(A free translation of the original in Portuguese)

Ouro Fino Saúde Animal Participações S.A. and subsidiaries

Parent company and consolidated financial statements at December 31, 2017 and independent auditor's report

(A free translation of the original in Portuguese)

Independent auditor's report

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

Opinion

We have audited the accompanying parent company financial statements of Ouro Fino Saúde Animal Participações S.A. ("Company" or "Parent company"), which comprise the balance sheet as at December 31, 2017 and the statements of operations, comprehensive income (loss), changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Ouro Fino Saúde Animal Participações S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2017 and the consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

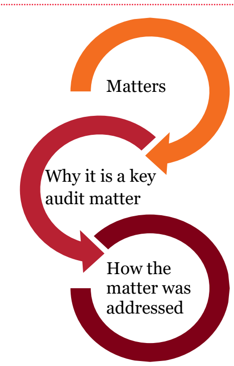
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ouro Fino Saúde Animal Participações S.A. and of Ouro Fino Saúde Animal Participações S.A. and its subsidiaries as at December 31, 2017, and the parent company financial performance and cash flows for the year then ended, as well as the consolidated financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for opinion

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

Key audit matters

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



Ouro Fino Saúde Animal Participações S.A.

Our audit for the year ended December 31, 2017 was planned and performed considering that the operations of the Company and its subsidiaries did not present significant changes in relation to the prior year. Therefore, the Key Audit Matters and our audit approach remained primarily in line with those of the prior year, except for the exclusion of the following matters from this section: (i) provision for discount on sales of foot-and-mouth disease vaccines, which was not required in 2017, due to the new price negotiation practice implemented in the year, as described in Note 2(h); and (ii) provision for impairment of trade receivables, as a result of the measures taken by management.

Why it is a key audit matter	How the matter was addressed in the audit
Intangible assets arising from the development and registration of new products	
As disclosed in Notes 2(g) and 14 to the financial statements, the Company maintains, in its consolidated financial statements, intangible asset balances arising from the development and registration of new products. The recovery of these assets is based on projections that include management's significant assumptions and judgments, involving, among others, the projection of the launch of the respective products and of the life cycle of the new products, expected future generation of revenue, margins, and market development. In the year ended December 31, 2017, management recognized impairment losses of R$ 990 thousand, referring to projects from which economic benefits are no longer expected. We maintained this an area of focus in our audit, since the changes in these assumptions could significantly affect the recovery of the balances recorded and, consequently, the financial position and results of operations of the Company and subsidiaries.	Our audit procedures included, among others, discussions with management regarding the feasibility studies for the new products under development, and the understanding of the existing controls and processes to monitor the progress of each project up to the production and sale of the product on a regular basis. We obtained an understanding of the main assumptions utilized in the preparation of the cash flow projections for the new products, and verified their logical and arithmetical coherence. Furthermore, we analyzed, on a test basis, the documents supporting the approval by management of the write-off of the projects from which future economic benefits are no longer expected. Our audit procedures showed that the judgments and assumptions utilized by management in relation to this matter were reasonable and consistent with the data and information obtained.
Value-added Tax on Sales and Services (ICMS) recoverable	
As disclosed in Note 12 to the financial statements, at December 31, 2017, the subsidiary Ouro Fino Saúde Animal Ltda. has accumulated ICMS credits of R$ 48,724 thousand, arising from exempt outflows and full or partial maintenance of the credits from inflows, according to ICMS Agreement 100/97.	Our audit procedures included, among others, the update of the understanding and testing the significant internal controls over the information technology environment that supports the control structure of the Company and its subsidiaries, as well as the controls associated with the generation and recording of ICMS credits.

Why it is a key audit matter	How the matter was addressed in the audit
Management seeks to realize the aforementioned credits through requests for reimbursement from the Government of the State of São Paulo, which are being carried out through the submission of the electronic documents pursuant to Ordinance 83/2009 of the Coordinating Committee of Tax Administration Board (CAT). Due to the significance of the balance of ICMS recoverable and the complexity of the process of preparation and submission of these electronic documents, in relation to the requirements established in CAT Ordinance 83/2009, this matter remained an area of focus in our audit.	We performed processes to update our understanding and analyze the procedures adopted by the Company for the recording of the ICMS credits. Our audit approach also considered discussions with management to evaluate the progress and risks of the discussions at the administrative level, and the compliance with obligations related to the submission of the electronic documents under the terms of CAT Ordinance 83/2009, which might affect the effective future realization of the ICMS credits recoverable. Our audit procedures showed that the disclosures made by the Company are consistent with the data and information obtained.

Other matters

Statements of Value Added

The parent company and consolidated Statements of Value Added for the year ended December 31, 2017, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in the Brazilian Technical Pronouncements Committee CPC 09 - "Statement of Value Added". In our opinion, these Statements of Value Added have been properly prepared in all material respects, in accordance with the criteria established in the Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

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

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

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

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

Ouro Fino Saúde Animal Participações S.A.

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

Management is responsible for the preparation and fair presentation of the parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ribeirão Preto, March 2, 2018

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

Balance sheet

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

		Parent company		Consolidated	
Assets	**Note**	**2017**	**2016**	**2017**	**2016**
Current assets					
Cash and cash equivalents	8	29	567	123,360	70,325
Trade receivables	10			160,663	162,478
Inventories	11			108,578	131,303
Taxes recoverable	12			4,748	4,877
Income tax and social contribution recoverable				4,177	5,107
Related parties	27	5,666	69	256	303
Other assets		13		5,514	5,529
		5,708	636	407,296	379,922
Non-current assets					
Long-term receivables					
Taxes recoverable	12	402	113	49,664	42,643
Deferred income tax and social contribution	13			12,412	17,081
Related parties	27	6,000	165		165
Inventories	11			5,137	
Other assets				2,130	2,806
		6,402	278	69,343	62,695
Investments in subsidiaries	5	403,742	375,630		
Intangible assets	14			86,721	87,158
Property, plant and equipment	15			246,867	245,801
Total non-current assets		410,144	375,908	402,931	395,654
Total assets		415,852	376,544	810,227	775,576

Ouro Fino Saúde Animal Participações S.A.

Balance sheet

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

Liabilities and equity	**Note**	**Parent company 2017**	**Parent company 2016**	**Consolidated 2017**	**Consolidated 2016**
Current liabilities					
Trade payables	16	14		27,915	23,316
Derivative financial instruments	9			9,179	8,820
Borrowings	17			190,233	73,550
Salaries and social charges		144	114	22,180	17,299
Taxes payable		667	55	4,153	4,053
Income tax and social contribution payable				578	1,056
Dividends and interest on capital		9,051		9,051	
Related parties	27	36	41	168	355
Commissions on sales				4,931	6,070
Other liabilities		61		8,129	8,440
Total current liabilities		9,973	210	276,517	142,959
Non-current liabilities					
Derivative financial instruments	9			1,272	10,584
Borrowings	17			122,867	241,888
Provision for contingencies	18			3,935	3,850
Total non-current liabilities				128,074	256,322
Total liabilities		9,973	210	404,591	399,281
Equity	19				
Share capital		358,796	299,107	358,796	299,107
Capital reserve		(6,392)	(6,392)	(6,392)	(6,392)
Options granted		4,129	3,076	4,129	3,076
Revenue reserves		33,707	65,035	33,707	65,035
Carrying value adjustments		15,639	15,508	15,639	15,508
		405,879	376,334	405,879	376,334
Non-controlling interests				(243)	(39)
Total equity		405,879	376,334	405,636	376,295
Total liabilities and equity		415,852	376,544	810,227	775,576

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

Ouro Fino Saúde Animal Participações S.A.

