(A free translation of the original in Portuguese)

Ouro Fino Saúde Animal Participações S.A. and subsidiaries

Quarterly Information (ITR) at
June 30, 2018
and report on review of ITR

(A free translation of the original in Portuguese)

Report on review of quarterly information

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

Introduction

We have reviewed the accompanying parent company and consolidated interim accounting information of Ouro Fino Saúde Animal Participações S.A. ("Parent company" or "Company"), included in the Quarterly Information Form (ITR) for the quarter ended June 30, 2018, comprising the balance sheet as at that date and the statements of income and comprehensive income for the quarter and six-month period then ended, and the statements of changes in equity and cash flows for the six-month period then ended, as well as a summary of significant accounting policies and other explanatory information.

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

Scope of review

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

Conclusion on the interim information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying parent company and consolidated interim accounting information included in the quarterly information referred to above has not been prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34 applicable to the preparation of the Quarterly Information, and presented in accordance with the standards issued by the Brazilian Securities Commission.

PricewaterhouseCoopers, Av. Antônio Diederichsen 400, 21º e 22º, Ed. Metropolitan Business Center, Ribeirão Preto, SP, Brasil, 14020-250, Caixa Postal 308, T: +55 (16) 3516 6600, www.pwc.com.br

Ouro Fino Saúde Animal Participações S.A.

Other matters

Statements of value added

We have also reviewed the parent company and consolidated statements of value added for the six-month period ended June 30, 2018. These statements are the responsibility of the Company's management, and are required to be presented in accordance with standards issued by the Brazilian Securities Commission applicable to the preparation of Quarterly Information (ITR) and are considered supplementary information under the International Financial Reporting Standards (IFRS), which do not require the presentation of a statement of value added. These statements have been submitted to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they have not been prepared, in all material respects, in a manner consistent with the parent company and consolidated interim accounting information taken as a whole.

Ribeirão Preto, August 2, 2018

PricewaterhouseCoopers
PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

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

(A free translation of the original in Portuguese)

Contents

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**	**June 30, 2018**	**December 31, 2017**	**June 30, 2018**	**December 31, 2017**
Current assets					
Cash and cash equivalents	8	40	29	135,451	123,360
Trade receivables	10			143,858	160,663
Derivative financial instruments	9			1,845	
Inventories	11			162,050	108,578
Taxes recoverable	12			6,162	4,748
Income tax and social contribution recoverable				4,319	4,177
Related parties	27	102	5,666	465	256
Other assets		18	13	6,335	5,514
		160	5,708	460,485	407,296
Non-current assets					
Long-term receivables					
Taxes recoverable	12	300	402	59,534	49,664
Deferred income tax and social contribution	13			11,257	12,412
Related parties	27	13,500	6,000		
Inventories	11			5,607	5,137
Other assets				1,710	2,130
		13,800	6,402	78,108	69,343
Investments in subsidiaries	5	418,433	403,742		
Intangible assets	14			93,658	86,721
Property, plant and equipment	15			254,095	246,867
Total non-current assets		432,233	410,144	425,861	402,931
Total assets		432,393	415,852	886,346	810,227

Ouro Fino Saúde Animal Participações S.A.

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

Liabilities and equity	Note	Parent company June 30, 2018	Parent company December 31, 2017	Consolidated June 30, 2018	Consolidated December 31, 2017
Current liabilities					
Trade payables	16		14	43,482	27,915
Derivative financial instruments	9				9,179
Borrowings	17			164,455	190,233
Salaries and social charges		198	144	26,457	22,180
Taxes payable		109	667	2,872	4,153
Income tax and social contribution payable				783	578
Dividends and interest on capital			9,051		9,051
Related parties	27	40	36	173	168
Commissions on sales				4,082	4,931
Other liabilities			61	5,634	8,129
Total current liabilities		347	9,973	247,938	276,517
Non-current liabilities					
Derivative financial instruments	9				1,272
Borrowings	17			200,781	122,867
Deferred income tax and social contribution	13			1,621	
Provision for contingencies	18			3,941	3,935
Total non-current liabilities				206,343	128,074
Total liabilities		347	9,973	454,281	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		4,490	4,129	4,490	4,129
Revenue reserves		31,910	33,707	31,910	33,707
Carrying value adjustments		15,371	15,639	15,371	15,639
Retained earnings		27,871		27,871	
		432,046	405,879	432,046	405,879
Non-controlling interests				19	(243)
Total equity		432,046	405,879	432,065	405,636
Total liabilities and equity		432,393	415,852	886,346	810,227

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

Ouro Fino Saúde Animal Participações S.A.

Statement of income
Periods ended June 30, 2018 and 2017
All amounts in thousands of reais unless otherwise stated (A free translation of the original in Portuguese)

		Parent company			
		2018		2017	
	Note	Quarter	6-month period	Quarter	6-month period
General and administrative expenses	21	(931)	(1,730)	(761)	(1,340)
Equity in the results of investees	5	25,166	29,525	13,867	7,529
Other income, net	22	27	52	15	36
Operating profit		24,262	27,847	13,121	6,225
Finance income			39		14
Finance costs		(9)	(15)	(11)	(23)
Finance result	23	(9)	24	(11)	(9)
Profit for the period		24,253	27,871	13,110	6,216

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

Ouro Fino Saúde Animal Participações S.A.

Statement of income
Periods ended June 30, 2018 and 2017
All amounts in thousands of reais unless otherwise stated (A free translation of the original in Portuguese)

		Consolidated			
		2018		2017	
	Note	Quarter	6-month period	Quarter	6-month period
Revenue	20	161,603	253,541	137,932	213,118
Cost of sales	21	(75,231)	(114,616)	(67,269)	(102,722)
Gross profit		86,372	138,925	70,663	110,396
Selling expenses	21	(42,151)	(77,593)	(40,174)	(75,381)
General and administrative expenses	21	(9,862)	(20,020)	(10,159)	(20,798)
Other income, net	22	4,416	4,350	2,030	2,474
Operating profit		38,775	45,662	22,360	16,691
Finance income		1,364	3,500	1,805	3,103
Finance costs		(5,220)	(10,451)	(4,370)	(8,433)
Derivative financial instruments, net		6,329	5,014	2,641	(3,061)
Foreign exchange variations, net		(6,307)	(5,403)	(2,842)	(232)
Finance result	23	(3,834)	(7,340)	(2,766)	(8,623)
Profit before income tax and social contribution		34,941	38,322	19,594	8,068
Income tax and social contribution	24				
Current		(6,748)	(7,531)	(594)	(1,326)
Deferred		(3,939)	(2,913)	(5,961)	(625)
Profit for the period		24,254	27,878	13,039	6,117
Attributable to:					
Owners of the parent		24,253	27,871	13,110	6,216
Non-controlling interests		1	7	(71)	(99)
		24,254	27,878	13,039	6,117
Earnings per share attributable to owners of the parent during the period (in reais)	25				
Basic earnings per share		0.44955	0.51662	0.24301	0.11522
Diluted earnings per share		0.45116	0.51877	0.24423	0.11589

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

Ouro Fino Saúde Animal Participações S.A.

