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

Parent company and consolidated financial statements at December 31, 2016 and independent auditor's report

(A free translation of the original in Portuguese)

Independent auditor's report on financial statements

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

Opinion

We have audited the accompanying parent company financial statements of Ouro Fino Saúde Animal Participações S.A. ("Parent company"), which comprise the balance sheet as at December 31, 2016 and the statements of operations, comprehensive income (loss), changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Ouro Fino Saúde Animal Participações S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2016 and the consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

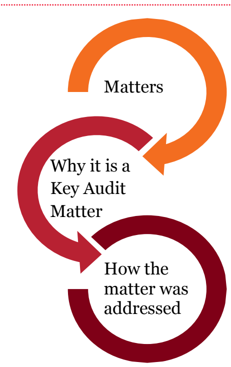
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ouro Fino Saúde Animal Participações S.A. and of Ouro Fino Saúde Animal Participações S.A. and its subsidiaries as at December 31, 2016, and the parent company financial performance and the cash flows for the year then ended, as well as the consolidated financial performance and the cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for opinion

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

Key audit matters

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



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Why it is a Key Audit Matter	How the matter was addressed in the audit
Provision for impairment of trade receivables	
As disclosed in Notes 2 (b), 3.1 (b) and Note 11 to the financial statements, the Company is subject to credit risk, mainly related to trade receivables. Management exercises its judgment with regard to the expectation of impairment losses on trade receivables, considering delays in payments, guarantees obtained, status of the negotiations in progress, as well as other factors that increase the credit risk of its customers. We focused on this area because this accounting estimate is subject to judgment and inherent subjective analysis by management with regard to the probable realizable value of the trade receivables. This estimate may have a significant impact on the results for the year.	Our audit procedures included, among others, understanding and testing the significant internal controls over the information technology environment that supports the Company's control structure, as well as the controls associated with the measurement and recognition of the provision for impairment. We also realized the understanding and testing of the significant assumptions utilized in the calculation of the estimate by the Company's management to determine the provision, such as the aging of the overdue receivables, the amounts estimated for guarantees realized, and potential loss arising from receivables that are not past due from customers in debt. In addition, we compared the estimate recorded in the previous year with the actual results incurred in the current year. Our audit procedures showed that the judgments and assumptions utilized by management in relation to this matter were reasonable, in all material respects, in the context of the financial statements.
Provision for discount on sales of the vaccine against foot-and-mouth disease	
As disclosed in Notes 2 (h) and 19 (a) to the financial statements, considering the high competitiveness and discount practices existing in the market, the Company is subject to the risk of having to grant future discounts on sales already carried out of vaccines against foot-and-mouth disease. After the sales are billed, the negotiations with customers continue in the periods prior to the next vaccination campaign. Accordingly, based on its experience, accumulated knowledge of the sector, public information on this market and projected demand, the Company records a provision for the probable future discount estimated for the sales of this product. At December 31, 2016, this provision amounted to R$ 2,443 thousand.	Our audit procedures included, among others, understanding and testing the significant internal controls maintained by management related to the calculation of the estimate of future discounts on sales prices. We also realized the understanding of the significant assumptions and critical judgments adopted by Management to record the estimate of the future discount, and the comparison of the estimate recorded in the previous year with the actual results in the current year. Our audit procedures showed that the judgments and assumptions utilized by management in relation to this matter were reasonable, in all

