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Ouro Fino Saúde Animal Participações S.A. and Ouro Fino Saúde Animal Participações S.A. and subsidiaries

Parent company and consolidated financial statements at December 31, 2018 and independent auditor's report

(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Stockholders
Ouro Fino Saúde Animal Participações S.A.

Opinion

We have audited the accompanying parent company financial statements of Ouro Fino Saúde Animal Participações S.A. (the "Company" or "Parent company"), which comprise the balance sheet as at December 31, 2018 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Ouro Fino Saúde Animal Participações S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2018 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

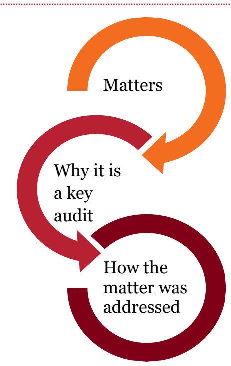
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ouro Fino Saúde Animal Participações S.A. and of Ouro Fino Saúde Animal Participações S.A. and its subsidiaries as at December 31, 2018, and the financial performance and the cash flows for the year then ended, as well as the consolidated financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for opinion

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

Key audit matters

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



Why it is a key audit matter	How the matter was addressed in the audit
Intangible assets arising from the development and registration of new products - Notes 2(g) and 14	
The Company maintains, in its consolidated financial statements, balances of intangible assets arising from the development and registration of new products, in the net amount of R$ 87,740 thousand. The recovery of these assets is based on projections that include management's significant assumptions and judgments, involving, among others, the predicition of the launch of the respective products and of the life cycle of the new products, expected future generation of revenue, margins, and market development. In the year ended December 31, 2018, management recognized impairment losses of R$ 3,357 thousand, arising from the write-off of certain projects from which economic benefits are no longer expected. We considered this an area of focus in our audit, since the changes in these assumptions could significantly affect the recovery of the balances recorded and, consequently, the financial position and results of operations of the Company and subsidiaries.	Our audit procedures included, among others, discussions with management regarding the feasibility studies for the new products under development, and the understanding of the existing controls and processes in place to monitor the progress of each project up to the production and sale of the product on a regular basis. We obtained an understanding of the main assumptions utilized in the preparation of the cash flow projections for the new products, and verified their logical and arithmetical coherence. We analyzed, on a test basis, the Company's approvals for the development of new products in 2018, as well as for the write-off of projects from which economic benefits are no longer expected. Our audit procedures demonstrated that the judgments and assumptions utilized by management in relation to this matter were reasonable and consistent with the data and information obtained.
Value-added Tax on Sales and Services (ICMS) recoverable - Note 12	
At December 31, 2018, the subsidiary Ouro Fino Saúde Animal Ltda. had accumulated ICMS credits of R$ 56,055 thousand, arising from exempt outflows and full or partial maintenance of the credits from inflows, according to ICMS Agreement 100/97. Management seeks to realize the aforementioned credits through requests for reimbursement from the Government of the State of São Paulo, which are being carried out through the submission of the electronic documents pursuant to Ordinance 83/2009 of the Coordinating Committee of Tax Administration Board (CAT). Due to the significance of the balance of ICMS	Our audit procedures included, among others, understanding and testing the significant internal controls over the Information Technology environment that supports the internal control structure of the Company and its subsidiaries, as well as the controls associated with the generation and recording of ICMS credits. We updated the understanding and analysis of the procedures adopted by the Company for the recording of ICMS credits, and also analyzed the progress and risks of the discussions at the administrative level, and the compliance with obligations related to the submission of the electronic documents under the terms of CAT

Why it is a key audit matter	How the matter was addressed in the audit
recoverable and the complexity of the process of preparation and submission of these electronic documents, in relation to the requirements established in CAT Ordinance 83/2009, we considered this an area of focus in our audit.	Ordinance 83/2009, and the assessment of management with regard to the future realization of ICMS credits. Our audit procedures demonstrated that the disclosures made by the Company are consistent with the data and information obtained.

Other matters

Statements of Value Added

The parent company and consolidated Statements of Value Added for the year ended December 31, 2018, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in the Brazilian Technical Pronouncements Committee CPC 09 - "Statement of Value Added". In our opinion, these Statements of Value Added have been properly prepared in all material respects, in accordance with the criteria established in the Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

Other information accompanying the parent company and consolidated financial statements and the auditor's report

The Company's management is responsible for the other information that comprises the Management Report.

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

In connection with the audit of the parent company and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the parent company and consolidated financial statements

Management is responsible for the preparation and fair presentation of the parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards

Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

Ouro Fino Saúde Animal Participações S.A.

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

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

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

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

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

Ribeirão Preto, February 22, 2019

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Maurício Cardoso de Moraes
Contador CRC 1PR035795/O-1 "T" SP

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Ouro Fino Saúde Animal Participações S.A.

Balance sheet

All amounts in thousands of reais (A free translation of the original in Portuguese)

		Parent company		Consolidated	
Assets	**Note**	**2018**	**2017**	**2018**	**2017**
Current assets					
Cash and cash equivalents	8	20	29	65,183	123,360
Trade receivables	10			174,694	160,663
Inventories	11			153,159	108,578
Taxes recoverable	12	386		5,840	4,748
Income tax and social contribution recoverable				8,295	4,177
Related parties	27	7,238	5,666	636	256
Other assets			13	5,300	5,514
		7,644	5,708	413,107	407,296
Non-current assets					
Long-term receivables					
Taxes recoverable	12	86	402	56,368	49,664
Deferred income tax and social contribution	13			15,963	12,412
Related parties	27		6,000		
Inventories	11			5,422	5,137
Other assets				716	2,130
		86	6,402	78,469	69,343
Investments in subsidiaries	5	465,692	403,742		
Intangible assets	14			93,799	86,721
Property, plant and equipment	15			260,632	246,867
Total non-current assets		465,778	410,144	432,900	402,931
Total assets		473,422	415,852	846,007	810,227

Ouro Fino Saúde Animal Participações S.A.

Balance sheet
All amounts in thousands of reais **(continued)**

		Parent company		Consolidated	
Liabilities and equity	**Note**	**2018**	**2017**	**2018**	**2017**
Current liabilities					
Trade payables	16		14	27,100	27,915
Derivative financial instruments	9			28	9,179
Borrowings	17			76,439	190,233
Salaries and social charges		208	144	32,890	22,180
Taxes payable		877	667	5,097	4,153
Income tax and social contribution payable				763	578
Dividends and interest on capital		16,351	9,051	16,351	9,051
Related parties	27	50	36	145	168
Commissions on sales				5,446	4,931
Other liabilities			61	6,577	8,129
Total current liabilities		17,486	9,973	170,836	276,517
Non-current liabilities					
Derivative financial instruments	9				1,272
Borrowings	17			211,090	122,867
Provision for contingencies	18			8,114	3,935
Total non-current liabilities				219,204	128,074
Total liabilities		17,486	9,973	390,040	404,591
Equity	19				
Share capital		358,796	358,796	358,796	358,796
Capital reserve		(6,392)	(6,392)	(6,392)	(6,392)
Options granted		4,791	4,129	4,791	4,129
Revenue reserves		83,525	33,707	83,525	33,707
Carrying value adjustments		15,216	15,639	15,216	15,639
		455,936	405,879	455,936	405,879
Non-controlling interests				31	(243)
Total equity		455,936	405,879	455,967	405,636
Total liabilities and equity		473,422	415,852	846,007	810,227

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

Ouro Fino Saúde Animal Participações S.A.

Statement of income
Years ended December 31
All amounts in thousands of reais unless otherwise stated (A free translation of the original in Portuguese)

	Note	Parent company		Consolidated	
		2018	2017	2018	2017
Revenue	20			589,215	505,281
Cost of sales	21			(265,085)	(237,504)
Gross profit				324,130	267,777
Selling expenses	21			(173,528)	(155,634)
General and administrative expenses	21	(3,451)	(2,623)	(43,259)	(39,872)
Equity in the results of investees	5	72,954	41,265		
Other income (expenses), net	22	95	104	(9,369)	(5,920)
Operating profit		69,598	38,746	97,974	66,351
Finance income		65	15	6,021	7,916
Finance costs		(816)	(653)	(20,959)	(18,185)
Derivative financial instruments, net				4,562	(5,680)
Foreign exchange variations, net				(4,774)	(844)
Finance result	23	(751)	(638)	(15,150)	(16,793)
Profit before income tax and social contribution		68,847	38,108	82,824	49,558
Income tax and social contribution	24				
Current				(17,416)	(6,973)
Deferred				3,459	(4,684)
Profit for the year		68,847	38,108	68,867	37,901
Attributable to:					
Owners of the parent				68,847	38,108
Non-controlling interests				20	(207)
				68,867	37,901
Earnings per share attributable to owners of the parent during the year (in reais)	25				
Basic earnings per share				1.27615	0.70637
Diluted earnings per share				1.27615	0.70637

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

Ouro Fino Saúde Animal Participações S.A.