Statement of comprehensive income
Periods ended June 30, 2018 and 2017
All amounts in thousands of reais (A free translation of the original in Portuguese)

		Parent company			
		2018		2017	
	Note	Quarter	6-month period	Quarter	6-month period
Profit for the period		24,253	27,871	13,110	6,216
Other comprehensive income					
Items that will be reclassified to profit or loss					
Changes in the share of profit/loss of subsidiaries		(271)	(271)		
Exchange variation of investment in subsidiary located abroad	5	262	3	(182)	(288)
Total comprehensive income for the period		24,244	27,603	12,928	5,928

		Consolidated			
		2018		2017	
		Quarter	6-month period	Quarter	6-month period
Profit for the period		24,254	27,878	13,039	6,117
Other comprehensive income					
Items that will be reclassified to profit or loss					
Exchange variation of investment in subsidiary located abroad	5	262	(13)	(189)	(298)
Total comprehensive income for the period		24,516	27,865	12,850	5,819
Attributable to:					
Owners of the parent		24,244	27,603	12,928	5,928
Non-controlling interests		272	262	(78)	(109)
		24,516	27,865	12,850	5,819

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

Ouro Fino Saúde Animal Participações S.A.

Statement of changes in equity

All amounts in thousands of reais (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 period											
Profit for the period								6,216	6,216	(99)	6,117
Exchange variation of subsidiary located abroad	5						(288)		(288)	(10)	(298)
Total comprehensive income for the period							(288)	6,216	5,928	(109)	5,819
Contributions by owners											
Capital increase by incorporation of revenue reserves	19 (a)	59,689				(59,689)					
Stock options granted	19 (e)			655					655		655
Total contributions by owners		59,689		655		(59,689)			655		655
At June 30, 2017		358,796	(6,392)	3,731	5,346		15,220	6,216	382,917	(148)	382,769
At January 1, 2018		358,796	(6,392)	4,129	7,251	26,456	15,639		405,879	(243)	405,636
Comprehensive income for the period											
Profit for the period								27,871	27,871	7	27,878
Changes in the share of profit/loss of subsidiaries	5						(271)		(271)	271	
Exchange variation of subsidiary located abroad	5						3		3	(16)	(13)
Total comprehensive income for the period							(268)	27,871	27,603	262	27,865
Contributions by owners											
Additional proposed dividends	19 (c)					(1,797)			(1,797)		(1,797)
Stock options granted	19 (e)			361					361		361
Total contributions by owners				361		(1,797)			(1,436)		(1,436)
At June 30, 2018		358,796	(6,392)	4,490	7,251	24,659	15,371	27,871	432,046	19	432,065

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

Ouro Fino Saúde Animal Participações S.A.

Statement of cash flows
Six-month period ended June 30
All amounts in thousands of reais (A free translation of the original in Portuguese)

		Parent company		Consolidated	
	Note	2018	2017	2018	2017
Cash flows from operating activities					
Profit before income tax and social contribution		27,871	6,216	38,322	8,068
Adjustments for:					
Provision for impairment of trade receivables	10			125	148
Provision for inventory losses and write-offs	11			5,166	7,024
Changes in the provision for sales returns	18			167	(2,863)
Reversal of the provision for bonuses to customers	18			(967)	(780)
Equity in the results of investees	5	(29,525)	(7,529)		
Depreciation and amortization	14 and 15			12,109	12,417
Provision for impairment of intangible assets	14				(279)
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			110	(52)
Result on disposal of intangible assets	22			170	(1,476)
Interest and monetary and exchange variations, net				16,189	8,262
Derivative financial instruments				(5,014)	3,061
Provision for contingencies	18			(206)	(320)
Stock options granted	19 (e)	9	8	361	655
Changes in working capital					
Trade receivables				18,106	52,163
Inventories				(57,510)	(11,657)
Taxes recoverable		798		(10,626)	(4,049)
Other assets		(62)	123	(805)	256
Trade payables				14,570	5,076
Taxes payable		(1,254)	1	(1,993)	(1,127)
Other liabilities		(18)	25	1,017	2,408
Cash provided by (used in) operations		(2,181)	(1,156)	29,291	74,492
Interest paid				(9,149)	(6,837)
Income tax and social contribution paid				(7,247)	(1,695)
Net cash inflow (outflow) from operating activities		(2,181)	(1,156)	12,895	65,960
Cash flows from investing activities					
Advances for future capital increase	5	(7,500)	(18,565)		
Investments in intangible assets	14			(13,132)	(8,335)
Purchases of property, plant and equipment	15			(9,764)	(7,733)
Receipts of dividends and interest on capital	5	20,539	19,175		
Proceeds from sale of property, plant and equipment				969	618
Proceeds from sale of intangible assets				220	4,254
Net cash inflow (outflow) from investing activities		13,039	610	(21,707)	(11,196)
Cash flows from financing activities					
New borrowings				105,353	39,950
Repayment of borrowings				(66,487)	(44,494)
Payment of dividends and interest on capital		(10,847)		(10,847)	
Realized derivative financial instruments				(7,282)	(10,466)
Net cash inflow (outflow) from financing activities		(10,847)		20,737	(15,010)
Net increase (decrease) in cash and cash equivalents		11	(546)	11,925	39,754
Cash and cash equivalents at the beginning of the period	8	29	567	123,360	70,325
Exchange losses on cash and cash equivalents				166	(10)
Cash and cash equivalents at the end of the period	8	40	21	135,451	110,069

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

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

Ouro Fino Saúde Animal Participações S.A.

Statement of value added
Six-month period ended June 30
All amounts in thousands of reais (A free translation of the original in Portuguese)

	Note	Parent company		Consolidated	
		2018	2017	2018	2017
Revenues					
Gross sales and services				274,600	233,858
Other gains (losses), net				(269)	2,591
Income related to the construction of own assets				10,930	7,700
Provision for impairment of trade receivables	10			(125)	(148)
				285,136	244,001
Inputs acquired from third parties					
Cost of sales and services				(110,226)	(73,085)
Materials, electricity, third-party services and other		(452)	(462)	(53,747)	(61,850)
Losses on assets, net				(5,281)	(6,310)
		(452)	(462)	(169,254)	(141,245)
Gross value added (distributed)		(452)	(462)	115,882	102,756
Depreciation and amortization	14 and 15			(12,109)	(12,417)
Net value added (distributed) generated by the entity		(452)	(462)	103,773	90,339
Value added received through transfer					
Equity in the results of investees	5	29,525	7,529		
Finance income		39	14	8,603	4,719
Royalties		56	50	56	50
Other				258	167
Total value added distributed		29,168	7,131	112,690	95,275
Distribution of value added					
Personnel					
Direct compensation		1,064	737	42,344	45,404
Benefits		2	2	6,949	8,849
Government Severance Indemnity Fund for Employees (FGTS)				3,181	4,738
Taxes, charges and contributions					
Federal		214	150	19,814	16,324
State		2	3	(5,539)	(1,341)
Municipal				135	135
Remuneration of third parties' capital					
Interest, foreign exchange loss, losses on derivatives, etc.		15	23	16,147	13,356
Rentals				1,716	1,577
Other				65	116
Remuneration of own capital					
Retained profits		27,871	6,216	27,871	6,216
Non-controlling interests				7	(99)
Value added distributed		29,168	7,131	112,690	95,275

The accompanying notes are an integral part of these interim 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 interim financial statements was authorized by the Board of Directors on August 2, 2018.

1.2 Basis of preparation

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

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

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

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

(a) Parent company accounting information

The parent company accounting information has been prepared in accordance with accounting practices adopted in Brazil issued by the CPC. Because the accounting practices adopted in Brazil applicable to parent company interim financial statements, as from 2014, do not differ from the IFRS applicable to separate interim financial statements, which now allow entities to use the equity method to account for investments in subsidiaries in the separate financial statements, they are also in compliance with the IFRS issued by the IASB and are disclosed together with the consolidated interim financial statements.

