

(A free translation of the original in Portuguese)

**Ouro Fino Saúde Animal
Participações S.A.**
**Parent company and consolidated
financial statements at
December 31, 2014
and independent auditor's report**



(A free translation of the original in Portuguese)

Independent auditor's report

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

We have audited the accompanying parent company financial statements of Ouro Fino Saúde Animal Participações S.A. ("Parent company or "Company"), which comprise the balance sheet as at December 31, 2014 and the statements of income, comprehensive income, changes in equity and cash flows for the period from April 10 (date of establishment - Note 1) to December 31, 2014, as well as the accompanying consolidated financial statements of Ouro Fino Saúde Animal Participações S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2014 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the period from April 10 to December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements



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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ouro Fino Saúde Animal Participações S.A. and of Ouro Fino Saúde Animal Participações S.A. and its subsidiaries as at December 31, 2014, and the parent company financial performance and cash flows, as well as the consolidated financial performance and cash flows, for the period from April 10, 2014 (date of establishment - Note 1) to December 31, 2014, in accordance with accounting practices adopted in Brazil and the IFRS issued by the International Accounting Standards Board (IASB).

Other matters

Supplementary information - Statements of value added

We have also audited the parent company and consolidated statements of value added for the period from April 10, 2014 (date of establishment - Note 1) to December 31, 2014, which are the responsibility of the Company's management. The presentation of these statements is required by the Brazilian corporate legislation for listed companies, but it is considered supplementary information for IFRS. The statements were subject to the same audit procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Ribeirão Preto, March 24, 2015.

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F"

Maurício Cardoso de Moraes
Contador CRC 1PRO35795/O-1 "T" SP

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Ouro Fino Saúde Animal Participações S.A.

Balance sheet

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Note	Parent		Consolidated	
		December 31, 2014	April 10, 2014	December 31, 2014	April 10, 2014
Assets					
Current assets					
Cash and cash equivalents	7	11		72,453	
Trade receivables	9			178,111	
Derivative financial instruments	8			10,376	
Inventories	10			86,848	
Taxes recoverable	11	96		6,905	
Income tax and social contribution recoverable				2,486	
Related parties	12	4,398		998	
Other assets		12	1	7,439	1
		4,517	1	365,616	1
Non-current assets					
Long-term receivables					
Taxes recoverable	11			22,529	
Deferred income tax and social contribution	13			1,920	
Related parties	12	104,260			
Other assets				261	
		104,260		24,710	
Investments in subsidiaries	14	231,169			
Intangible assets	15			66,300	
Property, plant and equipment	16			170,635	
Total non-current assets		335,429		261,645	
Total assets		339,946	1	627,261	1

Ouro Fino Saúde Animal Participações S.A.

Balance sheet

All amounts in thousands of reais

(continued)

	Note	Parent		Consolidated	
		December 31, 2014	April 10, 2014	December 31, 2014	April 10, 2014
Liabilities and equity					
Current liabilities					
Trade payables				22,390	
Derivative financial instruments				12	
Borrowings	17			103,093	
Salaries and social charges		64		24,912	
Taxes payable		434		5,638	
Income tax and social contribution payable				763	
Dividends and interest on capital	12	8,959		8,959	
Commissions on sales				5,669	
Other liabilities		420		5,468	
		<u>9,877</u>		<u>176,904</u>	
Non-current liabilities					
Derivative financial instruments	8			1,164	
Borrowings	17			112,560	
Provision for contingencies	18			2,664	
Deferred income tax and social contribution	13			3,812	
				<u>120,200</u>	
Total liabilities		<u>9,877</u>		<u>297,104</u>	
Equity	19				
Capital		298,889	1	298,889	1
Capital reserves		(6,275)		(6,275)	
Revenue reserves		22,136		22,136	
Carrying value adjustments		15,319		15,319	
		<u>330,069</u>	<u>1</u>	<u>330,069</u>	<u>1</u>
Non-controlling interests				88	
Total equity		<u>330,069</u>	<u>1</u>	<u>330,157</u>	<u>1</u>
Total liabilities and equity		<u>339,946</u>	<u>1</u>	<u>627,261</u>	<u>1</u>

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

Ouro Fino Saúde Animal Participações S.A.

Statement of income

Period from April 10, 2014 (date of establishment) to December 31, 2014

All amounts in thousands of reais unless otherwise stated

(A free translation of the original in Portuguese)

	Note	Parent	Consolidated
Continuing operations			
Revenue	21		327,360
Cost of sales	22		(133,411)
Gross profit			193,949
Selling expenses	22		(103,597)
General and administrative expenses	22	(6,763)	(28,168)
Equity in the results of investees		44,813	
Other expenses, net	23	(331)	(5)
Operating profit		37,719	62,179
Finance income		51	22,638
Finance costs		(50)	(30,712)
Finance result	24	1	(8,074)
Profit before income tax and and social contribution		37,720	54,105
Income tax and social contribution	25		
Current			(9,840)
Deferred			(5,387)
Earnings for the period from continuing operations		37,720	38,878
Discontinued operations			
Loss from discontinued operations	26		(688)
Profit for the period		37,720	38,190
Attributable to:			
Owners of the parent			37,720
Non-controlling interests			470
			38,190
Basic and diluted earnings per share - R\$	27		
From continuing operations			1.07852
From discontinued operations			(0.01909)
			1.05943

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

Ouro Fino Saúde Animal Participações S.A.

Statement of comprehensive income

Period from April 10, 2014 (date of establishment) to December 31, 2014

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	<u>Parent</u>	<u>Consolidated</u>
Profit for the period	37,720	38,190
Other components of comprehensive income		
Items that will be reclassified to profit or loss		
Exchange variation of investment in subsidiary located abroad	<u>111</u>	<u>111</u>
Total comprehensive income for the period	<u><u>37,831</u></u>	<u><u>38,301</u></u>
Attributable to:		
Owners of the parent		37,831
Non-controlling interests		<u>470</u>
		<u><u>38,301</u></u>

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

Ouro Fino Saúde Animal Participações S.A.

Statement of changes in equity

Period from April 10, 2014 (date of establishment) to December 31, 2014

All amounts in thousands of reais

(A free translation of the original in Portuguese)

Note	Attributable to owners of the parent							Non-controlling interests	Total equity
	Capital	Revenue reserves			Carrying value adjustments	Retained earnings	Total		
		Capital reserve	Legal reserve	Profit retention reserve					
Contributions by owners of the Company									
	1						1		1
	1	188,626			15,208		203,834		203,834
	19 (a)	3,819		(2,746)			1,073		1,073
	14			(3,368)			(3,368)		(3,368)
	19 (a)	106,443					106,443		106,443
	19 (b)		(6,275)				(6,275)		(6,275)
								(382)	(382)
Total contributions by owners of the Company									
		298,889	(6,275)		(6,114)	15,208		(382)	301,326
Comprehensive income for the period									
							37,720	470	38,190
					111		111		111
Total comprehensive income for the period									
					111		37,720	470	38,301
Distributions to owners of the Company									
Allocation of profit:									
	19(c)		1,886				(1,886)		
	19(c)						(9,470)		(9,470)
	19(c)			26,364			(26,364)		
Total distributions to owners of the Company									
			1,886	26,364			(37,720)	(9,470)	(9,470)
At December 31, 2014									
		298,889	(6,275)	1,886	20,250	15,319		88	330,157

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

Ouro Fino Saúde Animal Participações S.A.

Statement of cash flows

Period from April 10, 2014 (date of establishment) to December 31, 2014

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Note	Parent	Consolidated
Cash flows from operating activities			
Profit before income tax and social contribution, including discontinued operations		37,720	53,417
Adjustments for:			
Provision for impairment of trade receivables	9		190
Provision for inventory losses and write-offs	10		2,842
Equity in the results of investees	14	(44,813)	
Depreciation and amortization			11,313
Provision for impairment of intangible assets			776
Gains on disposal of property, plant and equipment			(151)
Interest, monetary and exchange variations, net			18,656
Unrealized derivative financial instruments			(7,552)
Reversal and write-off of provision for contingencies	18		(1,254)
Other losses			420
Changes in working capital			
Trade receivables			(55,315)
Inventories			4,783
Taxes recoverable		(8)	6,358
Other assets		(1,011)	(1,682)
Trade payables			(16,747)
Taxes and charges payable		433	(1,514)
Other liabilities		(4,102)	242
Cash provided by (used in) operations		(11,781)	14,782
Interest paid			(7,914)
Income tax and social contribution paid			(6,015)
Net cash provided by (used in) operating activities		(11,781)	853
Cash flows from investing activities			
Advances for future capital increase in subsidiaries		(104,260)	
Investments in intangible assets	15		(15,498)
Purchase of property, plant and equipment	16		(14,271)
Receipt of dividends		15,884	
Proceeds from sale of property, plant and equipment			10,867
Net cash used in investing activities		(88,376)	(18,902)
Cash flows from financing activities			
Capital increase		106,443	106,443
Borrowing costs		(6,275)	(6,275)
Proceeds from borrowings			61,369
Repayment of borrowings			(61,589)
Funds received from related parties - intercompany loan			8,600
Repayment of related parties - intercompany loan			(32,640)
Net cash provided by financing activities		100,168	75,908
Net increase in cash and cash equivalents		11	57,859
Cash and cash equivalents merged			14,424
Exchange gains on cash and cash equivalents			170
Cash and cash equivalents at the end of the period	7	11	72,453

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

Ouro Fino Saúde Animal Participações S.A.