Why it is a Key Audit Matter	How the matter was addressed in the audit
We focused on this area because the estimate is based on management's critical judgments, as previously discussed.	material respects, in the context of the financial statements.
Intangible assets arising from the development and registration of new products	
As disclosed in Notes 2 (g) and 15 to the financial statements, the Company maintains intangible asset balances arising from the development and registration of new products. The recovery of these assets is based on projections that include management's significant assumptions and judgments, involving, among others, the projection of the launch of the respective products and of the life cycle of the new products, expected future generation of revenue, margins, and market development. In the year ended December 31, 2016, management recognized impairment losses of R$ 3,721 thousand, arising from the write-off of certain projects from which economic benefits are no longer expected. We considered this an area of focus in our audit, since the changes in these assumptions could significantly affect the recovery of the balances recorded and, consequently, the Company's financial position and results of operations.	Our audit procedures included, among others, discussions with management regarding the feasibility studies for the new products under development, and the understanding of the existing controls and processes to monitor the progress of each project up to the production and sale of the product on a regular basis. We obtained an understanding of the main assumptions utilized in the preparation of the cash flow projections for the new products, and verified their logical and arithmetical coherence. Furthermore, we analyzed, on a test basis, the documents supporting the approval by management of the write-off of the projects from which economic benefits are no longer expected. Our audit procedures showed that the judgments and assumptions utilized by management in relation to this matter were reasonable and consistent with the data and information obtained.
Value-added Tax on Sales and Services (ICMS) recoverable	
As disclosed in Note 13 to the financial statements, the outstanding ICMS credits recoverable at December 31, 2016 are subject to regular inspection processes. A portion of this balance has been temporarily withheld due to tax assessment notices discussed at the administrative level. Management seeks to realize the aforementioned credits through requests for reimbursement from the Government of the State of São Paulo, which are being carried out through the submission of the electronic documents pursuant to Ordinance 83/2009 of the	Our audit procedures included, among others, understanding and testing the significant internal controls over the information technology environment that supports the Company's control structure, as well as the controls associated with the generation and recording of ICMS credits. Together with our tax experts, we realized the understanding and analysis of the procedures adopted by the Company for the recording of the ICMS credits.

Why it is a Key Audit Matter	How the matter was addressed in the audit
Coordinating Committee of Tax Administration Board (CAT). Due to the significance of the balance of ICMS recoverable and the complexity of the process of preparation and submission of these electronic documents, in relation to the requirements established in CAT Ordinance 83/2009, we considered this an area of focus in our audit.	Our audit approach also considered, with the support of our tax experts, discussions with management to evaluate the progress and risks of the discussions at the administrative level, and the compliance with obligations related to the submission of the electronic documents under the terms of CAT Ordinance 83/2009, which might affect the effective future realization of the ICMS credits recoverable. Our audit procedures showed that the judgments and assumptions utilized by management in relation to this matter were reasonable, and the disclosures were consistent with the data and information obtained.

Other matters

Statements of Value Added

The parent company and consolidated Statements of Value Added for the year ended December 31, 2016, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements were reconciled with the financial statements and accounting records, as applicable, and if their form and content were in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added". In our opinion, these Statements of Value Added have been properly prepared in all material respects, in accordance with the criteria established in the Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

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

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

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

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

Ouro Fino Saúde Animal Participações S.A.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ribeirão Preto, March 16, 2017

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

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

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Contents

Ouro Fino Saúde Animal Participações S.A.

Balance sheet at December 31

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

		Parent company		Consolidated	
Assets	**Note**	**2016**	**2015**	**2016**	**2015**
Current assets					
Cash and cash equivalents	9	567	468	70,325	23,380
Trade receivables	11			162,478	225,740
Derivative financial instruments	10				22
Inventories	12			131,303	109,263
Taxes recoverable	13			4,877	7,471
Income tax and social contribution recoverable				5,107	1,020
Related parties	28	69	5,615	303	1,870
Other assets				5,529	9,611
		636	6,083	379,922	378,377
Non-current assets					
Long-term receivables					
Derivative financial instruments	10				1,713
Taxes recoverable	13	113	201	42,643	32,322
Deferred income tax and social contribution	14			17,081	5,558
Related parties		165		165	
Other assets				2,806	2,616
		278	201	62,695	42,209
Investments in subsidiaries	5	375,630	391,110		
Intangible assets	15			87,158	78,690
Property, plant and equipment	16			245,801	194,095
Total non-current assets		375,908	391,311	395,654	314,994
Total assets		376,544	397,394	775,576	693,371

Ouro Fino Saúde Animal Participações S.A.