(b) Consolidated accounting information

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

The presentation of the parent company and consolidated statements of value added is required by the Brazilian corporate legislation and the accounting practices adopted in Brazil for listed companies, The IFRS do not require the presentation of this statement. Therefore, under the IFRS, the presentation of such statements is considered supplementary information, and not part of the set of interim financial statements.

1.3 Changes in accounting policies and disclosures

The amendments to standards that were first adopted for the years beginning January 1, 2018 and 2017 are listed below.

(i) January 1, 2017

CPC 03/IAS 07 – Statement of cash flows

This amendment introduces an additional disclosure that seeks to enable users of interim financial statements to better evaluate changes in liabilities arising from financing activities. Entities are required to disclose changes in the liabilities for which cash flows were or will be part of the financing activities in the statement of cash flows (Note 29 (a)).

(ii) January 1, 2018

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, there is 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 current 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 does not anticipate 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 Company.

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

1.4 Consolidation

The Company consolidates all entities which it controls, as described in Note 5 (a), in accordance with the description 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

Pursuant 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. Considering all the Group's controls to mitigate credit risks and the consequent low historical delinquency, impairment is established when there is objective evidence that the Group companies will not be able to recover all the amounts due. The calculation of the provision is based on a reasonable estimate to cover probable losses on the realization of receivables, taking into consideration the situation of each customer and respective guarantees.

(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. 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 product development balances in intangible assets for impairment, whenever possible through 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, depending on the estimates of the product's life cycle, market development and level of associated technological innovation. Provision is recorded when the recoverable amount (net present value of cash flow) is below the amount of the recorded asset, pursuant to the Company's accounting policy presented in Note 30.8.

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.

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

All amounts in thousands of reais unless otherwise stated

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

	June 30, 2018	December 31, 2017
Assets in foreign currency		
Cash and cash equivalents	3,222	2,890
Trade receivables	6,148	8,031
Inventories	5,607	5,137
Advances to suppliers	18,771	3,260
	33,748	19,318
Liabilities in foreign currency		
Trade payables	(24,780)	(13,358)
Other liabilities	(233)	(1,283)
	(25,013)	(14,641)
Net exposure - assets	8,735	4,677

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

The table below does not include balances of working capital borrowings in foreign currency of R$ 48,136 (December 31, 2017 – R$ 71,013) (Note 17), because they are hedged by foreign exchange swaps.

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					
		3.86	3.62	2.72	1.81	4.53	5.43
Assets/liabilities	**Risk**	**June 30, 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	3,222	(197)	(756)	(1,512)	756	1,512
Trade receivables	US$ depreciation	6,148	(376)	(1,443)	(2,886)	1,443	2,886
Inventories	US$ depreciation	5,607	(343)	(1,316)	(2,632)	1,316	2,632
Advances to suppliers	US$ depreciation	18,771	(1,148)	(4,406)	(8,812)	4,406	8,812
Trade payables	US$ appreciation	(24,780)	1,515	(5,816)	(11,632)	5,816	11,632
Other liabilities	US$ appreciation	(233)	14	(55)	(109)	55	109

(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 43.6% (December 31, 2017 - 47.0%) and variable interest rates, which represent 56.4% (December 31, 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).

(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.

All amounts in thousands of reais unless otherwise stated

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, 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 June 30, 2018				
Trade payables	43,482			
Borrowings (*)	181,750	60,036	121,627	46,068
Other liabilities	35,359	2,326		7,878
	260,591	62,362	121,627	53,946
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

(*) 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.

All amounts in thousands of reais unless otherwise stated

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 indices.

The gearing ratios at June 30, 2018 and December 31, 2017 were as follows:

		Consolidated	
	Note	**June 30, 2018**	**December 31, 2017**
Borrowings	17	365,236	313,100
Derivative financial instruments, net	9	(1,845)	10,451
Cash and cash equivalents	8	(135,451)	(123,360)
Net debt		227,940	200,191
Equity	19	432,065	405,636
Total capital		660,005	605,827
Gearing ratio (%)		34.54	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**	**June 30, 2018**	**December 31, 2017**
Assets - Derivative financial instruments			
Exchange rate swap	Level 2	1,845	
Liabilities - Derivative financial instruments			
Exchange rate swap	Level 2		10,451
		1,845	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 Group's industrial facilities in the city of Cravinhos, state of São Paulo.

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

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

The results by segment are as follows:

All amounts in thousands of reais unless otherwise stated

	Quarter ended June 30, 2018			
	Business segment			
	Production animals	Companion animals	International operations	Total
Revenue	129,397	19,325	12,881	161,603
Cost of sales	(66,135)	(4,994)	(4,102)	(75,231)
Gross profit	63,262	14,331	8,779	86,372
Selling expenses	(29,795)	(6,526)	(5,830)	(42,151)
Result - Segmented	**33,467**	**7,805**	**2,949**	**44,221**
Result - Not segmented				(19,967)
Profit for the period				24,254

	Six-month period ended June 30, 2018			
	Business segment			
	Production animals	Companion animals	International operations	Total
Revenue	194,390	38,382	20,769	253,541
Cost of sales	(96,944)	(10,549)	(7,123)	(114,616)
Gross profit	97,446	27,833	13,646	138,925
Selling expenses	(53,520)	(13,895)	(10,178)	(77,593)
Result - Segmented	**43,926**	**13,938**	**3,468**	**61,332**
Result - Not segmented				(33,454)
Profit for the period				27,878

	Quarter ended June 30, 2017			
	Business segment			
	Production animals	Companion animals	International operations	Total
Revenue	106,522	14,358	17,052	137,932
Cost of sales	(54,282)	(4,061)	(8,926)	(67,269)
Gross profit	52,240	10,297	8,126	70,663
Selling expenses	(28,951)	(6,227)	(4,996)	(40,174)
Result - Segmented	**23,289**	**4,070**	**3,130**	**30,489**
Result - Not segmented				(17,450)
Profit for the period				13,039

	Six-month period ended June 30, 2017			
	Business segment			
	Production animals	Companion animals	International operations	Total
Revenue	160,333	30,737	22,048	213,118
Cost of sales	(83,025)	(8,806)	(10,891)	(102,722)
Gross profit	77,308	21,931	11,157	110,396
Selling expenses	(53,757)	(12,787)	(8,837)	(75,381)
Result - Segmented	**23,551**	**9,144**	**2,320**	**35,015**
Result - Not segmented				(28,898)
Profit for the period				6,117

All amounts in thousands of reais unless otherwise stated

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

	2018		2017	
	Quarter	6-month period	Quarter	6-month period
Colombia	4,261	8,064	2,780	5,383
Mexico	4,308	7,293	3,006	4,815
Ecuador	1,753	2,538	838	1,422
Panama	479	547		
Bolivia	522	522	2,237	2,237
Paraguay	342	398	3,836	3,836
Spain		191		
Other	1,216	1,216	4,355	4,355
	12,881	20,769	17,052	22,048

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%

All amounts in thousands of reais unless otherwise stated

(b) Changes in investments

	Parent company	
	June 30, 2018	June 30, 2017
Opening balance	403,742	375,630
Equity in the results of investees	29,525	7,529
Payment of capital through the advances for future capital increase (i)		18,565
Stock options granted	352	647
Dividends distributed (i)	(14,918)	(19,175)
Changes in the share of profit/loss of subsidiaries	(271)	
Exchange variation of foreign investments	3	(288)
Closing balance	418,433	382,908

(i) In the six-month period ended June 30, 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$ 9,684 (June 30, 2017 – R$ 19,175) and R$ 5,234, respectively.