Statement of value added

Period from April 10, 2014 (date of establishment) to December 31, 2014

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Parent	Consolidated
Revenues		
Gross sales and services		362,558
Other income	41	367
Revenues related to the construction of own assets		11,715
Provision for impairment of trade receivables		(190)
	41	374,450
Inputs acquired from third parties		
Cost of sales and services		(107,083)
Materials, electricity, third-party services and other	(6,385)	(92,996)
Losses on assets, net		(3,618)
	(6,385)	(203,697)
Gross value added	(6,344)	170,753
Depreciation and amortization		(11,313)
Net value added generated by the entity	(6,344)	159,440
Value added received through transfer		
Equity in the results of investees	44,813	
Finance income	51	22,638
Other		924
Total value added to distribute	38,520	183,002
Distribution of value added		
Personnel		
Salaries and wages	318	59,001
Benefits	2	10,643
FGTS		3,992
Taxes, fees and contributions		
Federal	430	32,907
State		5,694
Municipal		66
Remuneration of third parties' capital		
Interest	50	30,183
Rentals		1,760
Other		566
Remuneration of own capital		
Retained profits	28,761	28,761
Interest on capital and dividends	8,959	8,959
Non-controlling interests		470
Value added distributed	38,520	183,002

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

(A free translation of the original in Portuguese)

Ouro Fino Saúde Animal Participações S.A.

Notes to the financial statements at December 31, 2014

All amounts in thousands of reais unless otherwise stated

1 General information

Ouro Fino Saúde Animal Participações S.A. (the "Company"), formerly A.H.N.S.P.E. Empreendimentos e Participações S.A., is a listed corporation headquartered in Cravinhos, state of São Paulo. It was established on April 10, 2014 and its objective and main activity is the investment in companies operating in the animal health industry (production and sale of veterinary drugs, vaccines and other products for livestock and pets).

At the Extraordinary General Meeting held on June 30, 2014, the stockholders approved the merger of net assets consisting of investments, net of corresponding carrying value adjustments of Ouro Fino Saúde Animal Ltda. (and its subsidiary Ouro Fino de Mexico, S.A. de CV), Ouro Fino Agronegócio Ltda. and Ouro Fino Pet Ltda., based on an appraisal report at book value as of April 30, 2014, issued by independent appraisers on June 24, 2014, as summarized below:

Component	Amount
Assets	
Investments	
Ouro Fino Saúde Animal Ltda.	101,410
Ouro Fino Agronegócio Ltda.	76,586
Ouro Fino Pet Ltda.	<u>25,838</u>
	<u>203,834</u>
Liabilities	
Equity	
Carrying value adjustments	<u>(15,208)</u>
Net assets at book value	<u><u>188,626</u></u>

The net assets mentioned above have been determined based on the balance sheets of the investees as of April 30, 2014. Therefore, the results determined from April 30 to June 30, 2014 by the investees have been recognized by the Company on the equity accounting method.

The issue of these parent company and consolidated financial statements was authorized by the Company's Board of Directors on March 24, 2015.

Ouro Fino Saúde Animal Participações S.A.

Notes to the financial statements at December 31, 2014

All amounts in thousands of reais unless otherwise stated

The Company and its subsidiaries (hereinafter referred to as "Ouro Fino Group" or the "Group") comprises the following companies:

(a) Ouro Fino Saúde Animal Participações S.A.

Ouro Fino Saúde Animal Participações S.A. is a listed corporation headquartered in Cravinhos, state of São Paulo, and registered with the São Paulo Futures, Commodities and Securities Exchange - BM&FBovespa S.A. ("BM&FBovespa") in the Novo Mercado (New Market) category. Its objective and main activity is the direct or indirect investment in the subsidiaries listed below.

On October 17, 2014, the Group completed the public offering process for the primary and secondary distribution of its common shares. The public offering was carried out on the OTC market, as established in CVM Instruction 400. In this context, 1,923,077 common shares were issued at R\$ 27.00 per share, resulting in a capital increase of R\$ 51,923, which was approved by the Board of Directors at a meeting held on October 17, 2014.

Also, on November 18, 2014, the exercise of the Supplementary Stock Option took place, with the issue of 2,019,230 common shares by the Company, at R\$ 27.00 per share, resulting in a capital increase of R\$ 54,520, which was approved by the Board of Directors at a meeting held on November 18, 2014.

The table below shows the number of the Company's common shares held by holders of not less than 5% of common shares and the members of management, before and after the completion of the offering, considering the exercise of the Supplementary Stock Option.

	<u>Before the Offering</u>		<u>After the Offering</u>	
	<u>Common shares</u>	<u>%</u>	<u>Common shares</u>	<u>%</u>
Jardel Massari	18,438,557	36.88	14,834,135	27.50
Norival Bonamichi	18,438,557	36.88	14,834,135	27.50
BNDESPar	9,966,788	19.93	6,666,788	12.36
Dolivar Coraucci Neto	996,679	1.99	801,845	1.49
Fábio Lopes Júnior	996,679	1.99	801,845	1.49
Carlos Henrique	996,678	1.99	356,728	0.66
General Atlantic			7,407,407	13.73
Other	166,062	0.33	8,239,424	15.27
Total	<u>50,000,000</u>	<u>100.00</u>	<u>53,942,307</u>	<u>100.00</u>

(b) Ouro Fino Saúde Animal Ltda.

This subsidiary, headquartered in Cravinhos, state of São Paulo, has as its objective and main activity the research, development, production and sale of veterinary drugs, vaccines and products. The sales in the domestic market are carried out through the companies mentioned in items (c) and (d) below. The sales in the foreign market are carried out directly with third parties and through the company mentioned in item (e) below. This company also provides manufacturing services to order from third parties.

On May 30, 2014, the Ministry of Agriculture, Cattle Breeding and Supply (MAPA) published the Regulatory Instruction (IN) 13, effective on the same date, and resolved to "prohibit the manufacture, processing, fractionation, sale, import and use of long-acting veterinary products having macrocyclic lactones (avermectins) as their active ingredients, and that could be used in the food of any animal or

Ouro Fino Saúde Animal Participações S.A.

Notes to the financial statements

at December 31, 2014

All amounts in thousands of reais unless otherwise stated

insect" and suspended, as from its effectiveness, the registrations granted to finished products for veterinary use until MAPA carries out studies on the subject.

The veterinary division of the Group has in its portfolio some products that, depending on the interpretation to be adopted by the Ministry, could be considered as subject to this IN, but management understands that these products are in full compliance, considering that all tests and studies approved for granting the registrations of the products by MAPA itself proved their efficacy, safety and grace periods and will take all appropriate measures to defend its interests.

At December 31, 2014, despite the understanding of the full compliance of the products containing avermectins in their formula, conservatively, the Company's management decided to record a provision for the risk of a potential non-realization of some inventory balances and intangible assets, in the amounts of R\$ 293 and R\$ 340, respectively.

(c) Ouro Fino Agronegócio Ltda.

This company is headquartered in Cravinhos, state of São Paulo, and has as its main activities the sale in the domestic market of veterinary drugs and products for livestock (cattle, pigs, poultry, sheep, horses and goats) acquired from the company mentioned in item (b) above.

(d) Ouro Fino Pet Ltda.

This subsidiary, headquartered in Vinhedo, state of São Paulo, has as its main activity the sale in the domestic market of veterinary drugs and products and related goods for pets (cats, dogs and ornamental birds) purchased from the company mentioned in item (b) above.

(e) Ouro Fino de Mexico, S.A. de CV

A subsidiary of Ouro Fino Saúde Animal Ltda., headquartered in Guadalajara, Mexico, in which it holds 96.43% equity interest. Its main activity is the sale, exclusively in Mexico, of veterinary drugs and products purchased from its parent company.