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

		Parent company		Consolidated	
	Note	**2017**	**2016**	**2017**	**2016**
Revenue	20			505,281	456,587
Cost of sales	21			(238,712)	(230,504)
Gross profit				266,569	226,083
Selling expenses	21			(155,634)	(171,656)
General and administrative expenses	21	(2,623)	(2,821)	(39,872)	(43,058)
Equity in the results of investees	5	41,265	(2,419)		
Other income (expenses), net	22	104	46	(4,712)	(2,519)
Operating profit (loss)		38,746	(5,194)	66,351	8,850
Finance income		15	27	7,916	4,487
Finance costs		(653)	(39)	(18,185)	(12,280)
Derivative financial instruments, net				(5,680)	(28,050)
Foreign exchange variations, net				(844)	13,643
Finance result	23	(638)	(12)	(16,793)	(22,200)
Profit (loss) before income tax and social contribution		38,108	(5,206)	49,558	(13,350)
Income tax and social contribution	24				
Current				(6,973)	(3,604)
Deferred				(4,684)	11,603
Profit (loss) for the year		38,108	(5,206)	37,901	(5,351)
Attributable to:					
Owners of the parent				38,108	(5,206)
Non-controlling interests				(207)	(145)
				37,901	(5,351)
Earnings (loss) per share attributable to owners of the parent during the year (in reais)	25				
Basic earnings (loss) per share				0.70637	(0.09650)
Diluted earnings (loss) per share				0.70969	(0.09644)

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

Ouro Fino Saúde Animal Participações S.A.

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

		Parent company		Consolidated	
		2017	2016	2017	2016
Profit (loss) for the year		38,108	(5,206)	37,901	(5,351)
Other comprehensive income					
Items that will be reclassified to profit or loss					
Exchange variation of investment in subsidiary located abroad	5	131	(444)	134	(466)
Total comprehensive income (loss) for the year		38,239	(5,650)	38,035	(5,817)
Attributable to:					
Owners of the parent				38,239	(5,650)
Non-controlling interests				(204)	(167)
				38,035	(5,817)

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

Ouro Fino Saúde Animal Participações S.A.

Statement of changes in equity

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

		Attributable to owners of the parent									
					Revenue reserves						
	Note	Share capital	Capital reserve	Options granted	Legal reserve	Profit retention reserve	Carrying value adjustments	Retained earnings (Accumulated deficit)	Total	Non-controlling interests	Total equity
At January 1, 2016		298,889	(6,392)	1,491	5,346	64,895	15,952		380,181	128	380,309
Comprehensive income (loss) for the year											
Loss for the year								(5,206)	(5,206)	(145)	(5,351)
Exchange variation of subsidiary located abroad	5						(444)		(444)	(22)	(466)
Total comprehensive income for the year							(444)	(5,206)	(5,650)	(167)	(5,817)
Contributions by owners											
Capital increase	19 (a)	218							218		218
Transfer to revenue reserves	19 (c)					(5,206)		5,206			
Tax benefit of goodwill merged	19 (b)		54,433						54,433		54,433
Provision for unused tax benefit of goodwill merged	19 (b)		(54,433)						(54,433)		(54,433)
Stock options granted	19 (e)			1,585					1,585		1,585
Total contributions by owners		218		1,585		(5,206)		5,206	1,803		1,803
At December 31, 2016		299,107	(6,392)	3,076	5,346	59,689	15,508		376,334	(39)	376,295
Comprehensive income (loss) for the year											
Profit for the year								38,108	38,108	(207)	37,901
Exchange variation of subsidiary located abroad	5						131		131	3	134
Total comprehensive income for the year							131	38,108	38,239	(204)	38,035
Contributions by owners											
Capital increase by incorporation of revenue reserves	19 (a)	59,689				(59,689)					
Stock options granted	19 (e)			1,053					1,053		1,053
Allocation of profit:											
Legal reserve	19 (c)				1,905			(1,905)			
Interest on capital and dividends	19 (c)							(9,747)	(9,747)		(9,747)
Profit retention for expansion	19 (c)					26,456		(26,456)			
Total contributions by owners		59,689		1,053	1,905	(33,233)		(38,108)	(8,694)		(8,694)
At December 31, 2017		358,796	(6,392)	4,129	7,251	26,456	15,639		405,879	(243)	405,636

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

Ouro Fino Saúde Animal Participações S.A.

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

		Parent company		Consolidated	
	Note	**2017**	**2016**	**2017**	**2016**
Cash flows from operating activities					
Profit (loss) before income tax and social contribution		38,108	(5,206)	49,558	(13,350)
Adjustments for:					
Provision for impairment of trade receivables	10			987	7,423
Provision for inventory losses and write-offs	11			11,055	8,637
Changes in the provision for sales returns	18			(2,221)	2,836
Provision for bonuses to customers	18			451	780
Equity in the results of investees	5	(41,265)	2,419		
Depreciation and amortization	14 and 15			24,859	21,927
Provision for impairment of intangible assets	14			990	3,721
Reversal of the provision for discounts on sales of vaccines against foot-and-mouth	18			(2,443)	(1,280)
Result on disposal of property, plant and equipment	22			(277)	(21)
Result on disposal of intangible assets	22			(1,456)	481
Interest and monetary and exchange variations, net				16,657	(4,706)
Derivative financial instruments				5,679	28,050
Provision for contingencies	18			62	157
Stock options granted	19 (e)	17	18	1,053	1,585
Changes in working capital					
Trade receivables				9,052	49,745
Inventories				5,696	(32,047)
Taxes recoverable		7	88	(6,522)	(9,701)
Other assets		175	672	901	4,867
Trade payables				3,886	(2,277)
Taxes payable		612	(490)	(897)	(2,288)
Other liabilities		100	(79)	2,769	(4,915)
Cash provided by (used in) operations		(2,246)	(2,578)	119,839	59,624
Interest paid				(13,640)	(10,468)
Income tax and social contribution paid				(6,696)	(6,914)
Net cash provided by (used in) operating activities		(2,246)	(2,578)	99,503	42,242
Cash flows from investing activities					
Advances for future capital increase	5	(24,565)			
Investments in intangible assets	14			(17,649)	(22,954)
Purchases of property, plant and equipment	15			(14,197)	(62,301)
Receipts of profits and interest on capital	5	26,273	18,892		
Proceeds from sale of property, plant and equipment				729	1,281
Proceeds from sale of intangible assets				5,876	
Net cash provided by (used in) investing activities		1,708	18,892	(25,241)	(83,974)
Cash flows from financing activities					
Capital increase			218		218
Proceeds from borrowings				59,950	188,196
Repayment of borrowings				(66,534)	(73,894)
Payment of dividends and interest on capital			(16,433)		(16,433)
Realized derivative financial instruments				(14,633)	(8,208)
Net cash provided by (used in) financing activities			(16,215)	(21,217)	89,879
Net increase (decrease) in cash and cash equivalents		(538)	99	53,045	48,147
Cash and cash equivalents at the beginning of the year	8	567	468	70,325	23,380
Exchange losses on cash and cash equivalents				(10)	(1,202)
Cash and cash equivalents at the end of the year	8	29	567	123,360	70,325

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

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

Ouro Fino Saúde Animal Participações S.A.