Statement of comprehensive income
Years ended December 31
All amounts in thousands of reais (A free translation of the original in Portuguese)

		Parent company		Consolidated	
		2018	**2017**	**2018**	**2017**
Profit for the year		68,847	38,108	68,867	37,901
Other comprehensive income					
Items that will be reclassified to profit or loss					
Changes in the share of profit/loss of subsidiaries	5	(271)			
Exchange variation of investments in subsidiary located abroad	5	(152)	131	(169)	134
Total comprehensive income for the year		68,424	38,239	68,698	38,035
Attributable to:					
Owners of the parent				68,424	38,239
Non-controlling interests				274	(204)
				68,698	38,035

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

Ouro Fino Saúde Animal Participações S.A.

Statement of changes in equity

All amounts in thousands of reais (A free translation of the original in Portuguese)

		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, 2017		299,107	(6,392)	3,076	5,346	59,689	15,508		376,334	(39)	376,295
Comprehensive income for the year											
Profit (loss) for the year								38,108	38,108	(207)	37,901
Exchange variation of subsidiary located abroad	5						131		131	3	134
Total comprehensive income for the year							131	38,108	38,239	(204)	38,035
Contributions by owners											
Capital increase by incorporation of revenue reserves	19 (a)	59,689				(59,689)					
Stock options granted	19 (e)			1,053					1,053		1,053
Allocation of profit:											
Legal reserve					1,905			(1,905)			
Interest on capital and dividends								(9,747)	(9,747)		(9,747)
Profits to be appropriated by the General Meeting						26,456		(26,456)			
Total contributions by owners		59,689		1,053	1,905	(33,233)		(38,108)	(8,694)		(8,694)
At December 31, 2017		358,796	(6,392)	4,129	7,251	26,456	15,639		405,879	(243)	405,636
Comprehensive income for the year											
Profit for the year								68,847	68,847	20	68,867
Changes in the share of profit/loss of subsidiaries	5						(271)		(271)	271	
Exchange variation of subsidiary located abroad	5						(152)		(152)	(17)	(169)
Total comprehensive income for the year							(423)	68,847	68,424	274	68,698
Contributions by owners											
Additional proposed dividends	19 (c)					(1,797)			(1,797)		(1,797)
Stock options granted	19 (e)			662					662		662
Allocation of profit:											
Legal reserve	19 (c)				3,442			(3,442)			
Interest on capital and dividends	19 (c)							(17,232)	(17,232)		(17,232)
Profits to be appropriated by the General Meeting	19 (c)					48,173		(48,173)			
Total contributions by owners				662	3,442	46,376		(68,847)	(18,367)		(18,367)
At December 31, 2018		358,796	(6,392)	4,791	10,693	72,832	15,216		455,936	31	455,967

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

Ouro Fino Saúde Animal Participações S.A.

Statement of cash flows
Years ended December 31
All amounts in thousands of reais (A free translation of the original in Portuguese)

	Note	Parent company		Consolidated	
		2018	2017	2018	2017
Cash flows from operating activities					
Profit before income tax and social contribution		68,847	38,108	82,824	49,558
Adjustments for:					
Provision for impairment of trade receivables	10			419	987
Provision for inventory losses and write-offs	11			11,798	11,055
Reversal of the provision for sales returns	18			(453)	(2,221)
Changes in the provision for bonuses to customers	18			(303)	451
Equity in the results of investees	5	(72,954)	(41,265)		
Depreciation and amortization	14 and 15			25,532	24,859
Provision for impairment and write-off of intangible assets	14			4,839	990
Reversal of the provision for discounts on sales of vaccines against foot-and-mouth disease	18				(2,443)
Result on disposal of property, plant and equipment	22			13	(277)
Result on disposal of intangible assets	22			(73)	(1,456)
Interest and monetary and exchange variations, net				25,656	16,657
Derivative financial instruments				(4,562)	5,679
Provision for contingencies	18			4,094	62
Stock options granted	19 (e)	19	17	662	1,053
Changes in working capital					
Trade receivables				(12,818)	9,052
Inventories				(57,422)	5,696
Taxes recoverable		1,893	7	(8,052)	(6,522)
Other assets		9	175	1,426	901
Trade payables				(842)	3,886
Taxes payable		(1,368)	612	(467)	(897)
Other liabilities		3	100	9,801	2,769
Cash provided by (used in) operations		(3,551)	(2,246)	82,072	119,839
Interest paid				(18,806)	(13,640)
Income tax and social contribution paid				(20,458)	(6,696)
Net cash inflow (outflow) from operating activities		(3,551)	(2,246)	42,808	99,503
Cash flows from investing activities					
Advances for future capital increase	5	(17,600)	(24,565)		
Investments in intangible assets	14			(23,697)	(17,649)
Purchases of property, plant and equipment	15			(24,627)	(14,197)
Receipts of dividends and interest on capital	5	31,989	26,273		
Proceeds from sale of property, plant and equipment				1,699	729
Proceeds from sale of intangible assets				220	5,876
Net cash inflow (outflow) from investing activities		14,389	1,708	(46,405)	(25,241)
Cash flows from financing activities					
New borrowings				151,879	59,950
Repayment of borrowings				(189,943)	(66,534)
Payment of dividends and interest on capital		(10,847)		(10,847)	
Realized derivative financial instruments				(5,861)	(14,633)
Net cash inflow (outflow) from financing activities		(10,847)		(54,772)	(21,217)
Net increase (decrease) in cash and cash equivalents		(9)	(538)	(58,369)	53,045
Cash and cash equivalents at the beginning of the year	8	29	567	123,360	70,325
Exchange gains (losses) on cash and cash equivalents				192	(10)
Cash and cash equivalents at the end of the year	8	20	29	65,183	123,360

Transactions in financing activities that did not affect cash are presented in Note 29 (a).

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

Ouro Fino Saúde Animal Participações S.A.

Statement of value added
Years ended December 31
All amounts in thousands of reais (A free translation of the original in Portuguese)

	Note	Parent company 2018	Parent company 2017	Consolidated 2018	Consolidated 2017
Revenues					
Gross sales and services				635,085	550,442
Other income (expenses), net				(328)	1,460
Income related to the construction of own assets				20,794	15,635
Provision for impairment of trade receivables	10			(419)	(987)
				655,132	566,550
Inputs acquired from third parties					
Cost of sales and services				(234,660)	(171,893)
Materials, electricity, third-party services and other		(738)	(786)	(124,669)	(127,489)
Losses on assets, net				(17,646)	(17,560)
		(738)	(786)	(376,975)	(316,942)
Gross value added (distributed)		(738)	(786)	278,157	249,608
Depreciation and amortization	14 and 15			(25,532)	(24,859)
Net value added (distributed) generated by the entity		(738)	(786)	252,625	224,749
Value added received through transfer					
Equity in the results of investees	5	72,954	41,265		
Finance income		64	16	16,127	11,228
Royalties		115	117	115	117
Others				428	261
Total value added distributed		72,395	40,612	269,295	236,355
Distribution of value added					
Personnel					
Direct compensation		2,263	1,533	90,294	85,536
Benefits		3	3	15,172	17,327
Government Severance Indemnity Fund for Employees (FGTS)				6,320	8,232
Taxes, charges and contributions					
Federal		1,244	924	45,237	45,834
State		3	3	7,991	9,941
Municipal				260	250
Remuneration of third parties' capital					
Interest, foreign exchange loss, losses on derivatives, etc.		35	41	31,689	27,662
Rentals				3,247	3,423
Others				218	249
Remuneration of own capital					
Retained profits		51,615	28,361	51,615	28,361
Interest on capital and dividends		17,232	9,747	17,232	9,747
Non-controlling interests				20	(207)
Value added distributed		72,395	40,612	269,295	236,355

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

Section A - General information

1.1 Operations

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

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

The issue of these parent company and consolidated financial statements was authorized by the Board of Directors on February 21, 2019.