Balance sheet at December 31

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

		Parent company		Consolidated	
Liabilities and equity	**Note**	**2016**	**2015**	**2016**	**2015**
Current liabilities					
Trade payables	17			23,316	29,450
Derivative financial instruments	10			8,820	1,297
Borrowings	18			73,550	57,260
Salaries and social charges		114	99	17,299	24,333
Taxes payable		55	546	4,053	6,585
Income tax and social contribution payable				1,056	1,873
Dividends and interest on capital	29		16,433		16,433
Related parties	29	41	119	355	660
Commissions on sales				6,070	7,313
Other liabilities			16	8,440	4,790
Total current liabilities		210	17,213	142,959	149,994
Non-current liabilities					
Derivative financial instruments	10			10,584	
Borrowings	18			241,888	159,227
Provision for contingencies	19			3,850	3,841
Total non-current liabilities				256,322	163,068
Total liabilities		210	17,213	399,281	313,062
Equity	20				
Share capital		299,107	298,889	299,107	298,889
Capital reserve		(6,392)	(6,392)	(6,392)	(6,392)
Options granted		3,076	1,491	3,076	1,491
Revenue reserves		65,035	70,241	65,035	70,241
Carrying value adjustments		15,508	15,952	15,508	15,952
		376,334	380,181	376,334	380,181
Non-controlling interests				(39)	128
Total equity		376,334	380,181	376,295	380,309
Total liabilities and equity		376,544	397,394	775,576	693,371

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

Ouro Fino Saúde Animal Participações S.A.

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

		Parent company		Consolidated	
	Note	**2016**	**2015**	**2016**	**2015**
Revenue	21			456,587	534,045
Cost of sales	22			(230,504)	(236,684)
Gross profit				226,083	297,361
Selling expenses	22			(171,656)	(161,618)
General and administrative expenses	22	(2,821)	(1,688)	(43,058)	(39,882)
Equity in the results of investees	5	(2,419)	71,332		
Other income (expenses), net	23	46	110	(2,519)	2,041
Operating profit (loss)		(5,194)	69,754	8,850	97,902
Finance income		27	4	4,487	4,707
Finance costs		(39)	(566)	(12,280)	(10,695)
Result on derivative financial instruments, net				(28,050)	11,098
Foreign exchange variations, net				13,643	(15,745)
Finance result	24	(12)	(562)	(22,200)	(10,635)
Profit (loss) before income tax and social contribution		(5,206)	69,192	(13,350)	87,267
Income tax and social contribution	25				
Current				(3,604)	(25,237)
Deferred				11,603	7,177
Profit (loss) for the year		(5,206)	69,192	(5,351)	69,207
Attributable to:					
Owners of the parent				(5,206)	69,192
Non-controlling interests				(145)	15
				(5,351)	69,207
Earnings (loss) per share attributable to owners of the Company during the year (in reais)	26				
Basic earnings (loss) per share				(0.09650)	1.28271
Diluted earnings (loss) per share				(0.09644)	1.28105

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

Ouro Fino Saúde Animal Participações S.A.

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

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Profit (loss) for the year	(5,206)	69,192	(5,351)	69,207
Other comprehensive income (loss)				
Items that will be reclassified to profit or loss				
Exchange variation of investment in subsidiary located abroad	(444)	633	(466)	658
Total comprehensive income (loss) for the year	(5,650)	69,825	(5,817)	69,865
Attributable to:				
Owners of the parent			(5,650)	69,825
Non-controlling interests			(167)	40
			(5,817)	69,865

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

Ouro Fino Saúde Animal Participações S.A.

Statement of changes in equity

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

		Attributable to owners of the parent									
					Revenue reserves						
	Note	Share capital	Capital reserve	Options granted	Legal reserve	Profit retention reserve	Carrying value adjustments	Retained earnings (accumulated deficit	Total	Non-controlling interests	Total equity
At January 1, 2015		298,889	(6,275)		1,886	20,250	15,319		330,069	88	330,157
Comprehensive income for the year											
Profit for the year								69,192	69,192	15	69,207
Exchange variation of subsidiary located abroad							633		633	25	658
Total comprehensive income for the year							633	69,192	69,825	40	69,865
Contributions of owners and distributions to owners											
Share options granted	20 (e)			1,491					1,491		1,491
Borrowing costs	20 (b)		(117)						(117)		(117)
Distribution of additional dividends for 2014						(3,931)			(3,931)		(3,931)
Allocation of profit:											
Legal reserve	20(c)				3,460			(3,460)			
Interest on capital and dividends	20 (c)							(17,156)	(17,156)		(17,156)
Profit retention for expansion	20 (c)					48,576		(48,576)			
Total contributions of owners and distributions to owners			(117)	1,491	3,460	44,645		(69,192)	(19,713)		(19,713)
At December 31, 2015		298,889	(6,392)	1,491	5,346	64,895	15,952		380,181	128	380,309
Comprehensive income (loss) for the year											
Loss for the year								(5,206)	(5,206)	(145)	(5,351)
Exchange variation of subsidiary located abroad							(444)		(444)	(22)	(466)
Total comprehensive loss for the year							(444)	(5,206)	(5,650)	(167)	(5,817)
Contributions of owners											
Capital increase	20 (a)	218							218		218
Transfer to revenue reserves	20 (c)					(5,206)		5,206			
Tax benefit of goodwill merged	1.1		54,433						54,433		54,433
Provision for unrealized tax benefit of goodwill merged	1.1		(54,433)						(54,433)		(54,433)
Share options granted	20 (e)			1,585					1,585		1,585
Total contributions of owners		218		1,585		(5,206)		5,206	1,803		1,803
At December 31, 2016		299,107	(6,392)	3,076	5,346	59,689	15,508		376,334	(39)	376,295