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

	Note	Parent company 2017	Parent company 2016	Consolidated 2017	Consolidated 2016
Revenues					
Gross sales and services				550,442	508,160
Other gains				1,460	(1,686)
Income related to the construction of own assets				15,635	20,234
Provision for impairment of trade receivables	10			(987)	(7,423)
				566,550	519,285
Inputs acquired from third parties					
Cost of sales and services				(188,476)	(172,456)
Materials, electricity, third-party services and other		(786)	(1,277)	(127,489)	(140,547)
Losses on assets, net				(17,560)	(11,336)
		(786)	(1,277)	(333,525)	(324,339)
Gross value added (distributed)		(786)	(1,277)	233,025	194,946
Depreciation and amortization	14 and 15			(24,859)	(21,927)
Net value added (distributed) generated by the entity		(786)	(1,277)	208,166	173,019
Value added received through transfer					
Equity in the results of investees	5	41,265	(2,419)		
Finance income		16	29	11,228	30,032
Royalties		117	100	117	100
Other				261	225
Total value added distributed		40,612	(3,567)	219,772	203,376
Distribution of value added					
Personnel					
Direct compensation		1,533	1,311	85,536	99,164
Benefits		3	6	17,327	20,693
Government Severance Indemnity Fund for Employees (FGTS)				8,232	8,941
Taxes, charges and contributions					
Federal		924	275	45,834	26,073
State		3	8	(6,642)	(4,231)
Municipal				250	214
Remuneration of third parties' capital					
Interest, foreign exchange loss, losses on derivatives, etc.		41	39	27,662	52,982
Rentals				3,423	4,209
Other				249	682
Remuneration of own capital					
Retained profits (losses)		29,057	(5,206)	29,057	(5,206)
Interest on capital and dividends		9,051		9,051	
Non-controlling interests				(207)	(145)
Value added distributed		40,612	(3,567)	219,772	203,376

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

All amounts in thousands of reais unless otherwise stated

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 São Paulo Futures, Commodities and Securities Exchange - BM&FBovespa S.A. ("BM&FBovespa") 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.

At the Extraordinary General Meeting held on August 31, 2016, the stockholders approved the merger of General Atlantic Ouro Fino Participações S.A. ("GAOF"), based on an appraisal report at book value as of June 30, 2016, issued by independent appraisers on August 12, 2016.

On October 20, 2014, GAOF, the investment holding company, acquired approximately 14.27% of the Company's capital for R$ 200,000, resulting in goodwill based on expected future profitability (under the terms of Law 9,532/97) of R$ 160,097, as described below:

Ouro Fino Saúde Animal Participações S.A. - Equity at 9/30/14	227,784
Capital increase with issue of shares (IPO)	51,923
(a) Ouro Fino Saúde Animal Participações S.A. - Equity adjusted for determination of goodwill	279,707
(b) Interest acquired by General Atlantic Ouro Fino Participações S.A.	14.27%
(c) Equity acquired by General Atlantic Ouro Fino Participações S.A. (a x b)	39,903
(d) Amount paid	200,000
(e) Goodwill generated in the transaction (d - c)	160,097
(f) Tax benefit ((e) x 34%)	54,433

As provided for in CVM Instructions 319/99, 349/01 and 565/15, for purposes of downstream merger, the goodwill initially recorded by GAOF was reduced to the limit of the tax benefit expected from the likely future reduction in the Company's taxes.

After the merger and considering that the realization of the tax benefit arising from the goodwill is not currently expected, management decided to record a provision in the full amount of the merged balance, with a corresponding entry in the same line item of the special goodwill reserve on merger where the benefit was initially recorded. In this context, there was no impact on the consolidated financial statements.

The issue of these parent company and consolidated financial statements was authorized by the Company's Board of Directors on March 1, 2018.

1.2 Basis of preparation

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

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

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

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

(a) Parent company financial statements

The parent company financial statements have been prepared in accordance with accounting practices adopted in Brazil issued by the Brazilian Accounting Pronouncements Committee (CPC). Because the accounting practices adopted in Brazil applicable to individual financial statements, as from 2014, do not differ from the International Financial Reporting Standards (IFRS) applicable to separate 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 International Accounting Standards Board (IASB) and are disclosed together with the consolidated financial statements.

(b) Consolidated financial statements

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

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 International Financial Reporting Standards (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 financial statements.

1.3 Changes in accounting policies and disclosures

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

CPC 03/IAS 07 - Statement of cash flows

This amendment introduces an additional disclosure that seeks to enable users of 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)).

Other amendments which are effective for the financial year beginning on January 1, 2017 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 judgements 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

Impairment is established when there is objective evidence that the Group 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. Provisions for contingencies, to cover expected losses on proceedings in progress, are 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. Provisions are recorded when the recoverable amount (net present value of cash flow) is below the amount of the recorded asset, pursuant to the Group's accounting policy presented in Note 30.8.

(h) Provision for adjustment of the prices adopted in sales of vaccines against foot-and-mouth disease

Considering the high competitiveness in the market of vaccines against foot-and-mouth disease and in line with market practices in which price negotiations can be extended up to the beginning of the following vaccination campaign period, the Group assesses the FMD vaccine market conditions on a quarterly basis, and determines, based on its experience, accumulated knowledge of the sector, public information on this market and the projected demand of its customer portfolio, if the need exists to adjust the prices charged. When an adjustment in the prices of FMD vaccines is required, it is recorded by reducing the net sales amount in the statement of operations for the year with a corresponding entry in trade receivables. For the year ended December 31, 2017, the Company negotiated its sales of vaccines against foot-and-mouth disease at fixed prices and, considering that no price renegotiation takes place after the billing and recognition of revenue, a review of the provision is not required.

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, fluctuation in interest rates, credit and liquidity. 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 exposures, 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 operations.

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:

	2017	2016
Assets in foreign currency		
Cash and cash equivalents	2,890	2,251
Trade receivables	8,031	7,504
Inventories	5,137	
Advances to suppliers	3,260	855
	19,318	10,610
Liabilities in foreign currency		
Trade payables	(13,358)	(12,229)
Other liabilities	(1,283)	
	(14,641)	(12,229)
Net exposure - assets (liabilities)	4,677	(1,619)

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 does not include balances of borrowings for working capital purposes in foreign currency of R$ 71,013 (2016 - R$ 96,224) (Note 17), because they are hedged by foreign exchange swap.

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					
		3.31	3.33	2.50	1.67	4.16	5.00
Assets/liabilities	**Risk**	**2017**	**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	2,890	19	(727)	(1,455)	727	1,455
Trade receivables	US$ depreciation	8,031	53	(2,021)	(4,042)	2,021	4,042
Inventories	US$ depreciation	5,137	34	(1,293)	(2,586)	1,293	2,586
Advances to suppliers	US$ depreciation	3,260	22	(820)	(1,641)	820	1,641
Trade payables	US$ appreciation	(13,358)	89	3,362	6,723	(3,362)	(6,723)
Other liabilities	US$ appreciation	(1,283)	9	323	646	(323)	(646)

(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 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 47.0% (2016 - 50.0%) and variable interest rates, which represent 53.0% (2016 - 50.0%) of its borrowings, providing mitigation in 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 30 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 assess the real risk of its customers. Weights are attributed to each variable, including the history of payments, length of the business relationship with the Group, period during which the company has been operating in the market and other variables, and a rating is defined for each customer based on their combination. This classification is defined according to ratings ranging from "AA" (the lowest risk) to "E" (the highest risk) (Note 7).

All amounts in thousands of reais unless otherwise stated

(c) Liquidity risk

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

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

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

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

The table below analyzes the financial liabilities into relevant maturity groupings, based on the remaining period between the balance sheet date up to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows.

				Consolidated
	Less than 1 year	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**
At December 31, 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
At December 31, 2016				
Trade payables	23,316			
Borrowings (*)	92,980	161,332	63,419	38,304
Derivative financial instruments, net	8,820	10,584		
Other liabilities	37,273	1,155	2,695	
	162,389	173,071	66,114	38,304

(*) 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.

All amounts in thousands of reais unless otherwise stated

3.2 Capital management

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

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

The gearing ratios in 2017 and 2016 were as follows:

		Consolidated	
	Note	**2017**	**2016**
Borrowings	17	313,100	315,438
Derivative financial instruments, net	9	10,451	19,404
Cash and cash equivalents	8	(123,360)	(70,325)
Net debt		200,191	264,517
Equity	19	405,636	376,295
Total capital		605,827	640,812
Gearing ratio (%)		33.04	41.28

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 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**	**2017**	**2016**
Liabilities - Derivative financial instruments			
Exchange rate swap	Level 2	10,451	19,404

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.

