

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

Ouro Fino Saúde Animal Participações S.A. and Subsidiaries

Individual and Consolidated Interim Financial Information for the Three-month Period Ended March 31, 2019 and Report on Review of Interim Financial Information

Deloitte Touche Tohmatsu Auditores Independentes

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying individual and consolidated interim financial information of Ouro Fino Saúde Animal Participações S.A. (the "Company"), identified as Parent and Consolidated, respectively, included in the Interim Financial Information Form (ITR), for the three-month period ended March 31, 2019, which comprises the balance sheet as of March 31, 2019 and the related statements of operations, comprehensive income, changes in equity and cash flows for the three-month period then ended, including the explanatory notes.

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

Scope of review

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

Conclusion on interim financial information

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

Other matters

Statements of value added

We have also reviewed the individual and consolidated statements of value added ("DVA") for the three-month period ended March 31, 2019, prepared under the responsibility of the Company's Management, the presentation of which is required by the standards issued by CVM applicable to the preparation of ITR and considered supplemental information for International Financial Reporting Standards - IFRS, which do not require the presentation of the DVA. These statements were subject to the same review procedures described above, and, based on our review, nothing has come to our attention that causes us to believe that they were not prepared, in all material respects, consistently with the individual and consolidated interim financial information taken as a whole.

Opening balance amounts

The information and amounts for the three-month period ended March 31, 2018, presented for comparison purposes, were previously reviewed by another independent auditor, who issued a report dated May 4, 2018, without modification. The information and amounts corresponding to the year ended December 31, 2018, presented for comparison purposes, were previously audited by another independent auditor, who issued a report dated February 22, 2019, without qualification.

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

São Paulo, April 30, 2019



DELOITTE TOUCHE TOHMATSU
Auditores Independentes



Fernando Augusto Lopes Silva
Engagement Partner

(A free translation of the original in Portuguese)

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Ouro Fino Saúde Animal Participações S.A.

Balance sheet

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Note	Parent company		Consolidated	
		March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Assets					
Current assets					
Cash and cash equivalents	8	35	20	71,221	65,183
Trade receivables	10			115,380	174,694
Inventories	11			176,186	153,159
Taxes recoverable	12		386	7,869	5,840
Income tax and social contribution recoverable				6,117	8,295
Related parties	27	81	7,238	543	636
Other assets		28		6,896	5,300
		144	7,644	384,212	413,107
Non-current assets					
Long-term receivables					
Taxes recoverable	12	386	86	58,719	56,368
Deferred income tax and social contribution	13			21,714	15,963
Related parties	27	16,000			
Inventories	11			5,384	5,422
Other assets				649	716
		16,386	86	86,466	78,469
Investments in subsidiaries	5	451,306	465,692		
Intangible assets	14			97,145	93,799
Property, plant and equipment	15			267,028	260,632
Total non-current assets		467,692	465,778	450,639	432,900
Total assets		467,836	473,422	834,851	846,007

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

Ouro Fino Saúde Animal Participações S.A.

Balance sheet

All amounts in thousands of reais

(continued)

	Note	Parent company		Consolidated	
		March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Liabilities and equity					
Current liabilities					
Trade payables	16	196		41,634	27,100
Derivative financial instruments	9				28
Borrowings	17			70,983	76,439
Salaries and social charges		210	208	26,757	32,890
Taxes payable		91	877	3,210	5,097
Income tax and social contribution payable				406	763
Dividends and interest on capital	27	16,351	16,351	16,351	16,351
Related parties	27	65	50	300	145
Commissions on sales				3,817	5,446
Other liabilities				6,904	6,577
Total current liabilities		16,913	17,486	170,362	170,836
Non-current liabilities					
Borrowings	17			205,099	211,090
Provision for contingencies	18			8,434	8,114
Total non-current liabilities				213,533	219,204
Total liabilities		16,913	17,486	383,895	390,040
Equity	19				
Share capital		377,065	358,796	377,065	358,796
Capital reserve			(6,392)		(6,392)
Options granted		4,953	4,791	4,953	4,791
Revenue reserves		58,864	83,525	58,864	83,525
Carrying value adjustments		15,458	15,216	15,458	15,216
Accumulated deficit		(5,417)		(5,417)	
		450,923	455,936	450,923	455,936
Non-controlling interests				33	31
Total equity		450,923	455,936	450,956	455,967
Total liabilities and equity		467,836	473,422	834,851	846,007

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

Ouro Fino Saúde Animal Participações S.A.

Statement of operations Quarters ended March 31

All amounts in thousands of reais unless otherwise stated

(A free translation of the original in Portuguese)

	Note	Parent company		Consolidated	
		2019	2018	2019	2018
Revenue	20			90,978	91,938
Cost of sales	21			(47,014)	(39,385)
Gross Profit				43,964	52,553
Selling expenses	21			(40,644)	(35,442)
General and administrative expenses	21	(1,015)	(799)	(8,817)	(10,158)
Equity in the results of investees	5	(4,414)	4,359		
Other income (expenses), net	22	26	25	944	(66)
Operating profit (loss)		(5,403)	3,585	(4,553)	6,887
Finance income			39	1,093	2,136
Finance costs		(14)	(6)	(4,176)	(5,231)
Derivative financial instruments, net				(405)	(1,315)
Foreign exchange variations, net				(109)	904
Finance result	23	(14)	33	(3,597)	(3,506)
Profit (loss) before income tax and social contribution		(5,417)	3,618	(8,150)	3,381
Income tax and social contribution	24				
Current				(2,636)	(783)
Deferred				5,370	1,026
Profit (loss) for the quarter		(5,417)	3,618	(5,416)	3,624
Attributable to:					
Owners of the parent				(5,417)	3,618
Non-controlling interests				1	6
				(5,416)	3,624
Earnings (loss) per share attributable to owners of the parent during the quarter (in reais)	25				
Basic earnings (loss) per share				(0.10041)	0.06706
Diluted earnings (loss) per share				(0.10041)	0.06706

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

Ouro Fino Saúde Animal Participações S.A.

Statement of comprehensive income Quarters ended March 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Profit (loss) for the quarter	(5,417)	3,618	(5,416)	3,624
Other comprehensive income				
Items that will be reclassified to profit or loss				
Foreign exchange variation on foreign investments	5 242	(259)	243	(275)
Total comprehensive income for the quarter	<u>(5,175)</u>	<u>3,359</u>	<u>(5,173)</u>	<u>3,349</u>
Attributable to:				
Owners of the parent			(5,175)	3,359
Non-controlling interests			<u>2</u>	<u>(10)</u>
			<u>(5,173)</u>	<u>3,349</u>

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

Ouro Fino Saúde Animal Participações S.A.

Statement of changes in equity

All amounts in thousands of reais

(A free translation of the original in Portuguese)

Note	Attributable to owners of the parent									
	Share capital	Capital reserve	Options granted	Revenue reserves		Carrying value adjustments	Retained earnings (accumulated deficit)		Non-controlling interests	Total equity
				Legal reserve	Profit retention reserve		Total	Total		
At January 1, 2018	358,796	(6,392)	4,129	7,251	26,456	15,639		405,879	(243)	405,636
Comprehensive income for the quarter										
Profit (loss) for the quarter							3,618	3,618	6	3,624
Exchange variation of subsidiary located abroad	5					(259)		(259)	(16)	(275)
Total comprehensive income for the quarter						(259)	3,618	3,359	(10)	3,349
Contributions by owners										
Stock options granted	19 (e)		220					220		220
Total contributions by owners			220					220		220
At March 31, 2018	358,796	(6,392)	4,349	7,251	26,456	15,380	3,618	409,458	(253)	409,205
At January 1, 2019	358,796	(6,392)	4,791	10,693	72,832	15,216		455,936	31	455,967
Comprehensive income for the quarter										
Loss for the quarter							(5,417)	(5,417)	1	(5,416)
Exchange variation of subsidiary located abroad	5					242		242	1	243
Total comprehensive income for the quarter						242	(5,417)	(5,175)	2	(5,173)
Contributions by owners										
Capital increase by incorporation of revenue reserves	19 (a)	18,269	6,392		(24,661)					
Stock options granted	19 (e)		162					162		162
Total contributions by owners		18,269	6,392		(24,661)			162		162
At March 31, 2019	377,065		4,953	10,693	48,171	15,458	(5,417)	450,923	33	450,956

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

Ouro Fino Saúde Animal Participações S.A.