1.2 Basis of preparation and statement of compliance

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

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

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

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

(a) Parent company financial statements

The parent company financial statements have been prepared in accordance with accounting practices adopted in Brazil issued by the CPC. Brazilian Accounting Pronouncements Committee (CPC). They are also in compliance with the IFRS issued by the International Accounting Standards Board (IASB), and are disclosed together with the consolidated financial statements.

(b) Consolidated financial statements

The consolidated financial statements have been prepared and are being presented in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the 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, while it is not required by IFRS. Therefore, under the IFRS, the presentation of such statement is considered supplementary information, and not part of the set of financial statements. The Statement of Value Added was prepared in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added".

1.3 Changes in accounting policies and disclosures

The following standards were adopted for the first time for the year beginning January 1, 2018 and had no material impact on the Group.

CPC 47/IFRS 15 - Revenue from Contracts with Customers

This standard introduces the principles to be applied by an entity to determine the measurement and recognition of revenue. This standard is based on the principle that revenue is recognized when the control of a good or service is transferred to a customer, so the control principle will replace the principle of risks and rewards. Considering the business model adopted by the Group, consisting basically of sales to agricultural resellers or distributors, management understands that the transfer of the control coincides with the principle of risks and rewards previously adopted, and, therefore, concluded that there will be no impact on the measurement and recognition of revenue.

CPC 48/IFRS 9 - Financial instruments

This standard addresses the classification, measurement and recognition of financial assets and financial liabilities. The main amendments brought by IFRS 9 are: (i) new criteria for the classification of financial assets; (ii) a new impairment model for financial assets, which is a hybrid of expected and incurred losses, replacing the previous model of incurred losses; and (iii) relaxation of the requirements for adoption of hedge accounting. Management believes that the new guidance will not have a significant impact on the classification and measurement of the Group’s financial assets, especially considering that it has no operations designated as hedges at the date of disclosure of these financial statements. The Company has not identified any significant impact on the balance sheet and statement of changes in equity, even taking into account the change in the impairment model of financial assets. Considering the low historical default rates, the criterion change from losses incurred to expected losses did not have major effects on the Group.

IFRIC 22/ ICPC 21 - Transactions in foreign currency

With respect to Technical Interpretation IFRIC 22/ICPC 21 - "Transactions in foreign currency", which also entered into force on January 1, 2018 and provides clarification on the date of the transaction to be used for the conversion of advances made or received in transactions in foreign currency, the Company opted to make the transition prospectively, that is, the balances of advances including the principal amount and their respective accumulated exchange variation at December 31, 2017 were considered as the opening balances of the advances and the date of December 31, 2017 as the date of transition. The impacts of adopting this interpretation are not material.

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

1.4 Consolidation

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

The subsidiaries included in this consolidation are described in Note 5 (a) and the accounting policies applied in the preparation of the consolidated financial statements are described in Note 30.1.

Section B - Risks

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

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. 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 recovery capacity of the assets that are used in the Group's activities is evaluated whenever events or changes in circumstances indicate that the carrying amount of an asset or a group of assets may not be recoverable based on 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; and

(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. Provisions are recorded when the recoverable amount (net present value of cash flow) is below the amount of the recorded asset, pursuant to the Company's accounting policy presented in Note 30.8.

(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

ICMS credits are 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.

After the files addressed in the Coordinating Committee of Tax Administration Board (CAT) Ordinance 83/2009 are uploaded, the 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.

All amounts in thousands of reais unless otherwise stated

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 income.

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

	2018	**2017**
Assets in foreign currency		
Cash and cash equivalents	3,260	2,890
Trade receivables	9,337	8,031
Inventories (advances to suppliers)	14,357	8,397
	26,954	19,318
Liabilities in foreign currency		
Borrowings (*)	(11,650)	
Trade payables	(13,796)	(13,358)
Other liabilities	(440)	(1,283)
	(25,886)	(14,641)
Net exposure - assets	1,068	4,677

(*) The table does not include balances of working capital borrowings in foreign currency of R$ 6,560 (2017 - R$ 71,013) (Note 17), because they are hedged by foreign exchange swaps.

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.

All amounts in thousands of reais unless otherwise stated

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					
		3.87	3.81	2.86	1.91	4.76	5.72
Assets/liabilities	**Risk**	**2018**	**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	3,260	(54)	(801)	(1,603)	801	1,603
Trade receivables	US$ depreciation	9,337	(155)	(2,296)	(4,591)	2,296	4,591
Inventories (advances to suppliers)	US$ depreciation	14,357	(238)	(3,530)	(7,060)	3,530	7,060
Borrowings	US$ appreciation	(11,650)	193	2,864	5,728	(2,864)	(5,728)
Trade payables	US$ appreciation	(13,796)	229	3,392	6,784	(3,392)	(6,784)
Other liabilities	US$ appreciation	(440)	7	108	216	(108)	(216)

(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.

The Group believes that currently there is a balance between fixed interest rates, which represent 52.0% (2017 - 47.0%) and variable interest rates, which represent 48.0% (2017 - 53.0%) of its borrowings, providing mitigation of risks associated with any fluctuations in interest rates.

(b) Credit risk

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

The credit risk is mitigated through a broad customer base and careful selection of customers by business segment (production animals and companion animals), 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 31 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).

All amounts in thousands of reais unless otherwise stated

(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 December 31, 2018				
Trade payables	27,100			
Borrowings (*)	91,946	62,063	124,291	56,229
Derivative financial instruments, net	28			
Other liabilities	53,352	5,680		
	188,777	67,743	124,291	56,229
At December 31, 2017				
Trade payables	27,915			
Borrowings (*)	203,066	32,901	74,271	31,335
Derivative financial instruments, net	9,179	1,272		
Dividends and interest on capital	9,051			
Other liabilities	40,139	1,180	2,755	
	289,350	35,353	77,026	31,335

All amounts in thousands of reais unless otherwise stated

(*) 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 in 2018 and 2017 are as follows:

		Consolidated	
	Note	2018	2017
Borrowings	17	287,529	313,100
Derivative financial instruments, net	9	28	10,451
Cash and cash equivalents	8	(65,183)	(123,360)
Net debt		222,374	200,191
Equity	19	455,967	405,636
Total capital		678,341	605,827
Gearing ratio (%)		32.78	33.04

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 assesses, at the balance sheet date, whether 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", as shown below.

		Consolidated	
As per balance sheet	**Classification**	**2018**	**2017**
Assets - Derivative financial instruments			
NDF	Level 2	285	
Liabilities - Derivative financial instruments			
Exchange rate swap	Level 2	(313)	(10,451)
		(28)	(10,451)

Section C - Segment reporting

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.

All amounts in thousands of reais unless otherwise stated

The results by segment are as follows:

	2018			
	Business segment			
	Production animals	Companion animals	International operations	Total
Revenue	458,584	75,615	55,016	589,215
Cost of sales	(222,632)	(22,415)	(20,038)	(265,085)
Gross profit	235,952	53,200	34,978	324,130
Selling expenses	(120,931)	(28,880)	(23,717)	(173,528)
Result - Segmented	**115,021**	**24,320**	**11,261**	**150,602**
Result - Not segmented				(81,735)
Profit for the year				68,867

	2017			
	Business segment			
	Production animals	Companion animals	International operations	Total
Revenue	397,728	60,936	46,617	505,281
Cost of sales	(196,455)	(18,285)	(22,764)	(237,504)
Gross profit	201,273	42,651	23,853	267,777
Selling expenses	(112,986)	(25,541)	(17,107)	(155,634)
Result - Segmented	**88,287**	**17,110**	**6,746**	**112,143**
Result - Not segmented				(74,242)
Profit for the year				37,901

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

	2018	2017
Mexico	19,529	12,782
Colombia	17,831	11,381
Ecuador	4,580	3,845
Bolivia	3,140	2,607
Panama	1,866	1,205
Costa Rica	1,797	929
Honduras	1,439	925
Paraguay	1,049	4,296
Others	3,785	8,647
	55,016	46,617

All amounts in thousands of reais unless otherwise stated

Section D - Group structure

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	
	2018	**2017**
Opening balance	403,742	375,630
Equity in the results of investees	72,954	41,265
Payment of capital through the advances for future capital increase (i)	23,600	18,565
Stock options granted	643	1,036
Interest on capital	(8,456)	(6,612)
Dividends distributed (ii)	(26,368)	(26,273)
Changes in the share of profit/loss of subsidiaries	(271)	
Exchange variation of foreign investments	(152)	131
Closing balance	465,692	403,742

(i) In 2018, the quotaholders of the subsidiary Ouro Fino Saúde Animal Ltda. approved an increase in capital with advances totaling R$ 23,600 (2017 - R$ 18,565) and capital was increased from R$ 237,439 to R$ 261,039.