2 Summary of significant accounting policies

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

The principal accounting policies applied in the preparation of these parent company and consolidated financial statements are set out below. These policies have been consistently applied during the period from April 10 to December 31, 2014, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention, and adjusted to reflect the "deemed cost" of land on the transition date to the IFRS/CPCs and the measurement of financial assets and financial liabilities at fair value through profit or loss for the period.

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Notes to the financial statements

at December 31, 2014

All amounts in thousands of reais unless otherwise stated

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the parent company and consolidated financial statements, are disclosed in Note 3.

(a) Parent company financial statements

The financial statements of the Company have been prepared in accordance with accounting practices adopted in Brazil issued by the Brazilian Accounting Pronouncement Committee (CPCs).

Because as from 2014, the accounting practices adopted in Brazil applicable to the parent company financial statements do not differ from IFRS applicable to separate financial statements, since they have permitted the application of the equity accounting method to the measurement of investments in subsidiaries in separate financial statements, they are also in conformity with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

These parent company financial statements are disclosed together with the consolidated financial statements.

(b) Consolidated financial statements

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

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

(c) Changes in accounting policies and disclosures

In 2014, new standards and revisions of CPCs/IFRS became effective and were adopted by the Company and its subsidiaries, when applicable. Of these standards, the only one that is significant for the Company and its subsidiaries is the following:

Review CPC 07 - "Equity Method in Separate Financial Statements", changes the wording of CPC 35 - "Separate Financial Statements" and includes changes made by IASB in the IAS 27 - Separate Financial Statements, and permits the adoption of the equity method in subsidiaries in separate financial statements, thus aligning the Brazilian accounting practices with international accounting standards.

Other amendments and interpretations which are effective for 2014 are not relevant for the Group.

2.2 Consolidation

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

Ouro Fino Saúde Animal Participações S.A.

Notes to the financial statements

at December 31, 2014

All amounts in thousands of reais unless otherwise stated

- (a) Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.
- (b) Transactions, balances and unrealized gains between Group companies are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group's chief operating and strategic decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Board of Directors.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- (ii) Income and expenses for each statement of income are translated at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

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at December 31, 2014

All amounts in thousands of reais unless otherwise stated

- (iii) All resulting exchange differences are recognized as a separate component of equity, in the account "Carrying value adjustments".

2.5 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, bank deposits and other short-term highly liquid investments with original maturities of three months or less and with immaterial risk of change in value.

2.6 Financial assets

2.6.1 Classification

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

(a) Loans and receivables

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

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

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

2.6.2 Recognition and measurement

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

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

2.6.3 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount presented in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legal right should not be contingent on the occurrence of future events and should be applicable in the ordinary course of business, and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

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2.6.4 Impairment of financial assets

Assets carried at amortized cost

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

2.7 Derivative financial instruments

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

2.8 Trade receivables

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

Impairment is established when there is objective evidence that the companies will not be able to recover all the amounts due. The calculation of the provision is based on a reasonable estimate to cover probable losses on the realization of receivables, taking into consideration the situation of each customer and respective guarantees.

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

2.10 Current and deferred income tax and social contribution

Income tax and social contribution expenses for the period comprise current and deferred taxes. Income taxes are recognized in the statement of income, except to the extent that they relate to items recognized directly in equity. In this case, the taxes are also recognized directly in equity.

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

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

Deferred income tax and social contribution are recognized on accumulated tax losses and temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. They are determined based on tax rates in effect on 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/tax losses can be utilized.

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

2.11 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 analyzes of financial feasibility.

Capitalized development expenditures are amortized as from the beginning of the sale of the product, using the straight-line method over the year of the expected benefit, which is, on average, 10 years. The finance charges on borrowings to finance a project are capitalized during the period required to develop the products.

(b) Trademarks and licenses purchased

Separately purchased trademarks and licenses are initially stated at historical cost. Since trademarks and licenses have a defined useful life, they are subsequently carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of approximately 10 years.

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(c) Computer software

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

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

2.12 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/CPCs, is calculated on the straight-line method, considering the estimated useful lives of the respective assets. The annual depreciation rates are disclosed in Note 16. Subsequent costs are included in an asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part or item is derecognized. All other repairs and maintenance are charged to the statement of income when incurred.

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other income (expenses), net" in the statement of income.

2.13 Impairment of non-financial assets

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

2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business and are classified as current liabilities if payment is due in one year or less. If not, they are presented as non-current liabilities. Accounts payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. In practice, they are usually recorded at the amount of the related invoice.

2.15 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 year elapsed, using the effective interest rate method.

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

2.16 Provisions

Provisions are recognized when there is a present or constructive obligation as a result of past events, it is probable that assets will be surrendered to settle the obligation, and a reliable estimate of the amount can be made.

2.17 Other assets and liabilities

An asset is recognized in the balance sheet when it is probable that its future economic benefits will flow to the Company and its cost or value can be reliably measured. A liability is recognized in the balance sheet when the Company has a legal or constituted obligation resulting from a past event and it is probable that economic resources will be required to settle the liability. The assets and liabilities are recorded including, when applicable, accrued income or incurred charges and exchange and monetary variations.

Assets and liabilities are classified as current when the realization or settlement is probable within the next 12 months. Otherwise, they are presented as non-current.

2.18 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 period in which they are due and are included in personnel expenses.

(b) Profit sharing

The Group recognizes a liability and an expense for profit-sharing in the statement of income. These provisions are calculated based on quantitative and qualitative targets established by management and are recorded as personnel expenses in the statement of income.

(c) Share-based payments

The Group has one equity-settled, share-based compensation plans, under which it receives services from employees and third parties as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the options is recognized as an expense. The total amount to be recognized is determined by reference to the fair value of the options on the grant date. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

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2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of products and services in the ordinary course of the activities. Revenue is shown net of value-added tax, returns, rebates and discounts, and after eliminating sales within the Group. Revenue is recognized when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of its activities, as described below. 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.

(a) Sales of products

The Group produces and sells a range of veterinary drugs and products for livestock and pets.

Sales are recognized when a Group entity has delivered products to the customer and the customer has full discretion over the channel and price to resell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(b) Finance income

Finance income is recognized on the accrual basis, using the effective interest rate method.

2.20 Other income and expenses

Other income and expenses are recognized in the statement of income on the accrual basis of accounting.

2.21 Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased item and the present value of the minimum lease payments.

Lease obligations are included in borrowings.

2.22 Distribution of dividends and interest on capital

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

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

2.23 New standards, amendments and interpretations to existing standards that are not yet effective

The following new standards and interpretations to existing standards were issued by the IASB but are not effective for the period ended December 31, 2014. The early adoption of standards, even though encouraged by IASB, has not been implemented in Brazil by the Brazilian Accounting Pronouncements Committee (CPC).

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- IFRS 9, "Financial instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. The full version of IFRS 9 was published in July 2014, effective on January 10, 2018. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 maintains, but simplifies, the combined measurement model, and establishes three main categories of measurement of financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. It also includes a new model of expected loan losses, which replaces the existing incurred losses model. IFRS 9 mitigates the requirements of hedge effectiveness and requires an economic relationship between the hedged item and the hedging instrument, and that the hedge ratio be the same as that which management effectively uses for risk management purposes. Management is assessing the full impact of the adoption of IFRS 9.
- IFRS 15 – "Revenue from Contracts with Clients", specifies how and when revenue must be recognized, as well as defines rules for disclosure of relevant information. IFRS 15 was issued in May 2014 and replaces IAS 18 – "Revenue", IAS 11 - "Construction Contracts" and several interpretations related to revenue. The application of this standard is mandatory for all the companies that issue financial statements for IFRS purposes and it applies to almost all contracts with clients, the main exceptions being leases, financial instruments and insurance contracts. The Group is yet to assess IFRS 15's full impact. The standard is applicable as from January 1, 2017.

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

3 Critical accounting estimates and judgments

Accounting estimates and assumptions 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.

3.1 Critical accounting estimates and assumptions

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

(a) Impairment of intangible assets

The Group annually tests product development balances in intangible assets for impairment, whenever possible through the discounted cash flow method, considering, among other aspects:

- (i) assumptions of future revenue generation, based on market dimensions (current and expected) and on the Group's planned market share;
- (ii) estimates of direct and indirect manufacturing costs; and
- (iii) trading expenditures, such as marketing, commission, freight and storage expenses.

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The projection year covers five or more years as from the estimated launching date, depending on the estimates of the product's life cycle, market development and level of associated technological innovation. Provisions are recorded when the recoverable amount (net present value of cash flow) is below the amount of the recorded asset, pursuant to the Company's accounting policy presented in Note 2.13.

(b) 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.