All amounts in thousands of reais unless otherwise stated

The results by segment are as follows:

				2017
	Business segment			
	Production animals	Companion animals	International operations	Total
Revenue	397,728	60,936	46,617	505,281
Cost of sales	(197,663)	(18,285)	(22,764)	(238,712)
Gross profit	200,065	42,651	23,853	266,569
Selling expenses	(112,986)	(25,541)	(17,107)	(155,634)
Result - Segmented	**87,079**	**17,110**	**6,746**	**110,935**
Result - Not segmented				(73,034)
Profit for the year				37,901

				2016
	Business segment			
	Production animals	Companion animals	International operations	Total
Revenue	359,733	54,501	42,353	456,587
Cost of sales	(196,769)	(16,224)	(17,511)	(230,504)
Gross profit	162,964	38,277	24,842	226,083
Selling expenses	(129,493)	(22,693)	(19,470)	(171,656)
Result - Segmented	**33,471**	**15,584**	**5,372**	**54,427**
Result - Not segmented				(59,778)
Loss for the year				(5,351)

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

	2017	2016
Mexico	12,782	11,615
Colombia	11,381	8,514
Paraguay	4,296	6,147
Bolivia	2,607	4,410
Ecuador	3,845	2,409
United Arab Emirates	4,153	2,112
Other	7,553	7,146
	46,617	42,353

All amounts in thousands of reais unless otherwise stated

Section D - Group structure

5 Investments (parent company)

(a) Information on the investments

Name		Country	Business	Direct holding	Indirect holding
(i)	Ouro Fino Saúde Animal Ltda.	Brazil	Research, development, production and sale of veterinary drugs, vaccines and other products. Sales in the domestic market are carried out through the companies mentioned in items (ii) and (iii) below. Sales in the foreign market are carried out directly with third parties and through the companies mentioned in items (iv) and (v) below. This company also provides manufacturing services to order from third parties.	99.99%	
(ii)	Ouro Fino Agronegócio Ltda.	Brazil	Sales in the domestic market of veterinary drugs, vaccines and other products for production animals purchased from the company mentioned in item (i) and from third parties.	99.99%	
(iii)	Ouro Fino Pet Ltda.	Brazil	Sales in the domestic market of veterinary drugs and products and related goods for companion animals purchased from the company mentioned in item (i) and from third parties.	99.99%	
(iv)	Ouro Fino de México, S.A. de CV	Mexico	Sales, exclusively in Mexico, of veterinary drugs and other products purchased from the company mentioned in item (i).		96.43%
(v)	Ouro Fino Colômbia S.A.S	Colombia	Sales, exclusively in Colombia, of veterinary drugs and other products purchased from the company mentioned in item (i).		100.00%

(b) Changes in investments

	Parent company	
	2017	2016
Opening balance	375,630	391,110
Equity in the results of investees	41,265	(2,419)
Payment of capital with advances for future capital increase (i)	18,565	
Stock options granted	1,036	1,567
Interest on capital	(6,612)	
Dividends received (ii)	(26,273)	(14,184)
Foreign exchange variation of foreign investments	131	(444)
Closing balance	403,742	375,630

(i) On June 30, 2017, the quotaholders of the subsidiary Ouro Fino Saúde Animal Ltda. approved an increase in capital with advances totaling R$ 18,565, and capital was increased from R$ 218,874 to R$ 237,439.

(ii) In 2017, the quotaholders of the subsidiary Ouro Fino Pet Ltda. approved the distribution of profits to the parent company Ouro Fino Saúde Animal Participações S.A. in the amount of R$ 26,273 (in 2016, the quotaholders of the subsidiaries Ouro Fino Saúde Animal Ltda., Ouro Fino Agronegócio Ltda. and Ouro Fino Pet Ltda. approved profit distributions of R$ 3,455, R$ 420 and R$ 10,309, respectively).

(c) Summarized financial information

Set out below is the summarized financial information for subsidiaries.

All amounts in thousands of reais unless otherwise stated

(i) Summarized balance sheet

					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

					2016
					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	212,238	197,623	32,541	10,631	5,911
Liabilities	(101,916)	(84,874)	(4,217)	(12,148)	(6,887)
Current assets (liabilities), net	110,322	112,749	28,324	(1,517)	(976)
Non-current					
Assets	358,535	24,233	714	430	833
Liabilities	(226,313)	(17,970)	(360)		(1,094)
Non-current assets (liabilities), net	132,222	6,263	354	430	(261)
Equity (net capital deficiency)	242,544	119,012	28,678	(1,087)	(1,237)

All amounts in thousands of reais unless otherwise stated

(ii) Summarized statement of operations

					2017
					Subsidiaries
			Direct		Indirect
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Net sales revenue	293,130	387,398	64,329	12,782	11,381
Profit (loss) before income tax and social contribution	(4,066)	28,196	19,721	(5,796)	(1,569)
Income tax and social contribution	1,188	(7,197)	(2,571)		14
Profit (loss) for the year	(2,878)	20,999	17,150	(5,796)	(1,555)

					2016
					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	313,882	348,410	58,643	11,615	8,514
Profit (loss) before income tax and social contribution	(7,155)	(9,350)	17,588	(3,729)	(1,912)
Income tax and social contribution	3,308	3,200	(2,329)	(338)	202
Profit (loss) for the year	(3,847)	(6,150)	15,259	(4,067)	(1,710)

(iii) Statement of comprehensive income

	2017	2016
Ouro Fino Saúde Animal Ltda. (direct subsidiary)		
Loss for the year	(2,878)	(3,847)
Other comprehensive income (loss)	131	(444)
Total comprehensive loss	(2,747)	(4,291)

All amounts in thousands of reais unless otherwise stated

(iv) Summarized statement of cash flows

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

					2016
					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	21,387	35,347	17,960	(6,355)	(6,129)
Interest paid	(8,063)	(2,067)		(228)	(158)
Income tax and social contribution paid	(661)	(3,962)	(1,716)	(575)	
Net cash provided by (used in) operating activities	12,663	29,318	16,244	(7,158)	(6,287)
Net cash used in investing activities	(85,765)	(1,844)	(325)	(289)	(33)
Net cash provided by (used in) financing activities	112,082	(23,867)	(10,309)	7,073	6,545
Net increase (decrease) in cash and cash equivalents	38,980	3,607	5,610	(374)	225
Cash and cash equivalents at the beginning of the year	10,820	5,155	5,262	1,370	305
Exchange losses on cash and cash equivalents	(1,165)	(37)			
Cash and cash equivalents at the end of the year	48,635	8,725	10,872	996	530

All amounts in thousands of reais unless otherwise stated

(d) Reconciliation of financial information of investments

							Subsidiaries	
	Ouro Fino Saúde Animal Ltda.		Ouro Fino Agronegócio Ltda.		Ouro Fino Pet Ltda.		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Equity at January 1	242,544	249,003	119,012	125,384	28,678	23,646	390,234	398,033
Profit (loss) for the year	(2,878)	(3,847)	20,999	(6,150)	17,150	15,259	35,271	5,262
Capital increase with advances for future capital increase	18,565						18,565	
Stock options granted	802	1,287	144	198	90	82	1,036	1,567
Distribution of profits and interest on capital		(3,455)	(6,612)	(420)	(26,273)	(10,309)	(32,885)	(14,184)
Foreign exchange variation of foreign investments	131	(444)					131	(444)
Equity at December 31	259,164	242,544	133,543	119,012	19,645	28,678	412,352	390,234
Percentage holding (%)	99.99%	99.99%	99.99%	99.99%	99.99%	99.99%		
Share of investments	259,164	242,544	133,543	119,012	19,645	28,678	412,352	390,234
Unrealized profit in inventories	(8,610)	(14,604)					(8,610)	(14,604)
Carrying amount of the investment in the parent company	250,554	227,940	133,543	119,012	19,645	28,678	403,742	375,630