(i) In 2018, the quotaholders of the subsidiaries Ouro Fino Pet Ltda. and Ouro Fino Agronegócio Ltda. approved the distribution of profits to the parent company Ouro Fino Saúde Animal Participações S.A. in the amounts of R$ 21,134 (2017 - R$ 26,273) and R$ 5,234, respectively.

All amounts in thousands of reais unless otherwise stated

(c) Summarized financial information

Set out below is the summarized financial information for subsidiaries.

(i) Summarized balance sheet

					2018
					Subsidiaries
			Direct		Indirect
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Current					
Assets	218,664	189,183	24,499	14,294	12,694
Liabilities	(119,310)	(47,919)	(5,309)	(9,946)	(10,639)
Current assets, net	99,354	141,264	19,190	4,348	2,055
Non-current					
Assets	415,229	16,484	1,476	4,356	1,697
Liabilities	(213,680)	(3,753)	(568)		(1,203)
Non-current assets, net	201,549	12,731	908	4,356	494
Equity	300,903	153,995	20,098	8,704	2,549

					2017
					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	223,571	185,676	23,812	7,646	10,800
Liabilities	(211,502)	(64,951)	(4,322)	(14,517)	(8,126)
Current assets (liabilities), net	12,069	120,725	19,490	(6,871)	2,674
Non-current					
Assets	377,748	14,949	327	1,105	905
Liabilities	(130,653)	(2,131)	(172)	(1,039)	(1,118)
Non-current assets (liabilities), net	247,095	12,818	155	66	(213)
Equity (net capital deficiency)	259,164	133,543	19,645	(6,805)	2,461

All amounts in thousands of reais unless otherwise stated

(ii) Summarized statement of operations

	2018				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Net sales revenue	342,291	427,241	79,973	19,529	17,831
Profit (loss) before income tax and social contribution	19,263	46,674	24,615	1,741	(610)
Income tax and social contribution	(1,096)	(12,680)	(3,128)	2,157	433
Profit (loss) for the year	18,167	33,994	21,487	3,898	(177)

	2017				
	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	293,130	387,398	64,329	12,782	11,381
Profit (loss) before income tax and social contribution	(4,066)	28,196	19,721	(5,796)	(1,569)
Income tax and social contribution	1,188	(7,197)	(2,571)		14
Profit (loss) for the year	(2,878)	20,999	17,150	(5,796)	(1,555)

(iii) Statement of comprehensive income (loss)

	2018	2017
Ouro Fino Saúde Animal Ltda. (direct subsidiary)		
Profit (loss) for the year	18,167	(2,878)
Other comprehensive income (loss)	(423)	131
Total comprehensive income (loss)	17,744	(2,747)

All amounts in thousands of reais unless otherwise stated

(iv) Summarized statement of cash flows

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

					2017
					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	77,464	18,437	28,575	(2,351)	(1,497)
Interest paid	(11,043)	(1,230)		(818)	(583)
Income tax and social contribution paid		(3,812)	(2,884)		
Net cash inflow (outflow) from operating activities	66,421	13,395	25,691	(3,169)	(2,080)
Net cash inflow (outflow) from investing activities	(33,251)	3,301	85	(825)	(112)
Net cash inflow (outflow) from financing activities	15,898	(16,337)	(26,273)	3,995	6,844
Net increase (decrease) in cash and cash equivalents	49,068	359	(497)	1	4,652
Cash and cash equivalents at the beginning of the year	48,636	8,725	10,872	996	530
Exchange gains (losses) on cash and cash equivalents	32	(43)			
Cash and cash equivalents at the end of the year	97,736	9,041	10,375	997	5,182

All amounts in thousands of reais unless otherwise stated

(d) Reconciliation of financial information of investments

	Subsidiaries							
	Ouro Fino Saúde Animal Ltda.		Ouro Fino Agronegócio Ltda.		Ouro Fino Pet Ltda.		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Equity at January 1	259,164	242,544	133,543	119,012	19,645	28,678	412,352	390,234
Profit (loss) for the year	18,167	(2,878)	33,994	20,999	21,487	17,150	73,648	35,271
Capital increase with advances for future capital increase	23,600	18,565					23,600	18,565
Stock options granted	395	802	148	144	100	90	643	1,036
Dividends distributed			(13,690)	(6,612)	(21,134)	(26,273)	(34,824)	(32,885)
Changes in the share of profit/loss of subsidiaries	(271)						(271)	
Exchange variation of foreign investments	(152)	131					(152)	131
Equity at December 31	300,903	259,164	153,995	133,543	20,098	19,645	474,996	412,352
Percentage holding (%)	99.99%	99.99%	99.99%	99.99%	99.99%	99.99%		
Share of investments	300,903	259,164	153,995	133,543	20,098	19,645	474,996	412,352
Unrealized profit in inventories	(9,304)	(8,610)					(9,304)	(8,610)
Carrying amount of the investment in the parent company	291,599	250,554	153,995	133,543	20,098	19,645	465,692	403,742

Section E - Selected significant notes

6 Financial instruments by category

	Parent company		Consolidated	
	2018	2017	2018	2017
	Amortized cost	Amortized cost	Amortized cost	Amortized cost
Assets as per balance sheet				
Cash and cash equivalents	20	29	65,183	123,360
Accounts receivable			174,694	160,663
Related parties	7,238	11,666	636	256
Other assets, except for prepaid expenses			3,205	4,890
	7,258	11,695	243,718	289,169

	Parent company		Consolidated			
	2018	2017	2018		2017	
	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		14		27,100		27,915
Derivative financial instruments			28		10,451	
Borrowings				287,529		313,100
Dividends and interest on capital	16,351	9,051		16,351		9,051
Related parties	50	36		145		168
Commissions on sales				5,446		4,931
Other liabilities		61		6,577		8,129
	16,401	9,162	28	343,148	10,451	363,294

All amounts in thousands of reais unless otherwise stated

With the enactment of CPC 48 - Financial Instruments, effective as from January 1, 2018, the classification and measurement of financial instruments started to be required according to three categories: (i) amortized cost; (ii) fair value through other comprehensive income; or (iii) fair value through profit or loss.

The Company assessed the impacts of applying the standard, and concluded that its financial assets previously classified as loans and receivables started to be classified as amortized cost.

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$ 65,131 (2017 - R$ 123,313) are held in prime financial institutions rated as BB by Standard & Poor's.

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

	Consolidated	
	2018	**2017**
AA	54,278	46,802
A	71,817	68,898
B	20,658	18,849
C	16,276	13,441
D	12,281	12,966
E	5,798	7,202
	181,108	168,158

All amounts in thousands of reais unless otherwise stated

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 95.7% of the Interbank Deposit Certificate (CDI) rate (2017 - up to 99.1% of the CDI rate).

	Parent company		Consolidated	
	2018	2017	2018	2017
Cash				
In local currency			12	6
In foreign currency			40	41
			52	47
Banks				
In local currency	20	29	3,899	10,807
In foreign currency			3,220	2,849
	20	29	7,119	13,656
Financial investments (i)				
In local currency				
Repurchase agreements			7,907	74,514
Bank Deposit Certificates (CDB)			50,024	35,143
Others			81	
			58,012	109,657
	20	29	65,183	123,360

(i) Financial investments amounting to R$ 58,012 (2017 - R$ 109,657) can be redeemed at any time with no loss on yields.

9 Derivative financial instruments (consolidated)

	2018		2017
	Assets	Liabilities	Liabilities
Exchange rate swap		313	10,451
NDF	285		
Non-current			(1,272)
Current	285	313	9,179

In 2018, the notional amounts of the exchange rate swap contracts totaled US$ 1,667 thousand (2017 - US$ 21,000 thousand) and NDF contracts totaled US$ 850 thousand.