Statement of cash flows Quarters ended March 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Note	Parent company		Consolidated	
		2019	2018	2019	2018
Cash flows from operating activities					
Profit (loss) before income tax and social contribution		(5,417)	3,618	(8,150)	3,381
Adjustments for:					
Changes in the provision for impairment of trade receivables	10			125	(99)
Provision for inventory losses and write-offs	11			1,119	2,195
Changes in the provision for sales returns	18			292	(109)
Reversal of the provision for bonuses to customers	18			(355)	(918)
Equity in the results of investees	5	4,414	(4,359)		
Depreciation and amortization	4 and 15			5,597	5,500
Result on disposal of property, plant and equipment	22			(62)	(59)
Result on disposal of intangible assets	22				(78)
Interest and monetary and exchange variations, net				4,655	4,949
Derivative financial instruments				405	1,314
Provision for contingencies	18			188	297
Stock options granted	19 (e)	5	4	162	220
Changes in working capital					
Trade receivables				59,079	45,920
Inventories				(23,495)	(37,353)
Taxes recoverable		86	798	(4,963)	(1,345)
Other assets		(59)	(44)	(1,397)	(1,153)
Trade payables				13,739	5,844
Taxes payable		(784)	(1,311)	(1,066)	(1,706)
Other liabilities		210	194	(5,252)	(1,596)
Cash provided by (used in) operations		(1,545)	(1,100)	40,621	25,204
Interest paid				(3,379)	(5,216)
Income tax and social contribution paid				(2,974)	(578)
Net cash provided by (used in) operating activities		(1,545)	(1,100)	34,268	19,410
Cash flows from investing activities					
Advances for future capital increase	27	(16,000)			
Investments in intangible assets	14			(5,013)	(4,614)
Purchases of property, plant and equipment	15			(10,376)	(4,657)
Receipts of dividends and interest on capital	5	17,560	1,081		
Proceeds from sale of property, plant and equipment				162	291
Proceeds from sale of intangible assets					110
Net cash provided by (used in) investing activities		1,560	1,081	(15,227)	(8,870)
Cash flows from financing activities					
New borrowings					40,353
Repayment of borrowings				(12,519)	(41,088)
Realized derivative financial instruments				(581)	(7,034)
Net cash provided by (used in) financing activities				(13,100)	(7,769)
Net increase (decrease) in cash and cash equivalents		15	(19)	5,941	2,771
Cash and cash equivalents at the beginning of the quarter	8	20	29	65,183	123,360
Exchange gains on cash and cash equivalents				97	34
Cash and cash equivalents at the end of the quarter	8	35	10	71,221	126,165

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

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

Ouro Fino Saúde Animal Participações S.A.

Statement of value added Quarters ended March 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Note	Parent company		Consolidated	
		2019	2018	2019	2018
Revenue					
Gross sales and services				99,863	101,270
Other income (expenses), net				(86)	(13)
Income related to the construction of own assets				3,929	4,194
Provision for impairment of trade receivables	10			(125)	99
				103,581	105,550
Inputs acquired from third parties					
Cost of sales and services				(33,105)	(32,637)
Materials, electricity, third-party services and other		(298)	(322)	(26,952)	(21,873)
Losses on assets, net				(1,071)	(2,101)
		(298)	(322)	(61,128)	(56,611)
Gross value added (distributed)					
		(298)	(322)	42,453	48,939
Depreciation and amortization	14 and 15			(5,597)	(5,500)
Net value added (distributed) generated by the entity					
		(298)	(322)	36,856	43,439
Value added received through transfer					
Equity in the results of investees	5	(4,414)	4,359		
Finance income			39	2,920	3,733
Royalties		30	28	30	28
Other				241	169
Total value added distributed					
		(4,682)	4,104	40,047	47,369
Distribution of value added					
Personnel					
Direct compensation		599	400	24,528	21,303
Benefits		1	1	4,122	3,369
Government Severance Indemnity Fund for Employees (FGTS)				1,784	1,635
Taxes, charges and contributions					
Federal		121	78	2,365	5,336
State			1	4,433	3,493
Municipal				96	90
Remuneration of third parties' capital					
Interest, foreign exchange loss, losses on derivatives, etc.		14	6	7,264	7,561
Rentals				841	926
Other				30	32
Remuneration of own capital					
Profits reinvested		(5,417)	3,618	(5,417)	3,618
Non-controlling interests				1	6
Value added distributed					
		(4,682)	4,104	40,047	47,369

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

(A free translation of the original in Portuguese)

Ouro Fino Saúde Animal Participações S.A.

Notes to the quarterly information

at March 31, 2019

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 Brazilian stock exchange, B3 S.A. – Brasil, Bolsa, Balcão, in the Novo Mercado (New Market) category.

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

The issue of this parent company and consolidated interim accounting information was authorized by the Board of Directors on April 30, 2019.

1.2 Basis of preparation and statement of compliance

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

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

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

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

(a) Parent company accounting information

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

Ouro Fino Saúde Animal Participações S.A.

Notes to the quarterly information

at March 31, 2019

All amounts in thousands of reais unless otherwise stated

(b) Consolidated accounting information

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

(c) Statement of value added

The presentation of the parent company and consolidated statements of value added is required by the Brazilian corporate legislation and the accounting practices adopted in Brazil for listed companies, while it is not required by IFRS. The Statement of Value Added was prepared in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added". The International Financial Reporting Standards (IFRS) do not require the presentation of this statement. Therefore, under IFRS, the presentation of such statement is considered supplementary information.

1.3 Changes in accounting policies and disclosures

The following standards were adopted for the first time in the years beginning on January 1, 2018 and January 1, 2019, and had no material impact on the Group's financial statements.

(i) January 1, 2018

CPC 47/IFRS 15 – Revenue from contracts with customers

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

CPC 48/IFRS 9 – Financial instruments

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

Ouro Fino Saúde Animal Participações S.A.

Notes to the quarterly information

at March 31, 2019

All amounts in thousands of reais unless otherwise stated

IFRIC 22/ ICPC 21 – Foreign currency transactions

Regarding Interpretation IFRIC 22/ICPC 21, "Foreign currency transactions", which also became effective on January 1, 2018 and requires clarification of the date of transition to be used for the conversion of advances made or received in foreign currency transactions, the Company opted for a prospective transition. That is, the balances of advances, including the principal and the respective accumulated foreign exchange variations at December 31, 2017 were considered as the opening balances of advances, and the date of transition as December 31, 2017. The impacts arising from the adoption of this interpretation are immaterial.

(ii) January 1, 2019

IFRS 16 / CPC 06 - "Leases"

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

- i) Agreements with lease terms of 12 months or less; and
- ii) Agreements with immaterial amounts or based on variable amounts.

For the quarter ended March 31, 2019, the Company's management performed a review of all lease contracts and concluded that to all those identified as lease (based on the criteria of the new standard), the exemption criteria apply, and there were no impact on the asset and liability or statement of operations accounts.

IFRIC 23 - Uncertainty over income tax treatments

Clarifies the accounting for tax positions that have not yet been accepted by the tax authorities. Both IAS - 12/CPC 32 - Taxes on Profit and the new IFRIC 23 interpretation apply only to Income Tax and Social Contribution. IFRIC 23 does not introduce new disclosures, but reinforces the need to comply with existing disclosure requirements on (i) judgments made; (ii) assumptions or other estimates used; and (iii) the potential impact of uncertainties that are not reflected in the accounting information. The Group has assessed and has not identified any impacts from the adoption of this interpretation on its accounting information.

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

1.4 Consolidation

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

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

Ouro Fino Saúde Animal Participações S.A.

Notes to the quarterly information at March 31, 2019

All amounts in thousands of reais unless otherwise stated

Section B - Risks

2 Critical accounting estimates and judgments

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

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

(a) Fair value of derivative financial instruments

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

(b) Provision for impairment of trade receivables

According to CPC 48/IFRS 9, as from January 1, 2018, the provision for impairment of trade receivables has been accrued based on the expected losses instead of on the incurred losses criterion. The new method consists of assessing the changes in the quality of credits as from their initial recognition, considering three levels: (i) expected loss upon initial recognition; (ii) significant increase in credit risk after initial recognition; and (iii) credit-impaired assets. In view of all the Group's controls to mitigate credit risk, and the consequent low historical delinquency level, there were no significant effects from the initial application.