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

Ouro Fino Saúde Animal Participações S.A.

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

		Parent company		Consolidated	
	Note	2016	2015	2016	2015
Cash flows from operating activities					
Profit (loss) before income tax and social contribution		(5,206)	69,192	(13,350)	87,267
Adjustments for:					
Provision for impairment of trade receivables	11			7,423	1,105
Provision for inventory losses and write-offs	12			8,637	(679)
Provision for sales returns	19			2,761	
Provision for bonuses to customers	19			780	
Reversal of the provision for discounts on sales of vaccines against foot-and-mouth disease	19			(1,280)	(752)
Equity in the results of investees	5	2,419	(71,332)		
Depreciation and amortization	15 and 16			21,927	20,132
Provision for impairment of intangible assets	15			3,721	407
Gain on disposal of property, plant and equipment	23			(21)	(1,855)
Write-off of intangible assets				481	
Interest and monetary and exchange variations, net				(4,698)	22,310
Derivative financial instruments				28,050	(11,098)
Changes in the provision for contingencies	19			157	(27)
Other losses/gains					(377)
Share options granted	20 (e)	18	21	1,585	1,491
Changes in working capital					
Trade receivables				49,820	(47,412)
Inventories				(32,047)	(22,723)
Taxes recoverable		88	3	(9,701)	(9,841)
Other assets		672	23	4,867	(175)
Trade payables				(2,277)	4,864
Taxes payable		(490)	54	(2,288)	976
Other liabilities		(79)	(230)	(4,915)	1,504
Cash provided by (used in) operations		(2,578)	(2,269)	59,632	45,117
Interest paid				(10,516)	(7,785)
Income tax and social contribution paid				(6,914)	(21,823)
Net cash provided by (used in) operating activities		(2,578)	(2,269)	42,202	15,509
Cash flows from investing activities					
Advances for future capital increase			(28,400)		
Purchase of investments					(387)
Investments in intangible assets	15			(22,954)	(21,965)
Purchases of property, plant and equipment	16			(65,146)	(35,087)
Receipts of dividends and interest on capital		18,892	44,015		
Proceeds from sale of property, plant and equipment				1,281	1,056
Net cash provided by (used in) investing activities		18,892	15,615	(86,819)	(56,383)
Cash flows from financing activities					
Capital increase	21 (a)	218		218	
Proceeds from borrowings				191,041	97,158
Repayment of borrowings				(73,854)	(112,888)
Payment of dividends and interest on capital		(16,433)	(12,889)	(16,433)	(12,889)
Realized derivative financial instruments				(8,208)	19,860
Net cash provided by (used in) financing activities		(16,215)	(12,889)	92,764	(8,759)
Net increase (decrease) in cash and cash equivalents		99	457	48,147	(49,633)
Cash and cash equivalents at the beginning of the year	9	468	11	23,380	72,453
Exchange losses (gains) on cash and cash equivalents				(1,202)	175
Cash received for acquisition of investments					385
Cash and cash equivalents at the end of the year	9	567	468	70,325	23,380

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

Ouro Fino Saúde Animal Participações S.A.