(c) Provision for contingencies

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

(d) Review of the useful lives of property, plant and equipment

The recovery capacity of the assets that are used in the Group's activities is evaluated whenever events or changes in circumstances indicate that the carrying amount of assets or group of assets may not be recoverable based on future cash flows. If the carrying amount of these assets is higher than their recoverable value, the carrying amount is adjusted and the useful lives revised to new levels.

4 Financial risk management

4.1 Financial risk factors

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

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

(a) Market risk

(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.

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In order to protect from foreign exchange risks, when necessary, the Group utilizes derivative transactions, mainly exchange rate swap.

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 variation, as well as to exchange interest rates initially contracted as fixed for variable rates. Gains and losses are recognized in "Finance result" in the statement of income, because hedge accounting is not currently adopted.

The following table presents the carrying amount of the assets and liabilities denominated in U.S. dollars:

Assets in foreign currency	
Cash and cash equivalents	2,266
Trade receivables	13,965
Advances to suppliers	10,820
	<hr/>
	27,051
Liabilities in foreign currency	
Borrowings (*)	817
Trade payables	11,330
Advances from customers	1
	<hr/>
	12,148
	<hr/>
Net exposure - assets	14,903

(*) The balance of borrowings in foreign currency does not consider working capital amounting to R\$ 63,648 because exchange rate swap has been contracted.

The assets and liabilities denominated in foreign currency are regularly monitored through the estimated cash flows. 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 foreign exchange variations, whenever required, derivative transactions may be contracted.

In the table below five scenarios are presented, considering the changes in the quotation of the Real against the U.S. dollar. The Group adopts the probable scenario.

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		Impact of the appreciation/depreciation of the U.S. dollar on the portfolio balance					
		2.6562	2.7200	2.0400	1.3600	3.4000	4.0800
Assets/liabilities	Risk		Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
			<i>(probable)</i>	(US\$ depreciation - 25%)	(US\$ depreciation - 50%)	(US\$ appreciation - 25%)	(US\$ appreciation - 50%)
Cash and cash equivalents	US\$ depreciation	2,266	54	(526)	(1,106)	635	1,215
Trade receivables	US\$ depreciation	13,965	335	(3,240)	(6,815)	3,911	7,486
Advances to suppliers	US\$ depreciation	10,820	260	(2,510)	(5,280)	3,030	5,800
Borrowings	US\$ appreciation	817	20	190	399	(229)	(438)
Trade payables	US\$ appreciation	11,330	272	2,628	5,529	(3,173)	(6,073)
Advances from customers	US\$ appreciation	1					(1)
Net effect		<u>14,903</u>	<u>941</u>	<u>(3,458)</u>	<u>(7,273)</u>	<u>4,174</u>	<u>7,989</u>

(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. The indebtedness is mainly subject to the fixed interest rates and the Interbank Deposit Certificate (CDI) rate. The Group seeks to maintain a stable relation between its long and short-term indebtedness, maintaining a higher proportion in the long-term. 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 understands that at present the fluctuations in interest rates do not significantly affect its finance result, since at December 31, 2014, 49.3% of its borrowings are linked to fixed interest rates and 11.1% are linked to long-term interest rates (TJLP), which have a history of low volatility.

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(b) Credit risk

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

The credit risk is mitigated through the broad customer base and careful selection of customers by business segment (cattle, horses, pigs, poultry and pets), 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 27 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 with the purpose of expressing the real risk of its customers. Weights are attributed to each indicator and a rating is defined based on their combination. The Group's synthetic credit risk rating for its customers is defined according to ratings ranging from "AA" (the lowest risk) to "E" (the highest risk) (Note 6).

(c) Liquidity risk

This is the risk of the Group not having sufficient liquid funds to meet its financial commitments, due to the mismatch of terms or volume in expected receipts and payments.

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 pre-approved credit facilities available to increase and strengthen its liquidity position.

Cash and cash equivalents are primarily invested in Bank Deposit Certificates (CDBs) and Repurchase Agreements, corresponding to highly liquid instruments.

The Group maintains its gearing ratio in a manner that does not jeopardize its payment capacity and investments. As established by a guideline, the highest percentage of indebtedness should be allocated to the long-term.

The table below analyzes the non-derivative financial liabilities into relevant maturity groups, based on the remaining period from the balance sheet date to the contractual maturity date.

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

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	Consolidated			
	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years
At December 31, 2014				
Trade payables	22,390			
Borrowings (*)	113,048	60,987	59,139	339
Derivative financial instruments, net	(10,364)	1,164		
Dividends and interest on capital	8,959			
Other liabilities	39,248	799	1,001	7,878
	<u>173,281</u>	<u>62,950</u>	<u>60,140</u>	<u>8,217</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.

4.2 Capital risk 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 December 31, 2014 are as follows:

	Note	Consolidated
Borrowings	17	215,653
Derivative financial instruments, net	8	(9,200)
Cash and cash equivalents	7	<u>(72,453)</u>
Net debt		134,000
Equity	19	<u>330,157</u>
Total capital		<u>464,157</u>
Gearing ratio (%)		<u>28.87</u>

4.3 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.

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

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 financial instruments have been classified as Level 2 "Other observable significant data", as shown below.

<u>As per balance sheet</u>	<u>Classification</u>	<u>Consolidated</u>
Assets - Derivative financial instruments		
Exchange rate swap	Level 2	10,376
Liabilities - Derivative financial instruments		
Interest rate swaps	Level 2	<u>(1,176)</u>
		<u><u>9,200</u></u>

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5 Financial instruments by category

	<u>Parent</u>	<u>Consolidated</u>	
	<u>Loans and receivables</u>	<u>Assets at fair value through profit or loss</u>	<u>Loans and receivables</u>
Assets as per balance sheet			
Cash and cash equivalents	11		72,453
Derivative financial instruments		10,376	
Accounts receivable			178,111
Related parties	108,658		998
Other assets, except for prepaid expenses	12		5,458
	<u>108,681</u>	<u>10,376</u>	<u>257,020</u>
	<u>Other financial liabilities</u>	<u>Liabilities at fair value through profit or loss</u>	<u>Other financial liabilities</u>
Liabilities as per balance sheet			
Trade payables			22,390
Derivative financial instruments		1,176	
Borrowings			215,653
Dividends and interest on capital	8,959		8,959
Commissions on sales			5,669
Other liabilities	420		5,468
	<u>9,379</u>	<u>1,176</u>	<u>258,139</u>

6 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, repurchase agreements and bank deposits (CDBs) amounting to R\$ 72,400 were held in prime financial institutions rated as A-2 by Standard & Poor's.

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The balances of trade receivables are evaluated as described in Note 4.1 (b), as follows:

AA	57,652
A	55,468
B	31,631
C	22,987
D	11,275
E	2,508
	<u>181,521</u>

7 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks, as well as investments in Bank Deposit Certificates (CDBs) earning up to 101.2% of the Interbank Deposit Certificate (CDI) rate variation.

	<u>Parent</u>	<u>Consolidated</u>
Cash		
In local currency		6
In foreign currency		47
		<u>53</u>
Banks		
In local currency	11	2,232
In foreign currency		2,219
		<u>4,451</u>
Bank Deposit		
Certificates (CDBs)		67,949
	11	<u>72,453</u>

8 Derivative financial instruments (consolidated)

	<u>Assets</u>	<u>Liabilities</u>
Exchange rate and interest rate swap	10,376	1,176
Non-current		(1,164)
Current	10,376	12

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The fair value of the derivatives is classified as a non-current asset or liability if the remaining maturity of the item protected by the swap is more than 12 months and, as a current asset or liability, if the remaining period until maturity of the item is less than 12 months.

The notional principal amounts of the outstanding exchange rate swap contracts at December 31, 2014 correspond to US\$ 23,750 thousand and of the interest rate swap contracts to R\$ 20,400 thousand.

9 Trade receivables (consolidated)

Domestic customers	167,556
Foreign customers (U.S. dollar)	13,965
Provision for impairment of trade receivables	<u>(3,410)</u>
Current	<u><u>178,111</u></u>

The foreign trade receivables at December 31, 2014 corresponded to US\$ 5,258 thousand.

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

Falling due	
Up to 3 months	107,816
From 3 to 6 months	46,199
Over 6 months	<u>10,760</u>
	<u>164,775</u>
Past due	
Up to 3 months (*)	10,126
From 3 to 6 months	341
Over 6 months	<u>6,279</u>
	<u>16,746</u>
	<u><u>181,521</u></u>

(*) Includes notes receivable amounting R\$ 4,811, which have been renegotiated in the beginning of 2015, and will be paid in installments.

