financial Information for the nine-month Period Ended September 30, 2019 and Report on Review of Interim Financial Information

Deloitte Touche Tohmatsu Auditores Independentes

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying individual and consolidated interim financial information of Ouro Fino Saúde Animal Participações S.A. (the "Company") included in the Interim Financial Information Form (ITR), for the quarter ended September 30, 2019, which comprises the balance sheet as of September 30, 2019 and the related statements of operations and of comprehensive income for the three and nine-month period then ended and the statements of changes in equity and of cash flows for the nine-month period then ended, including the explanatory notes.

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

Scope of review

We conducted our review in accordance with Brazilian and international standards on review of interim financial information (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with standards on auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion on the individual and consolidated interim financial information

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

Deloitte.

Other matters

Statements of value added

The interim financial information previously mentioned includes the individual and consolidated statements of value added ("DVA") for the nine-month period ended September 30, 2019, prepared under the responsibility of the Company's Management, and presented as additional information for IAS 34 proposes. These statements have been subject to review procedures performed in connection with the interim financial information (ITR) to conclude whether they were reconciled with the interim financial information and accounting records, as applicable, and if its form and content are in accordance with the criteria defined in the Technical Pronouncement CPC 09 - Statement of Value Added. Based on our review, nothing has come to our attention that causes us to believe the statements of value added were not prepared, in all material aspects, in accordance to the criteria defined in this standard and consistently with the individual and consolidated interim financial information taken as a whole.

Opening balance amounts

The information and amounts for the three and nine-month periods ended September 30, 2018, presented for comparison purposes, were previously reviewed by another independent auditor, who issued a report dated November 1st, 2018 without modification. The information and amounts corresponding to the year ended December 31, 2018, presented for comparison purposes, were previously audited by another independent auditor, who issued a report dated February 22, 2019 without qualification.

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

São Paulo, October 31, 2019

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Fernando A. L. Silva
Fernando Augusto Lopes Silva
Engagement Partner

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OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

BALANCE SHEET
All amounts in thousands of reais

ASSETS	Note	Parent company Sep 30, 2019	Parent company Dec 31, 2018	Consolidated Sep 30, 2019	Consolidated Dec 31, 2018
Current assets					
Cash and cash equivalents	8	348	20	82,777	65,183
Trade receivables	10			145,778	174,694
Inventories	11			180,990	153,159
Taxes recoverable	12	353	386	8,007	5,840
Income tax and social contribution recoverable				4,448	8,295
Related parties	27	33	7,238	313	636
Other assets		10		6,638	5,300
		744	7,644	428,951	413,107
Non-current assets					
Long-term receivables					
Taxes recoverable	12		86	51,849	56,368
Deferred income tax and social contribution	13			16,925	15,963
Related parties	27	17,000			
Inventories	11			4,973	5,422
Other assets				519	716
		17,000	86	74,266	78,469
Investments in subsidiaries	5	460,862	465,692		
Intangible assets	14			100,986	93,799
Property, plant and equipment	15			271,739	260,632
Total non-current assets		477,862	465,778	446,991	432,900
Total assets		478,606	473,422	875,942	846,007

LIABILITIES AND EQUITY	Note	Parent company Sep 30, 2019	Parent company Dec 31, 2018	Consolidated Sep 30, 2019	Consolidated Dec 31, 2018
Current liabilities					
Trade payables	16	12		46,793	27,100
Derivative financial instruments	9			696	28
Borrowings	17			121,045	76,439
Salaries and social charges		212	208	26,097	32,890
Taxes payable		104	877	2,477	5,097
Income tax and social contribution payable				292	763
Dividends and interest on capital	27		16,351		16,351
Related parties	27		50	150	145
Commissions on sales				4,523	5,446
Other liabilities		17		7,520	6,577
Total current liabilities		345	17,486	209,593	170,836
Non-current liabilities					
Borrowings	17			180,700	211,090
Provision for contingencies	18			7,360	8,114
Total non-current liabilities				188,060	219,204
Total liabilities		345	17,486	397,653	390,040
EQUITY	19				
Share capital		377,065	358,796	377,065	358,796
Capital reserve			(6,392)		(6,392)
Options granted		5,260	4,791	5,260	4,791
Revenue reserves		58,864	83,525	58,864	83,525
Carrying value adjustments		15,868	15,216	15,868	15,216
Retained earnings		21,204		21,204	
		478,261	455,936	478,261	455,936
Non-controlling interests				28	31
Total equity		478,261	455,936	478,289	455,967
Total liabilities and equity		478,606	473,422	875,942	846,007

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

STATEMENT OF OPERATIONS
PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
All amounts in thousands of reais unless otherwise stated

		Parent company			
		2019		2018	
	Note	Quarter	9-month period	Quarter	9-month period
General and administrative expenses	21	(950)	(3,013)	(865)	(2,595)
Equity in the results of investees	5	13,528	24,150	22,704	52,229
Other income, net	22	45	93	20	72
Operating profit		12,623	21,230	21,859	49,706
Finance income		19	19	25	64
Finance costs		(16)	(45)	(10)	(25)
Finance result	23	3	(26)	15	39
Profit for the quarter/period		12,626	21,204	21,874	49,745

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

STATEMENT OF OPERATIONS
PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
All amounts in thousands of reais unless otherwise stated

		Consolidated			
		2019		2018	
	Note	Quarter	9-month period	Quarter	9-month period
Revenue	20	154,408	423,112	160,356	413,897
Cost of sales	21	(74,042)	(210,426)	(69,306)	(183,922)
Gross profit		80,366	212,686	91,050	229,975
Selling expenses	21	(48,413)	(139,091)	(45,351)	(122,944)
General and administrative expenses	21	(10,887)	(32,359)	(9,932)	(29,952)
Other expenses (income), net	22	(296)	1,065	(5,092)	(742)
Operating profit		20,770	42,301	30,675	76,337
Finance income		1,106	3,344	1,510	5,010
Finance costs		(3,664)	(11,848)	(5,271)	(15,722)
Derivative financial instruments, net		103	(1,250)	724	5,738
Foreign exchange variations, net		(941)	(669)	(63)	(5,466)
Finance result	23	(3,396)	(10,423)	(3,100)	(10,440)
Profit before income tax and social contribution		17,374	31,878	27,575	65,897
Income tax and social contribution	24				
Current		(3,761)	(11,173)	(7,772)	(15,303)
Deferred		(990)	494	2,073	(840)
Profit for the quarter/period		12,623	21,199	21,876	49,754
Attributable to:					
Owners of the parent		12,626	21,204	21,874	49,745
Non-controlling interests		(3)	(5)	2	9
		12,623	21,199	21,876	49,754
Earnings per share attributable to owners of the parent during the quarter/period (in reais)	25				
Basic earnings per share		0.23404	0.39304	0.40546	0.92207
Diluted earnings per share		0.23404	0.39304	0.40546	0.92207

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

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

STATEMENT OF COMPREHENSIVE INCOME
PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
All amounts in thousands of reais

		Parent company			
		2019		2018	
	Note	Quarter	9-month period	Quarter	9-month period
Profit for the quarter/period		12,626	21,204	21,874	49,745
Other comprehensive income					
Items that will be reclassified to profit or loss					
Changes in the share of profit/loss of subsidiaries					(271)
Foreign exchange variation of foreign investments	5	480	652	519	522
Total comprehensive income for the quarter/period		13,106	21,856	22,393	49,996

		Consolidated			
		2019		2018	
		Quarter	9-month period	Quarter	9-month period
Profit for the quarter/period		12,623	21,199	21,876	49,754
Other comprehensive income					
Items that will be reclassified to profit or loss					
Foreign exchange variation of foreign investments	5	481	654	520	507
Total comprehensive income for the quarter/period		13,104	21,853	22,396	50,261
Attributable to:					
Owners of the parent		13,106	21,856	22,393	49,996
Non-controlling interests		(2)	(3)	3	265
		13,104	21,853	22,396	50,261

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

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

STATEMENT OF CHANGES IN EQUITY
All amounts in thousands of reais

		Attributable to owners of the parent									
					Revenue reserves						
	Note	Share capital	Capital reserve	Options granted	Legal reserve	Profit retention reserve	Carrying value adjustments	Retained earnings	Total	Non-controlling interests	Total equity
AT JANUARY 1, 2018		358,796	(6,392)	4,129	7,251	26,456	15,639		405,879	(243)	405,636
Comprehensive income for the period:											
Profit for the period								49,745	49,745	9	49,754
Changes in the share of profit/loss of subsidiaries	5						(271)		(271)	271	
Exchange variation of subsidiary located abroad	5						522		522	(15)	507
Total comprehensive income for the period							251	49,745	49,996	265	50,261
Contributions and distributions to owners of the parent:											
Additional proposed dividends	19 (c)					(1,797)			(1,797)		(1,797)
Stock options granted	19 (e)			510					510		510
Total contributions by owners				510		(1,797)			(1,287)		(1,287)
AT SEPTEMBER 30, 2018		358,796	(6,392)	4,639	7,251	24,659	15,890	49,745	454,588	22	454,610
AT JANUARY 1, 2019		358,796	(6,392)	4,791	10,693	72,832	15,216		455,936	31	455,967
Comprehensive income for the period:											
Profit for the period								21,204	21,204	(5)	21,199
Exchange variation of subsidiary located abroad	5						652		652	2	654
Total comprehensive income for the period							652	21,204	21,856	(3)	21,853
Contributions and distributions to owners of the parent:											
Capital increase by incorporation of revenue reserves	19 (c)	18,269	6,392			(24,661)					
Stock options granted	19 (e)			469					469		469
Total contributions by owners		18,269	6,392	469		(24,661)			469		469
AT SEPTEMBER 30, 2019		377,065		5,260	10,693	48,171	15,868	21,204	478,261	28	478,289