(c) Deferred income tax and social contribution

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

(d) Impairment of property, plant and equipment

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

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(e) Provision for contingencies

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

(f) Fair value of the stock option plan

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

(g) Impairment of intangible assets

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

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

The projection period covers five or more years as from the estimated launching date of the products and the estimates of the product's life cycle, market development and level of associated technological innovation. The provision is recorded when the recoverable amount (net present value of cash flow) is below the amount of the recorded asset, pursuant to the Company's accounting policy presented in Note 30.8.

(h) Provision for inventory losses

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

(i) Taxes recoverable

ICMS credits are generated by exempted sales of the subsidiary Ouro Fino Saúde Animal Ltda. in transactions within the state of São Paulo, exports and a 60% reduction in the tax calculation basis in interstate transactions, with the full/partial maintenance of credits on purchases, pursuant to the ICMS Agreement 100/97.

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

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

3 Financial risk management

3.1 Financial risk factors

The activities of the Group companies expose them to financial risks mainly related to foreign exchange variations, fluctuations in interest rates, credit and liquidity risks. The objective of risk management is to reduce potential unexpected variations in the results arising from the aforementioned risks. The Group manages financial risks as the basis for its growth strategy and satisfactory cash flows. The Group has a Finance Committee that establishes management strategies regarding such exposure, which could include the utilization of derivative or non-derivative financial instruments for hedging potential risks.

The Group monitors the levels of exposure to each market risk (foreign exchange variation and interest rate) through an analysis based on accounting exposure and future cash flow projections.

(a) Market risks

(i) Foreign exchange risk

This risk arises from the possibility of the Group incurring unexpected losses due to fluctuations in foreign exchange rates which reduce the amount of assets and increase liabilities. The Group is mainly exposed to the fluctuation in the U.S. dollar exchange rate.

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

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

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

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

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

	March 31, 2019	December 31, 2018
Assets in foreign currency		
Cash and cash equivalents	6,164	3,260
Trade receivables	5,193	9,337
	<u>11,357</u>	<u>12,597</u>
Liabilities in foreign currency		
Borrowings (*)	(11,837)	(11,650)
Trade payables	(18,823)	(13,796)
Other liabilities	(73)	(440)
	<u>(30,733)</u>	<u>(25,886)</u>
Net exposure - assets (liabilities)	<u>(19,376)</u>	<u>(13,289)</u>

(*) At December 31, 2018, the table does not include balances of working capital borrowings denominated in foreign currency of R\$ 6,560 (Note 17), because they are hedged by foreign exchange swaps.

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

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					
		3.71	3.81	2.86	1.91	4.76	5.72
Assets/liabilities	Risk	March 31, 2019	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
				(US\$ depreciation - 25%)	(US\$ depreciation - 50%)	(US\$ appreciation - 25%)	(US\$ appreciation - 50%)
Cash and cash equivalents	US\$ depreciation	6,164	166	(1,583)	(3,165)	1,583	3,165
Trade receivables	US\$ depreciation	5,193	140	(1,333)	(2,666)	1,333	2,666
Borrowings	US\$ appreciation	(11,837)	319	3,039	6,078	(3,039)	(6,078)
Trade payables	US\$ appreciation	(18,823)	507	4,833	9,665	(4,833)	(9,665)
Other liabilities	US\$ appreciation	(73)	2	19	37	(19)	(37)

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(ii) Interest rate risk

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

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

The Group believes that currently there is a balance between fixed interest rates, which represent 45.6% (December 31, 2018 - 45.4%) and variable interest rates, which represent 54.4% (December 31, 2018 - 54.6 %) of its borrowings, providing mitigation of risks associated with any fluctuations in interest rates.

(b) Credit risks

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

The credit risk is mitigated through a broad customer base and careful selection of customers by business segment (production animals, companion animals and international operations), in addition to the utilization of guarantees, establishment of individual exposure limits and a well-defined credit policy that utilizes credit risk modeling, through which a rating and credit risk level is attributed to each customer, based on the Group's more than 31 years of experience in the market.

The Group has a Credit Committee that establishes guidelines and assesses and monitors the levels of credit risk that the Group is willing to accept in the course of its business. In addition to the risk mitigations established in credit policies, the Group has credit insurance coverage contracted for a portion of its sales.

The Group classifies its customers' portfolio through risk evaluation methodologies developed internally, with the purpose of properly assessing the real risk of its customers. Weights are attributed to each variable, including the history of payments, length of the business relationship with the Group, period during which the company has been operating in the market and other variables, and a rating is defined for each customer based on their combination. This classification is defined according to ratings ranging from "AA" (the lowest risk) to "E" (the highest risk) (Note 7).

(c) Liquidity risk

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

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.

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

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

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

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

	Consolidated			
	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years
At March 31, 2019				
Trade payables	41,634			
Borrowings (*)	85,889	63,171	120,242	51,748
Dividends and interest on capital	16,351			
Other liabilities	43,924	5,904		
	<u>187,798</u>	<u>69,075</u>	<u>120,242</u>	<u>51,748</u>
At December 31, 2018				
Trade payables	27,100			
Borrowings (*)	91,946	62,063	124,291	56,229
Derivative financial instruments, net	28			
Dividends and interest on capital	16,351			
Other liabilities	53,352	5,680		
	<u>188,777</u>	<u>67,743</u>	<u>124,291</u>	<u>56,229</u>

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

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3.2 Capital management

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

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

The gearing ratios at March 31, 2019 and December 31, 2018 are as follows:

	Note	Consolidated	
		March 31, 2019	December 31, 2018
Borrowings	17	276,082	287,529
Derivative financial instruments, net	9		28
Cash and cash equivalents	8	(71,221)	(65,183)
Net debt		204,861	222,374
Equity	19	450,956	455,967
Total capital		655,817	678,341
Gearing ratio (%)		31.24	32.78

3.3 Fair value estimation

The fair value of the financial instruments contracted by the Group is measured based on information obtained from the financial institutions and prices quoted in an active market based on the standard market pricing methodology, which comprises measuring their nominal value up to the due date and discounting this to present value at future market rates.

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

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

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

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

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Section C - Segment reporting

4 Segment reporting

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

- Production animals - sale in the domestic market of veterinary drugs, vaccines and other products for cattle, pigs, poultry, sheep, horses and goats.
- Companion animals - sale in the domestic market of veterinary drugs and other products for dogs and cats.
- International operations - sale in the foreign market, mainly to Latin American countries, of veterinary drugs, vaccines and other products for production and companion animals.

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

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

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

The results by segment are as follows:

	Quarter ended March 31, 2019			
	Business segment			
	Production animals	Companion animals	International operations	Total
Revenue	59,696	19,625	11,657	90,978
Cost of sales	(35,879)	(6,107)	(5,028)	(47,014)
Gross profit	23,817	13,518	6,629	43,964
Selling expenses	(26,980)	(7,804)	(5,860)	(40,644)
Result - Segmented	(3,163)	5,714	769	3,320
Result - Not segmented				(8,736)
Loss for the quarter				(5,416)

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	Quarter ended March 31, 2018			
	Business segment			
	Production animals	Companion animals	International operations	Total
Revenue	64,993	19,057	7,888	91,938
Cost of sales	(30,809)	(5,555)	(3,021)	(39,385)
Gross profit	34,184	13,502	4,867	52,553
Selling expenses	(23,725)	(7,369)	(4,348)	(35,442)
Result - Segmented	10,459	6,133	519	17,111
Result - Not segmented				(13,487)
Profit for the quarter				3,624

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

	March 31, 2019	March 31, 2018
Mexico	5,588	2,985
Colombia	4,941	3,803
Ecuador	1,042	785
Panama		68
Other	86	247
	11,657	7,888

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Section D - Group structure

5 Investments (parent company)

(a) Information on the investments

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

(b) Changes in investments

	Parent company	
	March 31, 2019	March 31, 2018
Opening balance	465,692	403,742
Equity in the results of investees	(4,414)	4,359
Stock options granted	157	216
Dividends distributed (i)	(10,371)	(1,081)
Exchange variation of foreign investments	242	(259)
Closing balance	<u>451,306</u>	<u>406,977</u>

- (i) At March 31, 2019, the quotaholders of the subsidiaries Ouro Fino Pet Ltda. and Ouro Fino Agronegócio Ltda. approved the distribution of profits to the parent company Ouro Fino Saúde Animal Participações S.A. in the amounts of R\$ 2,560 (March 31, 2018 – R\$ 1,081) and R\$ 7,811, respectively.

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(c) Summarized financial information

Set out below is the summarized financial information for subsidiaries.