The provision for impairment of trade receivables was constituted for receivables overdue for more than 180 days and without 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:

Merged balance	3,220
Additions	<u>190</u>
At December 31, 2014	<u><u>3,410</u></u>

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10 Inventories (consolidated)

Finished products	33,254
Raw materials	24,347
Imports in transit	6,021
Packaging materials	10,431
Advances to suppliers	3,672
Semi-finished goods	6,568
Other	5,137
Provision for inventory losses	(2,582)
	<u>86,848</u>

The changes in the provision for inventory losses were as follows:

Merged balance	704
Additions	2,216
Write-offs	(338)
At December 31, 2014	<u>2,582</u>

The changes in the provision for inventory losses differ from the cash flow because it does not take into consideration reductions resulting from inventory adjustments amounting to R\$ 964.

11 Taxes recoverable (consolidated)

	<u>Parent</u>	<u>Consolidated</u>
ICMS		26,161
ICMS, PIS and COFINS on acquisitions of property, plant and equipment		743
IRRF	96	521
IPI		510
PIS and COFINS		1,402
Other		97
	96	29,434
Non-current		<u>(22,529)</u>
Current	96	<u>6,905</u>

ICMS credits, which amounted to R\$ 22,058 at December 31, 2014, were mainly generated by Ouro Fino Saúde Animal Ltda. These credits are generated by exempted sales in domestic transactions and sales with a sixty-percent reduction in the calculation basis in interstate transactions, with the full/partial maintenance of credits on inputs, pursuant to the ICMS Agreement 100/97.

After the credit balances were inspected, they were considered to be appropriate according to the applicable legislation and can be utilized in the purchase of inputs and machinery and equipment and/or transferred to other Group companies with an interdependence relationship and which regularly

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calculate ICMS payable. Currently, most of these credits have been subjected to regular inspection processes.

At December 31, 2014, all ICMS credits related to 2010, 2011 and 2012 amounting to R\$ 18,846 were approved by the tax authorities, and R\$ 11,048 were released for immediate use. The residual balance of R\$ 7,798 was temporarily withheld in connection with tax assessment notices which have been discussed at an administrative level and obligations related to the submission of electronic files under the terms of the Coordinating Committee of Tax Administration Board (CAT) Ordinance 83/2009. Of the credits released, R\$ 10,245 were used and the remaining amount will be used next year.

12 Related parties

(a) Balances as per balance sheet

	<u>Parent</u>	<u>Consolidated</u>
Assets		
Accounts receivable (i)		944
Dividends and interest on capital (ii)	3,400	
AFAC (iii)	104,260	
Other assets (i)	996	996
	<u>108,656</u>	<u>1,940</u>
Liabilities		
Trade payables (iv)		218
Dividends and interest on capital (ii)	8,959	8,959
Borrowings (v)		8,361
Other liabilities (iv)	273	82
	<u>9,232</u>	<u>17,620</u>

(i) Trade receivables and other assets

Accounts receivable in consolidated are represented by the reimbursement of expenses, especially expenditures with the Shared Services Center ("CSC"), according to the expense sharing agreement entered into on June 30, 2014, with related parties Ouro Fino Participações e Empreendimentos S.A. (R\$ 28), Ouro Fino Química Ltda. (R\$ 838) and other receivables from the related party Condomínio Rural Ouro Fino (R\$ 78).

The other assets refer to transactions with minority interests arising from changes in the ownership interest of the subsidiaries Ouro Fino Agronegócio Ltda. and Ouro Fino Pet Ltda. amounting to R\$ 954 and collection of a license to use its brands granted to Ouro Fino Participações e Empreendimentos S.A., Ouro Fino Química Ltda., Ouro Fino Hong Kong Limited and Shangai Ouro Fino Trading Co., Ltd. according to an agreement entered into on July 30, 2014, amounting to R\$ 42.

(ii) Dividends and interest on capital

At December 31, 2014, R\$ 3,400 referred to interest on capital receivable from the subsidiary Ouro Fino Agronegócio Ltda. The balance payable of R\$ 8,959 refer to dividends and interest on capital payable to the stockholders of the parent company.

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(iii) Advances for future capital increase

Advances for future capital increase in the parent company refer to advances to subsidiaries Ouro Fino Saúde Animal Ltda. (R\$ 103,410) and Ouro Fino Agronegócio Ltda. (R\$ 850). The advances for future capital increase are irrevocable and unconditional and will be substantially utilized to pay up capital, when the corporate documents are registered.

(iv) Trade and other payables

The balance of R\$ 218 of trade payables referred to the reimbursement of expenses to related party Ouro Fino Química Ltda.

The balance of other payables refer to the reimbursement to the related parties Ouro Fino Saúde Animal Ltda. (R\$ 40), Ouro Fino Agronegócio Ltda. (R\$ 151) and Ouro Fino Química Ltda. (R\$ 4) of expenses and obligations with minority interests arising from the acquisition of quotas of its subsidiary Ouro Fino Agronegócio Ltda. totaling R\$ 78.

(v) Borrowings

Refers to borrowings from the related party BNDES Participações S.A., under conditions similar to those practiced with third parties.

(b) Income (expenses) in the period

	Period from 4/10/2014 to 12/31/2014	
	Parent	Consolidated
Collection of expenditures for the CSC	(65)	7,133
Royalty income	42	42
Proceeds from sale of property, plant and equipment		5,807
Expenditure on sale of property, plant and equipment		(5,789)
Finance costs		(1,570)
Other expenses, net	(350)	(304)
	<u>(373)</u>	<u>5,319</u>

Income and expenses incurred in the period refer mainly to collections by the Shared Services Center (CSC) from related parties Ouro Fino Química Ltda. and Ouro Fino Participações e Empreendimentos S.A. Royalty income refer to the related party Ouro Fino Química Ltda.

Income and expenses on the sale of property, plant and equipment refers to the sale of an aircraft, model VLJ 500 Embraer, to related party Ouro Fino Química Ltda.

Finance costs relate to interest on intercompany loan (R\$ 802), which is based on 100% of the variation in the Interbank Deposit Certificate (CDI) rate and was settled in 2014, Tax on Financial Transactions - IOF (R\$ 83) and interest on borrowings from BNDES (R\$ 685).

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(c) Management remuneration

Key management personnel include members of the Executive Board, whose remuneration is approved at the Ordinary General Meeting. In the period from April 10 to December 31, 2014 remuneration expenses totaled R\$ 3,425, of which R\$571 referred to labor charges.

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

Ouro Fino Saúde Animal Ltda. and Ouro Fino Agronegócio Ltda. determine income tax and social contribution on the taxable profit method, calculated at the rates of 25% for income tax and 9% for social contribution, whereas Ouro Fino Pet Ltda. adopts the deemed profit method. The Group also has a company located in Mexico, which calculates its taxes based on the regulations of that country. Therefore, there is no direct correlation between the amounts presented in the consolidated statement of income and the results that would have been obtained by applying the standard rates mentioned above.

Deferred tax credits arise from accumulated income tax and social contribution losses, as well as from temporary differences. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available to offset temporary differences and/or tax losses, considering projections of future results based on internal assumptions and future economic scenarios, which are, therefore, subject to changes.

(a) Composition, nature and realization of taxes

(i) Deferred income tax and social contribution assets, net

Tax credits on:

Temporary differences	
Provisions	2,841
	<u>2,841</u>

Tax liabilities on:

Temporary differences	
Derivative financial instruments	(921)
Total assets, net	<u>1,920</u>

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(ii) **Deferred income tax and social contribution liabilities, net**

Tax credits on:

Temporary differences	
Provisions	(4,311)
Unrealized profit in inventories	(1,460)
Pre-operating expenses written-off	(1,152)
	<u>(6,923)</u>

Tax liabilities on:

Deemed cost of land	7,878
Foreign exchange variations - taxation on cash basis	430
Derivative financial instruments	2,208
Accelerated depreciation	219
	<u>10,735</u>

Total liabilities, net	<u>3,812</u>
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Total deferred tax credits	<u>9,764</u>
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Total deferred tax liabilities	<u>11,656</u>
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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:

Merged balance	3,495
Pre-operating expenses written-off	(128)
Accumulated income tax and social contribution losses	(5,650)
Adjustment to market value	(3,605)
Provisions	2,274
Unrealized profit in inventories	1,460
Exchange rate variations - taxation on cash basis	239
Accelerated depreciation	23
	<u>(1,892)</u>
Closing balance	<u>(1,892)</u>

The credits arising from accumulated income tax and social contribution losses will be offset against future taxable profit, limited to 30% thereof each year, considering the current projections of realization prepared by management.