(c) Summarized financial information

Set out below is the summarized financial information for subsidiaries.

(i) Summarized balance sheet

					June 30, 2018
					Subsidiaries
			Direct		Indirect
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Current					
Assets	288,034	174,813	30,335	9,948	12,575
Liabilities	(211,086)	(47,915)	(9,222)	(6,068)	(9,643)
Current assets (liabilities), net	76,948	126,898	21,113	3,880	2,932
Non-current					
Assets	404,237	16,039	1,196	1,294	1,237
Liabilities	(214,430)	(3,351)	(733)		(1,331)
Non-current assets (liabilities), net	189,807	12,688	463	1,294	(94)
Equity	266,755	139,586	21,576	5,174	2,838

All amounts in thousands of reais unless otherwise stated

	December 31, 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

(ii) Summarized statement of income

	Quarter ended June 30, 2018				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Net sales revenue	77,132	122,316	20,469	4,308	4,261
Profit (loss) before income tax and social contribution	8,753	17,387	6,757	246	(256)
Income tax and social contribution	(3,033)	(5,802)	(847)		
Profit (loss) for the period	5,720	11,585	5,910	246	(256)

	Six-month period ended June 30, 2018				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Net sales revenue	141,640	179,130	40,891	7,293	8,064
Profit (loss) before income tax and social contribution	11,359	16,741	13,194	425	(95)
Income tax and social contribution	(3,728)	(5,537)	(1,630)		
Profit (loss) for the period	7,631	11,204	11,564	425	(95)

All amounts in thousands of reais unless otherwise stated

	Quarter ended June 30, 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	84,754	101,823	15,229	3,006	2,781
Profit (loss) before income tax and social contribution	7,134	6,611	4,673	(1,998)	(605)
Income tax and social contribution	(3,059)	(2,220)	(593)		
Profit (loss) for the period	4,075	4,391	4,080	(1,998)	(605)

	Six-month period ended June 30, 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	136,121	151,270	32,423	4,815	5,384
Profit (loss) before income tax and social contribution	(726)	(2,626)	10,602	(2,781)	(1,073)
Income tax and social contribution	(822)	947	(1,325)		14
Profit (loss) for the period	(1,548)	(1,679)	9,277	(2,781)	(1,059)

(iii) Statement of comprehensive income

	2018		2017	
	Quarter	6-month period	Quarter	6-month period
Ouro Fino Saúde Animal Ltda. (direct subsidiary)				
Profit (loss) for the period	5,720	7,631	4,075	(1,548)
Other comprehensive income	(9)	(268)	(182)	(288)
Total comprehensive income	5,711	7,363	3,893	(1,836)

All amounts in thousands of reais unless otherwise stated

(iv) Summarized statement of cash flows

	Six-month period ended June 30, 2018				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Cash flows from operating activities					
Cash provided by (used in) operating activities	(33,645)	52,800	8,974	2,718	626
Interest paid	(8,055)	(415)	(41)	(301)	(337)
Income tax and social contribution paid		(5,917)	(1,330)		
Net cash inflow (outflow) from operating activities	(41,700)	46,468	7,603	2,417	289
Net cash inflow (outflow) from investing activities	(29,315)	(570)	(49)	(92)	(132)
Net cash inflow (outflow) from financing activities	59,881	(19,330)	(9,801)	(1,895)	(1,858)
Net increase (decrease) in cash and cash equivalents	(11,134)	26,568	(2,247)	430	(1,701)
Cash and cash equivalents at the beginning of the period	97,736	9,041	10,374	996	5,183
Exchange gains on cash and cash equivalents	160	5			
Cash and cash equivalents at the end of the period	86,762	35,614	8,127	1,426	3,482

	Six-month period ended June 30, 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	39,065	25,441	14,319	(3,420)	(1,379)
Interest paid	(5,468)	(712)		(388)	(269)
Income tax and social contribution paid			(1,695)		
Net cash inflow (outflow) from operating activities	33,597	24,729	12,624	(3,808)	(1,648)
Net cash inflow (outflow) from investing activities	(13,226)	3,159	(1)	(484)	(61)
Net cash inflow (outflow) from financing activities	6,733	(8,133)	(19,175)	4,348	1,645
Net increase (decrease) in cash and cash equivalents	27,104	19,755	(6,552)	56	(64)
Cash and cash equivalents at the beginning of the period	48,636	8,725	10,872	996	530
Exchange losses on cash and cash equivalents	(10)				
Cash and cash equivalents at the end of the period	75,730	28,480	4,320	1,052	466

All amounts in thousands of reais unless otherwise stated

(d) Reconciliation of financial information of investments

	Ouro Fino Saúde Animal Ltda.		Ouro Fino Agronegócio Ltda.		Ouro Fino Pet Ltda.		Total	
								Subsidiaries
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 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 period	7,631	(1,548)	11,204	(1,679)	11,564	9,277	30,399	6,050
Capital increase with advances for future capital increase		18,565						18,565
Stock options granted	228	525	73	77	51	45	352	647
Dividends distributed			(5,234)		(9,684)	(19,175)	(14,918)	(19,175)
Changes in the share of profit/loss of subsidiaries	(271)						(271)	
Exchange variation of foreign investments	3	(288)					3	(288)
Equity at June 30	266,755	259,798	139,586	117,410	21,576	18,825	427,917	396,033
Percentage holding (%)	99.99%	99.99%	99.99%	99.99%	99.99%	99.99%		
Share of investments	266,755	259,798	139,586	117,410	21,576	18,825	427,917	396,033
Unrealized profit in inventories	(9,484)	(13,125)					(9,484)	(13,125)
Carrying amount of the investment in the parent company	257,271	246,673	139,586	117,410	21,576	18,825	418,433	382,908

Section E – Selected significant notes

6 Financial instruments by category

	June 30, 2018			December 31, 2017	
	Parent company	Consolidated		Parent company	Consolidated
	Loans and receivables	Assets at fair value through profit or loss	Loans and receivables	Loans and receivables	Loans and receivables
Assets as per balance sheet					
Cash and cash equivalents	40		135,451	29	123,360
Derivative financial instruments		1,845			
Accounts receivable			143,858		160,663
Related parties	13,602		465	11,666	256
Other assets, except for prepaid expenses			4,281		4,890
	13,642	1,845	284,055	11,695	289,169

	June 30, 2018		December 31, 2017		
	Parent company	Consolidated	Parent company	Consolidated	
	Other financial liabilities	Other financial liabilities	Other financial liabilities	Liabilities at fair value through profit or loss	Other financial liabilities
Liabilities as per balance sheet					
Trade payables		43,482			27,915
Derivative financial instruments				10,451	
Borrowings		365,236			313,100
Dividends and interest on capital			9,051		9,051
Related parties	40	173	36		168
Commissions on sales		4,082			4,931
Other liabilities		5,634	61		8,129
	40	418,607	9,148	10,451	363,294

All amounts in thousands of reais unless otherwise stated

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 current accounts and financial investments amounting to R$ 135,392 (December 31, 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	
	June 30, 2018	**December 31, 2017**
AA	44,288	46,802
A	58,433	68,898
B	18,085	18,849
C	14,279	13,441
D	10,069	12,966
E	6,381	7,202
	151,535	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 in Repurchase Agreements and Bank Deposit Certificates (CDB) earning on average 96.4% of the CDI rate (December 31, 2017 – up to 99.1% of the CDI rate).