Section E - Selected significant notes

6 Financial instruments by category

		2017		2016
	Parent company	Consolidated	Parent company	Consolidated
	Loans and receivables	Loans and receivables	Loans and receivables	Loans and receivables
Assets as per balance sheet				
Cash and cash equivalents	29	123,360	567	70,325
Accounts receivable		160,663		162,478
Related parties	11,666	256	234	468
Other assets, except prepaid expenses		4,890		5,826
	11,695	289,169	801	239,097

			2017			2016
	Parent company		Consolidated	Parent company		Consolidated
	Other financial liabilities	Liabilities at fair value through profit or loss	Other financial liabilities	Other financial liabilities	Liabilities at fair value through profit or loss	Other financial liabilities
Liabilities as per balance sheet						
Trade payables			27,915			23,316
Derivative financial instruments		10,451			19,404	
Borrowings			313,100			315,438
Dividends and interest on capital	9,051		9,051			
Related parties	36		168	41		355
Commissions on sales			4,931			6,070
Other liabilities	61		8,129			8,440
	9,148	10,451	363,294	41	19,404	353,619

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 accounts and financial investments amounting to R$ 123,313 (2016 - R$ 70,281) 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	
	2017	**2016**
AA	46,802	49,077
A	68,898	67,022
B	18,849	24,731
C	13,441	11,687
D	12,966	8,547
E	7,202	7,891
	168,158	168,955

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 99.1% (2016 - up to 85%) of the Interbank Deposit Certificate (CDI) rate.

	Parent company		Consolidated	
	2017	**2016**	**2017**	**2016**
Cash				
In local currency			6	6
In foreign currency			41	38
			47	44
Banks				
In local currency	29	14	10,807	1,973
In foreign currency			2,849	2,213
	29	14	13,656	4,186
Financial investments				
In local currency				
Repurchase agreements		553	74,514	44,084
CDB			35,143	22,011
		553	109,657	66,095
	29	567	123,360	70,325

9 Derivative financial instruments (consolidated)

	2017	**2016**
	Liabilities	**Liabilities**
Exchange rate swap	10,451	19,404
Non-current	(1,272)	(10,584)
Current	9,179	8,820

The notional amounts of the exchange rate swap contracts in 2017 totaled US$ 21,000 thousand (2016 - US$ 28,961 thousand).

All amounts in thousands of reais unless otherwise stated

10 Trade receivables (consolidated)

	2017	**2016**
In local currency		
Accounts receivable	159,452	160,786
Provision for impairment of trade receivables	(6,820)	(5,812)
	152,632	154,974
In foreign currency		
Accounts receivable	8,706	8,169
Provision for impairment of trade receivables	(675)	(665)
	8,031	7,504
Current	160,663	162,478

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

	2017	**2016**
Falling due		
Up to 3 months	113,190	120,635
From 3 to 6 months	34,749	32,321
Over 6 months	7,694	2,640
	155,633	155,596
Past due		
Up to 3 months	3,477	5,582
From 3 to 6 months	789	2,582
Over 6 months	8,259	5,195
	12,525	13,359
	168,158	168,955

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:

	2017	**2016**
Opening balance	6,477	2,760
Additions	1,460	8,077
Reversal	(473)	(654)
Foreign exchange variation	31	(162)
Final write-offs		(3,544)
Closing balance	7,495	6,477

All amounts in thousands of reais unless otherwise stated

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

11 Inventories (consolidated)

	2017	2016
Finished products	57,948	81,728
Raw materials	30,163	36,861
Packaging materials	8,582	10,551
Work in progress	9,654	5,292
Imports in transit	1,575	231
Advances to suppliers	7,193	876
Other	6,691	5,532
Provision for inventory losses (Note 18)	(8,091)	(9,768)
	113,715	131,303
Non-current (*)	(5,137)	
Current	108,578	131,303

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

12 Taxes recoverable

	Parent company		Consolidated	
	2017	2016	2017	2016
ICMS			49,145	42,506
ICMS, PIS and COFINS on acquisitions of property, plant and equipment			974	1,488
IRRF	402	113	1,541	670
IPI			459	342
PIS and COFINS			807	711
Other			1,486	1,803
	402	113	54,412	47,520
Non-current	(402)	(113)	(49,664)	(42,643)
Current			4,748	4,877

ICMS credits, which amounted to R$ 48,724 in 2017 (2016 - R$ 41,604), 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 the 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 the Coordinating Committee of Tax Administration Board (CAT) Ordinance 83/2009. Up to December 31, 2017, all released credits had already been used.

The credit balance accounted for corresponds to the residual value of 2010 to 2013 relating to the amounts withheld and to all the 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.

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 operations and those that would have been obtained by applying the standard rates mentioned above.

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

All amounts in thousands of reais unless otherwise stated

(a) Composition, nature and realization of deferred taxes

(i) Deferred income tax and social contribution

	2017	2016
Tax credits on:		
Accumulated income tax and social contribution losses	326	792
Tax benefit of goodwill merged (Note 1.1)	54,433	54,433
Provision for the possible non-use of the tax benefit of goodwill merged (Note 1.1)	(54,433)	(54,433)
Temporary differences		
Provisions	11,041	12,308
Unrealized profit in inventories	4,435	7,524
Pre-operating expenses written-off	576	768
Derivative financial instruments	3,553	6,597
Appreciation - business combination	723	695
	20,654	28,684
Tax liabilities on:		
Temporary differences		
Deemed cost of land	(7,878)	(7,878)
RD&I incentive - Accelerated depreciation	(364)	
Foreign exchange variations - cash basis		(3,725)
	(8,242)	(11,603)
Total assets, net	12,412	17,081
Total deferred tax credits	20,654	28,684
Total deferred tax liabilities	(8,242)	(11,603)

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

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

	2017	2016
Opening balance	17,081	5,558
Pre-operating expenses written-off	(192)	(192)
Accumulated income tax and social contribution losses	(466)	147
Tax benefit of goodwill merged (Note 1.1)		54,433
Provision for possible non-use of the tax benefit of goodwill merged (Note 1.1)		(54,433)
Derivative financial instruments	(3,044)	6,746
Provisions	(1,267)	4,886
Unrealized profit in inventories	(3,089)	3,957
Foreign exchange variations - cash basis	3,725	(4,463)
RD&I benefit - Accelerated depreciation	(364)	
Appreciation - business combination	28	442
Closing balance	12,412	17,081

All amounts in thousands of reais unless otherwise stated

The amounts by estimated offset years are as follows:

	2017	2016
Deferred tax assets to be recovered		
within 1 year	18,202	23,398
from 2 to 5 years	2,452	5,286
	20,654	28,684
Deferred tax liabilities to be settled		
within 1 year	364	3,725
after 5 years	7,878	7,878
	8,242	11,603

14 Intangible assets (consolidated)

	At January 1, 2016	Additions	Provision for impairment	Foreign exchange variation	Transfer to inventories	Write-offs	Amortization	At December 31, 2016
Goodwill on the acquisition of subsidiaries	618							618
Trademarks and licenses purchased	677	4		(31)			(614)	36
Development and registration of products	57,577	19,931	(3,721)		(481)		(4,251)	69,055
Computer software	18,554	3,019				(1)	(5,116)	16,456
Other	1,264						(271)	993
	78,690	22,954	(3,721)	(31)	(481)	(1)	(10,252)	87,158

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

All amounts in thousands of reais unless otherwise stated

				2016
	Cost	**Provision for impairment**	**Accumulated amortization**	**Net**
Goodwill on the acquisition of subsidiaries	618			618
Trademarks and licenses purchased	3,116		(3,080)	36
Development and registration of products	92,018	(4,962)	(18,001)	69,055
Computer software	32,714		(16,258)	16,456
Other	1,333		(340)	993
	129,799	(4,962)	(37,679)	87,158

				2017
	Cost	**Provision for impairment**	**Accumulated amortization**	**Net**
Goodwill on the acquisition of subsidiaries	618			618
Trademarks and licenses purchased	3,135		(3,135)	
Development and registration of products	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

Product development and registration mainly refer to expenses incurred in new drugs totaling R$ 74,591 (2016 - R$ 69,055). The amortization of intangible assets related to product development and registration was recognized within "Cost of sales" (Note 21).