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

STATEMENT OF CASH FLOWS
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
All amounts in thousands of reais

		Parent company		Consolidated	
	Note	2019	2018	2019	2018
Cash flows from operating activities:					
Profit before income tax and social contribution		21,204	49,745	31,877	65,897
Adjustments for:					
Provision for impairment of trade receivables	10 and 18			1,245	212
Provision for inventory losses and write-offs	11			3,986	9,407
Changes in the provision for sales returns	18			23	(448)
Reversal of the provision for bonuses to customers	18			(619)	(1,072)
Equity in the results of investees	5	(24,150)	(52,229)		
Depreciation and amortization	14 and 15			18,115	18,570
Provision for impairment and write-off of intangible assets	14			140	712
Result on disposal of property, plant and equipment	22			(219)	(154)
Result on disposal of intangible assets	22				(73)
Interest and monetary and exchange variations, net				13,569	21,981
Derivative financial instruments				1,250	(5,738)
Provision for contingencies	18			(757)	3,893
Stock options granted	19 (e)	48	14	469	510
Changes in working capital:					
Trade receivables				28,374	14,462
Inventories				(30,298)	(63,974)
Taxes recoverable		121	875	1,731	(12,751)
Other assets		7	30	(1,099)	(93)
Trade payables			1	18,153	(3,436)
Taxes payable		(772)	(1,269)	(442)	(1,017)
Other liabilities		(20)	(14)	(4,931)	6,137
Cash provided by (used in) operations		(3,562)	(2,847)	80,567	53,025
Interest paid				(11,234)	(13,816)
Income tax and social contribution paid				(11,271)	(13,705)
Net cash used in operating activities		(3,562)	(2,847)	58,062	25,504
Cash flows from investing activities:					
Advances for future capital increase	27	(17,000)	(11,600)		
Investments in intangible assets	14			(13,010)	(17,566)
Purchases of property, plant and equipment	15			(22,581)	(18,830)
Receipts of dividends and interest on capital	5	37,241	25,309		
Proceeds from sale of property, plant and equipment				1,292	1,380
Proceeds from sale of intangible assets					220
Net cash provided by (used in) investing activities		20,241	13,709	(34,299)	(34,796)
Cash flows from financing activities:					
New borrowings				60,000	105,353
Repayment of borrowings				(49,524)	(138,394)
Payment of dividends and interest on capital		(16,351)	(10,847)	(16,351)	(10,847)
Realized derivative financial instruments				(582)	(4,724)
Net cash provided by (used in) financing activities		(16,351)	(10,847)	(6,457)	(48,612)
Net increase (decrease) in cash and cash equivalents		328	15	17,306	(57,904)
Cash and cash equivalents at the beginning of the period	8	20	29	65,183	123,360
Exchange gains on cash and cash equivalents				288	239
Cash and cash equivalents at the end of the period	8	348	44	82,777	65,695

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

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

OURO FINO SAÚDE ANIMAL PARTICIPAÇÕES S.A.

STATEMENT OF VALUE ADDED
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
All amounts in thousands of reais

		Parent company		Consolidated	
	Note	2019	2018	2019	2018
Revenues:					
Gross sales and services				459,311	447,439
Other expenses, net				(548)	(653)
Income related to the construction of own assets				11,278	15,214
Provision for impairment of trade receivables	10 and 18			(1,245)	(212)
				468,796	461,788
Inputs acquired from third parties:					
Cost of sales and services				(177,470)	(158,714)
Materials, electricity, third-party services and other		(609)	(600)	(103,082)	(85,850)
Losses on assets, net				(4,081)	(10,837)
Gross value added (distributed)		(609)	(600)	184,163	206,387
Depreciation and amortization	14 and 15			(18,115)	(18,570)
Net value added (distributed) generated by the entity		(609)	(600)	166,048	187,817
Value added received through transfer:					
Equity in the results of investees	5	24,150	52,229		
Finance income		20	64	9,323	13,169
Royalties		112	85	112	85
Other				316	354
Total value added distributed		23,673	51,778	175,799	201,425
DISTRIBUTION OF VALUE ADDED					
Personnel:					
Direct compensation		2,007	1,663	73,123	64,043
Benefits		9	2	13,689	10,975
Government Severance Indemnity Fund for Employees (FGTS)				5,524	4,677
Taxes, charges and contributions:					
Federal		405	340	28,159	33,950
State		3	3	9,456	10,940
Municipal				307	199
Remuneration of third parties' capital:					
Interest, foreign exchange loss, losses on derivatives, etc.		45	25	21,881	24,241
Rentals				2,303	2,468
Other				158	178
Remuneration of own capital:					
Profits reinvested		21,204	49,745	21,204	49,745
Non-controlling interests				(5)	9
Value added distributed		23,673	51,778	175,799	201,425

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

1. GENERAL INFORMATION

1.1. Operations

Ouro Fino Saúde Animal Participações S.A. (the "Company") is a listed corporation headquartered in the city of Cravinhos, state of São Paulo. The Company's shares are traded on the Brazilian stock exchange, B3 S.A. – Brasil, Bolsa, Balcão, in the Novo Mercado (New Market) 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 this parent company and consolidated interim accounting information was authorized by the Board of Directors on October 31, 2019.

1.2. Basis of preparation and statement of compliance

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

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

The interim accounting information was prepared in accordance with the Brazilian Technical Pronouncement CPC 21 - Interim Financial Reporting, and with International Accounting Standard IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board –(IASB), and is presented in accordance with the standards issued by the Brazilian Securities Commission (CVM) applicable to the preparation of Quarterly Information (ITR).

The preparation of interim accounting information requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the parent company and consolidated interim accounting information, are disclosed in Explanatory Note No. 2.

a) Parent company accounting information

The parent company accounting information has been prepared in accordance with accounting practices adopted in Brazil issued by the CPC. It is also in conformity with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). This parent company accounting information is disclosed together with the consolidated accounting information.

b) Consolidated accounting information

The consolidated accounting information has been prepared and is being presented in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), as well as according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

c) Statement of value added

The presentation of the parent company 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 was 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 IFRS, the presentation of such statement is considered supplementary information.

1.3. Changes in accounting policies and disclosures

The following standards were adopted for the first time for the year beginning January 1, 2019, and had no material impact on the Group’s financial statements.

IFRS 16 / CPC 06 - Leases

The objective of this new standard is to unify the lease accounting model, requiring lessees to recognize the liabilities assumed against the assets corresponding to their right of use for all contracts entitling the control of an identifiable asset, including lease agreements and potentially some components of service agreements, unless it has the following characteristics which are within the scope of exemption from the standard:

i. Agreements with lease terms of 12 months or less.

ii. Agreements with immaterial amounts or based on variable amounts.

For the nine-month period ended September 30, 2019, the Company's management performed a review of all lease contracts and concluded that to all those identified as lease (based on the criteria of the new standard), the exemption criteria apply, and there were no impact on the asset and liability or statement of operations accounts.

IFRIC 23 - Uncertainty over Income Tax Treatments

Clarifies the accounting for tax positions that have not yet been accepted by the tax authorities. Both IAS - 12/CPC 32 - Taxes on Profit 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 on (i) judgments made; (ii) assumptions or other estimates used; and (iii) the potential impact of uncertainties that are not reflected in the accounting information. The Group has assessed and has not identified any impacts from the adoption of this interpretation on its accounting information.

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 the consolidation are described in Explanatory Note No. 5(a) and the accounting policies applied in the preparation of the consolidated interim accounting information are described in Explanatory Note 30.1.

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 end of each reporting period.

b) Provision for impairment of trade receivables

The provision for impairment of trade receivables has been accrued based on the expected losses instead of on the incurred losses criterion. The new method consists of assessing the changes in the quality of credits as from their initial recognition, considering three levels: (i) Expected loss upon initial recognition; (ii) Significant increase in credit risk after initial recognition; and (iii) Credit-impaired assets. In view of all the Group's controls to mitigate credit risk, and the consequent low historical delinquency level, there were no significant effects from the initial application.

c) Deferred income tax and social contribution

The deferred income tax and social contribution assets, arising from income tax and social contribution losses, were recognized based on the expectation of future realization, supported by projections of results made by management, which consider the typical development of business and markets, according to the currently known scenarios.

d) Impairment of property, plant and equipment

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

e) Provision for contingencies

The Group companies are parties to tax, labor and civil litigation at various court levels. The provision for contingencies, to cover expected losses on proceedings in progress is established and updated based on management's assessment, according to the opinion of its legal counsel, and require a high level of judgment on the matters involved.

f) Fair value of the stock option plan

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

g) Impairment of intangible assets

The Group annually tests intangible assets - mainly represented by product development and registration - for impairment, whenever possible using the discounted cash flow method, 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 as from the estimated launching date of the products and the estimates of the product's life cycle, market development and level of associated technological innovation. 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 Explanatory Note 30.8.

h) Provision for inventory losses

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

i) Taxes recoverable

Up to April 30, 2019, ICMS credits were generated by exempted sales of the subsidiary Ouro Fino Saúde Animal Ltda. in transactions within the state of São Paulo, exports and a 60% reduction in the tax calculation basis in interstate transactions, with the full/partial maintenance of credits on purchases, pursuant to the ICMS Agreement 100/97. As from May 1, 2019, the maintenance of the tax credit was revoked through Decree 64,213.