	Parent company		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Cash				
In local currency			11	6
In foreign currency			48	41
			59	47
Banks				
In local currency	40	29	7,682	10,807
In foreign currency			3,174	2,849
	40	29	10,856	13,656
Financial investments				
In local currency				
Repurchase agreements			26,180	74,514
Bank Deposit Certificates (CDB)			98,356	35,143
			124,536	109,657
	40	29	135,451	123,360

9 Derivative financial instruments (consolidated)

	June 30, 2018		December 31, 2017
	Assets	Liabilities	Liabilities
Exchange rate swap	2,851	1,006	10,451
Non-current			(1,272)
Current	2,851	1,006	9,179

The notional amounts of the exchange rate swap contracts at June 30, 2018 were US$ 14,000 thousand (December 31, 2017 - US$ 21,000 thousand).

All amounts in thousands of reais unless otherwise stated

10 Trade receivables (consolidated)

	June 30, 2018	December 31, 2017
In local currency		
Accounts receivable	144,601	159,452
Provision for impairment of trade receivables	(6,891)	(6,820)
	137,710	152,632
In foreign currency		
Accounts receivable	6,934	8,706
Provision for impairment of trade receivables	(786)	(675)
	6,148	8,031
Current	143,858	160,663

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

	June 30, 2018	December 31, 2017
Falling due		
Up to 3 months	117,139	113,190
From 3 to 6 months	22,414	34,749
Over 6 months	515	7,694
	140,068	155,633
Past due		
Up to 3 months	2,513	3,477
From 3 to 6 months	21	789
Over 6 months	8,933	8,259
	11,467	12,525
	151,535	168,158

All amounts in thousands of reais unless otherwise stated

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 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:

	June 30, 2018	June 30, 2017
Opening balance	7,495	6,477
Additions, net	125	148
Foreign exchange variation	210	49
Final write-offs	(153)	
Closing balance	7,677	6,674

The additions to and reversal 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)

	June 30, 2018	December 31, 2017
Finished products	75,748	57,948
Raw materials	43,900	30,163
Packaging materials	15,064	8,582
Work in progress	7,001	9,654
Imports in transit	15,167	1,575
Advances to suppliers	10,096	7,193
Other	8,401	6,691
Provision for inventory losses (Note 18)	(7,720)	(8,091)
	167,657	113,715
Non-current (*)	(5,607)	(5,137)
Current	162,050	108,578

(*) The amount of R$ 5,607 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.

All amounts in thousands of reais unless otherwise stated

12 Taxes recoverable

	Parent company		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
ICMS			54,656	49,145
ICMS, PIS and COFINS on acquisitions of property, plant and equipment			708	974
IRRF	300	402	2,063	1,541
IPI			549	459
PIS and COFINS			5,617	807
Other			2,103	1,486
	300	402	65,696	54,412
Non-current	(300)	(402)	(59,534)	(49,664)
Current			6,162	4,748

ICMS credits, which amounted to R$ 54,248 at June 30, 2018 (December 31, 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 in transactions within the state of São Paulo and exports and with a 60% reduction in the tax calculation basis in interstate transactions, with the full/partial maintenance of credits on purchases, pursuant to 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$ 7,798 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 June 30, 2018, all released credits had already been used.

The credit balance accounted for corresponds to the residual value of 2010 to 2013 relating to amounts withheld and to the entire credit balance of 2014, 2015, 2016 and 2017; 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.

All amounts in thousands of reais unless otherwise stated

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.

(a) Composition, nature and realization of deferred taxes

(i) Deferred income tax and social contribution

	June 30, 2018	December 31, 2017
Tax credits on:		
Accumulated income tax and social contribution losses	1,784	326
Temporary differences		
Provisions	10,483	11,041
Unrealized profit in inventories	4,886	4,435
Pre-operating expenses written-off	480	576
Derivative financial instruments		3,553
Appreciation - business combination	862	723
	18,495	20,654
Tax liabilities on:		
Temporary differences		
Deemed cost of land	(7,878)	(7,878)
Derivative financial instruments	(627)	
Accelerated depreciation	(354)	(364)
	(8,859)	(8,242)
Total assets, net	9,636	12,412
Total deferred tax credits	18,495	20,654
Total deferred tax liabilities	(8,859)	(8,242)

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

All amounts in thousands of reais unless otherwise stated

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

	June 30, 2018	June 30, 2017
Opening balance	12,412	17,081
Pre-operating expenses written-off	(96)	(96)
Accumulated income tax and social contribution losses	1,458	1,868
Derivative financial instruments	(4,180)	(2,518)
Provisions	(558)	(581)
Unrealized profit in inventories	451	(763)
Foreign exchange variations - cash basis		1,777
RD&I benefit - Accelerated depreciation	10	(325)
Appreciation - business combination	139	13
Closing balance	9,636	16,456

The amounts by estimated offset period are as follows:

	June 30, 2018	December 31, 2017
Deferred tax assets to be recovered		
within 1 year	16,702	18,202
from 2 to 5 years	1,793	2,452
	18,495	20,654
Deferred tax liabilities to be settled		
within 1 year	981	364
after 5 years	7,878	7,878
	8,859	8,242

All amounts in thousands of reais unless otherwise stated

14 Intangible assets (consolidated)

	At January 1, 2017	Additions	Provision for impairment	Foreign exchange variation	Transfer to inventories	Write-offs	Amortization	At June 30, 2017
Goodwill on the acquisition of subsidiaries	618							618
Trademarks and licenses purchased	36	43		24			(37)	66
Product development and registration	69,055	8,081	279	14	(1,361)	(3,040)	(2,766)	70,262
Computer software	16,456	211					(3,155)	13,512
Other	993						(134)	859
	87,158	8,335	279	38	(1,361)	(3,040)	(6,092)	85,317

	At January 1, 2018	Additions	Foreign exchange variation	Write-offs	Amortization	At June 30, 2018
Goodwill on the acquisition of subsidiaries	618					618
Trademarks and licenses purchased		5	1		(1)	5
Product development and registration	74,591	12,949	161	(390)	(2,564)	84,747
Computer software	10,791	178			(3,267)	7,702
Other	721				(135)	586
	86,721	13,132	162	(390)	(5,967)	93,658

	December 31, 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
Other	1,333		(612)	721
	141,414	(5,952)	(48,741)	86,721

	June 30, 2018			
	Cost	Provision for impairment	Accumulated amortization	Net
Goodwill on the acquisition of subsidiaries	618			618
Trademarks and licenses purchased	3,141		(3,136)	5
Product development and registration	114,791	(5,952)	(24,092)	84,747
Computer software	33,717		(26,015)	7,702
Other	1,333		(747)	586
	153,600	(5,952)	(53,990)	93,658

Product development and registration refers to expenses incurred in new drugs totaling R$ 84,747 (December 31, 2017 - R$ 74,591). The amortization of intangible assets related to product development and registration was recognized within "Cost of sales" (Note 21).

All amounts in thousands of reais unless otherwise stated

The assumptions utilized to analyze evidence of impairment are disclosed in Note 30.8.

In the period ended June 30, 2018, reductions in the amount of R$ 142 took place related to sales of product registrations, R$ 243 related to reductions of pilot batches and R$ 5 related to project discontinuation.