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The amounts by estimated offset period are as follows:

Deferred tax assets to be recovered		
within 1 year		8,899
from 2 to 5 years		865
		<u>9,764</u>
Deferred tax liabilities to be settled		
within 1 year		3,778
after 5 years		7,878
		<u>11,656</u>

14 Investments in subsidiaries (consolidated)

	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Total
(a) Information on subsidiaries				
Number of quotas held	87,064,319	79,772,495	1,000,000	
Percentage holding	99.99%	100.00%	100.00%	
Equity (*)	103,642	99,364	28,163	231,169
Profit for the period	3,157	25,053	18,079	46,289
Unrealized profit in inventories of the current period	(2,834)			(2,834)
Unrealized profit in inventories merged	1,798			1,798
(b) Changes in investments				
Merger of net assets (Note 1)	101,410	76,586	25,838	203,834
Equity in the results of investees	2,121	24,661	18,031	44,813
Acquisitions of quotas (**)		1,195	27	1,222
Capital increase with investments		922	151	1,073
Interest on capital		(4,000)		(4,000)
Dividends received			(15,884)	(15,884)
Exchange variations on foreign investments	111			111
	<u>103,642</u>	<u>99,364</u>	<u>28,163</u>	<u>231,169</u>

(*) The equity of subsidiary Ouro Fino Saúde Animal Ltda. is adjusted based on unrealized profit in inventories.

(**) Refers to the repurchase of 990,117 quotas from minority interests of the subsidiary Ouro Fino Agronegócio Ltda. and 738 quotas from the subsidiary Ouro Fino Pet Ltda., as resolved in the Stockholders' Extraordinary General Meeting held on September 25, 2014. The acquisition amount differs from the book value of the share of the investments acquired, amounting to R\$ 3,347 and R\$ 21, respectively. The difference (loss) was recognized directly in the Company's equity, pursuant to item 23 of CPC 36 (R3), because it relates to a transaction with minority stockholders.

Summarized financial information

Set out below is the summarized financial information for subsidiaries.

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(i) Summarized balance sheet

	Subsidiaries			
	Direct			Indirect
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de Mexico, S.A. de C.V.
Current				
Assets	186,359	221,786	35,603	5,077
Liabilities	(149,317)	(90,909)	(7,537)	(2,696)
Current assets (liabilities), net	37,042	130,877	28,066	2,381
Non-current				
Assets	239,504	22,619	355	98
Liabilities	(170,070)	(54,132)	(258)	
Non-current assets (liabilities), net	69,434	(31,513)	97	98
Equity	106,476	99,364	28,163	2,479

(ii) Summarized statement of income

	Period from 4/10/2014 to 12/31/2014			
	Direct			Indirect
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de Mexico, S.A. de C.V.
Net sales revenue	168,212	265,533	43,699	4,499
Profit before income tax and and social contribution	3,628	39,512	19,712	1,610
Income tax and social contribution	(471)	(13,771)	(1,633)	(812)
Earnings for the period				
from continuing operations	3,157	25,741	18,079	798
Loss from discontinued operations		(688)		
Profit for the period	3,157	25,053	18,079	798

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(iii) Statement of comprehensive income

	Period from 4/10/2014 to 12/31/2014
Ouro Fino Saúde Animal Ltda.	
Profit for the period	3,157
Other comprehensive income	111
Total comprehensive income	<u>3,268</u>

(iv) Summarized statement of cash flows

	Period from 4/10/2014 to 12/31/2014			
	Subsidiaries			
	Direct		Indirect	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de Mexico, S.A. de C.V.
Cash flows from operating activities				
Cash provided by (used in) operating activities	(66,256)	65,732	25,682	(87)
Interest paid	(2,403)	(5,511)		
Income tax and social contribution paid		(4,935)	(1,080)	
Net cash provided by (used in) operating activities	<u>(68,659)</u>	<u>55,286</u>	<u>24,602</u>	<u>(87)</u>
Net cash provided by (used in) investing activities	<u>(24,788)</u>	<u>7,657</u>	<u>(280)</u>	
Net cash provided by (used in) financing activities	<u>119,571</u>	<u>(39,571)</u>	<u>(15,883)</u>	
Increase (decrease) in cash and cash equivalents	<u>26,124</u>	<u>23,372</u>	<u>8,439</u>	<u>(87)</u>
Cash and cash equivalents at the beginning of the period	3,994	9,273	768	389
Exchange gains on cash and cash equivalents	155	15		
Cash and cash equivalents at the end of the period	<u>30,273</u>	<u>32,660</u>	<u>9,207</u>	<u>302</u>

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15 Intangible assets (consolidated)

	Merged balance	Additions	Provision for impairment	Write-offs	Amortization	At December 31, 2014
Trademarks and licenses purchased	716				(222)	494
Development and registration of products	37,827	10,897	(776)		(1,953)	45,995
Computer software	17,744	4,601		(37)	(2,497)	19,811
	<u>56,287</u>	<u>15,498</u>	<u>(776)</u>	<u>(37)</u>	<u>(4,672)</u>	<u>66,300</u>

	Merged balance			
	Cost	Provision for impairment	Accumulated amortization	Net
Trademarks and licenses purchased	2,198		(1,482)	716
Development and registration of products	46,759	(2,141)	(6,791)	37,827
Computer software	21,414		(3,670)	17,744
	<u>70,371</u>	<u>(2,141)</u>	<u>(11,943)</u>	<u>56,287</u>
	At December 31, 2014			

	Cost	Provision for impairment	Accumulated amortization	Net
Trademarks and licenses purchased	2,198		(1,704)	494
Development and registration of products	57,656	(2,917)	(8,744)	45,995
Computer software	25,978		(6,167)	19,811
	<u>85,832</u>	<u>(2,917)</u>	<u>(16,615)</u>	<u>66,300</u>

The amortization of intangible assets with product development and registration was recognized within "Cost of sales".

The development and registration of products substantially refer to expenditures for new veterinary drugs of R\$ 39,832 and expenditures for the development of a vaccine against foot-and-mouth disease of R\$ 6,163.

At December 31, 2014, the Group recognized impairment losses of R\$ 776, of which R\$ 340 related to intangible assets of avermectins (Note 1) and R\$ 436 to the appraisal of the economic feasibility of other products.

The assumptions utilized to analyze evidence of impairment are disclosed in Note 3.1.

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16 Property, plant and equipment (consolidated)

	Merged balance	Additions	Transfers	Write-offs	Depreciation	At December 31, 2014
Land	24,947					24,947
Buildings and improvements	66,696	1,591	9,260	(1,527)	(1,431)	74,589
Machinery, equipment and industrial facilities	48,462	4,690	4,835	(658)	(2,960)	54,369
Vehicles, tractors and aircraft	10,989	2,669		(7,559)	(1,037)	5,062
Furniture and fittings	2,753	851	1	(153)	(373)	3,079
IT equipment	3,549	641		(149)	(676)	3,365
Construction in progress	14,058	3,704	(14,103)	(630)		3,029
Other	2,648	125	7	(421)	(164)	2,195
	<u>174,102</u>	<u>14,271</u>	<u>7</u>	<u>(11,097)</u>	<u>(6,641)</u>	<u>170,635</u>

	Merged balance			At December 31, 2014			Annual average depreciation rates
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net	
Land	24,947		24,947	24,947		24,947	
Buildings and improvements	78,998	(12,302)	66,696	88,322	(13,733)	74,589	2.58%
Machinery, equipment and industrial facilities	73,097	(24,635)	48,462	81,964	(27,595)	54,369	6.20%
Vehicles, tractors and aircraft	19,433	(8,444)	10,989	14,543	(9,481)	5,062	22.09%
Furniture and fittings	5,546	(2,793)	2,753	6,245	(3,166)	3,079	10.21%
IT equipment	9,023	(5,474)	3,549	9,515	(6,150)	3,365	18.68%
Construction in progress	14,058		14,058	3,029		3,029	
Other	4,471	(1,823)	2,648	4,182	(1,987)	2,195	10.92%
	<u>229,573</u>	<u>(55,471)</u>	<u>174,102</u>	<u>232,747</u>	<u>(62,112)</u>	<u>170,635</u>	

The balance of construction in progress mainly comprises the construction of the new plant of the biological products unit of R\$ 1,799. In the period ended December 31, 2014, the first phase of the works was completed, and transfers to “Buildings and improvements” and “Industrial facilities” were made.

(a) Leases

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased item and the present value of the minimum lease payments.

At December 31, 2014, the net book value of leased vehicles totaled R\$ 584.

(b) Guarantees

Land, buildings, machinery and equipment amounting to R\$ 89,087 are pledged as collaterals for borrowings (Note 17).