After the files addressed in the Coordinating Committee of Tax Administration Board (CAT) Ordinance 83/2009 are uploaded, the remaining credit balances are converted into accumulated credits to be appropriated and, therefore, may be utilized in the purchase of inputs and machinery and equipment and/or transfer to other Group companies with which there is an interdependence relationship and that usually record ICMS payable. Currently, the subsidiary is in the process of uploading the files, which must be submitted in chronological order. With the support of tax consulting and IT system firms it has been working on going through the uploading process.

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 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 exposure, which could 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 the 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.

Swaps, classified as derivatives at fair value through profit or loss, were contracted to exchange the charges on borrowings initially obtained in foreign currency for charges based on the Interbank Deposit Certificate (CDI) rate.

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 in "Finance income and costs" in the statement of operations.

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

	Sep 30, 2019	Dec 31, 2018
Assets in foreign currency		
Cash and cash equivalents	1,924	3,260
Trade receivables	7,241	9,337
	9,165	12,597
Liabilities in foreign currency		
Borrowings (*)		(11,650)
Trade payables	(21,003)	(13,796)
Other liabilities	(73)	(440)
	(21,076)	(25,886)
Net exposure - liabilities	(11,911)	(13,289)

(*) The table does not include balances of working capital borrowings denominated in foreign currency of R$60,460 (December 31, 2018 – R$6,560) (Explanatory Note No. 17), because they are hedged by foreign exchange swap.

Assets and liabilities denominated in foreign currency are regularly monitored through estimated cash flows of inflows and outflows related to foreign exchange assets and liabilities. The amount of assets and liabilities in foreign currency fluctuates during a year, which may or may not cause a mismatch. Consequently, in order to mitigate risks arising from any possible foreign exchange variations, whenever required, derivative transactions may be contracted.

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 the appreciation/depreciation of the U.S. dollar on the portfolio balance					
		4.16	3.94	2.96	1.97	4.93	5.91
Assets/liabilities	Risk	Sep 30, 2019	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
			(probable)	(US$ depreciation - 25%)	(US$ depreciation - 50%)	(US$ appreciation - 25%)	(US$ appreciation - 50%)
Cash and cash equivalents	US$ depreciation	1,924	(104)	(455)	(910)	455	910
Trade receivables	US$ depreciation	7,241	(390)	(1,713)	(3,425)	1,713	3,425
Trade payables	US$ appreciation	(21,003)	1,132	4,968	9,936	(4,968)	(9,936)
Other liabilities	US$ appreciation	(73)	4	17	35	(17)	(35)

(ii) Interest rate risk

This risk arises from the possibility that the Group may incur losses due to adverse fluctuations in interest rates. The Group's interest rate risk primarily arises from borrowings and the Group seeks to maintain a stable relation between its short and long-term indebtedness. As regards financial investments, the index is the CDI rate.

The Group continuously monitors market interest rates in order to assess the need to contract new derivatives to hedge against the volatility risk of these rates.

Currently, most of the Group's transactions are based on floating rates, 69.7% (December 31, 2018 - 54.6%), in comparison with 30.3% of transactions based on fixed rates (December 31, 2018 - 45.4%). However, this increase in floating rate transactions has not resulted in higher volatility in the average cost of transactions due to the decrease in the main market indices (Special System for Settlement and Custody (SELIC), Interbank Deposit Certificate (CDI), Long-term Interest Rate (TJLP), etc.).

b) Credit risks

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

The 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 rating and credit risk level is attributed 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 mitigations established in credit policies, the Group has credit insurance coverage contracted for a portion 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 attributed to each variable, including the history of payments, length of the business relationship with the Group, period during which the company has been operating in the market and other variables, and a rating is defined for each customer based on their combination. This classification is defined according to ratings ranging 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, besides all the operating plans, the plan for raising funds to support planned investments and the maturity schedule of the debts. The treasury area monitors daily the forecasts included in the cash flow projections to ensure the Group has sufficient cash to meet 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 up to 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 September 30, 2019:				
Trade payables	46,793			
Borrowings (*)	134,717	64,766	96,213	45,440
Derivative financial instruments, net	696			
Other liabilities	41,059	2,208	5,152	
	223,265	66,974	101,365	45,440
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		
	188,777	67,743	124,291	56,229

(*) 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 stockholders, maintaining a strong credit classification 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 situation. 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 September 30, 2019 and December 31, 2018 are as follows:

		Consolidated	
	Note	Sep 30, 2019	Dec 31, 2018
Borrowings	17	301,745	287,529
Derivative financial instruments, net	9	696	28
Cash and cash equivalents	8	(82,777)	(65,183)
Net debt		219,664	222,374
Equity	19	478,289	455,967
Total capital		697,953	678,341
Gearing ratio (%)		31.47	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 based on the standard market pricing methodology, which comprises measuring their nominal value up to the due date and discounting this to present value at future market rates.

The Group evaluates, at the reporting date, if there is objective evidence that a financial asset or a group of financial assets is impaired in relation to its recoverable value.

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 in the balance sheet at fair value; this requires disclosure of fair value measurements by level of hierarchy.

All the Group's derivative financial instruments have been classified as Level 2 "Other observable significant data".

4. SEGMENT REPORTING

The Board of Directors is the chief decision-maker and has determined the operating segments based on strategic business decisions. The 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 representing more than 10% of net revenue.

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

The results by segment are as follows:

	Quarter ended September 30, 2019			
	Business segment			
	Production animals	Companion animals	International operations	Total
Revenue	119,957	19,525	14,926	154,408
Cost of sales	(61,753)	(5,899)	(6,390)	(74,042)
Gross profit	58,204	13,626	8,536	80,366
Selling expenses	(33,405)	(6,602)	(8,406)	(48,413)
Result - Segmented	24,799	7,024	130	31,953
Result - Not segmented				(19,330)
Profit for the quarter	24,799	7,024	130	12,623

	Nine-month period ended September 30, 2019			
	Business segment			
	Production animals	Companion animals	International operations	Total
Revenue	318,317	62,672	42,123	423,112
Cost of sales	(173,444)	(18,995)	(17,987)	(210,426)
Gross profit	144,873	43,677	24,136	212,686
Selling expenses	(94,095)	(23,655)	(21,341)	(139,091)
Result - Segmented	50,778	20,022	2,795	73,595
Result - Not segmented				(52,396)
Profit for the period	50,778	20,022	2,795	21,199

	Quarter ended September 30, 2018			
	Business segment			
	Production animals	Companion animals	International operations	Total
Revenue	127,210	17,468	15,678	160,356
Cost of sales	(57,762)	(5,659)	(5,885)	(69,306)
Gross profit	69,448	11,809	9,793	91,050
Selling expenses	(31,937)	(6,918)	(6,496)	(45,351)
Result - Segmented	37,511	4,891	3,297	45,699
Result - Not segmented				(23,823)
Profit for the quarter	37,511	4,891	3,297	21,876

	Nine-month period ended September 30, 2018			
	Business segment			
	Production animals	Companion animals	International operations	Total
Revenue	321,600	55,850	36,447	413,897
Cost of sales	(154,706)	(16,208)	(13,008)	(183,922)
Gross profit	166,894	39,642	23,439	229,975
Selling expenses	(85,457)	(20,813)	(16,674)	(122,944)
Result - Segmented	81,437	18,829	6,765	107,031
Result - Not segmented				(57,277)
Profit for the period	81,437	18,829	6,765	49,754

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

	2019		2018	
	Quarter	9-month period	Quarter	9-month period
Mexico	4,788	15,499	5,894	13,187
Colombia	5,539	15,453	4,581	12,645
Ecuador	1,036	3,561	1,490	4,028
Paraguay	1,519	1,825	101	499
Honduras		1,249	376	758
Costa Rica	462	940	686	868
Panama	488	863	671	1,218
Bolivia	282	518	735	1,257
Other	812	2,215	1,144	1,987
	14,926	42,123	15,678	36,447

5. INVESTMENTS (PARENT COMPANY)

a) Information on the investments

	Name	Country	Business	Direct holding	Indirect holding
(i)	Ouro Fino Saúde Animal Ltda.	Brazil	Research, development, production and sale of veterinary drugs, vaccines and other products. Sales in the domestic market are carried out through the companies mentioned in items (ii) and (iii) below. Sales in the foreign market are carried out directly with third parties and through the companies mentioned in items (iv) and (v) below. This company also provides manufacturing services to order from third parties.	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	
	Sep 30, 2019	Sep 30, 2018
Opening balance	465,692	403,742
Equity in the results of investees	24,150	52,229
Stock options granted	421	496
Dividends distributed (i)	(30,053)	(19,688)
Changes in the share of profit/loss of subsidiaries		(271)
Foreign exchange variation of foreign investments	652	522
Closing balance	460,862	437,030

(i) At September 30, 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$4,516 (September 30, 2018 – R$14,454) and R$25,537 (September 30, 2018 – R$5,234), respectively.

c) Summarized financial information

Set out below is the summarized financial information for subsidiaries.