(i) Summarized balance sheet

	March 31, 2019				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Current					
Assets	215,827	183,065	29,358	12,747	12,337
Liabilities	(122,646)	(55,233)	(9,333)	(8,031)	(10,961)
Current assets, net	93,181	127,832	20,025	4,716	1,376
Non-current					
Assets	426,817	20,301	2,347	4,421	1,764
Liabilities	(224,438)	(3,379)	(483)		(1,233)
Non-current assets, net	202,379	16,922	1,864	4,421	531
Equity	295,560	144,754	21,889	9,137	1,907
	December 31, 2018				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Current					
Assets	218,664	189,183	24,499	14,294	12,694
Liabilities	(119,310)	(47,919)	(5,309)	(9,946)	(10,639)
Current assets, net	99,354	141,264	19,190	4,348	2,055
Non-current					
Assets	415,229	16,484	1,476	4,356	1,697
Liabilities	(213,680)	(3,753)	(568)		(1,203)
Non-current assets, net	201,549	12,731	908	4,356	494
Equity	300,903	153,995	20,098	8,704	2,549

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(ii) Summarized statement of operations

	Quarter ended March 31, 2019				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Net sales revenue	71,138	54,729	20,177	5,588	4,941
Profit (loss) before income tax and social contribution	(8,913)	(2,306)	6,531	203	(696)
Income tax and social contribution	3,237	836	(2,206)	43	
Profit (loss) for the quarter	(5,676)	(1,470)	4,325	246	(696)
	Quarter ended March 31, 2018				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Net sales revenue	64,508	56,814	20,422	2,985	3,803
Profit (loss) before income tax and social contribution	2,606	(646)	6,437	179	161
Income tax and social contribution	(695)	265	(783)		
Profit (loss) for the quarter	1,911	(381)	5,654	179	161

(iii) Statement of comprehensive income

	March 31, 2019	March 31, 2018
Ouro Fino Saúde Animal Ltda. (direct subsidiary)		
Profit (loss) for the quarter	(5,676)	1,911
Other comprehensive income (loss)	242	(259)
Total comprehensive income (loss)	(5,434)	1,652

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(iv) Summarized statement of cash flows

	March 31, 2019				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Cash flows from operating activities					
Cash provided by (used in) operating activities	(9,033)	41,009	10,470	(15)	(128)
Interest paid	(3,195)	(46)	(18)		(120)
Income tax and social contribution paid			(2,974)		
Net cash provided by (used in) operating activities	<u>(12,228)</u>	<u>40,963</u>	<u>7,478</u>	<u>(15)</u>	<u>(248)</u>
Net cash provided by (used in) investing activities	<u>(11,164)</u>	<u>(3,442)</u>	<u>(547)</u>	<u>(24)</u>	<u>(50)</u>
Net cash provided by (used in) financing activities	<u>3,239</u>	<u>(15,399)</u>	<u>(2,637)</u>		
Net increase (decrease) in cash and cash equivalents	<u>(20,153)</u>	<u>22,122</u>	<u>4,294</u>	<u>(39)</u>	<u>(298)</u>
Cash and cash equivalents at the beginning of the quarter	37,620	20,869	4,054	1,242	1,378
Exchange gains on cash and cash equivalents	97				
Cash and cash equivalents at the end of the quarter	<u><u>17,564</u></u>	<u><u>42,991</u></u>	<u><u>8,348</u></u>	<u><u>1,203</u></u>	<u><u>1,080</u></u>
	March 31, 2018				
	Subsidiaries				
	Direct			Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Cash flows from operating activities					
Cash provided by (used in) operating activities	(3,942)	33,560	4,211	1,066	255
Interest paid	(4,596)	(222)	(17)	(221)	(160)
Income tax and social contribution paid			(578)		
Net cash provided by (used in) operating activities	<u>(8,538)</u>	<u>33,338</u>	<u>3,616</u>	<u>845</u>	<u>95</u>
Net cash provided by (used in) investing activities	<u>(17,408)</u>	<u>(169)</u>	<u>(40)</u>	<u>(55)</u>	<u>(44)</u>
Net cash provided by (used in) financing activities	<u>(3,527)</u>	<u>(4,195)</u>	<u>(1,127)</u>		
Net increase (decrease) in cash and cash equivalents	<u>(29,473)</u>	<u>28,974</u>	<u>2,449</u>	<u>790</u>	<u>51</u>
Cash and cash equivalents at the beginning of the quarter	97,736	9,041	10,374	996	5,183
Exchange gains on cash and cash equivalents	33	1			
Cash and cash equivalents at the end of the quarter	<u><u>68,296</u></u>	<u><u>38,016</u></u>	<u><u>12,823</u></u>	<u><u>1,786</u></u>	<u><u>5,234</u></u>

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(d) Reconciliation of the financial information of the investments

	Ouro Fino Saúde Animal Ltda.		Ouro Fino Agronegócio Ltda.		Ouro Fino Pet Ltda.		Subsidiaries Total	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
	Equity at January 1	300,903	259,164	153,995	133,543	20,098	19,645	474,996
Profit (loss) for the quarter	(5,676)	1,911	(1,470)	(381)	4,325	5,654	(2,821)	7,184
Capital increase with advances for future capital increase							-	
Stock options granted	91	154	40	36	26	26	157	216
Dividends distributed			(7,811)		(2,560)	(1,081)	(10,371)	(1,081)
Exchange variation of foreign investments	242	(259)					242	(259)
Equity at March 31	<u>295,560</u>	<u>260,970</u>	<u>144,754</u>	<u>133,198</u>	<u>21,889</u>	<u>24,244</u>	<u>462,203</u>	<u>418,412</u>
Percentage holding (%)	99.99%	99.99%	99.99%	99.99%	99.99%	99.99%		
Share of investments	295,560	260,970	144,754	133,198	21,889	24,244	462,203	418,412
Unrealized profit in inventories	(10,897)	(11,435)					(10,897)	(11,435)
Carrying amount of the investment in the parent company	<u>284,663</u>	<u>249,535</u>	<u>144,754</u>	<u>133,198</u>	<u>21,889</u>	<u>24,244</u>	<u>451,306</u>	<u>406,977</u>

Section E - Selected significant notes

6 Financial instruments by category

	Parent company		Consolidated	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
	Amortized cost	Amortized cost	Amortized cost	Amortized cost
Assets as per balance sheet				
Cash and cash equivalents	35	20	71,221	65,183
Accounts receivable			115,380	174,694
Related parties	16,081	7,238	543	636
Other assets, except for prepaid expenses			2,466	3,205
	<u>16,116</u>	<u>7,258</u>	<u>189,610</u>	<u>243,718</u>

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	Parent company		Consolidated		
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018	
	Other financial liabilities	Other financial liabilities	Other financial liabilities	Liabilities at fair value through profit or loss	Other financial liabilities
Liabilities as per balance sheet					
Trade payables	196		41,634		27,100
Derivative financial instruments				28	
Borrowings			276,082		287,529
Dividends and interest on capital	16,351	16,351	16,351		16,351
Related parties	65	50	300		145
Commissions on sales			3,817		5,446
Other liabilities			6,904		6,577
	<u>16,612</u>	<u>16,401</u>	<u>345,088</u>	<u>28</u>	<u>343,148</u>

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

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

7 Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

The balances of bank current accounts and financial investments amounting to R\$ 71,177 (December 31, 2018 - R\$ 65,131) are held in prime financial institutions rated as BB by Standard & Poor's.

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

	Consolidated	
	March 31, 2019	December 31, 2018
AA	30,148	54,278
A	49,753	71,817
B	15,343	20,658
C	12,743	16,276
D	8,378	12,281
E	5,570	5,798
	<u>121,935</u>	<u>181,108</u>

8 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks, as well as investments consisting of repurchase agreements and Bank Deposit Certificates (CDB) earning on average 99.8% of the Interbank Deposit Certificate (CDI) rate (December 31, 2018 – up to 95.7% of the CDI rate).

	Parent company		Consolidated	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Cash				
In local currency			11	12
In foreign currency			33	40
			<u>44</u>	<u>52</u>
Banks				
In local currency	35	20	3,797	3,899
In foreign currency			6,131	3,220
	<u>35</u>	<u>20</u>	<u>9,928</u>	<u>7,119</u>
Financial investments (i)				
In local currency				
Repurchase agreements				7,907
Bank Deposit Certificates (CDB)			61,249	50,024
Other				81
			<u>61,249</u>	<u>58,012</u>
	<u>35</u>	<u>20</u>	<u>71,221</u>	<u>65,183</u>

- (i) Financial investments amounting to R\$ 61,249 (December 31, 2018 – R\$ 58,012) can be redeemed at any time with no loss on yields.