15 Property, plant and equipment (consolidated)

	At January 1, 2017	Additions	Foreign exchange variation	Transfers	Write-offs	Depreciation	At June 30, 2017
Land	24,985						24,985
Buildings and improvements	80,849			46,218		(1,404)	125,663
Machinery, equipment and industrial facilities	78,732	992		5,336	(150)	(3,138)	81,772
Vehicles and tractors	4,998		56		(380)	(760)	3,914
Furniture and fittings	2,989	393	2		(11)	(303)	3,070
IT equipment	2,725	33	2		(24)	(569)	2,167
Construction in progress (i)	48,598	6,164		(51,491)			3,271
Other	1,926	151		(63)		(151)	1,863
	245,802	7,733	60		(565)	(6,325)	246,705

	At January 1, 2018	Additions	Foreign exchange variation	Transfers	Write-offs	Depreciation	At June 30, 2018
Land	24,985						24,985
Buildings and improvements	124,777			12,191	(737)	(1,327)	134,904
Machinery, equipment and industrial facilities	79,306	875			(80)	(3,018)	77,083
Vehicles and tractors	3,518	4,905	39		(256)	(958)	7,248
Furniture and fittings	2,972	189	5		(1)	(271)	2,894
IT equipment	1,276	1,198	19		(5)	(432)	2,056
Construction in progress (i)	8,415	7,176		(12,191)			3,400
Other	1,618	41	2			(136)	1,525
	246,867	14,384	65		(1,079)	(6,142)	254,095

	June 30, 2018			December 31, 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	154,506	(19,602)	134,904	143,342	(18,565)	124,777	2.28%
Machinery, equipment and industrial facilities	122,593	(45,510)	77,083	122,163	(42,857)	79,306	5.34%
Vehicles, tractors and aircraft	10,710	(3,462)	7,248	6,522	(3,004)	3,518	19.08%
Furniture and fittings	7,703	(4,809)	2,894	7,512	(4,540)	2,972	6.91%
IT equipment	9,013	(6,957)	2,056	7,756	(6,480)	1,276	9.03%
Construction in progress (i)	3,400		3,400	8,415		8,415	
Other	3,793	(2,268)	1,525	3,833	(2,215)	1,618	7.31%
	336,703	(82,608)	254,095	324,528	(77,661)	246,867	

(i) In the period ended June 30, 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 works were in the completion phase. The residual balance refers substantially to adaptations in the plant amounting to R$ 420 (June 30, 2017 – R$ 1,968).

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

All amounts in thousands of reais unless otherwise stated

At June 30, 2018, the balance of costs of capitalized borrowings totaled R$ 1,136 (December 31, 2017 - R$ 843), at an average rate of 5.66% (December 31, 2017 - 4.51%).

Land, buildings, machinery and equipment amounting to R$ 88,542 (December 31, 2017 - R$ 87,098) are pledged as collateral for borrowings (Note 17).

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

16 Trade payables (consolidated)

	June 30, 2018	December 31, 2017
In local currency	18,702	14,557
In foreign currency	24,780	13,358
	43,482	27,915

All amounts in thousands of reais unless otherwise stated

17 Borrowings (consolidated)

	Financial charges incurred	Maturity	June 30, 2018	December 31, 2017
In foreign currency				
Working capital	Exchange variation and weighted average rate of 3.09% p.a. (December 31, 2017 - 3.03% p.a.)	2019	48,136	71,013
In local currency				
FINEP (Technological innovation)	Weighted average rate of 5.66% p.a. (December 31, 2017 - 4.51% p.a.)	2029	144,006	133,584
BNDES - FINEM	Weighted average rate of 9.80% p.a. (December 31, 2017 - 10.24% p.a.)	2025	34,786	28,802
BNDES - EXIM	Weighted average rate of 9.75% p.a. (December 31, 2017 - 10.18% p.a.)	2018	40,306	39,799
BNDES - FINAME	Weighted average rate of 6.60% p.a. (December 31, 2017 - 6.51% p.a.)	2023	692	847
Export credit note (NCE)	Weighted average rate of 7.29% p.a.	2021	40,056	
Working capital	Weighted average rate of 7.39% p.a. (December 31, 2017 - 7.00% p.a.)	2019	45,101	20,011
Working capital (i)	December 31, 2017 - 10.29% p.a.	2018		9,507
Working capital (i)	Weighted average rate of 8.10% p.a. (December 31, 2017 - 8.66% p.a.)	2018	6,649	7,251
Finance lease	Weighted average rate of 10.85% p.a. (December 31, 2017 - 10.48% p.a.)	2021	5,504	2,286
			365,236	313,100
Current			(164,455)	(190,233)
Non-current			200,781	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.

(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 parties Ouro Fino Participações e Empreendimentos S.A., Ouro Fino Saúde Animal Participações S.A. and bank guarantees totaling R$ 85,693, 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.

Borrowings for purposes of working capital are collateralized by sureties of the parent company and/or controlling stockholders, including bank guarantee of R$ 17,351. Leases are collateralized by sureties of the parent company and/or controlling stockholders and financing transactions under the FINAME program are guaranteed through the statutory lien of the assets financed, in addition to sureties of the parent company and/or controlling stockholders.

The BNDES-FINEM transaction also requires maintaining the indebtedness indices previously defined in contract: Net Debt/Ebitda ratio equal to or lower than 3.0 and general indebtedness equal to or lower than 0.70. In the period ended June 30, 2018, these indices were complied with by the Company (December 31, 2017 – indices complied with by the Company).

All amounts in thousands of reais unless otherwise stated

The carrying amounts of borrowings approximate their fair values.

The composition of non-current borrowings is as follows:

	June 30, 2018	March 31, 2017
From 1 to 2 years	49,217	113,946
From 2 to 3 years	52,678	35,611
From 3 to 4 years	26,415	17,644
From 4 to 5 years	26,403	17,630
Over 5 years	46,068	14,676
	200,781	199,507

(b) Borrowings in foreign currency for working capital purposes

Exchange rate swap transactions were contracted for working capital borrowings in foreign currency (US$), which amounted to R$ 48,136 (December 31, 2017 - R$ 71,013), to exchange the charges for those based on the CDI rate (Note 9).

18 Provision (consolidated)

	Quarter ended June 30, 2018				
	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Sales returns	506	396	(120)		782
Bonuses on goods	327	125	(174)	8	286
Contingencies	4,314	369	(872)	130	3,941
Provision for impairment of intangible assets	5,952				5,952
Provision for impairment of trade receivables	7,291	224		162	7,677
Provision for inventory losses	9,706	2,516	(4,535)	33	7,720
	28,096	3,630	(5,701)	333	26,358

	Six-month period ended June 30, 2018				
	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Sales returns	615	429	(262)		782
Bonuses on goods	1,235	205	(1,172)	18	286
Contingencies	3,935	734	(940)	212	3,941
Provision for impairment of intangible assets	5,952				5,952
Provision for impairment of trade receivables	7,495	125	(153)	210	7,677
Provision for inventory losses	8,091	4,179	(4,627)	77	7,720
	27,323	5,672	(7,154)	517	26,358

All amounts in thousands of reais unless otherwise stated

	Quarter ended June 30, 2017				
	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Sales returns	4,424	577	(2,945)		2,056
Discounts on sales of vaccines against foot-and-mouth disease	1,523		(1,523)		
Bonuses on goods	569		(569)		
Contingencies	4,088	79	(624)	(13)	3,530
Provision for impairment of intangible assets	4,962		(279)		4,683
Provision for impairment of trade receivables	6,527	99		48	6,674
Provision for inventory losses	14,219	4,149	(2,176)	(1)	16,191
	36,312	4,904	(8,116)	34	33,134

	Six-month period ended June 30, 2017				
	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Sales returns	4,919	1,790	(4,653)		2,056
Discounts on sales of vaccines against foot-and-mouth disease	2,443	141	(2,584)		
Bonuses on goods	780	295	(1,075)		
Contingencies	3,850	688	(1,008)		3,530
Provision for impairment of intangible assets	4,962		(279)		4,683
Provision for impairment of trade receivables	6,477	148		49	6,674
Provision for inventory losses	9,768	8,947	(2,523)	(1)	16,191
	33,199	12,009	(12,122)	48	33,134

(a) Returns of products and discounts on sales of vaccines against foot-and-mouth disease

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 on goods

The provision for bonuses on goods relate to sales campaigns already agreed to with the customers, but not yet implemented. Such provision is recognized in the statement of income under “Cost of sales”.