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

In 2017, write-offs in the amount of R$ 3,044 took place related to sales of product registrations.

All amounts in thousands of reais unless otherwise stated

15 Property, plant and equipment (consolidated)

	At January 1, 2016	Additions	Foreign exchange variation	Transfers	Write-offs	Depreciation	At December 31, 2016
Land	24,985						24,985
Buildings and improvements	74,099	97		9,007	(111)	(2,243)	80,849
Machinery, equipment and industrial facilities	61,392	17,611		5,378	(50)	(5,599)	78,732
Vehicles and tractors	4,863	2,826	(143)		(1,207)	(1,750)	4,589
Furniture and fittings	2,920	631	(4)	(1)	(2)	(567)	2,977
IT equipment	3,565	415	(5)	1	(29)	(1,240)	2,707
Construction in progress (i)	19,700	40,900		(11,953)	(49)		48,598
Other	2,571	2,666	(16)	(2,432)	(149)	(276)	2,364
	194,095	65,146	(168)		(1,597)	(11,675)	245,801

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

	2017			2016			
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net	Annual average depreciation rates
Land	24,985		24,985	24,985		24,985	
Buildings and improvements	143,342	(18,565)	124,777	96,810	(15,961)	80,849	2.30%
Machinery, equipment and industrial facilities	122,163	(42,857)	79,306	116,235	(37,503)	78,732	5.43%
Vehicles, tractors and aircraft	6,522	(3,004)	3,518	7,726	(3,137)	4,589	19.01%
Furniture and fittings	7,512	(4,540)	2,972	7,084	(4,107)	2,977	7.42%
IT equipment	7,756	(6,480)	1,276	9,883	(7,176)	2,707	7.61%
Construction in progress (i)	8,415		8,415	48,598		48,598	
Other	3,833	(2,215)	1,618	4,272	(1,908)	2,364	7.92%
	324,528	(77,661)	246,867	315,593	(69,792)	245,801	

In 2017, there were transfers that reduced the construction in progress account balance 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$ 6,440 (2016 – R$ 45,337).
The amounts related to operating and financial lease are not significant.

In 2017, the balance of costs of capitalized borrowings totaled R$ 767 (2016 - R$ 693), at an average rate of 4.51% (2016 - 4.74%).

All amounts in thousands of reais unless otherwise stated

Land, buildings, machinery and equipment amounting to R$ 87,098 (2016 - R$ 89,537) are pledged as collaterals for borrowings (Note 17).

Purchases of property, plant and equipment amounting to R$781 (2016 - R$ 2,845) were financed under the 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)

	2017	2016
In local currency	14,557	11,087
In foreign currency	13,358	12,229
	27,915	23,316

17 Borrowings (consolidated)

	Financial charges incurred	Maturity	2017	2016
In foreign currency				
Export credit note	Exchange variation and weighted average rate of 4.65% p.a.	2017		8,365
Working capital	Exchange variation and weighted average rate of 3.03% p.a. (2016 - 3.06% p.a.)	2019	71,013	87,859
In local currency				
FINEP (Technological innovation)	Weighted average rate of 4.51% p.a. (2016 - 4.74% p.a.)	2024	133,584	165,385
BNDES - FINEM	Weighted average rate of 10.24% p.a.	2025	28,802	
BNDES - EXIM	Weighted average rate of 10.18% p.a. (2016 - 12.59% p.a.)	2018	39,799	38,339
BNDES - FINAME	Weighted average rate of 6.51% p.a. (2016 - 6.67% p.a.)	2023	847	1,270
Working capital	Average rate of 7.00% p.a.	2018	20,011	
Working capital (i)	Weighted average rate of 10.29% (2016 - 10.46% p.a.)	2018	9,507	6,160
Working capital (i)	Weighted average rate of 8.66% (2016 - 10.42% p.a.)	2018	7,251	5,454
Finance lease	Weighted average rate of 10.48% p.a. (2016 - 16.95% p.a.)	2020	2,286	2,606
			313,100	315,438
Current			(190,233)	(73,550)
Non-current			122,867	241,888

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

All amounts in thousands of reais unless otherwise stated

(a) Guarantees for borrowings

The borrowings for research, innovation and development of products obtained from the Fund for Financing of Studies and Projects (FINEP) are guaranteed by a surety of the related 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 and leases are collaterized by sureties of the parent company and/or controlling stockholders. Borrowings from the Government Agency for Machinery and Equipment Financing (FINAME) 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 as previously defined in contract. For the year ended December 31, 2017, these indices were complied with (2016 - indices not applicable).

The carrying amounts of borrowings approximate their fair values.

The composition of non-current borrowings is as follows:

	2017	**2016**
From 1 to 2 years	27,419	146,166
From 2 to 3 years	22,092	23,623
From 3 to 4 years	21,705	17,738
From 4 to 5 years	21,695	17,644
Over 5 years	29,956	36,717
	122,867	241,888

(b) Borrowings in foreign currency for working capital purposes

Exchange rate swap transactions were contracted for working capital borrowings in foreign currency (US$), which amounted to R$ 71,013 (2016 - R$ 96,224), to exchange the charges for those based on the CDI rate (Note 8).

All amounts in thousands of reais unless otherwise stated

18 Provisions (consolidated)

					2017
	Opening balance	Additions, net	Final write-offs	Foreign exchange variation	Closing balance
Sales returns	2,836	1,421	(3,642)		615
Discounts on sales of vaccines against foot-and-mouth disease	2,443	329	(2,772)		
Bonuses on goods	780	2,513	(2,062)	4	1,235
Contingencies	3,850	1,445	(1,383)	23	3,935
Provision for impairment of intangible assets	4,962	1,301	(311)		5,952
Provision for impairment of trade receivables	6,477	987		31	7,495
Provision for inventory losses	9,768	11,049	(12,723)	(3)	8,091
	31,116	19,045	(22,893)	55	27,323

					2016
	Opening balance	Additions, net	Foreign exchange variation	Final write-offs	Closing balance
Sales returns		2,836			2,836
Discounts on sales of vaccines against foot-and-mouth disease	3,723	5,765		(7,045)	2,443
Bonuses on goods		9,259		(8,479)	780
Contingencies	3,841	1,363	(148)	(1,206)	3,850
Provision for impairment of intangible assets	1,285	3,721		(44)	4,962
Provision for impairment of trade receivables	2,760	7,423	(162)	(3,544)	6,477
Provision for inventory losses	1,845	10,309		(2,386)	9,768
	13,454	40,676	(310)	(22,704)	31,116

(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. The Group also recognizes a provision for adjustment of prices adopted in sales of foot-and-mouth disease vaccines, according to Note 2 (h).

(b) Bonuses on goods

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

(c) Contingencies

The Group companies are parties to labor, 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 provisions for probable losses arising from these matters are estimated and periodically adjusted by management, supported by the opinion of its external legal advisors. The provisions are as follows:

All amounts in thousands of reais unless otherwise stated

	2017	2016
Labor	3,019	2,903
Civil, social security and tax	916	947
	3,935	3,850

(d) Provision for impairment of trade receivables

As a rule, the Group recognizes the 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 has 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. In 2017, they totaled R$ 57,211 (2016 - R$ 66,229), and mainly related to tax (ICMS) and labor claims. The decrease in the balances of possible losses substantially refer to the settlement of tax assessment notices totaling R$ 5,816 (Note 22 (ii)).