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9 Derivative financial instruments (consolidated)

	December 31, 2018	
	Assets	Liabilities
Exchange rate swap		313
NDF	285	
Non-current		
Current	285	313

At December 31, 2018, the notional amounts of the exchange rate swap contracts totaled US\$ 1,667 thousand and NDF contracts totaled US\$ 850 thousand.

10 Trade receivables (consolidated)

	March 31, 2019	December 31, 2018
In local currency		
Receivables	115,982	171,015
Provision for impairment of trade receivables	(5,795)	(5,658)
	110,187	165,357
In foreign currency		
Receivables	5,953	10,093
Provision for impairment of trade receivables	(760)	(756)
	5,193	9,337
Current	115,380	174,694

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

	March 31, 2019	December 31, 2018
Not yet due		
Up to 3 months	89,735	126,947
From 3 to 6 months	20,204	40,148
Over 6 months	720	2,799
	<u>110,659</u>	<u>169,894</u>
Past due		
Up to 3 months	3,145	3,276
From 3 to 6 months	474	750
Over 6 months	7,657	7,188
	<u>11,276</u>	<u>11,214</u>
	<u><u>121,935</u></u>	<u><u>181,108</u></u>

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

Changes in the provision were as follows:

	March 31, 2019	March 31, 2018
Opening balance	6,414	7,495
Additions, net	125	(99)
Foreign exchange variation	16	48
Final write-offs		(153)
Closing balance	<u>6,555</u>	<u>7,291</u>

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

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11 Inventories (consolidated)

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Finished products	89,370	82,121
Raw materials	49,856	37,855
Packaging materials	14,634	11,683
Work in progress	10,708	9,051
Imports in transit	7,827	7,264
Advances to suppliers	8,485	8,976
Other	8,800	8,718
Provision for inventory losses (Note 18)	(8,110)	(7,087)
	<u>181,570</u>	<u>158,581</u>
Non-current (*)	<u>(5,384)</u>	<u>(5,422)</u>
Current	<u><u>176,186</u></u>	<u><u>153,159</u></u>

(*) The amount of R\$ 5,384 (December 31, 2018 – R\$ 5,422) refers to a loan agreement between the subsidiary Ouro Fino Saúde Animal Ltda. and the supplier Laboratório Biomega S.A. (“Biomega”). 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

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Value-Added Tax on Sales and Services (ICMS)			58,755	56,461
Social Integration Program (PIS) and Social Contribution on Revenues (COFINS)			3,610	1,514
Withholding Income Tax (IRRF)	386	472	963	907
ICMS, PIS and COFINS on acquisitions of property, plant and equipment			491	568
Excise Tax (IPI)			432	374
Other			<u>2,337</u>	<u>2,384</u>
	<u>386</u>	<u>472</u>	<u>66,588</u>	<u>62,208</u>
Non-current	<u>(386)</u>	<u>(86)</u>	<u>(58,719)</u>	<u>(56,368)</u>
Current		<u>386</u>	<u>7,869</u>	<u>5,840</u>

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ICMS credits, which amounted to R\$ 58,152 at March 31, 2019 (December 31, 2018 - R\$ 56,055) were mainly generated by Ouro Fino Saúde Animal Ltda., and are not subject to monetary restatement. These credits are generated by exempted sales on transactions within the state of São Paulo and exports and with a 60% reduction in the tax calculation basis on interstate transactions, with the full/partial maintenance of credits on purchases, pursuant to the ICMS Agreement 100/97.

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

ICMS credits related to 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. Subsequently, amounts previously withheld in connection with the tax assessment notices were released, by means of a petition for a writ of mandamus filed, totaling R\$ 3,795, and supported by guarantee insurance. The residual balance of R\$ 4,003 remains withheld due to the obligations related to the submission of electronic files under the terms of CAT Ordinance 83/2009.

The credit balance accounted for corresponds to the residual value of 2010 to 2013 relating to the amounts withheld and to the entire credit balance of 2014, 2015, 2016, 2017 and 2018; the requests for accumulated credits will be made by submitting the related file through the Electronic System for Management of the Accumulated Credit (e-CredAc), under the terms of the CAT Ordinance 83/2009, which have been consistently prepared by management on the dates established in law.

In this context, the Company's management understands that there is no material risk of not realizing the amounts recorded; therefore, no provision for impairment of receivables is necessary.

13 Current and deferred income tax and social contribution (consolidated)

The Company and its subsidiaries Ouro Fino Saúde Animal Ltda., Ouro Fino Agronegócio Ltda. and Ouro Fino Pet Ltda. calculate income tax and social contribution on the taxable profit method (the subsidiary Ouro Fino Pet Ltda. adopted the deemed profit method up to December 31, 2018), at the rates of 25% for income tax and 9% for social contribution. The 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.

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(a) **Composition, nature and realization of deferred taxes**

(i) **Deferred income tax and social contribution**

	March 31, 2019	December 31, 2018
Tax credits on:		
Accumulated income tax and social contribution losses	8,548	1,836
Temporary differences		
Provisions	14,861	16,648
Unrealized profit in inventories	5,614	4,656
Pre-operating expenses written-off	336	383
Derivative financial instruments		106
Appreciation - business combination	799	780
	<u>30,158</u>	<u>24,409</u>
Tax liabilities on:		
Temporary differences		
Deemed cost of land	(7,878)	(7,878)
Provisions	(161)	(158)
Accelerated depreciation	(405)	(410)
	<u>(8,444)</u>	<u>(8,446)</u>
Total assets, net	<u>21,714</u>	<u>15,963</u>
Total deferred tax credits	<u>30,158</u>	<u>24,409</u>
Total deferred tax liabilities	<u>(8,444)</u>	<u>(8,446)</u>

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:

	March 31, 2019	March 31, 2018
Opening balance	15,963	12,412
Pre-operating expenses written-off	(47)	(48)
Accumulated income tax and social contribution losses	6,712	2,302
Derivative financial instruments	(106)	(1,944)
Provisions	(1,790)	(746)
Unrealized profit in inventories	958	1,456
RD&I benefit - Accelerated depreciation	5	5
Appreciation - business combination	19	54
Closing balance	<u>21,714</u>	<u>13,491</u>

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The amounts by estimated offset period are as follows:

	March 31, 2019	December 31, 2018
Deferred tax assets to be recovered		
within 1 year	25,734	20,039
from 2 to 5 years	4,424	4,370
	<u>30,158</u>	<u>24,409</u>
Deferred tax liabilities to be settled		
within 1 year	566	568
after 5 years	7,878	7,878
	<u>8,444</u>	<u>8,446</u>

14 Intangible assets (consolidated)

	At January 1, 2018	Additions	Foreign exchange variation	Write-offs	Amortization	At March 31, 2018
Goodwill on the acquisition of subsidiaries	618					618
Trademarks and licenses purchased		5	1		(1)	5
Product development and registration	74,591	4,482	77	(142)	(962)	78,046
Computer software	10,791	127			(1,625)	9,293
Other	721				(66)	655
	<u>86,721</u>	<u>4,614</u>	<u>78</u>	<u>(142)</u>	<u>(2,654)</u>	<u>88,617</u>
	At January 1, 2019	Additions	Foreign exchange variation	Amortization	At March 31, 2019	
Goodwill on the acquisition of subsidiaries		618				618
Trademarks and licenses purchased		4			(4)	
Product development and registration		87,665	4,805	24	(1,153)	91,341
Computer software		5,063	208	2	(469)	4,804
Other		449			(67)	382
		<u>93,799</u>	<u>5,013</u>	<u>26</u>	<u>(1,693)</u>	<u>97,145</u>

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	December 31, 2018			
	Cost	Provision for impairment	Accumulated amortization	Net
Goodwill on the acquisition of subsidiaries	618			618
Trademarks and licenses purchased	3,147		(3,143)	4
Development and registration	122,148	(9,309)	(25,174)	87,665
Computer software	34,440		(29,377)	5,063
Other	1,333		(884)	449
	<u>161,686</u>	<u>(9,309)</u>	<u>(58,578)</u>	<u>93,799</u>
	March 31, 2019			
	Cost	Provision for impairment	Accumulated amortization	Net
Goodwill on the acquisition of subsidiaries	618			618
Trademarks and licenses purchased	3,139		(3,139)	
Product development and registration	127,874	(9,309)	(27,224)	91,341
Computer software	34,649		(29,845)	4,804
Other	1,333		(951)	382
	<u>167,613</u>	<u>(9,309)</u>	<u>(61,159)</u>	<u>97,145</u>

Product development and registration mainly refers to expenses incurred with new drugs totaling R\$ 91,341 (December 31, 2018 - R\$ 87,665). The amortization of intangible assets related to product development and registration was recognized within "Cost of sales" (Note 21).