All amounts in thousands of reais unless otherwise stated

10 Trade receivables (consolidated)

	2018	2017
In local currency		
Receivables	171,015	159,452
Provision for impairment of trade receivables	(5,658)	(6,820)
	165,357	152,632
In foreign currency		
Receivables	10,093	8,706
Provision for impairment of trade receivables	(756)	(675)
	9,337	8,031
Current	174,694	160,663

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

	2018	2017
Falling due		
Up to 3 months	126,947	113,190
From 3 to 6 months	40,148	34,749
Over 6 months	2,799	7,694
	169,894	155,633
Past due		
Up to 3 months	3,276	3,477
From 3 to 6 months	750	789
Over 6 months	7,188	8,259
	11,214	12,525
	181,108	168,158

The analysis of the provision for impairment of trade receivables is made individually for each customer and, as a general rule, was established for receivables overdue for more than 180 days (365 days for subsidiary Ouro Fino de México, S.A. de CV) and that are not supported by guarantees. Management maintains the appropriate collection procedures in relation to the other overdue receivables and believes that the Group will not incur losses.

Changes in the provision were as follows:

	2018	2017
Opening balance	7,495	6,477
Additions, net	419	987
Foreign exchange variation	173	31
Final write-offs	(1,673)	
Closing balance	6,414	7,495

All amounts in thousands of reais unless otherwise stated

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

11 Inventories (consolidated)

	2018	2017
Finished products	82,121	57,948
Raw materials	37,855	30,163
Packaging materials	11,683	8,582
Work in progress	9,051	9,654
Imports in transit	7,264	1,575
Advances to suppliers	8,976	7,193
Others	8,718	6,691
Provision for inventory losses (Note 18)	(7,087)	(8,091)
	158,581	113,715
Non-current (*)	(5,422)	(5,137)
Current	153,159	108,578

(*) The amount of R$ 5,422 (2017 - R$ 5,137) refers to a loan agreement between the subsidiary Ouro Fino Saúde Animal Ltda. and the supplier Laboratório Biomega S.A. ("Biomega"). The settlement of the related amount will take place upon the delivery of the goods that is scheduled to take place up to the first half of 2020.

12 Taxes recoverable

	Parent company		Consolidated	
	2018	2017	2018	2017
Value-added Tax on Sales and Services (ICMS)			56,461	49,145
Social Integration Program (PIS) and Social Contribution on Revenues (COFINS)			1,514	807
Withholding Income Tax (IRRF)	472	402	907	1,541
ICMS, PIS and COFINS on acquisitions of property, plant and equipment			568	974
Excise Tax (IPI)			374	459
Others			2,384	1,486
	472	402	62,208	54,412
Non-current	(86)	(402)	(56,368)	(49,664)
Current	386		5,840	4,748

ICMS credits, which amounted to R$ 56,055 in 2018 (2017 - R$ 48,724), were mainly generated by Ouro Fino Saúde Animal Ltda. and are not subject to monetary restatement. These credits are generated by exempted sales on transactions within the state of São Paulo and exports and with a 60% reduction in the tax calculation basis on interstate transactions, with the full/partial maintenance of credits on purchases, pursuant to ICMS Agreement 100/97.

After the rural funding 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. Currently, Ouro Fino Saúde Animal Ltda. is in the process of filing, on a retroactive basis, rural funding 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 2010, 2011, 2012 and 2013 amounting to R$ 18,846 were approved by the tax authorities, and R$ 11,048 was released for immediate use. The residual balance of R$ 4,675 was temporarily withheld due to the tax assessment notices which have been discussed at an administrative level and obligations related to the submission of electronic files under the terms of CAT Ordinance 83/2009. Up to 2018 the Company has a balance of R$ 3,123 to be used.

The credit balance accounted for corresponds to the residual value of 2010 to 2013 relating to the amounts withheld and to the entire credit balance of 2014, 2015, 2016, 2017 and 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. and Ouro Fino Agronegócio Ltda. calculate income tax and social contribution on the taxable profit method, at the rates of 25% for income tax and 9% for social contribution, whereas Ouro Fino Pet Ltda. adopts the presumed profit method. The companies located in Mexico and Colombia calculate their taxes based on the regulations of those countries. Therefore, there is no direct correlation between the amounts presented in the consolidated statement of income and those that would have been obtained by applying the standard rates mentioned above.

Deferred tax credits related to income tax and social contribution arise substantially from temporary differences.

All amounts in thousands of reais unless otherwise stated

(a) Composition, nature and realization of deferred taxes

(i) Deferred income tax and social contribution

	2018	2017
Tax credits on:		
Accumulated income tax and social contribution losses	1,836	326
Temporary differences		
Provisions	16,648	11,041
Unrealized profit in inventories	4,656	4,435
Pre-operating expenses written-off	383	576
Derivative financial instruments	106	3,553
Appreciation - business combination	780	723
	24,409	20,654
Tax liabilities on:		
Temporary differences		
Deemed cost of land	(7,878)	(7,878)
Provisions	(158)	
Accelerated depreciation	(410)	(364)
	(8,446)	(8,242)
Total assets, net	15,963	12,412
Total deferred tax credits	24,409	20,654
Total deferred tax liabilities	(8,446)	(8,242)

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:

	2018	2017
Opening balance	12,412	17,081
Pre-operating expenses written-off	(193)	(192)
Accumulated income tax and social contribution losses	1,510	(466)
Derivative financial instruments	(3,447)	(3,044)
Provisions	5,449	(1,267)
Unrealized profit in inventories	221	(3,089)
Foreign exchange variations - cash basis		3,725
RD&I benefit - Accelerated depreciation	(46)	(364)
Appreciation - business combination	57	28
Closing balance	15,963	12,412

All amounts in thousands of reais unless otherwise stated

The amounts by estimated offset period are as follows:

	2018	2017
Deferred tax assets to be recovered		
within 1 year	20,039	18,202
from 2 to 5 years	4,370	2,452
	24,409	20,654
Deferred tax liabilities to be settled		
within 1 year	568	364
after 5 years	7,878	7,878
	8,446	8,242

14 Intangible assets (consolidated)

	At January 1, 2017	Additions	Provision for impairment	Foreign exchange variation	Transfer to inventories	Write-offs	Amortization	At December 31, 2017
Goodwill on the acquisition of subsidiaries	618							618
Trademarks and licenses purchased	36	11		(6)			(41)	
Product development and registration	69,055	16,812	(990)	(22)	(1,361)	(3,044)	(5,859)	74,591
Computer software	16,456	826					(6,491)	10,791
Others	993						(272)	721
	87,158	17,649	(990)	(28)	(1,361)	(3,044)	(12,663)	86,721

	At January 1, 2018	Additions	Provision for impairment	Foreign exchange variation	Write-offs	Amortization	At December 31, 2018
Goodwill on the acquisition of subsidiaries	618						618
Trademarks and licenses purchased		9		1		(6)	4
Product development and registration	74,591	22,788	(3,357)	150	(1,631)	(4,876)	87,665
Computer software	10,791	900				(6,628)	5,063
Others	721					(272)	449
	86,721	23,697	(3,357)	151	(1,631)	(11,782)	93,799

All amounts in thousands of reais unless otherwise stated

	2017			
	Cost	Provision for impairment	Accumulated amortization	Net
Goodwill on the acquisition of subsidiaries	618			618
Trademarks and licenses purchased	3,135		(3,135)	
Product development and registration	102,788	(5,952)	(22,245)	74,591
Computer software	33,540		(22,749)	10,791
Others	1,333		(612)	721
	141,414	(5,952)	(48,741)	86,721

	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

Product development and registration refers to expenses incurred with new drugs totaling R$ 87,665 (2017 - R$ 74,591). 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 year ended December 31, 2018, there were reductions of R$ 142 related to sales of product registrations, R$ 334 related to reductions of pilot batches and R$1,155 related to discontinued projects, for which a provision for impairment of R$ 645 was recorded.