(i) Summarized balance sheet

	September 30, 2019				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Current					
Assets	252,680	183,658	36,222	12,064	9,390
Liabilities	(177,902)	(47,964)	(8,847)	(9,283)	(11,393)
Current assets (liabilities), net	74,778	135,694	27,375	2,781	(2,003)
Non-current					
Assets	422,588	14,862	1,994	5,041	3,425
Liabilities	(200,182)	(2,178)	(306)		(1,206)
Non-current assets, net	222,406	12,684	1,688	5,041	2,219
Equity	297,184	148,378	29,063	7,822	216

	September 30, 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	214,067	184,365	28,473	12,278	11,114
Liabilities	(132,117)	(47,876)	(7,894)	(8,237)	(8,992)
Current assets, net	81,950	136,489	20,579	4,041	2,122
Non-current					
Assets	409,655	18,090	1,544	2,033	1,404
Liabilities	(215,488)	(3,855)	(652)		(1,363)
Non-current assets, net	194,167	14,235	892	2,033	41
Equity	276,117	150,724	21,471	6,074	2,163

(ii) Summarized statement of operations

	Quarter ended September 30, 2019				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Net sales revenue	107,921	117,898	20,751	4,788	5,539
Profit (loss) before income tax and social contribution	6,393	13,255	6,390	(1,024)	(763)
Income tax and social contribution	(2,772)	(2,503)	(2,114)		
Profit (loss) for the quarter	3,621	10,752	4,276	(1,024)	(763)

	Nine-month period ended September 30, 2019				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Net sales revenue	270,534	296,653	65,374	15,499	15,453
Profit (loss) before income tax and social contribution	(5,543)	26,855	20,317	(1,564)	(2,348)
Income tax and social contribution	921	(7,024)	(6,917)	43	
Profit (loss) for the period	(4,622)	19,831	13,400	(1,521)	(2,348)

	Quarter ended September 30, 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	105,961	123,103	18,423	5,894	4,581
Profit (loss) before income tax and social contribution	9,077	16,709	5,340	431	(730)
Income tax and social contribution	(318)	(5,607)	(699)	(43)	
Profit (loss) for the quarter	8,759	11,102	4,641	388	(730)

	Nine-month period ended September 30, 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	247,601	302,233	59,314	13,187	12,645
Profit (loss) before income tax and social contribution	20,436	33,450	18,534	856	(825)
Income tax and social contribution	(4,046)	(11,144)	(2,329)		
Profit (loss) for the period	16,390	22,306	16,205	856	(825)

(iii) Statement of comprehensive income

	2019		2018	
	Quarter	9-month period	Quarter	9-month period
Ouro Fino Saúde Animal Ltda. (direct subsidiary)				
Profit (loss) for the period	3,621	(4,622)	8,759	16,390
Other comprehensive income	480	652	519	251
Total comprehensive income	4,101	(3,970)	9,278	16,641

(iv) Summarized statement of cash flows

	Nine-month period ended September 30, 2019				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Cash flows from operating activities:					
Cash provided by operating activities	26,962	39,004	17,697	158	353
Interest paid	(10,774)	(120)	(48)		(292)
Income tax and social contribution paid		(3,904)	(7,367)		
Net cash provided by operating activities	16,188	34,980	10,282	158	61
Net cash used in investing activities	(29,480)	(3,463)	(727)	(612)	(66)
Net cash provided by (used in) financing activities	28,219	(33,532)	(4,750)		(280)
Net increase (decrease) in cash and cash equivalents	14,927	(2,015)	4,805	(454)	(285)
Cash and cash equivalents at the beginning of the period	37,620	20,869	4,054	1,242	1,378
Exchange gains on cash and cash equivalents	288				
Cash and cash equivalents at the end of the period	52,835	18,854	8,859	788	1,093

	Nine-month period ended September 30, 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	(15,891)	55,937	14,185	3,092	(1,449)
Interest paid	(12,433)	(553)	(63)	(301)	(466)
Income tax and social contribution paid		(11,591)	(2,114)		
Net cash provided by (used in) operating activities	(28,324)	43,793	12,008	2,791	(1,915)
Net cash used in investing activities	(38,218)	(3,548)	(435)	(760)	(287)
Net cash used in financing activities	(1,019)	(23,606)	(14,644)	(1,895)	(1,858)
Net increase (decrease) in cash and cash equivalents	(67,561)	16,639	(3,071)	136	(4,060)
Cash and cash equivalents at the beginning of the period	97,736	9,041	10,374	996	5,183
Exchange gains on cash and cash equivalents	235	3			
Cash and cash equivalents at the end of the period	30,410	25,683	7,303	1,132	1,123

d) Reconciliation of the financial information of investments

	Subsidiaries							
	Ouro Fino Saúde Animal Ltda.		Ouro Fino Agronegócio Ltda.		Ouro Fino Pet Ltda.		Total	
	Sep 30, 2019	Sep 30, 2018	Sep 30, 2019	Sep 30, 2018	Sep 30, 2019	Sep 30, 2018	Sep 30, 2019	Sep 30, 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 period	(4,622)	16,390	19,831	22,306	13,400	16,205	28,609	54,901
Stock options granted	251	312	89	109	81	75	421	496
Dividends distributed			(25,537)	(5,234)	(4,516)	(14,454)	(30,053)	(19,688)
Changes in the share of profit/loss of subsidiaries		(271)					-	(271)
Foreign exchange variation on foreign investments	652	522					652	522
Equity at September 30	297,184	276,117	148,378	150,724	29,063	21,471	474,625	448,312
Percentage holding (%)	99.99%	99.99%	99.99%	99.99%	99.99%	99.99%		
Share of investments	297,184	276,117	148,378	150,724	29,063	21,471	474,625	448,312
Unrealized profit in inventories	(13,763)	(11,282)					(13,763)	(11,282)
Carrying amount of the investment in the parent compar	283,421	264,835	148,378	150,724	29,063	21,471	460,862	437,030

6. FINANCIAL INSTRUMENTS BY CATEGORY

	Parent company		Consolidated	
	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2018
	Amortized cost	Amortized cost	Amortized cost	Amortized cost
Assets as per balance sheet				
Cash and cash equivalents	348	20	82,777	65,183
Accounts receivable			145,778	174,694
Related parties	33	7,238	313	636
Other assets, except for prepaid expenses			1,797	3,205
	381	7,258	230,665	243,718

	Parent company		Consolidated			
	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019		Dec 31, 2018	
	Other financial liabilities	Other financial liabilities	Liabilities at fair value through profit or loss	Other financial liabilities	Liabilities at fair value through profit or loss	Other financial liabilities
Liabilities as per balance sheet:						
Trade payables	12			46,793		27,100
Derivative financial instruments			696		28	
Borrowings				301,745		287,529
Dividends and interest on capital		16,351				16,351
Related parties		50		150		145
Commissions on sales				4,523		5,446
Other liabilities				7,520		6,577
	12	16,401	696	360,731	28	343,148

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$82,711 (December 31, 2018 - R$65,131) are held in prime financial institutions rated as BB by Standard & Poor's.

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

	Consolidated	
	Sep 30, 2019	Dec 31, 2018
AA	47,353	54,278
A	60,966	71,817
B	19,843	20,658
C	11,634	16,276
D	8,001	12,281
E	5,720	5,798
	153,517	181,108

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 (CDB) earning on average 96.8% of the Interbank Deposit Certificate (CDI) rate (December 31, 2018 - up to 95.7% of the CDI rate).

	Parent company		Consolidated	
	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2018
Cash:				
In local currency			11	12
In foreign currency			55	40
			66	52
Banks:				
In local currency	348	20	5,544	3,899
In foreign currency			1,869	3,220
	348	20	7,413	7,119
Financial investments (i):				
In local currency				
Repurchase agreements				7,907
Bank Deposit Certificates (CDB)			75,298	50,024
Other				81
			75,298	58,012
	348	20	82,777	65,183

(i) Financial investments amounting to R$75,298 (December 31, 2018 – R$58,012) can be redeemed at any time with no loss on yields.

9. DERIVATIVE FINANCIAL INSTRUMENTS (CONSOLIDATED)

	Sep 30, 2019	Dec 31, 2018	
	Liabilities	Assets	Liabilities
Exchange rate swap	696		313
NDF		285	
Current	696	285	313

At September 30, 2019, the notional amounts of outstanding exchange rate swap contracts totaled EUR13,302 thousand (December 31, 2018 - US$1,667 thousand) and the notional amounts of NDF contracts as of December 31, 2018, totaled US$850 thousand.

10. TRADE RECEIVABLES (CONSOLIDATED)

	Sep 30, 2019	Dec 31, 2018
In local currency:		
Receivables	145,464	171,015
Provision for impairment of trade receivables	(6,927)	(5,658)
	138,537	165,357
In foreign currency:		
Receivables	8,053	10,093
Provision for impairment of trade receivables	(812)	(756)
	7,241	9,337
Current	145,778	174,694

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

	Sep 30, 2019	Dec 31, 2018
Not yet due:		
Up to 3 months	110,681	126,947
From 3 to 6 months	28,708	40,148
Over 6 months	1,749	2,799
	141,138	169,894
Past due:		
Up to 3 months	3,774	3,276
From 3 to 6 months	679	750
Over 6 months	7,926	7,188
	12,379	11,214
	153,517	181,108

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 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:

	Sep 30, 2019	Sep 30, 2018
Opening balance	6,414	7,495
Additions, net	1,245	212
Foreign exchange variation	80	273
Final write-offs		(153)
Closing balance	7,739	7,827

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

11. INVENTORIES (CONSOLIDATED)

	Sep 30, 2019	Dec 31, 2018
Finished products	79,962	82,121
Raw materials	51,693	37,855
Packaging materials	15,471	11,683
Work in progress	12,182	9,051
Imports in transit	10,430	7,264
Advances to suppliers	11,381	8,976
Other	10,121	8,718
Provision for inventory losses (Note 18)	(5,277)	(7,087)
	185,963	158,581
Non-current (*)	(4,973)	(5,422)
Current	180,990	153,159

(*) The amount of R$4,973 (December 31, 2018 – R$5,422) refers to a loan agreement between the subsidiary Ouro Fino Saúde Animal Ltda. and the supplier Laboratório Biomega S.A. (“Biomega”) and the settlement of the related amount will take place upon the delivery of the goods.