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17 Borrowings (consolidated)

	<u>Financial charges incurred</u>	<u>Final maturity</u>	
In foreign currency			
BNDES - FINEM	Average of exchange variations of funds obtained by BNDES and weighted average rate of 2.57% p.a.	2016	817
Export credit note	Exchange variation and weighted average rate of 4.28% p.a.	2016	10,111
Working capital	Exchange variation and weighted average rate of 1.68% p.a.	2015	53,537
In local currency			
FINEP (Technological innovation)	Weighted average rate of 4.44% p.a.	2018	122,555
BNDES - FINEM	Weighted average rate of 2.88% p.a.	2016	6,268
BNDES - FINAME	Weighted average rate of 4.50% p.a.	2022	1,276
Export credit note	Weighted average rate of 8% p.a.	2016	20,889
Finance lease	Weighted average rate of 12.32% p.a.	2015	200
			215,653
Current			<u>(103,093)</u>
Non-current			<u>112,560</u>

(a) Finance lease liabilities

Finance lease transactions were mainly contracted to renew the vehicle fleet and will be fully settled during the next year.

(b) Guarantees for borrowings

The financing for research, innovation and development of products obtained from the Fund for Financing of Studies and Projects (FINEP) and which, at December 31, 2014 totaled R\$ 122,555, are guaranteed by a surety of the related party Ouro Fino Participações e Empreendimentos S.A. and bank guarantees of R\$ 11,716. No amounts are charged for the guarantees provided.

For the loan obtained with the National Bank for Economic and Social Development (BNDES), mainly for the construction of industrial facilities, purchases of Brazilian equipment and working capital, the Group offered as guarantee the industrial plant of animal health products located in the city of Cravinhos, state of São Paulo, up to the limit of the debit balance of the borrowings, as well as the financed equipment items themselves, in addition to sureties of the controlling interests.

Borrowings for working capital and leases are collateralized by sureties of the parent company and/or controlling interests. Borrowings from the Government Agency for Machinery and Equipment Financing (FINAME) are guaranteed through the statutory lien of the assets financed, in addition to sureties of the parent company and/or controlling interests.

The carrying amounts of borrowings approximate their fair values.

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The composition of non-current borrowings by maturity is as follows:

2016	53,682
2017	31,985
2018	26,555
2019 to 2022	<u>338</u>
	<u><u>112,560</u></u>

(c) 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\$ 63,648, to exchange the charges for those based on the CDI rate variation (Note 8).

18 Provision for contingencies (consolidated)

Some Group companies are parties to tax, labor and civil lawsuits at various court levels. The provisions for contingencies against potentially unfavorable outcomes of litigation in progress are established and updated based on management's evaluation, as supported by external legal counsel. The provisions are as follows:

Labor	2,561
Civil and social security	<u>103</u>
	<u><u>2,664</u></u>

In addition, some Group companies are parties to other administrative disputes, including those which were the object of tax assessments. No provisions were constituted to cover possible losses, based on the opinion of the legal advisors. Disputes for which a favorable outcome was considered as possible amounted to R\$ 38,938 and mainly corresponded to tax (ICMS) and labor claims.

The changes in the provision for contingencies were as follows:

Merged balance	3,918
Reversal of provision	(87)
Cancellation of proceedings	<u>(1,167)</u>
Closing balance	<u><u>2,664</u></u>

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19 Equity

(a) Capital

Capital was paid on April 10, 2014 in the amount of R\$ 1, corresponding to 500 shares. After the merger described in Note 1, capital was represented by 188,627,485 common shares without par value, fully subscribed and paid in the amount of R\$ 188,626.

At the Extraordinary General Meeting held on August 20, 2014, the stockholders approved the reverse split of all of the common shares representing the capital of the Company, in the ratio of three shares for one share of the same type, and the number of common shares totaled 62,875,828 but the ownership interest remained the same.

At the Extraordinary General Meeting held on September 25, 2014, the following resolutions were approved by the stockholders: (i) a capital increase in the Company by R\$ 3,819, with the issue of 209,521 common shares. The payment was made through the contribution of net assets representing 764,874 quotas issued by the subsidiary Ouro Fino Agronegócio Ltda. and 4,262 quotas of the subsidiary Ouro Fino Pet Ltda., in the amounts of R\$ 3,545 and R\$ 274, respectively, according to the appraisal reports issued on September 19, 2014 by a specialized company, and (ii) the reverse split of all of the common shares representing the capital of the Company, in the ratio of 1.26170698 shares for one share of the same type, and the number of common shares totaled 50,000,000 but the ownership interest remained the same.

The amount of the payment made with the contribution of assets of the subsidiaries Ouro Fino Agronegócio Ltda. and Ouro Fino Pet Ltda., which was based on the valuation carried out by a specialized company, as mentioned above, differs from the book value of the share of the investments acquired (Note 14) by R\$ 2,623 and R\$ 123, respectively. The difference (loss) was recognized directly in the Company's equity, pursuant to item 23 of CPC 36 (R3), because it relates to a transaction with minority stockholders.

At the Board of Directors' meeting held on October 17, 2014, the issue of 1,923,077 new shares was approved, which were the object of the public offering described in Note 1 (a), which resulted in a capital increase in the amount of R\$ 51,923.

At the Board of Directors' meeting held on November 18, 2014, the issue of 2,019,230 new shares was approved, which resulted in a capital increase in the amount of R\$ 54,520 as a result of the full exercise of the option for distribution of an additional lot of shares within the context of the offering.

At the end of the period, after the approval of the capital increases mentioned above, the Company had 53,942,307 common shares.

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(b) Capital reserves

The amounts considered as "Capital reserves" related to expenditures incurred for the Initial Public Offering (IPO), as shown below:

Description	Basic Operation
Capital increase	106,443
Borrowing costs	(6,275)
Direct costs (commissions)	(4,205)
Indirect costs (lawyers, auditors, consultancy and other)	(8,129)
Borrowing costs proportional to the secondary offering (Note 22)	6,059
	<u>100,168</u>

According to Technical Pronouncement CPC 08 (R1), the indirect costs, proportionate to the secondary portion of the offering cannot be classified as borrowing costs; for this reason this amount was reclassified to profit or loss for the period, because these costs are borne by the Company, as agreed between the stockholders and disclosed in the Offering process.

(c) Allocation of profit

Profit is allocated as follows according to the bylaws:

- 5% to the legal reserve, limited to 20% of the capital;
- minimum dividend of 25% of profit adjusted according to article 202 of Law 6404; and
- the remaining balance will be distributed by the stockholders representing not less than two-thirds of the voting shares, in accordance with the applicable legal provisions.

Allocation of profit	Parent
Profit for the period	37,720
Legal reserve (5%)	<u>(1,886)</u>
Calculation basis for minimum dividends	35,834
Distributed dividends (25%)	(8,959)
Interest on capital	(3,630)
Withholding tax on interest on capital	512
Minimum mandatory dividends	(5,840)

Also, pursuant to article 196 of Law 6,404/76, the Company's management is proposing that the remaining balance of the profit for the period, amounting to R\$ 26,364, be maintained to meet part of the investments estimated to take place during the next year. This decision shall be ratified at the Ordinary General Meeting that will approve the financial statements.

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(d) Carrying value adjustments

The carrying value adjustments in equity refer to the effect of the adoption of the deemed cost for land in subsidiaries on January 1, 2009, as well as to all exchange rate differences resulting from the translation of the balance sheet and the statement of income of the foreign subsidiaries.

(e) Stock option plan

At the Extraordinary General Meeting held on December 30, 2014, the stockholders approved the Stock Option Plan (the "Plan"), aiming at: (i) stimulating the Company's growth, success and achievement of objectives; (ii) aligning the interests of the Company's stockholders with those of the eligible individuals; (iii) enabling attracting and retaining professionals and service providers, thus stimulating the generation of value for the Company, and (iv) sharing risks and gains equally between stockholders, managers and employees.

The plan is managed by the Board of Directors and, according to its rules, the following can be eligible as beneficiaries: Officers, 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 shall not exceed 1.5% of the total common shares of the Company's capital. The Company's Stock Option Plan is available at the Brazilian Securities Commission (CVM).

The vesting period considers that the beneficiaries may exercise their rights 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 Agreements, 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 price of the quotations of the Company's shares on the Commodities & Futures Exchange (BM&FBOVESPA), weighted by the trading volume, within the 60 (sixty) trading sessions prior to the grant, monetarily restated for inflation according to the General Market Price Index (IGP-M).