All amounts in thousands of reais unless otherwise stated

15 Property, plant and equipment (consolidated)

	At January 1, 2017	Additions	Foreign exchange variation	Transfers	Write-offs	Depreciation	At December 31, 2017
Land	24,985						24,985
Buildings and improvements	80,849			46,533		(2,605)	124,777
Machinery, equipment and industrial facilities	78,732	1,667		5,329	(262)	(6,160)	79,306
Vehicles and tractors	4,998	781	28		(826)	(1,463)	3,518
Furniture and fittings	2,989	578	1	2	(14)	(584)	2,972
IT equipment	2,725	132		7	(509)	(1,079)	1,276
Construction in progress (i)	48,598	11,561		(51,744)			8,415
Others	1,926	259	2	(127)	(137)	(305)	1,618
	245,802	14,978	31		(1,748)	(12,196)	246,867

	At January 1, 2018	Additions	Foreign exchange variation	Transfers	Write-offs	Depreciation	At December 31, 2018
Land	24,985						24,985
Buildings and improvements	124,777			13,440	(737)	(3,141)	134,339
Machinery, equipment and industrial facilities	79,306	4,257	(1)	181	(119)	(6,410)	77,214
Vehicles and tractors	3,518	10,703	(26)		(751)	(2,406)	11,038
Furniture and fittings	2,972	575	3		(2)	(558)	2,990
IT equipment	1,276	2,776			(100)	(957)	2,995
Construction in progress (i)	8,415	10,608		(13,621)			5,402
Others	1,618	328	1			(278)	1,669
	246,867	29,247	(23)		(1,709)	(13,750)	260,632

	2018			2017			
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net	Annual average depreciation rates
Land	24,985		24,985	24,985		24,985	
Buildings and improvements	155,755	(21,416)	134,339	143,342	(18,565)	124,777	2.26%
Machinery, equipment and industrial facilities	125,861	(48,647)	77,214	122,163	(42,857)	79,306	5.36%
Vehicles, tractors and aircraft	14,902	(3,864)	11,038	6,522	(3,004)	3,518	19.45%
Furniture and fittings	8,074	(5,084)	2,990	7,512	(4,540)	2,972	6.50%
IT equipment	10,281	(7,286)	2,995	7,756	(6,480)	1,276	10.15%
Construction in progress (i)	5,402		5,402	8,415		8,415	
Others	4,058	(2,389)	1,669	3,833	(2,215)	1,618	7.42%
	349,318	(88,686)	260,632	324,528	(77,661)	246,867	

(ii) In 2018 and 2017, there were transfers that reduced the amount recorded in the construction in progress account related to the construction of the new biological products plant (vaccines) because work was in the completion phase. The residual balance refers substantially to adaptations in the plant amounting to R$ 2,365 (2017 - R$ 6,440).

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

In 2018, the balance of costs of capitalized borrowings totaled R$ 1,209 (2017 - R$ 843), at an annual average rate of 6.66% (2017 - 4.51%).

Land, buildings, machinery and equipment amounting to R$ 86,275 (2017 - R$ 87,098) are pledged as collaterals for borrowings (Note 17).

All amounts in thousands of reais unless otherwise stated

In 2018, purchases of property, plant and equipment amounting to R$4,620 (2017 - R$ 781) 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 and financing activities.

16 Trade payables (consolidated)

	2018	2017
In local currency	13,304	14,557
In foreign currency	13,796	13,358
	27,100	27,915

17 Borrowings (consolidated)

	Financial charges incurred	Maturity	2018	2017
In foreign currency				
Working capital	Exchange variation and weighted average rate of 3.75% p.a. (2017 - 3.03% p.a.)	2019	6,560	71,013
Advances on foreign exchange contracts (ACC)	Exchange variation and average rate of 4.20% p.a.	2019	11,650	
In local currency				
FINEP (Technological innovation)	Weighted average rate of 6.66% p.a. (2017 - 4.51% p.a.)	2029	159,937	133,584
BNDES - FINEM	Weighted average rate of 9.99% p.a. (2017 - 10.24% p.a.)	2025	33,534	28,802
BNDES - EXIM	Weighted average rate of 10.18% p.a.	2018		39,799
BNDES - FINAME	Weighted average rate of 6.76% p.a. (2017 - 6.51% p.a.)	2023	538	847
Export credit note (NCE)	Average rate of 7.30% p.a.	2021	40,045	
Working capital	Weighted average rate of 7.70% p.a. (2017 - 7.00% p.a.)	2019	25,140	20,011
Working capital (i)	Weighted average rate of 10.29% p.a.	2018		9,507
Working capital (i)	Weighted average rate of 8.04% p.a. (2017 - 8.66% p.a.)	2019	5,975	7,251
Finance lease	Weighted average rate of 10.93% p.a. (2017 - 10.42% p.a.)	2021	4,150	2,286
			287,529	313,100
Current			(76,439)	(190,233)
Non-current			211,090	122,867

(i) Borrowings obtained by the subsidiaries Ouro Fino de México, S.A de C.V in Mexican pesos and Ouro Fino Colômbia S.A.S in Colombian pesos.

All amounts in thousands of reais unless otherwise stated

(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$ 132,006, 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 collateralized by sureties of the parent company and/or controlling stockholders, including bank guarantee of R$ 19,514. Leases are collaterized 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. For the year ended December 31, 2018, these indices were complied with by the Company (2017 - indices complied with by the Company).

The carrying amounts of borrowings approximate their fair values.

The composition of non-current borrowings is as follows:

	2018	**2017**
From 1 to 2 years	50,243	27,419
From 2 to 3 years	43,901	22,092
From 3 to 4 years	30,363	21,705
From 4 to 5 years	30,354	21,695
Over 5 years	56,229	29,956
	211,090	122,867

(b) Working capital borrowings in foreign currency

Exchange rate swap transactions were contracted for working capital borrowings in foreign currency (US$), which amounted to R$ 6,560 (2017 - R$ 71,013), to exchange the charges for those based on the CDI rate (Note 9).

All amounts in thousands of reais unless otherwise stated

18 Provisions (consolidated)

					2018
Balances recognized in Assets:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Sales returns	615	373	(826)		162
Bonuses of goods	1,235	1,023	(1,326)	22	954
Provision for impairment of intangible assets	5,952	4,047	(690)		9,309
Provision for impairment of trade receivables	7,495	419	(1,673)	173	6,414
Provision for inventory losses	8,091	10,755	(11,791)	32	7,087
	23,388	16,617	(16,306)	227	23,926

					2017
Balances recognized in Liabilities:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Sales returns	2,836	1,421	(3,642)		615
Discounts on sales of vaccines against foot-and-mouth disease	2,443	329	(2,772)		
Bonuses of goods	780	2,513	(2,062)	4	1,235
Provision for impairment of intangible assets	4,962	1,301	(311)		5,952
Provision for impairment of trade receivables	6,477	987		31	7,495
Provision for inventory losses	9,768	11,049	(12,723)	(3)	8,091
	27,266	17,600	(21,510)	32	23,388

					2018
Balances recognized in Assets:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Contingencies	3,935	5,570	(1,476)	85	8,114
	3,935	5,570	(1,476)	85	8,114

					2017
Balances recognized in Liabilities:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Contingencies	3,850	1,445	(1,383)	23	3,935
	3,850	1,445	(1,383)	23	3,935

(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 value of the returns and the cost of sales is adjusted at the value of the goods 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 income under "Cost of sales".

All amounts in thousands of reais unless otherwise stated

(c) Contingencies

The Group companies are parties to labor, tax and civil litigation in progress, and are discussing such matters at 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:

	2018	2017
Tax	4,617	196
Labor	2,525	3,019
Civil	972	720
	8,114	3,935

(d) Provision for impairment of trade receivables

As a rule, the Group recognizes a provision for impairment of trade receivables for receivables overdue for more than 180 days (365 days for subsidiary Ouro Fino de México, S.A. de CV) and that are not supported by guarantees (Notes 2(b) and 10).

(e) Provision for inventory losses

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

(f) Provision for impairment of intangible assets

The Group tests 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 has 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 was recognized.

Possible contingencies are as follows:

			2018			2017
	Administrative	Judicial	Total	Administrativo	Judicial	Total
Tax (i)	50,595		50,595	50,898	808	51,706
Labor		5,249	5,249		4,166	4,166
Civil		2,131	2,131		1,559	1,559
	50,595	7,380	57,975	50,898	6,533	57,431

(i) They refer mainly to tax assessment notices related to ICMS.

(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, at December 31, 2018, management decided to reverse the tax credits that had been recognized under this criterion at May 31, 2018, and started to treat the relevant amounts as contingent assets until the matter is reviewed again by the Federal Supreme Court. The reversal effect on consolidated profit or loss was R$ 3,800.

19 Equity

(a) Share capital

At the Annual and Extraordinary General Meeting held on April 25, 2017, the stockholders approved an increase in the Company's capital of R$ 59,689, with revenue reserves, without the issue of registered common shares with no par value.

In 2018, fully subscribed and paid-up capital comprised 53,949,006 common shares, with no par value.

(b) Capital reserve

The amounts considered as "Capital reserve" relate to all expenditures incurred for the Initial Public Offering (IPO).

(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; and
- 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.