(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:

All amounts in thousands of reais unless otherwise stated

	June 30, 2018	December 31, 2017
Labor	2,703	3,019
Civil, social security and tax	1,238	916
	3,941	3,935

(d) Provision for impairment of trade receivables

As a rule, the Group recognizes provision for impairment of trade receivables for receivables overdue for more than 180 days and without 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 companies are parties to tax, civil and labor 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. At June 30, 2018, they totaled R$ 59,213 (December 31, 2017 - R$ 57,431), and mainly related to tax (ICMS) proceedings and labor claims.

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.

At June 30, 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.

At the Annual General Meeting held on April 13, 2018, stockholders decided on the appropriation of the profit for 2017 and approved additional dividends of R$ 1,797, which corresponds to R$ 0.03329567 per share.

(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 are available at the 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 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 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	14.9
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 the six-month period ended June 30, 2018, expenses amounting to R$ 361 (June 30, 2017 - R$ 655) 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	
	June 30, 2018	**June 30, 2017**
Balance at the beginning of the period	316,853	679,225
Number of options canceled (i)	(103,777)	(362,372)
Balance at the end of the period	213,076	316,853

(i) Refers 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**	
	Quarter	**6-month period**	**Quarter**	**6-month period**
Domestic customers				
Gross sales and services	161,820	255,914	134,594	219,204
Taxes and deductions on sales	(13,098)	(23,142)	(13,714)	(28,134)
	148,722	232,772	120,880	191,070
Foreign customers				
Gross sales	13,018	21,110	17,287	22,521
Taxes and deductions on sales	(137)	(341)	(235)	(473)
	12,881	20,769	17,052	22,048
	161,603	253,541	137,932	213,118

21 Costs and expenses by nature

	Parent company			
	2018		**2017**	
	Quarter	**6-month period**	**Quarter**	**6-month period**
General and administrative expenses				
Personnel expenses	799	1,278	468	883
Outsourced services	92	153	78	153
Travel expenses	5	9	3	5
Other	35	290	212	299
	931	1,730	761	1,340
	931	1,730	761	1,340

All amounts in thousands of reais unless otherwise stated

	Consolidated			
	2018		2017	
	Quarter	6-month period	Quarter	6-month period
Cost of sales (*)				
Variable costs (raw and consumption materials)	47,609	69,068	37,416	55,259
Personnel expenses	18,036	27,034	15,890	22,145
Depreciation and amortization	4,439	7,875	4,800	8,099
Outsourced services	5,210	7,671	4,311	6,156
Changes in the provision for losses on inventories	(2,019)	(448)	1,717	6,184
Electricity	1,605	2,414	1,697	2,417
Provision for impairment of intangible assets			(279)	(279)
Write-off of pilot batch (intangible asset)	243	243		
Other	108	759	1,717	2,741
	75,231	114,616	67,269	102,722
Selling expenses				
Personnel expenses	17,027	33,360	16,884	32,824
Sales team expenses	11,616	20,672	10,695	19,755
Outsourced services	5,577	9,645	4,952	8,723
Freight charges	5,327	8,788	5,204	8,199
Provision for impairment of trade receivables	224	125	155	148
Depreciation and amortization	1,378	2,667	1,230	2,454
Telecommunications and electricity	247	519	334	680
Other	755	1,817	720	2,598
	42,151	77,593	40,174	75,381
General and administrative expenses				
Personnel expenses	6,753	13,846	6,676	14,048
Outsourced services	1,358	2,553	1,386	2,593
Depreciation and amortization	792	1,567	957	1,864
Travel expenses	202	409	256	431
Telecommunications and electricity	184	367	226	488
Vehicle expenses	19	146	26	115
Donations and sponsorship	31	48	31	156
Other	523	1,084	601	1,103
	9,862	20,020	10,159	20,798
	127,244	212,229	117,602	198,901

(*) 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 income, net

	Parent company			
	2018		2017	
	Quarter	6-month period	Quarter	6-month period
Gains on sales of scrap, rentals and other	27	54	23	46
Federal, state and municipal taxes and fees		(2)	(8)	(10)
	27	52	15	36

	Consolidated			
	2018		2017	
	Quarter	6-month period	Quarter	6-month period
Gains on disposal and write-off of PP&E	(169)	(110)	84	159
Gains (losses) on disposal of intangible assets (i)	(5)	73	2,677	2,677
Gains (losses) on sales of scrap, rentals and other	(244)	22	(219)	778
Federal, state and municipal taxes and fees (ii)	4,963	4,759	(63)	(277)
Other losses	(129)	(394)	(449)	(863)
	4,416	4,350	2,030	2,474

(i) Refers to the sale of product registration.

(ii) Refers substantially to the recognition of extemporaneous tax credits arising from the final decision handed excluding ICMS from the calculation bases of PIS/Cofins related to the period from 2009 to 2018.

23 Finance income and costs

	Parent company			
	2018		2017	
	Quarter	6-month period	Quarter	6-month period
Finance income				
Income from financial investments				13
Monetary variation		39		1
		39		14
Finance costs				
Other	(9)	(15)	(11)	(23)
	(9)	(15)	(11)	(23)
Finance result	(9)	24	(11)	(9)

All amounts in thousands of reais unless otherwise stated

				Consolidated
		2018		2017
	Quarter	6-month period	Quarter	6-month period
Finance income				
Income from financial investments	1,225	2,840	1,608	2,652
Interest receivable	95	504	182	410
Monetary variation		82		13
Other	44	74	15	28
	1,364	3,500	1,805	3,103
Finance costs				
Interest payable	(4,021)	(8,587)	(3,319)	(6,787)
Finance charges	(911)	(1,377)	(914)	(1,356)
Other	(288)	(487)	(137)	(290)
	(5,220)	(10,451)	(4,370)	(8,433)
Derivative financial instruments, net				
Gains on derivatives (foreign exchange variation)	6,652	5,864	4,302	892
Losses on derivatives (interest)	(323)	(850)	(1,661)	(3,953)
	6,329	5,014	2,641	(3,061)
Foreign exchange variations, net	(6,307)	(5,403)	(2,842)	(232)
Finance result	(3,834)	(7,340)	(2,766)	(8,623)

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
		2018		2017
	Quarter	6-month period	Quarter	6-month period
Profit before income tax and social contribution	24,253	27,871	13,110	6,216
Standard rates	34%	34%	34%	34%
	(8,246)	(9,476)	(4,457)	(2,113)
Reconciliation to the effective rate:				
Permanent differences:				
Equity in the results of investees	8,556	10,038	4,715	2,560
Deferred taxes, not recorded	(310)	(562)	(258)	(447)
Income tax and social contribution				

				Consolidated
		2018		2017
	Quarter	6-month period	Quarter	6-month period
Profit before income tax and social contribution	34,941	38,322	19,594	8,068
Standard rates	34%	34%	34%	34%
	(11,880)	(13,030)	(6,662)	(2,743)
Reconciliation to the effective rate:				
Permanent differences:				
RD&I benefit			218	218
Adjustment related to the calculation of subsidiary taxed based on the presumed profit method	1,450	2,856	995	2,279
Adjustment related to the calculation of foreign subsidiary taxed based on the rate in effect in that country	(4)	112	(885)	(1,297)
Deferred taxes, not recorded	(310)	(562)	(258)	(447)
Other permanent differences	57	180	37	39
Income tax and social contribution	(10,687)	(10,444)	(6,555)	(1,951)
Reconciliation with the statement of income:				
Current	(6,748)	(7,531)	(594)	(1,326)
Deferred	(3,939)	(2,913)	(5,961)	(625)
	(10,687)	(10,444)	(6,555)	(1,951)

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 period.