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

In the quarter ended March 31, 2018, there were reductions of R\$ 142 related to sales of product registrations.

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15 Property, plant and equipment (consolidated)

	At January 1, 2018	Additions	Foreign exchange variation	Transfers	Write-offs	Depreciation	At March 31, 2018
Land	24,985						24,985
Buildings and improvements	124,777					(588)	124,189
Machinery, equipment and industrial facilities	79,306	118			(5)	(1,415)	78,004
Vehicles and tractors	3,518	4,309	21		(226)	(450)	7,172
Furniture and fittings	2,972	83	2	16		(130)	2,943
IT equipment	1,276	688	7	80		(196)	1,855
Construction in progress (i)	8,415	4,051					12,466
Other	1,618	28		(96)		(67)	1,483
	<u>246,867</u>	<u>9,277</u>	<u>30</u>		<u>(231)</u>	<u>(2,846)</u>	<u>253,097</u>
	At January 1, 2019	Additions	Foreign exchange variation	Transfers	Write-offs	Depreciation	At March 31, 2019
Land	24,985						24,985
Buildings and improvements	134,339					(867)	133,472
Machinery, equipment and industrial facilities	77,214	942			(7)	(1,765)	76,384
Vehicles and tractors	11,038	4,473	18		(92)	(798)	14,639
Furniture and fittings	2,990	90	1	15		(142)	2,954
IT equipment	2,995	144	5	81	(1)	(259)	2,965
Construction in progress (i)	5,402	4,724		(3)			10,123
Other	1,669	3		(93)		(73)	1,506
	<u>260,632</u>	<u>10,376</u>	<u>24</u>		<u>(100)</u>	<u>(3,904)</u>	<u>267,028</u>
				<u>March 31, 2019</u>		<u>December 31, 2018</u>	
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net	Annual average depreciation rates
Land	24,985		24,985	24,985		24,985	
Buildings and improvements	155,755	(22,283)	133,472	155,755	(21,416)	134,339	2.25%
Machinery, equipment and industrial facilities	126,658	(50,274)	76,384	125,861	(48,647)	77,214	5.36%
Vehicles, tractors and aircraft	19,200	(4,561)	14,639	14,902	(3,864)	11,038	19.49%
Furniture and fittings	8,175	(5,221)	2,954	8,074	(5,084)	2,990	6.27%
IT equipment	10,511	(7,546)	2,965	10,281	(7,286)	2,995	9.64%
Construction in progress (i)	10,123		10,123	5,402		5,402	
Other	3,968	(2,462)	1,506	4,058	(2,389)	1,669	7.26%
	<u>359,375</u>	<u>(92,347)</u>	<u>267,028</u>	<u>349,318</u>	<u>(88,686)</u>	<u>260,632</u>	

- (i) At March 31, 2019, the balance of works refers substantially to adaptations in the new plant of biological products (vaccines) in the amount of R\$ 2,699 (December 31, 2018 – R\$ 2,365) and the extension of the area designed for hormone application of R\$ 3,573.

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

At March 31, 2019, the balance of costs of capitalized borrowings totaled R\$ 1,325 (March 31, 2018 - R\$ 809), at an annual average rate of 6.72% (March 31, 2018 - 5.59%).

Land, buildings, machinery and equipment amounting to R\$ 85,142 (March 31, 2018 - R\$ 89,732) are pledged as collaterals for borrowings (Note 17).

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In the quarter ended March 31, 2018, purchases of property, plant and equipment amounting to R\$ 4,620 were financed under the Government Agency for Machinery and Equipment Financing (Finame) program or carried out through lease transactions, which are considered non-cash transactions, and, therefore, were not considered in the statement of cash flows as investing and financing activities.

16 Trade payables (consolidated)

	March 31, 2019	December 31, 2018
In local currency	19,868	13,304
In foreign currency	21,766	13,796
	<u>41,634</u>	<u>27,100</u>

17 Borrowings (consolidated)

	Financial charges incurred	Maturity	March 31, 2019	December 31, 2018
In foreign currency				
Working capital	Exchange variation and weighted average rate of 3.75% p.a.	2019		6,560
Advances on foreign exchange contracts	Exchange variation and average rate of 4.55% p.a. (December 31, 2018 - 4.20% p.a.)	2019	11,837	11,650
In local currency				
FINEP (Technological innovation)	Weighted average rate of 6.72% p.a. (December 31, 2018 - 6.66% p.a.)	2029	155,748	159,937
BNDES - FINEM	Weighted average rate of 10.01% p.a. (December 31, 2018 - 9.99% p.a.)	2025	32,573	33,534
BNDES - FINAME	Weighted average rate of 6.88% p.a. (December 31, 2018 - 6.76% p.a.)	2023	463	538
Export credit note (NCE)	Average rate of 7.30% p.a. (December 31, 2018 - 7.30% p.a.)	2021	40,739	40,045
Working capital	Average rate of 7.70% p.a. (December 31, 2018 - 7.70% p.a.)	2019	25,133	25,140
Working capital (i)	Average rate of 8.05% p.a. (December 31, 2018 - 8.04% p.a.)	2019	6,125	5,975
Finance lease	Weighted average rate of 11.02% p.a. (December 31, 2018 - 10.93% p.a.)	2021	3,464	4,150
			<u>276,082</u>	<u>287,529</u>
Current			<u>(70,983)</u>	<u>(76,439)</u>
Non-current			<u>205,099</u>	<u>211,090</u>

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

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(a) Guarantees for borrowings

The borrowings for research, innovation and development of products obtained from the Fund for Financing of Studies and Projects (FINEP) are guaranteed by a surety of the related party Ouro Fino Saúde Animal Participações S.A. and bank guarantees totaling R\$ 112,492, in addition to the guarantee represented by the industrial facilities of animal health products located in the city of Cravinhos, state of São Paulo. No amounts are charged for the guarantees given.

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

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

The carrying amounts of borrowings approximate their fair values.

The composition of non-current borrowings is as follows:

	March 31, 2019	March 31, 2018
From 1 to 2 years	51,678	23,647
From 2 to 3 years	43,770	25,506
From 3 to 4 years	30,423	26,371
From 4 to 5 years	27,480	26,357
Over 5 years	51,748	52,530
	<u>205,099</u>	<u>154,411</u>

(b) Working capital borrowings in foreign currency

Exchange rate swap transactions were contracted for working capital borrowings contracted in foreign currency (US\$), which amounted to R\$ 6,560 at December 31, 2018, to exchange the charges on the borrowings for charges based on the CDI rate (Note 9).

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18 Provisions (consolidated)

	March 31, 2019				
Balances recognized in assets:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Sales returns	162	292			454
Bonuses on goods	954		(355)		599
Provision for impairment of intangible assets	9,309				9,309
Provision for impairment of trade receivables	6,414	125		16	6,555
Provision for inventory losses	7,087	1,050	(32)	5	8,110
	23,926	1,467	(387)	21	25,027

	March 31, 2018				
Balances recognized in assets:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Sales returns	615	33	(142)		506
Bonuses on goods	1,235	80	(998)	10	327
Provision for impairment of intangible assets	5,952				5,952
Provision for impairment of trade receivables	7,495	(99)	(153)	48	7,291
Provision for inventory losses	8,091	1,663	(92)	44	9,706
	23,388	1,677	(1,385)	102	23,782

	March 31, 2019				
Balances recognized in liabilities:	Opening balance	Additions and reversals, net	Monetary restatement	Foreign exchange variation	Closing balance
Contingencies	8,114	188	102	30	8,434
	8,114	188	102	30	8,434

	March 31, 2018				
Balances recognized in liabilities:	Opening balance	Additions and reversals, net	Final write-offs	Foreign exchange variation	Closing balance
Contingencies	3,935	365	(68)	82	4,314
	3,935	365	(68)	82	4,314

(a) Product returns

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

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(b) Bonuses of goods

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

(c) Contingencies

The Group companies are parties to labor, civil and tax litigation in progress, and are discussing such matters at the administrative and judicial levels, which, when applicable, are supported by judicial deposits. The provision for probable losses arising from these matters is estimated and periodically adjusted by management, supported by the opinion of its external legal advisors.