12. TAXES RECOVERABLE

	Parent company		Consolidated	
	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2018
Value-Added Tax on Sales and Services (ICMS)			53,776	56,461
Social Integration Program (PIS) and Social Contribution on Revenues (COFINS)			1,941	1,514
Withholding Income Tax (IRRF)	353	472	797	907
ICMS, PIS and COFINS on acquisitions of PP&E			323	568
Excise Tax (IPI)			445	374
Other			2,574	2,384
	353	472	59,856	62,208
Non-current		(86)	(51,849)	(56,368)
Current	353	386	8,007	5,840

ICMS credits, which amounted to R$52,387 at September 30, 2019 (December 31, 2018 - R$56,055) were mainly generated by Ouro Fino Saúde Animal Ltda., and were not subject to monetary restatement. Up to April 30, 2019, these credits were generated by exempted sales of goods in transactions within the state of São Paulo, as well as in exports and with a 60% reduction in the tax calculation basis in interstate transactions, with the full/partial maintenance of credits on purchases, pursuant to the ICMS Agreement 100/97. As from May 1, 2019, after the enactment of Decree 64,213 of 2019, the subsidiary Ouro Fino Saúde Animal Ltda. has no longer been entitled to maintain the full amount of these credits in the state of São Paulo, and started to reverse the related amounts in monthly tax calculations.

After the electronic files under the Coordinating Committee of Tax Administration Board (CAT) Ordinance 83/2009 are submitted to and approved by the tax authorities, the credit balances are converted into accumulated credits to be appropriated according to applicable legislation and, therefore, may be utilized in the purchase of inputs and machinery and equipment and/or transferred to other Group companies with which there is an interdependence relationship and which regularly calculate ICMS payable. In both situations, the credits are recovered at historical values. Currently, Ouro Fino Saúde Animal Ltda. is in the process of filing, on a retroactive basis, electronic files (CAT Ordinance 83/2009), which must be submitted in chronological order to enable the transformation of the credit balance into accumulated credit, thus allowing its use as described above. Management, together with tax consulting and IT system companies, has been working hard on the proper 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 carried out by tax authorities in 2013 and 2014.

Subsequently, amounts previously withheld in connection with the tax assessment notices were released, by means of a petition for a writ of mandamus filed, totaling R$3,795, and supported by guarantee insurance, of which R$3,123 in June 2018 and R$672 in February 2019.

Finally, the residual balance of R$4,003 remains withheld due to the obligations related to the submission of electronic files under the terms of the Coordinating Committee of Tax Administration Board (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 file through the Electronic System for Management of the Accumulated Credit (e-CredAc), under the terms of the CAT Ordinance 83/2009, which have been consistently prepared by management on the dates established in 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 on the taxable profit 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 operations 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

	Sep 30, 2019	Dec 31, 2018
Tax credits on:		
Accumulated income tax and social contribution losses	5,903	1,836
Temporary differences		
Provisions	11,119	16,648
Unrealized profit in inventories	7,090	4,656
Pre-operating expenses written-off	240	383
Derivative financial instruments	236	106
Appreciation - business combination	780	780
	25,368	24,409
Tax liabilities on:		
Temporary differences		
Deemed cost of land	(7,878)	(7,878)
Provisions	(169)	(158)
Accelerated depreciation	(396)	(410)
	(8,443)	(8,446)
Total assets, net	16,925	15,963
Total deferred tax credits	25,368	24,409
Total deferred tax liabilities	(8,443)	(8,446)

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

The net changes in the deferred tax account were as follows:

	Sep 30, 2019	Sep 30, 2018
Opening balance	15,963	12,412
Pre-operating expenses written-off	(143)	(144)
Accumulated income tax and social contribution losses	4,067	
Derivative financial instruments	130	(3,537)
Provisions	(5,529)	1,514
Unrealized profit in inventories	2,434	1,377
RD&I benefit - Accelerated depreciation		(50)
Appreciation - business combination		159
Accelerated depreciation	3	
Closing balance	16,925	11,731

The amounts by estimated offset period are as follows:

	Sep 30, 2019	Dec 31, 2018
Deferred tax assets to be recovered		
In 2019	14,789	17,835
In 2020	9,318	5,795
In 2021	221	
In 2022	259	
After 2023	781	779
	25,368	24,409
Deferred tax liabilities to be settled		
In 2019	174	178
In 2020	27	27
In 2021	11	11
In 2022	26	26
After 2023	8,205	8,204
	8,443	8,446

14. INTANGIBLE ASSETS (CONSOLIDATED)

	At January 1, 2018	Additions	Provision for impairment	Foreign exchange variation	Write-offs	Amortization	At September 30, 2018
Goodwill on the acquisition of subsidiaries	618						618
Trademarks and licenses purchased		9		1		(4)	6
Product development and registration	74,591	17,192	690	256	(1,551)	(3,509)	87,669
Computer software	10,791	365				(4,928)	6,228
Other	721					(203)	518
	86,721	17,566	690	257	(1,551)	(8,644)	95,039

	At January 1, 2019	Additions	Provision for impairment	Foreign exchange variation	Amortization	At September 30, 2019
Goodwill on the acquisition of subsidiaries	618					618
Trademarks and licenses purchased	4				(4)	
Product development and registration	87,665	11,491	(140)	78	(4,300)	94,794
Computer software	5,063	1,519		9	(1,263)	5,328
Other	449				(203)	246
	93,799	13,010	(140)	87	(5,770)	100,986

	December 31, 2018			
	Cost	Provision for impairment	Accumulated amortization	Net
Goodwill on the acquisition of subsidiaries	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
	161,686	(9,309)	(58,578)	93,799

	September 30, 2019			
	Cost	Provision for impairment	Accumulated amortization	Net
Goodwill on the acquisition of subsidiaries	618			618
Trademarks and licenses purchased	3,139		(3,139)	
Product development and registration	134,619	(9,449)	(30,376)	94,794
Computer software	35,964		(30,636)	5,328
Other	1,333		(1,087)	246
	175,673	(9,449)	(65,238)	100,986

Product development and registration refers to expenses incurred in new drugs totaling R$94,794 (December 31, 2018 - R$87,665). 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 30.8.

In the nine-month period ended September 30, 2018, there were reductions of R$1,551 related to sales of product registrations.

15. PROPERTY, PLANT AND EQUIPMENT (CONSOLIDATED)

	At January 1, 2018	Additions	Foreign exchange variation	Transfers	Write-offs	Depreciation	At September 30, 2018
Land	24,985						24,985
Buildings and improvements	124,777			13,440	(737)	(2,255)	135,225
Machinery, equipment and industrial facilities	79,306	1,999		106	(80)	(4,710)	76,621
Vehicles and tractors	3,518	9,944	55		(393)	(1,649)	11,475
Furniture and fittings	2,972	286	6		(1)	(416)	2,847
IT equipment	1,276	2,297	25		(7)	(690)	2,901
Construction in progress (i)	8,415	8,885		(13,546)			3,754
Other	1,618	39	2			(206)	1,453
	246,867	23,450	88		(1,218)	(9,926)	259,261

	At January 1, 2019	Additions	Foreign exchange variation	Transfers	Write-offs	Depreciation	At September 30, 2019
Land	24,985						24,985
Buildings and improvements	134,339			1,123		(2,658)	132,804
Machinery, equipment and industrial facilities	77,214	5,547	1	2,078	(208)	(5,326)	79,306
Vehicles and tractors	11,038	7,846	112	(20)	(836)	(2,781)	15,359
Furniture and fittings	2,990	493	1		(6)	(466)	3,012
IT equipment	2,995	1,470	6	18	(22)	(898)	3,569
Construction in progress (i)	5,402	9,036		(3,194)			11,244
Other	1,669	12		(5)		(216)	1,460
	260,632	24,404	120		(1,072)	(12,345)	271,739

	September 30, 2019			December 31, 2018			
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net	Annual average depreciation rates
Land	24,985		24,985	24,985		24,985	
Buildings and improvements	156,877	(24,073)	132,804	155,755	(21,416)	134,339	2.34%
Machinery, equipment and industrial facilities	132,772	(53,466)	79,306	125,861	(48,647)	77,214	5.78%
Vehicles, tractors and aircraft	20,496	(5,137)	15,359	14,902	(3,864)	11,038	19.61%
Furniture and fittings	8,515	(5,503)	3,012	8,074	(5,084)	2,990	6.11%
IT equipment	11,384	(7,815)	3,569	10,281	(7,286)	2,995	10.03%
Construction in progress (i)	11,244		11,244	5,402		5,402	
Other	4,065	(2,605)	1,460	4,058	(2,389)	1,669	6.82%
	370,338	(98,599)	271,739	349,318	(88,686)	260,632	

(i) At September 30, 2019, the balance of construction in progress refers substantially to adaptations in the new plant of biological products (vaccines) in the amount of R$3,192 (December 31, 2018 – R$ 2,365) and the extension of the area designed for hormone application of R$4,228.

The amounts related to operating and finance lease are not significant.

At September 30, 2019, the balance of costs of capitalized borrowings totaled R$1,658 (September 30, 2018 - R$ 1,165), at an annual average rate of 5.66% (September 30, 2018 - 5.11%).

Land, buildings, machinery and equipment amounting to R$84,918 (September 30, 2018 - R$81,972) are pledged as collaterals for borrowings (Note 17).