		2018		2017
	Quarter	6-month period	Quarter	6-month period
Profit for the period attributable to the stockholders of the Company	24,253	27,871	13,110	6,216
Weighted average number of common shares in the period	53,949	53,949	53,949	53,949
Basic earnings per share	0.44955	0.51662	0.24301	0.11522

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 period, adjusted by the weighted average number of instruments with dilutive effects.

	2018		2017	
	Quarter	6-month period	Quarter	6-month period
Profit for the period attributable to the stockholders of the Company	24,253	27,871	13,110	6,216
Weighted average number of common shares in the period considering instruments with dilutive effects	53,757	53,725	53,679	53,639
Diluted earnings per share	0.45116	0.51877	0.24423	0.11589

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 at June 30, 2018 totaled R$ 486 (June 30, 2017 - R$ 368).

(b) Profit-sharing

The Group companies offer to their employees a variable remuneration program, calculated based on quantitative and qualitative goals established by management. At June 30, 2018, the amount of profit-sharing was R$ 3,600 (June 30, 2017 – R$ 4,142).

27 Balances and transactions with related parties

(a) Balances and most significant transactions

	Parent company							
	Balances:							
	June 30, 2018			December 31, 2017				
	Assets		Liabilities	Assets			Liabilities	
	Other assets (i)	Advances for future capital increase (ii)	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.		13,500	23			6,000		19
Ouro Fino Agronegócio Ltda.					5,620			
Ouro Fino Química Ltda.	102			46				
Stockholders			17				9,051	17
	102	13,500	40	46	5,620	6,000	9,051	36

All amounts in thousands of reais unless otherwise stated

	Parent company			
	Main transactions:			
	June 30, 2018		June 30, 2017	
	Royalties	Reimbursement of CSC expenses (i)	Royalties	Reimbursement of CSC expenses (i)
Related parties:				
Ouro Fino Saúde Animal Ltda.		(130)		(135)
Ouro Fino Agronegócio Ltda.		31		(1)
Ouro Fino Pet Ltda.		8		
Ouro Fino Química Ltda.	56		50	
	56	(91)	50	(136)

	Consolidated						
	Balances:						
	June 30, 2018			December 31, 2017			
	Assets	Liabilities		Assets	Liabilities		
	Other assets (i)	Other liabilities (i)	Borrowings (iii)	Other assets (i)	Dividends and interest on capital	Other liabilities (i)	Borrowings (iii)
Related parties:							
Ouro Fino Part. e Empreendimentos S.A.				16			
Ouro Fino Química Ltda.	231	156		240		151	
Condomínio Rural Ouro Fino	134						
BNDES Participações S.A.			75,784				69,448
Stockholders		17			9,051	17	
Other	100						
	465	173	75,784	256	9,051	168	69,448

	Consolidated									
	Main transactions:									
	June 30, 2018					June 30, 2017				
	Gross profit on the sales of goods	Reimbursement of CSC expenses (i)	Royalties	Other expenses, net	Finance result	Gross profit on the sales of goods	Reimbursement of CSC expenses (i)	Royalties	Other expenses, net	Finance result
Related parties:										
Ouro Fino Part. e Empreendimentos S.A.							7			
Ouro Fino Química Ltda.		764	56	(280)			1,208	50	(275)	
Condomínio Rural Ouro Fino	18			(678)		5			(711)	
Stockholders									(12)	
Other				(126)						
BNDES Participações S.A.					(3,532)					(2,270)
	18	764	56	(1,084)	(3,532)	5	1,215	50	(998)	(2,270)

(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.

All amounts in thousands of reais unless otherwise stated

(ii) Advances for future capital increase

At June 30, 2018, the Company had recorded advances for future capital increase to Ouro Fino Saúde Animal Ltda. in the amount of R$ 13,500 (December 31, 2017 - R$ 6,000). These amounts will be capitalized as decided by the owners of this subsidiary.

(iii) Borrowings

These refer to borrowings from the related party BNDES Participações S.A., under 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:

	June 30, 2018	June 30, 2017
Salaries	1,257	984
Labor charges	291	184
Share-based payments	110	98
Variable compensation	93	93
Compensation and fringe benefits	67	62
	1,818	1,421

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:

		Maximum amounts insured/indemnification	
Insured assets	**Covered risks**	**Jan/17 to Dec/17**	**Jan/18 to Dec/18**
PP&E and inventories	Fire/lightning/explosion/ electrical damage/ windstorm/loss of profits	380,000	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 exercise of their activities	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	19,403	(70,325)	264,516
Borrowings	39,950			39,950
Repayments	(51,331)	(10,466)		(61,797)
Decrease in cash and cash equivalents			(39,754)	(39,754)
Changes that affected cash flow	(11,381)	(10,466)	(39,754)	(61,601)
Interest and foreign exchange variations	9,459	3,061	10	12,530
Changes that did not affect cash flow	9,459	3,061	10	12,530
Net debt at June 30, 2017	313,516	11,998	(110,069)	215,445
Net debt at January 1, 2018	313,100	10,451	(123,360)	200,191
Borrowings	105,353			105,353
Repayments	(75,636)	(7,282)		(82,918)
Decrease in cash and cash equivalents			(11,925)	(11,925)
Changes that affected cash flow	29,717	(7,282)	(11,925)	10,510
Purchases of property, plant and equipment	4,620			4,620
Interest and foreign exchange variations	17,799	(5,014)	(166)	12,619
Changes that did not affect cash flow	22,419	(5,014)	(166)	17,239
Net debt at June 30, 2018	365,236	(1,845)	(135,451)	227,940

Section F – Accounting policies

30 Summary of significant accounting policies

The main accounting policies applied in the preparation of these interim 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 interim 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 interim 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 interim 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).

(iii) 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: loans and receivables and measured at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired.

(a) Loans and receivables

Loans and receivables 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.

Loans and receivables are carried at amortized cost using the effective interest rate method.

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 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 the 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 interim 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 period of the expected benefit, which is, on average, ten years.

The finance charges on borrowings to finance a project are capitalized during the period 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 Group 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 period.

(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.

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 provisioned 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 standard was issued by IASB but is not effective for the year ended December 31, 2018. The early adoption of standards, even though encouraged by the IASB, has not been implemented in Brazil by the CPC.

- IFRS 16 – "Leases": this new standard requires lessees to recognize the liability of the future payments and the right of use of the leased asset for virtually all lease contracts, including operating leases. Certain short-term and low-value contracts may be out of the scope of this new standard. The criteria for recognition and measurement of leases in the interim financial statements of the lessors are substantially maintained. IFRS 16 is effective for years beginning on or after January 1, 2019 and replaces IAS 17 – "Leases" and corresponding interpretations. Management is evaluating the impacts of adopting IFRS 16.

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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