19 Equity

(a) Share capital

At a meeting held on July 12, 2016, the Company's Board of Directors approved a capital increase in the amount of R$ 218, with the issue of 6,699 common shares at the issue price of R$ 32.50 per subscribed share, in connection with the exercise of options under the Stock Option Plan of the Company.

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 without par value.

In 2017, fully subscribed and paid-up capital comprised 53,949,006 common shares, with no par value.

All amounts in thousands of reais unless otherwise stated

(b) Capital reserve

As mentioned in Note 1.1, the Company recorded a special goodwill reserve on merger. Considering that the realization of the tax benefit arising from the goodwill is not currently expected, management decided to record a provision in the full amount of the merged balance, with a corresponding entry in the same line item of the special goodwill reserve on merger in which the benefit was initially recorded.

The residual amounts considered as "Capital reserve" related 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.

Allocation of profit	2017	2016
Profit (loss) for the year	38,108	(5,206)
Legal reserve (5%)	(1,905)	
Calculation basis for minimum dividends	36,203	(5,206)
Distributed dividends (25%)	9,051	
Interest on capital	6,000	
Withholding income tax (IRRF) on interest on capital	(696)	
Minimum mandatory dividends	3,747	

Loss for the year in 2016 was offset against revenue reserves.

All amounts in thousands of reais unless otherwise stated

(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 attracting and retaining 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 Brazilian Securities Commission (CVM).

The vesting period considers that the beneficiaries may exercise their right in installments of 1/5 (one fifth) of the total shares granted as from the end of the first year from the date of the signature of the Adhesion Agreement, and the same number of shares annually up to the end of the fifth year, provided that the beneficiaries remain continually linked to the Company.

The exercise price will be set based on the average quoted price of the Company's shares on the São Paulo Stock, Commodities and Futures Exchange (BM&FBOVESPA), weighted by the trading volume, within the 60 (sixty) trading sessions prior to the grant, monetarily restated by the General Market Price Index (IGP-M).

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

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

	Vesting period closing				
	12/31/2015	**12/31/2016**	**12/31/2017**	**12/31/2018**	**12/31/2019**
Number of options	161,827	161,827	161,827	161,827	161,827
Exercise price at launch (strike price)	28.22	28.22	28.22	28.22	28.22
Fair value of options granted	9.65	11.16	12.48	13.74	14.90
Maximum exercise date	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023

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

All amounts in thousands of reais unless otherwise stated

	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 2017, expenses amounting to R$ 1,053 (2016 - R$ 1,585) related to stock options were recognized.

Changes in stock options are shown below:

	Number of options	
	2017	**2016**
Balance at the beginning of the year	679,225	772,723
Number of options granted		40,000
Number of options exercised		(6,699)
Number of options canceled (i)	(362,372)	(126,799)
Balance at the end of the year	316,853	679,225

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

All amounts in thousands of reais unless otherwise stated

20 Revenue (consolidated)

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

	2017	2016
Domestic customers		
Gross sales and services	514,621	489,019
Taxes and deductions on sales	(55,957)	(74,785)
	458,664	414,234
Foreign customers		
Gross sales	47,491	44,405
Taxes and deductions on sales	(874)	(2,052)
	46,617	42,353
	505,281	456,587

All amounts in thousands of reais unless otherwise stated

21 Costs and expenses by nature

	Parent company		Consolidated	
	2017	2016	2017	2016
Cost of sales (*)				
Variable costs (raw and consumption materials)			140,938	133,238
Personnel expenses			58,223	45,439
Depreciation and amortization			16,166	13,742
Outsourced services			15,692	13,718
Changes in the provision for losses on inventories			(1,674)	7,931
Electricity			5,492	5,386
Provision for impairment of intangible assets			990	3,721
Other			2,885	7,329
			238,712	230,504
Selling expenses				
Personnel expenses			62,172	67,867
Sales team expenses			43,537	50,213
Outsourced services			18,918	16,648
Freight charges			18,771	15,330
Provision for impairment of trade receivables			987	7,423
Depreciation and amortization			4,995	4,736
Telecommunications and electricity			1,275	1,434
Other			4,979	8,005
			155,634	171,656
General and administrative expenses				
Personnel expenses	1,836	1,579	25,259	30,353
Outsourced services	374	676	6,478	4,450
Depreciation and amortization			3,698	3,449
Travel expenses	13	31	922	1,001
Telecommunications and electricity			878	831
Vehicle expenses			194	233
Donations and sponsorship			254	190
Other	400	535	2,189	2,551
	2,623	2,821	39,872	43,058
	2,623	2,821	434,218	445,218

(*) The opening of the costs of sales is calculated 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 (expenses), net

	Parent company		Consolidated	
	2017	2016	2017	2016
Gains on disposal and write-off of PP&E			142	21
Gains (losses) on disposal of intangible assets (i)			2,677	(160)
Gains (losses) on sales of scrap, rentals and other	106	91	(141)	(102)
Federal, state and municipal taxes and fees	(2)	(9)	(508)	(493)
Settlement of tax assessment notices (ii)			(5,816)	
Other losses		(36)	(1,066)	(1,785)
	104	46	(4,712)	(2,519)

(i) Refers to the sale of product registration.

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

23 Finance income and costs

	Parent company		Consolidated	
	2017	2016	2017	2016
Finance income				
Income from financial investments	15	5	6,710	2,829
Interest receivable			949	1,240
Monetary variation		24	134	386
Other		(2)	123	32
	15	27	7,916	4,487
Finance costs				
Interest payable			(14,427)	(9,955)
Finance charges			(2,438)	(1,449)
Other	(653)	(39)	(1,320)	(876)
	(653)	(39)	(18,185)	(12,280)
Derivative financial instruments, net				
Gains (losses) on derivatives (foreign exchange variation)			739	(17,257)
Losses on derivatives (interest)			(6,418)	(10,793)
			(5,679)	(28,050)
Foreign exchange variations, net			(845)	13,643
Finance result	(638)	(12)	(16,793)	(22,200)

All amounts in thousands of reais unless otherwise stated

24 Income tax and social contribution expense

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

	Parent company		Consolidated	
	2017	2016	2017	2016
Profit (loss) before income tax and social contribution	38,108	(5,206)	49,558	(13,350)
Standard rates	34%	34%	34%	34%
	(12,957)	1,770	(16,850)	4,539
Reconciliation to the effective rate:				
Permanent differences:				
RD&I benefit			2,761	3,791
Equity in the results of investees	14,030	(823)		
Adjustment related to the calculation of subsidiary taxed based on the presumed profit method			4,132	3,651
Adjustment related to the calculation of foreign subsidiary taxed based on the rate in effect in that country			(2,491)	(2,054)
Interest on capital			2,248	
Deferred taxes, not recorded	(1,073)	(947)	(1,073)	(947)
Other permanent differences			(384)	(981)
Income tax and social contribution			(11,657)	7,999
Reconciliation with the statement of operations:				
Current			(6,973)	(3,604)
Deferred			(4,684)	11,603
			(11,657)	7,999

25 Earnings (loss) per share

(a) Basic

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

	2017	2016
Profit (loss) for the year attributable to the stockholders of the Company	38,108	(5,206)
Weighted average number of common shares in the year	53,949	53,946
Basic earnings (loss) per share	0.70637	(0.09650)

All amounts in thousands of reais unless otherwise stated

(b) Diluted

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

	2017	2016
Profit (loss) for the year attributable to the stockholders of the Company	38,108	(5,206)
Weighted average number of common shares in the year considering instruments with dilutive effects	53,697	53,983
Diluted earnings (loss) per share	0.70969	(0.09644)

26 Employee benefit

(a) Private pension plan - defined contribution

The Group companies sponsor a defined contribution pension plan for their employees. The plan was implemented in August 2008 and is managed by Itaú Vida e Previdência S.A. The companies' contributions to the plan in 2017 totaled R$ 838 (2016 - R$ 1,133).