In the nine-month period ended September 30, 2019, purchases of property, plant and equipment amounting to R$1,823 (September 30, 2018 – R$4,620) were financed under the Government Agency for Machinery and Equipment Financing (Finame) program or carried out through lease transactions, which are considered non-cash transactions, and, therefore, were not considered in the statement of cash flows as investing or financing activities.

16. TRADE PAYABLES (CONSOLIDATED)

	Sep 30, 2019	Dec 31, 2018
In local currency	19,526	13,304
In foreign currency	27,267	13,796
	46,793	27,100

17. BORROWINGS (CONSOLIDATED)

	Financial charges incurred	Maturity	Sep 30, 2019	Dec 31, 2018
In foreign currency				
Working capital	Exchange variation and weighted average rate of 5.74% p.a. (December 31, 2018 - 3.75% p.a.)	2020	60,460	6,560
Advances on foreign exchange contra	Exchange variation and average rate of 4.55% p.a. (December 31, 2018 - 4.20% p.a.)	2019		11,650
In local currency				
FINEP (Technological innovation)	Weighted average rate of 5.66% p.a. (December 31, 2018 - 6.66% p.a.)	2029	146,963	159,937
BNDES - FINEM	Weighted average rate of 8.97% p.a. (December 31, 2018 - 9.99% p.a.)	2025	30,517	33,534
BNDES - FINAME	Weighted average rate of 7.31% p.a. (December 31, 2018 - 6.76% p.a.)	2023	313	538
Export credit note (NCE)	Average rate of 6.30% p.a. (December 31, 2018 - 7.30% p.a.)	2021	40,797	40,045
Working capital	Average rate of 7.70% p.a. (December 31, 2018 - 7.70% p.a.)	2019	12,562	25,140
Working capital (i)	Average rate of 7.75% p.a. (December 31, 2018 - 8.04% p.a.)	2019	5,974	5,975
Finance lease	Weighted average rate of 10.30% p.a. (December 31, 2018 - 10.93% p.a.)	2022	4,159	4,150
			301,745	287,529
Current			(180,700)	(211,090)
Non-current			121,045	76,439

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

a) Guarantees for borrowings

The borrowings for research, innovation and development of products 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$112,492, in addition to the guarantee represented by the industrial facilities of animal health products located in the city of Cravinhos, state of São Paulo. No amounts are charged for the guarantees given.

Working capital borrowings are collaterized 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 the statutory lien of the assets financed, in addition to sureties of the parent company and/or controlling stockholders.

The BNDES-FINEM transaction also requires maintaining the indebtedness indices previously defined in the contracts. Net Debt/Ebitda ratio equal to or lower than 3.0 and general indebtedness equal to or lower than 0.70. At September 30, 2019, these indices were complied with by the Company (December 31, 2018 - indices complied with by the Company).

The carrying amounts of borrowings approximate their fair values.

The composition of non-current borrowings is as follows:

	Sep 30, 2019	Dec 31, 2018
From 1 to 2 years	54,863	50,243
From 2 to 3 years	31,124	43,901
From 3 to 4 years	30,509	30,363
From 4 to 5 years	18,764	30,354
Over 5 years	45,440	56,229
	180,700	211,090

b) Working capital borrowings in foreign currency

Exchange rate swap transactions were contracted for working capital borrowings contracted in foreign currency (Euro (EUR)) (December 31, 2018 – U.S. dollar (USD)), which amounted to R$60,460 at September 30, 2019 (December 31, 2018 – R$6,560), to exchange the charges on the borrowings based on the CDI rate (Note 9).

18. PROVISIONS (CONSOLIDATED)

	Quarter ended September 30, 2019				
Balances recognized in assets:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Sales returns	38	147			185
Bonuses of goods	148	189			337
Provision for impairment of intangible assets	9,449				9,449
Provision for impairment of trade receivables	6,665	990		84	7,739
Provision for inventory losses	4,878	907	(553)	45	5,277
	21,178	2,233	(553)	129	22,987

	Quarter ended September 30, 2019				
Balances recognized in liabilities:	Opening balance	Additions and reversals, net	Monetary restatement	Foreign exchange variation	Closing balance
Contingencies	8,253	(895)		2	7,360
	8,253	(895)		2	7,360

	Nine-month period ended September 30, 2019				
Balances recognized in assets:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Sales returns	162	439	(416)		185
Bonuses on goods	954	189	(808)	2	337
Provision for impairment of intangible assets	9,309	140			9,449
Provision for impairment of trade receivables	6,414	1,245		80	7,739
Provision for inventory losses	7,087	2,842	(4,696)	44	5,277
	23,926	4,855	(5,920)	126	22,987

	Nine-month period ended September 30, 2019				
Balances recognized in liabilities:	Opening balance	Additions and reversals, net	Monetary restatement	Foreign exchange variation	Closing balance
Contingencies	8,114	(859)	102	3	7,360
	8,114	(859)	102	3	7,360

Balances recognized in assets:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
	Quarter ended September 30, 2018				
Sales returns	782	(56)	(559)		167
Bonuses on goods	286	49	(154)	4	185
Provision for impairment of intangible assets	5,952		(690)		5,262
Provision for impairment of trade receivables	7,677	87		63	7,827
Provision for inventory losses	7,720	3,849	(2,327)	20	9,262
	22,417	3,929	(3,730)	87	22,703

Balances recognized in liabilities:	Opening balance	Additions and reversals, net	Monetary restatement	Foreign exchange variation	Closing balance
	Quarter ended September 30, 2018				
Contingencies	3,941	4,099		34	8,074
	3,941	4,099		34	8,074

Balances recognized in assets:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
	Nine-month period ended September 30, 2018				
Sales returns	615	373	(821)		167
Bonuses on goods	1,235	254	(1,326)	22	185
Provision for impairment of intangible assets	5,952		(690)		5,262
Provision for impairment of trade receivables	7,495	212	(153)	273	7,827
Provision for inventory losses	8,091	8,028	(6,954)	97	9,262
	23,388	8,867	(9,944)	392	22,703

Balances recognized in liabilities:	Opening balance	Additions and reversals, net	Monetary restatement	Foreign exchange variation	Closing balance
	Nine-month period ended September 30, 2018				
Contingencies	3,935	3,893		246	8,074
	3,935	3,893		246	8,074

a) Product returns

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

b) Bonuses of goods

The provisions for bonuses of goods relate to sales campaigns already agreed to with the customers, but not yet implemented. Such provisions are recognized in the statement of operations under "Cost of sales".

c) Contingencies

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 provision is as follows:

	Sep 30, 2019	Dec 31, 2018
Tax	3,744	4,617
Labor	2,501	2,525
Civil	1,115	972
	7,360	8,114

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 the expected losses instead of on the incurred losses criterion. In view of all the Group's controls to mitigate credit risk, and the consequent low historical delinquency level, there were no significant effects from the initial application.

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 product development balances in intangible assets for impairment, whenever possible through 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 litigation involving risks of loss classified by management as possible, based on the evaluation of the legal advisors, for which no provision for estimated possible losses has been recorded.

Possible contingencies are as follows:

	Sep 30, 2019			Dec 31, 2018		
	Administrative	Litigation	Total	Administrative	Litigation	Total
Tax (*)	95,076	815	95,891	50,595		50,595
Labor		3,931	3,931		5,249	5,249
Civil		2,198	2,198		2,131	2,131
	95,076	6,944	102,020	50,595	7,380	57,975

(*) These mainly refer to tax assessment notices related to Value-Added Tax on Sales and Services (ICMS) and a tax assessment notice and levy of fine related to Social Integration Program (PIS) and Social Contribution on Revenues (COFINS) issued against the subsidiary Ouro Fino Saúde Animal Ltda. in May 2019, referring to taxable events that took place in 2014, requiring the payment of PIS and COFINS differences calculated under the one-time tax treatment, for not considering the transactions of Ouro Fino Agronegócio Ltda. and Ouro Fino Pet Ltda.

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 calculation bases of PIS/COFINS contributions. On October 18, 2018, the Brazilian Federal Revenue Secretariat issued the Internal Ruling COSIT No. 13, which provides for the criteria and procedures to be followed for the purpose of calculating the amount to be excluded from the monthly calculation bases of these contributions. Considering that said Internal Ruling brings legal uncertainty to the taxpayers that exclude from the calculation basis 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, therefore, they have not been recorded and are being disclosed as contingent assets.

19. EQUITY

a) Share capital

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

At September 30, 2019, fully subscribed and paid-up capital comprised 53,949,006 common shares with no par value.

b) Capital reserve

At December 31, 2018, the amounts considered as "Capital reserve" relates to the expenditures incurred for the “Initial Public Offering - IPO”. This amount was considered in the 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 the capital.
- Minimum dividend of 25% of profit adjusted according to Article 202 of Law 6,404.
- The remaining balance will be distributed as resolved at a General Meeting by the stockholders representing not less than 2/3 (two-thirds) of the voting shares, in accordance with applicable legal provisions.

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$48,171 for expansion reserve purposes.

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

The vesting period considers that the beneficiaries may exercise their right in installments of 1/5 (one fifth) of the total shares granted as from the end of the first year from the date of the 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 exercise price will be set based on the average quoted price of the Company's shares on the Brazilian stock exchange (B3), weighted by the trading volume, within the 60 (sixty) trading sessions prior to the grant, monetarily restated by the General Market Price Index (IGP-M).