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

(i) Options granted

At December 30, 2014, the Board of Directors approved the Plan's Regulations and Adhesion Contracts, as well as defined those elected for the first grant, totaling 809,135 stock options, distributed among 17 beneficiaries, as follows:

	Vesting period closing				
	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Number of options	161,827	161,827	161,827	161,827	161,827
Exercise price at launch (strike price)	28.22	28.22	28.22	28.22	28.22
Fair value of options granted	9.65	11.16	12.48	13.74	14.9
Maximum exercise price	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023

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

	General assumptions and information on the evaluation				
	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>
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%

As the grant occurred on December 30, 2014, there was no impact on the Company's results for the period ended December 31, 2014.

20 Segment information

The Board of Directors is the chief decision-maker and has determined the Group's operating segments according to the markets where it operates, based on strategic business decisions.

The segments are:

- Livestock - production and sale in the domestic market of veterinary drugs, vaccines and other products for livestock (cattle, pigs, poultry, sheep, horses and goats).
- Pets – production and sale in the domestic market of veterinary drugs and other products for pets (dogs, cats and ornamental birds).
- Foreign operations - production and sale in the foreign market of veterinary drugs, vaccines and other products for livestock (cattle, pigs, poultry, sheep, horses and goats). Exports of these products are mainly to Latin America.

As described in Note 4.1 (b), the subsidiaries have a broad customer base and, therefore, the Group does not have customers representing more than 10% of its total net revenues.

The Group has not presented assets and liabilities by business segment, since they do not form part of the analyses carried out by the Board of Directors when making strategic decisions.

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The results by segment are as follows:

	<u>Period from 4/10/2014 to 12/31/2014</u>			
	<u>Results by business segment</u>			
	<u>Livestock</u>	<u>Pets</u>	<u>International operations</u>	<u>Total</u>
Net revenue	264,084	43,699	19,577	327,360
Cost of sales	(118,861)	(6,913)	(7,637)	(133,411)
Gross profit	145,223	36,786	11,940	193,949
Selling expenses	(89,054)	(10,736)	(3,807)	(103,597)
General and administrative expenses (not segmented)				(28,168)
Other revenues, net (not segmented)				(5)
Operating profit				62,179
Finance income (not segmented)				22,638
Finance costs (not segmented)				(30,712)
Finance result (not segmented)				(8,074)
Profit before income tax and and social contribution				54,105
Income tax and social contribution				
Current (not segmented)				(9,840)
Deferred (not segmented)				(5,387)
Profit for the period from continuing operations				<u>38,878</u>

The table below shows the composition by country of net revenues from foreign customers:

	<u>Period from 4/10/2014 to 12/31/2014</u>
Venezuela	5,131
Mexico	4,499
Colombia	2,004
Paraguay	1,486
Sudan	1,098
Other	5,359
	<u>19,577</u>

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21 Revenue (consolidated)

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

	Period from 4/10/2014 to 12/31/2014
Domestic customers	
Gross sales and services	350,870
Taxes and deductions on sales	<u>(43,087)</u>
	307,783
Foreign customers	
Gross sales of products	<u>19,577</u>
	<u><u>327,360</u></u>

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22 Costs and expenses by nature

	Period from 4/10/2014 to 12/31/2014	
	Parent	Consolidated
Cost of sales		
Variable costs (raw and consumption materials)		82,053
Personnel expenses		20,605
Outsourced services		7,793
Depreciation and amortization		6,290
Electric power		2,729
Provision for inventory losses and write-offs		2,842
Provision for impairment		776
Other		10,323
		<u>133,411</u>
Selling expenses		
Personnel expenses		39,118
Sales team expenses		37,813
Freight charges		10,490
Outsourced services		9,558
Depreciation and amortization		2,732
Telecommunications and electricity		793
Recovery of expenses - Shared Services Center		(1,304)
Other		4,397
		<u>103,597</u>
General and administrative expenses		
Personnel expenses	380	18,260
Borrowing costs - IPO (Note 19 (b))	6,059	6,059
Outsourced services	107	3,437
Depreciation and amortization		2,291
Travel expenses	49	694
Telecommunications and electricity		658
Vehicle expenses	81	435
Maintenance and consumption materials	1	334
Donations and sponsorship		329
Recovery of expenses - Shared Services Center		(5,829)
Other	86	1,500
	<u>6,763</u>	<u>28,168</u>
	<u>6,763</u>	<u>265,176</u>

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23 Other income (expenses), net

	Period from 4/10/2014 to 12/31/2014	
	Parent	Consolidated
Bonuses received		63
Gains on sale and write-off of PP&E		151
Revenue for other sales	42	413
Sundry losses	(2)	(68)
Sundry charges		(93)
Sundry taxes	(371)	(471)
	<u>(331)</u>	<u>(5)</u>

24 Finance result

	Period from 4/10/2014 to 12/31/2014	
	Parent	Consolidated
Finance income		
Gains on derivatives		11,068
Foreign exchange variation		9,113
Income from financial investments	51	1,555
Interest receivable		365
Monetary variation		274
Discounts obtained		263
	<u>51</u>	<u>22,638</u>
Finance costs		
Foreign exchange variation	(9)	(19,169)
Interest payable		(6,541)
Losses on derivatives		(3,516)
Finance charges		(893)
Bank fees	(12)	(175)
Discounts granted		(172)
Monetary variation	(29)	(29)
Other		(217)
	<u>(50)</u>	<u>(30,712)</u>
Finance result	<u>1</u>	<u>(8,074)</u>

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25 Income tax and social contribution expense

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

	Period from 4/10/2014 to 12/31/2014	
	Parent	Consolidated
Profit before income tax and social contribution	37,720	53,417
Standard rates	34%	34%
	(12,825)	(18,162)
Reconciliation to the effective rate:		
Permanent differences:		
Equity in the results of investees	15,236	
R&D incentive		600
Adjustment related to the calculation of subsidiary taxed based on the deemed profit method		5,069
Adjustment related to the calculation of foreign subsidiary taxed based on the rate in effect in that country		(265)
Interest on capital		1,360
Derivative financial instruments		(1,887)
Deferred taxes, not recorded	(2,386)	(2,386)
Other permanent differences	(25)	444
Income tax and social contribution		(15,227)
Reconciliation with the statement of income:		
Current		(9,840)
Deferred		(5,387)
		(15,227)

On May 13, 2014, the Provisional Measure 627 was converted into Law 12,973/14, thus confirming the repealing of the Transitional Tax System (RTT) as from 2015, earlier adoption in 2014 being permitted.

The Group completed its analysis of the impacts of the provisions established in the mentioned Law, both in its financial statements and in its internal control structure. Considering that the results of this analysis did not present material tax effects, the Group has decided not to elect the early adoption of the rules and provisions of the new law in 2014.

26 Discontinued operations

At a meeting held on December 10, 2013, the members of the Board of Directors decided to discontinue the activity of raising and selling pedigree cattle and *Criollo* horses ("Genetics Division") which was, until then, carried out by the subsidiary Ouro Fino Agronegócio Ltda.

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The statement of income of the Genetics Division is presented below:

	Period from 4/10/2014 to 12/31/2014
Discontinued operations	
Selling expenses	(256)
General and administrative expenses	(46)
Other expenses, net	(386)
Loss for the period from discontinued operations	(688)

27 Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit attributable to the stockholders of the Company by the weighted average number of outstanding common shares during the period, adjusted by the weighted average number of instruments with dilutive effects.

	Period from 4/10/2014 to 12/31/2014	
	Continuing operations	Discontinued operations
Profit for the period attributable to stockholders of the Company	38,400	(680)
Weighted average number of common shares in the period	35,604	35,604
Basic and diluted earnings per share - R\$	<u>1.07852</u>	<u>(0.01909)</u>

The basic and diluted earnings per share do not present variation because the share-based compensation plan (Note 19 (e)) has been awarded to eligible beneficiaries at December 31, 2014.

28 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 in the period from April 10, 2014 to December 31, 2014 totaled R\$ 659.

(b) Profit sharing

The Group offers to their employees a variable remuneration program, calculated based on quantitative and qualitative goals established by management. During the period from April 10, 2014 to December 31, 2014, the amount of the profit-sharing provision was R\$ 7,449.

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29 Insurance cover

The Group had insurance coverage for operating risks and comprehensive civil liability, with a maximum indemnity of R\$ 295,800 at December 31, 2014. The Group's management considers these amounts to be sufficient to cover any potential liability risks and damages to the assets and loss of profits.

30 Events after the reporting period

On February 10, 2015, an increase in the capital of the subsidiary Ouro Fino Agronegócio Ltda. from R\$ 79,772 to R\$ 80,622 was approved, with advances for future capital increase made by the Company in the amount of R\$ 850.

On February 25, 2015, an increase in the capital of Ouro Fino Saúde Animal Ltda. from R\$ 87,064 to R\$ 190,474 was approved, with advances for future capital increase made by the Company in the amount of R\$ 103,410.

* * *