(b) Profit sharing

The Group companies offer to their employees a variable remuneration program, calculated based on quantitative and qualitative goals established by management. In 2017, the amount of the profit-sharing provision was R$ 6,317 (2016 - R$ 1,311).

27 Balances and transactions with related parties

(a) Balances and most significant transactions

							Parent company
							Balances:
					2017		2016
			Assets		Liabilities	Assets	Liabilities
	Other assets (i)	Interest on capital	Advances for future capital increase (ii)	Dividends and interest on capital	Other liabilities (i)	Other assets (i)	Other liabilities (i)
Related parties:							
Ouro Fino Saúde Animal Ltda.			6,000		19		24
Ouro Fino Agronegócio Ltda.		5,620				21	
Ouro Fino Pet Ltda.						6	
Ouro Fino Química Ltda.	46					42	
Stockholders				9,051	17		17
Other						165	
	46	5,620	6,000	9,051	36	234	41

All amounts in thousands of reais unless otherwise stated

	Parent company					
	Most significant transactions:					
	2017			2016		
	Royalties	Reimbursement of CSC expenses (i)	Finance result	Royalties	Reimbursement of CSC expenses (i)	Finance result
Related parties:						
Ouro Fino Saúde Animal Ltda.		(232)			(350)	
Ouro Fino Agronegócio Ltda.		24			31	
Ouro Fino Pet Ltda.		7			9	
Ouro Fino Química Ltda.	117		12	100	1	12
	117	(201)	12	100	(309)	12

	Consolidated						
	Balances:						
	2017				2016		
	Assets	Liabilities			Assets	Liabilities	
	Other assets (i)	Dividends and interest on capital	Other liabilities (i)	Borrowings (iii)	Other assets (i)	Other liabilities (i)	Borrowings (iii)
Related parties:							
Ouro Fino Part. e Empreendimentos S.A.	16				16		
Ouro Fino Química Ltda.	240		151		278	110	
Condomínio Rural Ouro Fino					9		
BNDES Participações S.A.				69,448			39,609
Stockholders		9,051	17			77	
Other					165	168	
	256	9,051	168	69,448	468	355	39,609

	Consolidated									
	Most significant transactions:									
	2017					2016				
	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.		11					14		67	
Ouro Fino Química Ltda.		2,209	117	(529)	12		2,686	100	(824)	12
Condomínio Rural Ouro Fino	14			(1,567)		29			(1,603)	
Stockholders									(720)	
Other				(538)					(557)	
BNDES Participações S.A.					(4,482)					(1,508)
	14	2,220	117	(2,634)	(4,470)	29	2,700	100	(3,637)	(1,496)

(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

In 2017, advances for future capital increase were made to the subsidiary Ouro Fino Saúde Animal Ltda. in the amount of R$ 6,000.

(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:

	2017	2016
Salaries	2,016	2,746
Labor charges	380	291
Share-based payments	195	489
Compensation and fringe benefits	129	182
Variable compensation	75	1
Indemnity paid		3,041
	2,795	6,750

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 or 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, 2016	216,487	(437)	(23,380)	192,670
Changes that affected cash flows	103,834	(8,208)	(48,147)	47,479
Changes that did not affect cash flows				
Purchases of PP&E	2,845			2,845
Interest and foreign exchange variations	(7,728)	28,050	1,202	21,524
Net debt at December 31, 2016	315,438	19,405	(70,325)	264,518
Changes that affected cash flows	(20,224)	(14,633)	(53,045)	(87,902)
Changes that did not affect cash flows				
Purchases of PP&E	781			781
Interest and foreign exchange variations	17,105	5,679	10	22,794
Net debt at December 31, 2017	313,100	10,451	(123,360)	200,191

Section F - Accounting policies

30 Summary of significant accounting policies

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

30.1 Consolidation

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

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

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

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

30.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation, when items are measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of operations 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 operations are translated at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate prevailing on the dates of the transactions).

(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 operations. 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.

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 operations within "Finance income and costs".

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 year comprise current and deferred taxes. Income taxes are recognized in the statement of operations, except to the extent that they relate to items recognized directly in equity. In this case, the taxes are also recognized directly in equity.

The current and deferred income tax and social contribution are calculated on the basis of the tax laws enacted at the balance sheet date in the countries where the Group entities operate and generate taxable income. The currently defined tax rates in Brazil of 25% for income tax and 9% for social contribution are utilized to calculate deferred taxes.

The current and deferred income tax and social contribution are presented net, separated by taxpaying entity, in liabilities when there are amounts payable, or in assets when the amounts prepaid exceed the total amount due on the reporting date.

Deferred income tax and social contribution are recognized on accumulated tax losses and temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. They are determined based on tax rates in effect at the balance sheet date and which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only to the extent it is probable that future taxable income will be available against which the temporary differences and/or tax losses can be utilized.

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

30.8 Intangible assets

(a) Research and development of products

Research expenditures are recognized as expenses when incurred. Expenditures incurred in the development of products are recognized as intangible assets only if the cost can be reliably measured and when it is probable that they will bring future economic benefits.

The Group evaluates projects based on its own methodology, which considers various analysis structures, and the projects will be successful from the development of "pilots" of the products made according to the requirements of regulatory bodies, accompanied by analyses of financial feasibility.

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

30.10 Impairment of non-financial assets

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

30.11 Trade payables

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

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

30.12 Borrowings

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

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

30.13 Employee benefit

(a) Private pension plan

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

(b) Profit sharing

The provisions are calculated based on quantitative and qualitative targets established by management and are recorded as personnel expenses in the statement of operations.

(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 premium for 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.

30.15 Distribution of dividends and interest on capital

The distribution of dividends and interest on capital to stockholders is recognized as a liability in the financial statements based on the Company's bylaws. Any amount that exceeds the minimum required is only 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 operations, because in substance it represents a decrease in the effective rate of income tax and social contribution.

30.16 New standards that are not yet effective

The following new standards were issued by IASB but are not effective for the year ended December 31, 2017. The early adoption of standards, even though encouraged by IASB, has not been implemented in Brazil by the Brazilian Accounting Pronouncements Committee (CPC).

- IFRS 9 - "Financial instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014, and is effective as from January 1, 2018. It replaces the orientation included in IAS 39 related to the classification and measurement of financial instruments. The main amendments brought by IFRS 9 are: (i) new criteria for the classification of financial assets; (ii) 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 the hedge accounting. Management believes that the new IFRS 9/CPC 48 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 hedge at the date of disclosure of these financial statements. The Company does not anticipate any significant impact on the balance sheet and statement of operations, even taking into account the change in the impairment model of financial assets provided by IFRS 9/CPC 48. Considering the low historical default rates, the criterion change from losses incurred to expected losses will not have major effects on the Company.

- IFRS 15 - "Revenue from Contracts with Customers" - this new standard replaces IAS 11, "Construction Contracts", IAS 18, "Revenue" and related interpretations 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, so the control principle will replace the principle of risks and rewards. Effective date is January 1, 2018. Management has evaluated the impacts of adopting the new standard in 2018, and taking into account the business model adopted for the sale and distribution of the Group's products, understands that there will be no impact on the measurement and recognition of revenue. The sales of the Group are substantially made to agricultural resellers or distributors, and the transfer of the control coincides with the principle of risks and rewards previously adopted.

- IFRS 16 - "Leases" - the 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 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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