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

On December 30, 2014, the Board of Directors defined those that were eligible for the first grant, totaling 809,135 stock options, distributed among 17 beneficiaries, as follows:

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

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

	Vesting period closing				
	9/28/2017	9/28/2018	9/28/2019	9/28/2020	9/28/2021
Number of options	8,000	8,000	8,000	8,000	8,000
Exercise price at launch (strike price)	39.38	39.38	39.38	39.38	39.38
Fair value of options granted	12.89	14.87	16.62	18.23	19.66
Maximum exercise date	9/28/2021	9/28/2022	9/28/2023	9/28/2024	9/28/2025

The fair value attributed to the options granted was determined using the Black-Scholes-Merton pricing model, which takes into consideration the value of the share, the exercise price, the time to elapse up to the exercise of the option, the likelihood of the option to be exercised, the historical volatility, the dividend rate and the risk-free interest rate, according to the assumptions below:

Grant on December 30, 2014	General assumptions and information on the evaluation			
Vesting period closing	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Price of the share on the grant date	30.61	30.61	30.61	30.61
Estimated exercise price (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%

Grant on September 28, 2016	General assumptions and information on the evaluation			
Vesting period closing	9/28/2018	9/28/2019	9/28/2020	9/28/2021
Price of the share on the grant date	39.00	39.00	39.00	39.00
Estimated exercise price (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%

At September 30, 2019, expenses amounting to R$469 (September 30, 2018 - R$510) incurred in stock options were recognized.

Changes in stock options are shown below:

	Number of options	
	9/30/2019	9/30/2018
Balance at the beginning of the period	213,076	316,853
Number of options canceled (i)	(36,527)	(103,777)
Balance at the end of the period	176,549	213,076

(ii) These refer to terminated employees whose options were canceled as provided for by the Plan’s regulations.

20. REVENUE (CONSOLIDATED)

The reconciliation between gross and net revenue is as follows:

	2019		2018	
	Quarter	9-month period	Quarter	9-month period
In Brazil:				
Gross sales and services	154,767	423,033	157,875	413,789
Taxes and deductions on sales	(15,285)	(42,044)	(13,197)	(36,339)
	139,482	380,989	144,678	377,450
Abroad:				
Gross sales	15,206	42,784	15,854	36,964
Taxes and deductions on sales	(280)	(661)	(176)	(517)
	14,926	42,123	15,678	36,447
	154,408	423,112	160,356	413,897

21. COSTS AND EXPENSES BY NATURE

	Parent company			
	2019		2018	
	Quarter	9-month period	Quarter	9-month period
General and administrative expenses				
Personnel expenses	771	2,410	717	1,995
Outsourced services	99	249	96	249
Travel expenses	11	27	3	12
Other	69	327	49	339
	950	3,013	865	2,595

	Consolidated			
	2019		2018	
	Quarter	9-month period	Quarter	9-month period
Cost of sales (*)				
Variable costs (raw and consumption	42,319	120,574	41,808	110,876
Personnel expenses	18,156	51,514	15,370	42,404
Depreciation and amortization	3,870	11,868	4,021	11,896
Outsourced services	5,305	14,567	4,390	12,061
Changes in provision for inventory losses	354	(1,854)	1,522	1,074
Electricity	1,950	5,193	1,402	3,816
Changes in the provision for impairment and write-off of intangible assets		140	469	712
Other	2,088	8,424	324	1,083
	74,042	210,426	69,306	183,922
Selling expenses				
Personnel expenses	17,315	56,593	18,007	51,367
Sales team expenses	14,141	34,520	14,323	34,995
Outsourced services	6,998	20,654	5,069	14,714
Freight charges	5,708	15,595	5,251	14,039
Depreciation and amortization	1,689	4,546	1,566	4,233
Telecommunications and electricity	317	881	239	758
Provision for impairment of trade receivables	990	1,245	87	212
Other	1,255	5,057	809	2,626
	48,413	139,091	45,351	122,944
General and administrative expenses				
Personnel expenses	6,351	19,953	6,810	20,656
Outsourced services	2,283	6,675	1,341	3,894
Depreciation and amortization	559	1,701	874	2,441
Travel expenses	282	691	209	618
Telecommunications and electricity	234	629	188	555
Vehicle expenses	52	195	43	189
Donations and sponsorship	25	72	27	75
Other	1,101	2,443	440	1,524
	10,887	32,359	9,932	29,952
	133,342	381,876	124,589	336,818

(*) The opening of the costs of sales is estimated based on the percentage of the production cost for the previous 12 months.

22. OTHER INCOME, NET

	Parent company			
	2019		2018	
	Quarter	9-month period	Quarter	9-month period
Gains on sales of scrap, rentals and other	47	102	21	75
Federal, state and municipal taxes and fees	(2)	(9)	(1)	(3)
	45	93	20	72

	Consolidated			
	2019		2018	
	Quarter	9-month period	Quarter	9-month period
Gains on disposal and write-off of PP&E	76	219	264	154
Gains on disposal of intangible assets (i)			(97)	(24)
Gains on sales of scrap, rentals and other	(265)	(469)	174	196
Federal, state and municipal taxes and fees	(157)	617	(138)	4,621
Provision for tax contingencies (ii)			(4,413)	(4,413)
Other losses	50	698	(882)	(1,276)
	(296)	1,065	(5,092)	(742)

(i) Refers to the sale of product registrations.

(ii) Refers substantially to the provision for contingencies for Notices of tax delinquency (AIIM) cases related to the transfer of credit balances between establishments of the subsidiaries Ouro Fino Saúde Animal Ltda. and Ouro Fino Agronegócio Ltda.

23. FINANCE INCOME AND COSTS

	Parent company			
	2019		2018	
	Quarter	9-month period	Quarter	9-month period
Finance income:				
Monetary variation	19	19	25	64
	19	19	25	64
Finance costs:				
Other	(16)	(45)	(10)	(25)
	(16)	(45)	(10)	(25)
Finance result	3	(26)	15	39

	Consolidated			
	2019		2018	
	Quarter	9-month period	Quarter	9-month period
Finance income:				
Income from financial investments	737	2,401	998	3,838
Interest receivable	197	597	225	729
Monetary variation	149	255	190	272
Other	23	91	97	171
	1,106	3,344	1,510	5,010
Finance costs:				
Interest payable	(3,139)	(10,226)	(4,621)	(13,208)
Finance charges	(346)	(1,130)	(366)	(1,743)
Other	(179)	(492)	(284)	(771)
	(3,664)	(11,848)	(5,271)	(15,722)
Derivative financial instruments, net:				
Gains on derivatives (foreign exchange variatio	589	(396)	4,076	9,940
Losses on derivatives (interest)	(486)	(854)	(3,352)	(4,202)
	103	(1,250)	724	5,738
Foreign exchange variations, net	(941)	(669)	(63)	(5,466)
Finance result	(3,396)	(10,423)	(3,100)	(10,440)

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			
	2019		2018	
	Quarter	9-month period	Quarter	9-month period
Profit before income tax and social contribution	12,626	21,204	21,874	49,745
Standard rates	34%	34%	34%	34%
	(4,293)	(7,209)	(7,437)	(16,913)
Reconciliation to the effective rate:				
Permanent differences:				
Equity in the results of investees	4,600	8,211	7,720	17,758
Deferred taxes, not recorded	(307)	(1,002)	(283)	(845)
Income tax and social contribution				

	Consolidated			
	2019		2018	
	Quarter	9-month period	Quarter	9-month period
Profit before income tax and social contribution	17,374	31,878	27,575	65,897
Standard rates	34%	34%	34%	34%
	(5,907)	(10,838)	(9,375)	(22,405)
Reconciliation to the effective rate:				
Permanent differences:				
RD&I benefit			2,852	2,852
Adjustment related to the calculation of subsidiary taxed based on the presumed profit method			1,117	3,973
Investment subsidy (i)	1,967	1,967		
Adjustment related to the calculation of foreign subsidiary taxed based on the rate in effect in that country	(608)	(1,287)	(101)	11
Deferred taxes, not recorded	(307)	(1,002)	(283)	(845)
Other	104	481	91	271
Income tax and social contribution	(4,751)	(10,679)	(5,699)	(16,143)
Reconciliation with the statement of operations:				
Current	(3,761)	(11,173)	(7,772)	(15,303)
Deferred	(990)	494	2,073	(840)
	(4,751)	(10,679)	(5,699)	(16,143)
Effective rate	27.35%	33.50%	20.67%	24.50%

(i) The Group recognized the tax deductibility of the tax incentive amounts related to ICMS exempt outflows in operations within the state of SP and exports and outflows with a 60% reduction in the ICMS tax base in interstate operations, considered government grants for investment due to the fulfillment of the requirements required of ICMS Agreement 100/1997 arising from the 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	
	Quarter	9-month period	Quarter	9-month period
Profit for the quarter/period attributable to the owners of the parent	12,626	21,204	21,874	49,745
Weighted average number of common shares in the period (in thousands)	53,949	53,949	53,949	53,949
Basic earnings per share	0.23404	0.39304	0.40546	0.92207

b) Diluted

Diluted earnings per share is 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	
	Quarter	9-month period	Quarter	9-month period
Profit for the quarter/period attributable to the owners of the parent	12,626	21,204	21,874	49,745
Weighted average number of common shares in the period considering instruments with dilutive effects (in thousands)	53,949	53,949	53,949	53,949
Diluted earnings per share	0.23404	0.39304	0.40546	0.92207

26. EMPLOYEE BENEFITS

a) Private pension plan - defined contribution

The Group companies sponsor a defined contribution pension plan for their employees. The plan was implemented in August 2008 and is managed by Itaú Vida e Previdência S.A. The companies' contributions to the plan at September 30, 2019 totaled R$ 847 (September 30, 2018 - R$ 727).

b) Profit sharing

The Group companies offer to their employees a variable remuneration program, calculated based on quantitative and qualitative goals established by management. At September 30, 2019, the amount of the profit-sharing provision was R$2,176 (September 30, 2018 - R$5,797), and was recorded based on the minimum amount established in the collective bargaining agreement.

27. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a) Balances and main transactions

	Parent company					
	Balances:					
	Sep 30, 2019		Dec 31, 2018			
	Assets		Assets			Liabilities
	Other assets (i)	Advances for future capital increase (ii)	Other assets (i)	Interest on capital	Dividends and interest on capital	Other liabilities (i)
Subsidiaries:						
Ouro Fino Saúde Animal Ltda.		17,000				33
Ouro Fino Agronegócio Ltda.				7,188		
Others related parties:						
Ouro Fino Química Ltda.	33		50			
Stockholders					16,351	17
	33	17,000	50	7,188	16,351	50

	Parent company				
	Main transactions:				
	Sep 30, 2019		Sep 30, 2018		
	Royalties	Reimbursement of CSC expenses	Royalties	Reimbursement of CSC expenses	Finance result
Subsidiaries:					
Ouro Fino Saúde Animal Ltda.		(197)		(183)	
Ouro Fino Agronegócio Ltda.		47		29	
Ouro Fino Pet Ltda.		12		8	
Others related parties:					
Ouro Fino Química Ltda.	112		85		9
	112	(138)	85	(146)	9

	Consolidated						
	Balances:						
	Sep 30, 2019			Dec 31, 2018			
	Assets	Liabilities		Assets	Liabilities		
	Other assets (i)	Other liabilities (i)	Borrowings (iii)	Other assets (i)	Dividends and interest on capital	Other liabilities (i)	Borrowings (iii)
Others related parties:							
Ouro Fino Química Ltda.	129	150		224		115	
Condomínio Rural Ouro Fino	184			178			
BNDES Participações S.A.			30,830				34,072
Stockholders					16,351	17	
Other				234		13	
	313	150	30,830	636	16,351	145	34,072

	Consolidated									
	Main transactions:									
	Sep 30, 2019					Sep 30, 2018				
	Gross profit on the sales of goods	Reimbursement of CSC expenses (i)	*Royalties*	Other expenses, net	Finance result	Gross profit on the sales of goods	Reimbursement of CSC expenses (i)	*Royalties*	Other expenses, net	Finance result
Others related parties:										
Ouro Fino Química Ltda.		1,048	112	(623)			1,125	85	(466)	9
Condomínio Rural Ouro Fino	3			(1,491)		24			(1,162)	
BNDES Participações S.A.					(2,261)					(4,983)
Other				(237)					(309)	
	3	1,048	112	(2,351)	(2,261)	24	1,125	85	(1,937)	(4,974)

(i) Other assets and liabilities

The other assets and liabilities are represented by the reimbursement of expenses, especially those incurred in the Shared Services Center ("CSC"), according to the expense sharing agreement entered into on September 30, 2014.

(ii) Advances for future capital increase

At September 30, 2019, the Company recorded advances for future capital increase to Ouro Fino Saúde Animal Ltda. in the amount of R$17,000. These amounts will be capitalized as decided by the owners of this subsidiary.

(iii) 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 members of the Board of Directors and directors 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:

	Sep 30, 2019	Sep 30, 2018
Salaries	2,175	1,937
Labor charges	492	444
Variable compensation	61	139
Share-based payments	182	165
Compensation and fringe benefits	113	102
	3,023	2,787

Despite the fact that management does not consider share-based payments as compensation, the amounts under this heading are recorded in this Explanatory Note, as required by the Technical Pronouncement CPC 05 – Related-party disclosures.

28. INSURANCE

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

Insured assets	Risks covered	2019	2018
PP&E and inventories	Fire, lightning, explosion, electrical damages, windstorm and loss of profits	407,000	442,000
Civil risks - Products	Damages to third parties caused by manufactured or distributed products	10,000	10,000
Civil risks - Management	Damages to third parties arising from acts by members of management in the performanc	30,000	30,000

29. OTHER DISCLOSURES ON CASH FLOWS

a) Net debt reconciliation

	Borrowings	Derivative financial instruments, net	Cash and cash equivalents	Net debt
Net debt at January 1, 2018	313,100	10,451	(123,360)	200,191
Borrowings	105,353			105,353
Payment - principal amount	(138,394)	(4,724)		(143,118)
Payment - interest	(13,816)			(13,816)
Increase (decrease) in cash and cash equivalents			57,904	57,904
Changes that affected cash flow	(46,857)	(4,724)	57,904	6,323
Purchases of property, plant and equipment	4,620			4,620
Interest and foreign exchange variations	24,038	(5,738)	(239)	18,061
Changes that did not affect cash flow	28,658	(5,738)	(239)	22,681
Net debt at September 30, 2018	294,901	(11)	(65,695)	229,195
Net debt at January 1, 2019	287,529	28	(65,183)	222,374
Borrowings	60,000			60,000
Payment - principal amount	(49,524)	(582)		(50,106)
Payment - interest	(11,234)			(11,234)
Increase (decrease) in cash and cash equivalents			(17,306)	(17,306)
Changes that affected cash flow	(758)	(582)	(17,306)	(18,646)
Purchases of property, plant and equipment	1,823			1,823
Interest and foreign exchange variations	13,151	1,250	(288)	14,113
Changes that did not affect cash flow	14,974	1,250	(288)	15,936
Net debt at September 30, 2019	301,745	696	(82,777)	219,664

30 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies applied in the preparation of this accounting information 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 interim accounting information:

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

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

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

30.2 Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the foreign exchange rates prevailing at the dates of the transactions or the 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 operations, as finance income or cost.

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:

Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.

(i) Income and expenses for each statement of operations are translated at the average 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 prevailing on the dates of the transactions).

(ii) All resulting foreign exchange variations are recognized as a separate component of equity in "Carrying value adjustments".

30.3 Financial assets

30.3.1 Classification

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

(a) Amortized cost

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

(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

Normal purchases and sales of financial assets are recognized on the trade date. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of operations. 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

<u>Assets carried at amortized cost</u>

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" has been effective since January 1, 2018. It introduces a new impairment model for financial assets, whereby it replaces the provision for incurred losses with expected losses. In view of the low historical default level, the change in the criterion has not had any significant effects on the Company's accounting information.

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 swap contracts and NDF. Derivatives are recognized at fair value on the date 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 operations within "Finance income and costs".

The new standard IFRS 9 “Financial instruments” has been effective since January 1, 2018. Its major amendment was the establishment of new criteria for the classification of financial assets and more flexibility of the requirements for adoption of hedge accounting. Management believes that there will be no significant changes in the classification and measurement of its financial assets, especially considering that the Group has not entered into hedging transactions.

30.5 Trade receivables

Trade receivables are stated at the original sales amount, plus, when applicable, monetary and foreign exchange variations, and less the provision for impairment of trade receivables. If receipt 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 weighted average method. The costs of finished goods and work in process comprise raw materials, direct labor, other direct costs and general production expenses (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 benefit or expense for the period comprise current and deferred taxes. Taxes on profit are recognized in the statement of operations, except to the extent that they relate to items recognized directly in equity. In such cases, the taxes are also recognized directly in equity.

The 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 to calculate deferred taxes.

The 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 accounting information. They are determined based on tax rates in effect at the balance sheet date and 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 in 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 projects based on its own methodology, which considers various analysis structures, and the projects will be successful from the development of "pilots" of the products made according to the requirements of regulatory bodies, accompanied by analyses of financial feasibility.

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

The 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 recognized as an expense as incurred.

d) Goodwill on the acquisition of subsidiaries

Goodwill arises from the acquisition of subsidiaries and represents the excess of (i) the consideration transferred, and (ii) the acquisition-date fair value of identifiable assets acquired and liabilities assumed. Goodwill on acquisitions of subsidiaries is included in "Intangible assets" in the consolidated 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 goodwill relating to the entity sold.

30.9 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. This cost was adjusted in subsidiaries to reflect the deemed cost of land on the date of transition to IFRS and depreciation is calculated using the straight-line method, considering the estimated useful lives of the respective assets. The annual depreciation rates are disclosed in Explanatory Note No. 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 operations 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 borrowings used to finance the construction of property, plant and equipment are capitalized during the period necessary to construct and prepare the asset for its intended use.

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

30.10 Impairment of non-financial assets

Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there were 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. Accounts payable 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 on the receipt of 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 there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

30.13 Employee benefits

a) Private pension plan

The Group companies sponsor a defined contribution pension plan for their employees. In 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 operations for the year.

c) Share-based compensation

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

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 activities. Revenue is shown net of value-added tax, returns, rebates and discounts and, in the consolidated financial statements, after eliminating sales within the Group. Revenue is recognized when the amount of revenue can be reliably measured and when it is probable that future economic benefits will result from the transaction. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

The new standard CPC 47/IFRS 15 "Revenues from Contracts with Customers", which has introduced the principles to be applied by an entity to determine the measurement and recognition of revenue, has been effective since January 1, 2018. This standard is based on the principle that revenue is recognized when the control of a good or service is transferred to a customer, thus replacing the principle of risks and rewards. Taking into account the business model adopted for the sale and distribution of the Group's products, management understands that the transfer of the control coincides with the principle of risks and rewards previously adopted. Therefore, applying this standard has not brought any changes in the measurement and recognition of revenue.

Management has been evaluating the possible impacts of adopting this standard on the interim accounting information.

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 based on 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 intereSst on capital is recognized in the statement of operations, 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 other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group's financial statements.