The provision is as follows:

	March 31, 2019	December 31, 2018
Tax	4,719	4,617
Labor	2,751	2,525
Civil	964	972
	<u>8,434</u>	<u>8,114</u>

(d) Provision for impairment of trade receivables

According to CPC 48/IFRS 9, as from January 1, 2018, the provision for impairment of trade receivables has been accrued based on the expected losses instead of on the incurred losses criterion. In view of all the Group's controls to mitigate credit risk, and the consequent low historical delinquency level, there were no significant effects from the initial application.

(e) Provision for inventory losses

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

(f) Provision for impairment of intangible assets

The Group tests product development balances in intangible assets for impairment, whenever possible through the discounted cash flow method (Notes 2 (g) and 14).

**(g) Possible losses, not provided for
in the balance sheet**

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

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Possible contingencies are as follows:

	March 31, 2019			December 31, 2018		
	Administrative	Judicial	Total	Administrative	Judicial	Total
Tax (*)	44,160		44,160	50,595		50,595
Labor		5,661	5,661		5,249	5,249
Civil	3	2,164	2,167		2,131	2,131
	<u>44,163</u>	<u>7,825</u>	<u>51,988</u>	<u>50,595</u>	<u>7,380</u>	<u>57,975</u>

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

(h) Contingent assets

The subsidiaries Ouro Fino Saúde Animal Ltda. and Ouro Fino Agronegócio Ltda. obtained favorable, final and unappealable decisions regarding the right to offset tax credits arising from the exclusion of ICMS from the calculation bases of PIS/Cofins contributions. On October 18, 2018, the Brazilian Federal Revenue Secretariat issued the Internal Ruling COSIT No. 13, which provides for the criteria and procedures to be followed for the purpose of calculating the amount to be excluded from the monthly calculation bases of these contributions. Considering that said Internal Ruling brings legal uncertainty to the taxpayers that exclude from the calculation basis the ICMS amounts separately disclosed in the related invoices, management has decided to disclose contingent assets of R\$ 3,800 at December 31, 2018.

19 Equity

(a) Share capital

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

At March 31, 2019, fully subscribed and paid-up capital comprised 53,949,006 common shares with no par value.

(b) Capital reserve

At December 31, 2018, the amounts considered as "Capital reserve" relates to expenditures incurred for the Initial Public Offering (IPO). This amount was considered in the capital increase approved at the Annual and Extraordinary General Meeting held on March 29, 2019.

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(c) Allocation of profit

According to the bylaws, profit will be allocated as follows:

- 5% to the legal reserve, limited to 20% of the capital;
- Minimum dividend of 25% of profit adjusted according to Article 202 of Law 6,404; and
- The remaining balance will be distributed as resolved at a General Meeting by the stockholders representing not less than 2/3 (two-thirds) of the voting shares, in accordance with applicable legal provisions.

At the Annual General Meeting held on March 29, 2019, stockholders decided on the allocation of the profit for 2018, and approved the retention of the residual balance of R\$ 48,171 for expansion reserve purposes.

(d) Carrying value adjustments

These refer to the effect of the adoption of the deemed cost method to record land in subsidiaries that took place on January 1, 2009, as well as to all foreign exchange rate differences resulting from the translation of the balance sheet and profit or loss of foreign subsidiaries.

(e) Stock option plan

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

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

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

The exercise price will be set based on the average quoted price of the Company's shares on the Brazilian stock exchange (B3), weighted by the trading volume, within the 60 (sixty) trading sessions prior to the grant, monetarily restated by the General Market Price Index (IGP-M).

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

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

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

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

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

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

Grant on December 30, 2014	General assumptions and information on the evaluation				
	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Vesting period closing					
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				
	9/28/2017	9/28/2018	9/28/2019	9/28/2020	9/28/2021
Vesting period closing					
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%

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At March 31, 2019, expenses amounting to R\$ 162 (March 31, 2018 - R\$ 220) incurred in stock options were recognized.

Changes in stock options are shown below:

	Number of options	
	March 31, 2019	March 31, 2018
Balance at the beginning of the quarter	213,076	316,853
Number of options canceled (i)		(66,530)
Balance at the end of the quarter	<u>213,076</u>	<u>250,323</u>

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

20 Revenue (consolidated)

The reconciliation between gross and net revenue is as follows:

	March 31, 2019	March 31, 2018
Domestic customers		
Gross sales and services	89,530	94,094
Taxes and deductions on sales	(10,209)	(10,044)
	<u>79,321</u>	<u>84,050</u>
Foreign customers		
Gross sales	11,812	8,092
Taxes and deductions on sales	(155)	(204)
	<u>11,657</u>	<u>7,888</u>
	<u>90,978</u>	<u>91,938</u>

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21 Costs and expenses by nature

	Parent company		Consolidated	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Cost of sales (*)				
Variable costs (raw and consumption materials)			25,401	21,459
Personnel expenses			10,569	8,998
Depreciation and amortization			3,699	3,436
Outsourced services			3,004	2,461
Provision for inventory losses			1,018	1,571
Electricity			972	809
Other			2,351	651
			<u>47,014</u>	<u>39,385</u>
Selling expenses				
Personnel expenses			18,781	16,333
Sales team expenses			8,656	9,056
Outsourced services			6,579	4,068
Freight charges			3,558	3,461
Depreciation and amortization			1,350	1,289
Telecommunications and electricity			267	272
Provision for impairment of trade receivables			125	(99)
Other			1,328	1,062
			<u>40,644</u>	<u>35,442</u>
General and administrative expenses				
Personnel expenses	718	479	6,418	7,093
Outsourced services	69	61	715	1,195
Depreciation and amortization			548	775
Travel expenses	7	4	131	207
Telecommunications and electricity			191	183
Vehicle expenses			96	127
Donations and sponsorship			19	17
Other	221	255	699	561
	<u>1,015</u>	<u>799</u>	<u>8,817</u>	<u>10,158</u>
	<u>1,015</u>	<u>799</u>	<u>96,475</u>	<u>84,985</u>

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

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22 Other expenses, net

	Parent company		Consolidated	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Gain (loss) on sale and write-off of PP&E			62	59
Gains (losses) on disposal of intangible assets (i)				78
Gains (losses) on sales of scrap, rentals and other	28	27	45	266
Federal, state and municipal taxes and fees		(2)	922	(204)
Other losses	(2)		(85)	(265)
	<u>26</u>	<u>25</u>	<u>944</u>	<u>(66)</u>

(i) Refers to the sale of product registrations.

23 Finance result

	Parent company		Consolidated	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Finance income				
Income from financial investments			817	1,615
Interest receivable			145	409
Monetary variation		39	99	82
Other			32	30
		<u>39</u>	<u>1,093</u>	<u>2,136</u>
Finance costs				
Interest payable			(3,658)	(4,566)
Finance charges			(367)	(466)
Other	(14)	(6)	(151)	(199)
	<u>(14)</u>	<u>(6)</u>	<u>(4,176)</u>	<u>(5,231)</u>
Derivative financial instruments, net				
Gains on derivatives (foreign exchange variation)			(373)	(788)
Losses on derivatives (interest)			(32)	(527)
			<u>(405)</u>	<u>(1,315)</u>
Foreign exchange variations, net			<u>(109)</u>	<u>904</u>
Finance result	<u>(14)</u>	<u>33</u>	<u>(3,597)</u>	<u>(3,506)</u>

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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	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Profit before income tax and social contribution	(5,417)	3,618	(8,150)	3,381
Standard rates	34%	34%	34%	34%
	1,842	(1,230)	2,771	(1,150)
Reconciliation to the effective rate:				
Permanent differences:				
Equity in the results of investees	(1,501)	1,482		
Adjustment related to the calculation of subsidiary taxed based on the presumed profit method				1,406
Adjustment related to the calculation of foreign subsidiary taxed based on the rate in effect in that country			(124)	116
Deferred taxes, not recorded	(341)	(252)	(341)	(252)
Other			428	123
Income tax and social contribution			2,734	243
Reconciliation with the statement of operations:				
Current			(2,636)	(783)
Deferred			5,370	1,026
			2,734	243

25 Earnings (loss) per share

(a) Basic

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

	March 31, 2019	March 31, 2018
Profit (loss) for the quarter attributable to the stockholders of the Company	(5,417)	3,618
Weighted average number of common shares in the quarter (thousands of shares)	53,949	53,949
Basic earnings (loss) per share	(0.10041)	0.06706

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(b) Diluted

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

	March 31, 2019	March 31, 2018
Profit (loss) for the quarter attributable to the stockholders of the Company	(5,417)	3,618
Weighted average number of common shares in the quarter, considering instruments with dilutive effects	53,949	53,949
Diluted earnings (loss) per share	<u>(0.10041)</u>	<u>0.06706</u>

26 Employee benefits

(a) Private pension plan - defined contribution

The Group companies sponsor a defined contribution pension plan for their employees. The plan was implemented in August 2008 and is managed by Itaú Vida e Previdência S.A. The companies' contributions to the plan at March 31, 2019 totaled R\$ 272 (March 31, 2018 - R\$ 242).