All amounts in thousands of reais unless otherwise stated

Allocation of profit	2018	2017
Profit for the year	68,847	38,108
Legal reserve (5%)	(3,442)	(1,905)
Calculation basis for minimum dividends	65,405	36,203
Distributed dividends (25%)	16,351	9,051
Interest on capital	7,674	6,000
Withholding tax on interest on capital	(881)	(696)
Minimum mandatory dividends	9,558	3,747

At the Annual General Meeting held on April 13, 2018, the stockholders decided to allocate the profit for 2017, and approved the following: (i) additional dividends of R$ 1,797, which correspond to R$ 0.03329567 per share, and (ii) retention of the residual balance of R$ 24,659 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.

All amounts in thousands of reais unless otherwise stated

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:

					Vesting period closing
	12/31/2015	**12/31/2016**	**12/31/2017**	**12/31/2018**	**12/31/2019**
Number of options	161,827	161,827	161,827	161,827	161,827
Exercise price at launch (strike price)	28.22	28.22	28.22	28.22	28.22
Fair value of options granted	9.65	11.16	12.48	13.74	14.90
Maximum exercise date	12/31/2019	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	**12/31/2015**	**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	30.61
Estimated exercise price (strike price)	33.45	35.41	37.46	39.35	41.38
Estimated life time (in years)	3.0	4.0	5.0	6.0	7.0
Expected volatility	26.20%	26.20%	26.20%	26.20%	26.20%
Risk-free interest rate	12.80%	12.60%	12.40%	12.30%	12.20%

Grant on September 28, 2016	**General assumptions and information on the evaluation**				
Vesting period closing	**9/28/2017**	**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	39.00
Estimated exercise price (strike price)	41.57	43.91	46.40	49.07	51.91
Estimated life time (in years)	3.0	4.0	5.0	6.0	7.0
Expected volatility	30.40%	30.40%	30.40%	30.40%	30.40%
Risk-free interest rate	11.60%	11.60%	11.70%	11.70%	11.80%

In 2018, expenses amounting to R$ 662 (2017 - R$ 1,053) incurred in stock options were recognized.

All amounts in thousands of reais unless otherwise stated

Changes in stock options are shown below:

	Number of options	
	2018	**2017**
Balance at the beginning of the year	316,853	679,225
Number of cancelled options (i)	(103,777)	(362,372)
Balance at the end of the year	213,076	316,853

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

20 Revenue (consolidated)

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

	2018	**2017**
Domestic customers		
Gross sales and services	583,626	514,621
Taxes and deductions on sales	(49,427)	(55,957)
	534,199	458,664
Foreign customers		
Gross sales	55,678	47,491
Taxes and deductions on sales	(662)	(874)
	55,016	46,617
	589,215	505,281

All amounts in thousands of reais unless otherwise stated

21 Costs and expenses by nature

	Parent company		Consolidated	
	2018	**2017**	**2018**	**2017**
Cost of sales (*)				
Variable costs (raw and consumption materials)			162,766	140,938
Personnel expenses			62,481	58,223
Depreciation and amortization			16,375	16,166
Outsourced services			17,672	15,692
Reversal of the provision for inventory losses			(1,036)	(1,674)
Electricity			5,657	5,492
Changes in the provision for impairment of intangible assets			49	(218)
Others			1,121	2,885
			265,085	237,504
Selling expenses				
Personnel expenses			72,332	62,172
Sales team expenses			48,741	43,537
Outsourced services			21,229	18,918
Freight charges			20,478	18,771
Provision for impairment of trade receivables			419	987
Depreciation and amortization			5,860	4,995
Telecommunications and electricity			1,098	1,275
Others			3,371	4,979
			173,528	155,634
General and administrative expenses				
Personnel expenses	2,715	1,836	28,859	25,259
Outsourced services	345	374	6,405	6,478
Depreciation and amortization			3,297	3,698
Travel expenses	16	13	817	922
Telecommunications and electricity			786	878
Vehicle expenses			215	194
Donations and sponsorship			111	254
Others	375	400	2,769	2,189
	3,451	2,623	43,259	39,872
	3,451	2,623	481,872	433,010

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

All amounts in thousands of reais unless otherwise stated

22 Other expenses, net

	Parent company		Consolidated	
	2018	2017	2018	2017
Gain (loss) on sale and write-off of PP&E			(13)	142
Gains (losses) on disposal of intangible assets (i)			(24)	2,677
Gains (losses) on sales of scrap, rentals and other	102	106	863	(141)
Federal, state and municipal taxes and fees	(4)	(2)	488	(508)
Provision for and settlement of tax assessment notices (ii)				(5,816)
Provision for impairment of intangible assets (iii)			(4,790)	(1,208)
Provision for tax contingencies (iv)			(4,413)	
Other losses	(3)		(1,480)	(1,066)
	95	104	(9,369)	(5,920)

(i) Refers to the sale of product registrations.

(ii) The Group enrolled with the governmental programs for payment of taxes in installments (Special Tax Installment Payment Program (PEP) and the Special Tax Payment Scheme (PERT)) aiming at benefiting from the reduction in fines and interest payable and settled tax assessment notices amounting to R$ 5,816.

(iii) Refers to the provision for impairment and definitive write-offs of projects that were under development.

(iv) Substantially refers to the provision for contingencies arising from 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.

All amounts in thousands of reais unless otherwise stated

23 Finance income and costs

	Parent company		Consolidated	
	2018	**2017**	**2018**	**2017**
Finance income				
Income from financial investments		15	4,433	6,710
Interest receivable			928	949
Monetary variation	65		456	134
Other			204	123
	65	15	6,021	7,916
Finance costs				
Interest payable			(16,981)	(14,427)
Finance charges			(2,115)	(2,438)
PIS and Cofins on interest on capital	(781)		(781)	
Other	(35)	(653)	(1,082)	(1,320)
	(816)	(653)	(20,959)	(18,185)
Derivative financial instruments, net				
Gains on derivatives (foreign exchange variation)			8,853	739
Losses on derivatives (interest)			(4,291)	(6,419)
			4,562	(5,680)
Foreign exchange variations, net			(4,774)	(844)
Finance result	(751)	(638)	(15,150)	(16,793)

All amounts in thousands of reais unless otherwise stated

24 Income tax and social contribution expense

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

	Parent company		Consolidated	
	2018	**2017**	**2018**	**2017**
Profit before income tax and social contribution	68,847	38,108	82,824	49,558
Standard rates	34%	34%	34%	34%
	(23,408)	(12,957)	(28,160)	(16,850)
Reconciliation to the effective rate:				
Permanent differences:				
Equity in the results of investees	24,804	14,030		
RD&I benefit			4,187	2,761
Adjustment related to the calculation of subsidiary taxed based on the presumed profit method			5,241	4,132
Adjustment related to the calculation of foreign subsidiary taxed based on the rate in effect in that country			2,975	(2,491)
Interest on capital	(266)		2,609	2,248
Deferred taxes, not recorded	(1,130)	(1,073)	(1,130)	(1,073)
Others			321	(384)
Income tax and social contribution			(13,957)	(11,657)
Reconciliation with the statement of operations:				
Current			(17,416)	(6,973)
Deferred			3,459	(4,684)
			(13,957)	(11,657)

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.

	2018	**2017**
Profit for the year attributable to the stockholders of the Company	68,847	38,108
Weighted average number of common shares in the year	53,949	53,949
Basic earnings per share	1.27615	0.70637

All amounts in thousands of reais unless otherwise stated

(b) Diluted

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

	2018	2017
Profit for the year attributable to the stockholders of the Company	68,847	38,108
Weighted average number of common shares in the year considering instruments with dilutive effects	53,949	53,949
Diluted earnings per share	1.27615	0.70637

26 Employee benefit

(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 in 2018 totaled R$ 1,007 (2017 - R$ 838).

(b) Profit sharing

The Group companies offer to their employees a variable remuneration program, calculated based on quantitative and qualitative goals established by management. In 2018, the amount of profit-sharing was R$ 13,892 (2017 - R$ 6,317).