(b) Profit sharing

The Group companies offer to their employees a variable remuneration program, calculated based on quantitative and qualitative goals established by management. At March 31, 2019, the amount of profit-sharing was R\$ 2,251 (March 31, 2018 - R\$ 1,414).

27 Balances and transactions with related parties

(a) Balances and main transactions

	Parent company							
	Balances:							
	March 31, 2019				December 31, 2018			
Assets		Liabilities		Assets		Liabilities		
Other assets (i)	Advances for future capital increase (ii)	Dividends and interest on capital	Other liabilities (i)	Other assets (i)	Interest on capital	Dividends and interest on capital	Other liabilities (i)	
Related parties:								
Ouro Fino Saúde Animal Ltda.	16,000		48				33	
Ouro Fino Agronegócio Ltda.					7,188			
Ouro Fino Química Ltda.	81			50				
Stockholders		16,351	17			16,351	17	
	<u>81</u>	<u>16,000</u>	<u>16,351</u>	<u>65</u>	<u>50</u>	<u>7,188</u>	<u>16,351</u>	<u>50</u>

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	Parent company			
	Main transactions:			
	March 31, 2019		March 31, 2018	
Royalties	Reimbursement of CSC expenses (i)	Royalties	Reimbursement of CSC expenses (i)	
Related parties:				
Ouro Fino Saúde Animal Ltda.		(66)		(55)
Ouro Fino Agronegócio Ltda.				(1)
Ouro Fino Química Ltda.	30		28	
	<u>30</u>	<u>(66)</u>	<u>28</u>	<u>(56)</u>

	Consolidated							
	Balances:							
	March 31, 2019				December 31, 2018			
Assets		Liabilities		Assets		Liabilities		
Other assets (i)	Dividends and interest on capital	Other liabilities (i)	Borrowings (iii)	Other assets (i)	Dividends and interest on capital	Other liabilities (i)	Borrowings (iii)	
Related parties:								
Ouro Fino Química Ltda.	206		203	224		115		
Condomínio Rural Ouro Fino	223		80	178				
BND&S Participações S.A.			33,036				34,072	
Stockholders		16,351	17		16,351	17		
Other	114			234		13		
	<u>543</u>	<u>16,351</u>	<u>300</u>	<u>33,036</u>	<u>636</u>	<u>145</u>	<u>34,072</u>	

	Consolidated									
	Main transactions:									
	March 31, 2019					March 31, 2018				
Gross profit on sales of goods	Reimbursement of CSC expenses (i)	Royalties	Other expenses, net	Finance result	Gross profit on sales of goods	Reimbursement of CSC expenses (i)	Royalties	Other expenses, net	Finance result	
Related parties:										
Ouro Fino Química Ltda.		342	30	(193)		381	28	(142)		
Condomínio Rural Ouro Fino	2		(490)		13			(311)		
Other			(52)					(67)		
BND&S Participações S.A.				(788)					(1,755)	
	<u>2</u>	<u>342</u>	<u>30</u>	<u>(735)</u>	<u>(788)</u>	<u>13</u>	<u>381</u>	<u>(520)</u>	<u>(1,755)</u>	

(i) Other assets and liabilities

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

(ii) Advances for future capital increase

At March 31, 2019, the Company recorded advances for future capital increase to the subsidiary Ouro Fino Saúde Animal Ltda. in the amount of R\$ 16,000. These amounts will be capitalized as decided by the owners of this subsidiary.

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(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 shown below:

	March 31, 2019	March 31, 2018
Salaries	663	498
Labor charges	155	122
Share-based payments	61	55
Variable compensation	110	47
Compensation and fringe benefits	37	33
	<u>1,026</u>	<u>755</u>

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:

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

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29 Other disclosures on cash flows

(a) Net debt reconciliation

	Borrowings	Derivative financial instruments, net	Cash and cash equivalents	Net debt
Net debt at January 1, 2018	313,100	10,451	(123,360)	200,191
Borrowings	40,353			40,353
Payment - principal amount	(41,088)	(7,034)		(48,122)
Payment of interest	(5,216)			(5,216)
Increase (decrease) in cash and cash equivalents			(2,771)	(2,771)
Changes that affected cash flow	(5,951)	(7,034)	(2,771)	(15,756)
Purchases of property, plant and equipment	4,620			4,620
Interest and foreign exchange variations	5,655	1,314	(34)	6,935
Changes that did not affect cash flow	10,275	1,314	(34)	11,555
Net debt at March 31, 2018	317,424	4,731	(126,165)	195,990
Net debt at January 1, 2019	287,529	28	(65,183)	222,374
Borrowings				-
Payment - principal amount	(12,519)	(581)		(13,100)
Payment of interest	(3,379)			(3,379)
Decrease in cash and cash equivalents			(5,941)	(5,941)
Changes that affected cash flow	(15,898)	(581)	(5,941)	(22,420)
Purchases of property, plant and equipment				-
Interest and foreign exchange variations	4,451	553	(97)	4,907
Changes not affecting cash flow	4,451	553	(97)	4,907
Net debt at March 31, 2019	276,082		(71,221)	204,861

Section F - Accounting policies

30 Summary of significant accounting policies

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

30.1 Consolidation

The following accounting policies are applied in the preparation of the interim accounting information:

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

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

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

30.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies with a different functional currency

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

- (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 variations are recognized as a separate component of equity in "Carrying value adjustments".

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30.3 Financial assets

30.3.1 Classification

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

(a) Amortized cost

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

(b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. All financial assets in this category are classified as current assets. Derivatives are also classified as "held for trading".

30.3.2 Recognition and measurement

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

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

30.3.3 Impairment of financial assets

Assets carried at amortized cost

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

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The new standard CPC 48/IFRS 9 "Financial Instruments" has been effective since January 1, 2018. It introduces a new impairment model for financial assets, whereby it replaces the provision for incurred losses with expected losses. In view of the low historical default level, the change in the criterion has not had any significant effects on the Company's accounting information.

30.4 Derivative financial instruments

Derivative financial instruments are contracted with the purpose of hedging transactions against the risks of fluctuations in foreign exchange and interest rates, and are not used for speculative purposes. The Group mainly operates with exchange rate swap contracts and NDF. Derivatives are recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Since the Group does not adopt hedge accounting, the changes in the fair value of derivative instruments are recognized immediately in the statement of operations within "Finance income and costs".

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

30.5 Trade receivables

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

30.6 Inventories

Inventories are stated at the lower of average cost of purchase or production and net realizable value. Cost is determined using the weighted average method. The costs of finished goods and work in process comprise raw materials, direct labor, other direct costs and general production expenses (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less completion costs and selling expenses. Imports in transit are stated at the accumulated cost of each transaction.

30.7 Current and deferred income tax and social contribution

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

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

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

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

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

30.8 Intangible assets

(a) Research and development of products

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

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

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

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

(b) Trademarks and licenses purchased

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

(c) Software

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

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

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(d) Goodwill on the acquisition of subsidiaries

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

30.9 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. This cost was adjusted in subsidiaries to reflect the deemed cost of land on the date of transition to IFRS and depreciation is calculated using the straight-line method, considering the estimated useful lives of the respective assets. The annual depreciation rates are disclosed in Note 15. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced items or parts is derecognized. All other repairs and maintenance are charged to the statement of operations during the financial period in which they are incurred.

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

The costs of borrowings used to finance the construction of property, plant and equipment are capitalized during the period necessary to construct and prepare the asset for its intended use.

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

30.10 Impairment of non-financial assets

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

30.11 Trade payables

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

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

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30.12 Borrowings

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

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

30.13 Employee benefits

(a) Private pension plan

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

(b) Profit sharing

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

(c) Share-based compensation

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

30.14 Revenue recognition

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

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

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

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

30.15 Distribution of dividends and interest on capital

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

The tax benefit of 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

There are no other *IFRS*s or *IFRIC* interpretations that are not yet effective that would be expected to have a material impact on the Group financial statements.

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