27 Balances and transactions with related parties

(a) Balances and main transactions

									Parent company
									Balances:
				2018					2017
		Assets		Liabilities			Assets		Liabilities
	Other assets (i)	Interest on capital	Dividends and interest on capital	Other liabilities (i)	Other assets (i)	Interest on capital	Advances for future capital increase (ii)	Dividends and interest on capital	Other liabilities (i)
Related parties:									
Ouro Fino Saúde Animal Ltda.				33			6,000		19
Ouro Fino Agronegócio Ltda.		7,188				5,620			
Ouro Fino Química Ltda.	50				46				
Stockholders			16,351	17				9,051	17
	50	7,188	16,351	50	46	5,620	6,000	9,051	36

All amounts in thousands of reais unless otherwise stated

						Parent company
						Main transactions:
			2018			2017
	Royalties	Reimbursement of CSC expenses (i)	Finance result	Royalties	Reimbursement of CSC expenses (i)	Finance result
Related parties:						
Ouro Fino Saúde Animal Ltda.		(267)			(232)	
Ouro Fino Agronegócio Ltda.		29			24	
Ouro Fino Pet Ltda.		8			7	
Ouro Fino Química Ltda.	115		9	117		12
	115	(230)	9	117	(201)	12

								Consolidated
								Balances:
				2018				2017
	Assets			Liabilities	Assets			Liabilities
	Other assets (i)	Dividends and interest on capital	Other liabilities (i)	Borrowings (iii)	Other assets (i)	Dividends and interest on capital	Other liabilities (i)	Borrowings (iii)
Related parties:								
Ouro Fino Part. e Empreendimentos S.A.					16			
Ouro Fino Química Ltda.	224		115		240		151	
Condomínio Rural Ouro Fino	178							
BNDES Participações S.A.				34,072				69,448
Stockholders		16,351	17			9,051	17	
Other	234		13					
	636	16,351	145	34,072	256	9,051	168	69,448

										Consolidated
										Main transactions:
					2018					2017
	Gross profit on the sales of goods	Reimburse-ment of CSC expenses (i)	Royalties	Other expenses, net	Finance result	Gross profit on the sales of goods	Reimburse-ment of CSC expenses (i)	Royalties	Other expenses, net	Finance result
Related parties:										
Ouro Fino Part. e Empreendimentos S.A.							11			
Ouro Fino Química Ltda.		1,550	115	(831)	9		2,209	117	(529)	12
Condomínio Rural Ouro Fino	26			(1,726)		14			(1,567)	
Stockholders										
Other				(409)					(538)	
BNDES Participações S.A.					(5,936)					(4,482)
	26	1,550	115	(2,966)	(5,927)	14	2,220	117	(2,634)	(4,470)

(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

In 2017, the Company had advances for future capital increase to the subsidiary Ouro Fino Saúde Animal Ltda. in the amount of R$ 6,000. These amounts were capitalized at December 31, 2018, together with the advances made during the year. The total amount of R$ 23,600 was capitalized (Note 5), as decided by the owners of this subsidiary.

All amounts in thousands of reais unless otherwise stated

(iii) Borrowings

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

(b) Key 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 described below:

	2018	2017
Salaries	2,531	2,016
Labor charges	600	380
Share-based payments	224	195
Variable compensation	233	75
Compensation and fringe benefits	139	129
	3,727	2,795

Despite the fact that management does not consider share-based payments as compensation, the amounts under this heading are recorded in this Note, as required by 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 performance of their duties	30,000	30,000

All amounts in thousands of reais unless otherwise stated

29 Other disclosures on cash flows

(a) Reconciliation of net debt

	Borrowings	Derivative financial instruments, net	Cash and cash equivalents	Net debt
Net debt at January 1, 2017	315,438	19,405	(70,325)	264,518
Borrowings	59,950			59,950
Repayment of borrowings	(66,534)	(14,633)		(81,167)
Interest paid	(13,640)			(13,640)
Increase (decrease) in cash and cash equivalents			(53,045)	(53,045)
Changes that affected cash flow	(20,224)	(14,633)	(53,045)	(87,902)
Purchases of property, plant and equipment	781			781
Interest and foreign exchange variations	17,105	5,679	10	22,794
Changes that did not affect cash flow	17,886	5,679	10	23,575
Net debt at December 31, 2017	313,100	10,451	(123,360)	200,191
Net debt at January 1, 2018	313,100	10,451	(123,360)	200,191
Borrowings	151,879			151,879
Repayment of borrowings	(189,943)	(5,861)		(195,804)
Interest paid	(18,806)			(18,806)
Increase in cash and cash equivalents			58,369	58,369
Changes that affected cash flow	(56,870)	(5,861)	58,369	(4,362)
Purchases of property, plant and equipment	4,620			4,620
Interest and foreign exchange variations	26,679	(4,562)	(192)	21,925
Changes that did not affect cash flow	31,299	(4,562)	(192)	26,545
Net debt at December 31, 2018	287,529	28	(65,183)	222,374

Section F - Accounting policies

30 Summary of significant accounting policies

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

30.1 Consolidation

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

(a) Subsidiaries are all entities over which the Group has control. Subsidiaries 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 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 financial statements of each of the Group entities 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 financial statements are presented in this currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation, when items are measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income within finance income or cost.

(c) Group companies with a functional currency different from the Brazilian real

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

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) Income and expenses for each statement of income 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 differences 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. Loans and receivables 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 income. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value.

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

30.3.3 Impairment of financial assets

Assets carried at amortized cost

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

The new standard CPC 48/IFRS 9 - "Financial Instruments" 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 effect 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 and interest rate swap contracts. 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 income 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 relaxation of the requirements for adoption of hedge accounting. Management believes that there will be no significant changes in the classification and measurement of its financial assets, especially considering that the Group has not entered into hedging transactions.

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 collection is expected in one year or less, the receivables 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 fixed method. The cost of finished products and work in process comprises raw materials, direct labor, other direct costs and related general production expenses (based on the normal operational capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated completion costs and estimated selling expenses. Imports in transit are stated at the accumulated cost of each transaction.

30.7 Current and deferred income tax and social contribution

The income tax and social contribution expenses for the period comprise current and deferred taxes. Income taxes are recognized in the statement of income, except to the extent that they relate to items recognized directly in equity. In this case, 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 and generate taxable income. 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 financial statements. 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 income will be available against which the temporary differences and/or tax losses can be utilized.

Ouro Fino Pet Ltda. calculates income tax and social contribution under the presumed profit method. The presumed profit system is a simplified taxation method to determine the calculation basis of corporate entities that are not required, in the calendar year, to use the taxable profit method, or whose total gross revenue is equal to or lower than R$ 78,000.

30.8 Intangible assets

(a) Research and development of products

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 year of the expected benefit, which is, on average, ten 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 purchased trademarks and licenses are initially stated at historical cost. Since trademarks and licenses have a defined useful life, they are subsequently carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of approximately ten years.

Trademarks and licenses acquired in a business combination are recognized at fair value at the acquisition date. Amortization is calculated using the straight-line method over the estimated useful lives of between ten and 18 months.

(c) Computer software

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

Costs associated with maintaining computer software are 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 interim financial statements. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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 Note 15. Subsequent costs are included in an 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 part or item is derecognized. All other repairs and maintenance are charged to the statement of income when 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 disposal are determined by comparing the proceeds with the carrying amount and are recognized within "Other income (expenses), net" in the statement of income.

30.10 Impairment of non-financial assets

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

30.11 Trade payables

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

Accounts payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. In practice, they are usually recorded 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 the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

30.13 Employee benefit

(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 period 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 is recorded as personnel expenses in the statement of income for the year.

(c) Share-based payments

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 products and services in the ordinary course of the activities. Revenue is shown net of value-added tax, returns, rebates and discounts, and after eliminating sales within the Group. Revenue is recognized when the 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.

CPC 47/IFRS 15 - "Revenue from Contracts with Customers" has been effective since January 1, 2018, and introduces the principles to be applied by an entity to determine the measurement and recognition of revenue. 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 evaluated the impacts of adopting this standard on the financial statements.

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

30.16 New standards that are not yet effective

The following new standards and interpretations to existing standards were issued by the IASB, but are not effective for the year ending December 31, 2018. The early adoption of standards, even though encouraged by IASB, has not been implemented in Brazil by the Brazilian Accounting Pronouncements Committee (CPC).

- IFRS 16 / CPC06 - "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 to the control of an identifiable asset, including lease agreements and potentially some components of service agreements, unless they include the following characteristics which are within the scope of exemption from the standard:
  i) Lease terms of 12 months or less; and
  ii) Immaterial amounts or are based on variable amounts.
  For the issue of these financial statements, the Company's management reviewed all lease agreements and assessed the potential impacts from the initial adoption of CPC 06 (R2)/IFRS 16. The conclusion was that the exemption criteria apply to all agreements identified as leases (according to the criteria of the new standard), and there will be no impact on the asset and liability or statement of income accounts as from the year beginning January 1, 2019.

- 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 financial statements. This interpretation is applicable as from January 1, 2019. The Group has assessed and has not identified any impacts from the adoption of this interpretation on its financial statements.

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.

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