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

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Revenues				
Gross sales revenue			508,160	586,158
Other gains (losses)			(1,686)	1,120
Income related to the construction of own assets			20,234	16,457
Provision for impairment of trade receivables			(7,423)	(1,105)
			519,285	602,630
Inputs acquired from third parties				
Cost of sales			(172,456)	(194,695)
Materials, electricity, third-party services and other	(1,277)	(652)	(140,547)	(135,182)
Losses on assets, net			(11,336)	272
	(1,277)	(652)	(324,339)	(329,605)
Gross value added (distributed)	(1,277)	(652)	194,946	273,025
Depreciation and amortization			(21,927)	(20,132)
Net value added (distributed) generated by the entity	(1,277)	(652)	173,019	252,893
Value added received through transfer				
Equity in the results of investees	(2,419)	71,332		
Finance income	29	4	30,032	26,932
Royalties	100	100	100	100
Other		26	225	1,591
Total value added distributed	(3,567)	70,810	203,376	281,516
Distribution of value added				
Personnel				
Salaries and wages	1,311	864	99,164	96,000
Benefits	6	4	20,693	18,374
Government Severance Indemnity Fund for Employees (FGTS)			8,941	7,234
Taxes, charges and contributions				
Federal	275	695	26,073	46,884
State	8	1	(4,231)	1,009
Municipal			214	207
Remuneration of third party capital				
Interest	39	54	52,982	37,099
Rentals			4,209	4,656
Other			682	846
Remuneration of own capital				
Retained profits (losses)	(5,206)	52,759	(5,206)	52,759
Interest on capital and dividends		16,433		16,433
Non-controlling interests			(145)	15
Value added distributed	(3,567)	70,810	203,376	281,516

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

All amounts in thousands of reais unless otherwise stated

Section A - General information

1.1 Operations

Ouro Fino Saúde Animal Participações S.A. (the "Company") is a listed corporation headquartered in the city of Cravinhos, State of São Paulo. The Company's shares are traded on the São Paulo Futures, Commodities and Stock Exchange - BM&FBovespa S.A. ("BM&FBovespa") in the Novo Mercado (New Market) category.

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

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

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

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

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

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

The issue of these parent company and consolidated financial statements was authorized by the Company's Board of Directors on March 15, 2017.

1.2 Basis of preparation

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

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

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

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

(a) Parent company financial statements

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

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

1.3 Changes in accounting policies and disclosures

There was no amendments to existing standards or interpretations in 2016 and 2015 which could have a material effect on the Group's financial information.

1.4 Consolidation

The Company consolidates all entities which it controls, disclosed in Note 5(b), in accordance with the description in Note 30.1.

Section B - Risks

2 Critical accounting estimates and judgments

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

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

(a) Fair value of derivative financial instruments

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

(b) Provision for impairment of trade receivables

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

(c) Deferred income tax and social contribution

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

(d) Impairment of property, plant and equipment

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

(e) Provision for contingencies

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

(f) Fair value of the stock option plan

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

(g) Impairment of intangible assets

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

(i) Assumptions of future revenue generation, based on market size (current and estimated) and on the Group's expected market share;

(ii) Estimates of direct and indirect manufacturing costs; and

(iii) Trading expenditures, such as marketing, commission, freight and storage expenses.

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

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

Considering the high competitiveness in the market of vaccines against foot-and-mouth disease and in line with market practices, in which price negotiations can be extended up to the beginning of the following vaccination campaign period, the Group assesses the FMD vaccine market conditions on a quarterly basis, and determines, based on its experience, accumulated knowledge of the sector, public information on this market and the projected demand of its customer portfolio, if the need exists to adjust the prices charged. When an adjustment in the prices of FMD vaccines is required, it is recorded by reducing the net sales amount in the statement of operations for the year, with a corresponding entry in trade receivables.

3 Financial risk management

3.1 Financial risk factors

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

The Group monitors the levels of exposure to each market risk (foreign exchange variation and interest rate) and the measurement of exposure includes 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, causing a reduction in the amount of assets and an increase in liabilities. The Group is mainly exposed to the fluctuation in the U.S. dollar exchange rate.

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

Swaps, classified as derivatives at fair value through profit or loss, were contracted to exchange the charges on borrowings initially obtained in foreign currency for charges based on the Interbank Deposit Certificate (CDI) rate variation (in 2015 there were also swaps to exchange fixed interest rates for variable rates). Gains and losses are recognized in "Finance income and costs" in the statement of operations.

All amounts in thousands of reais unless otherwise stated

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

	2016	**2015**
Assets in foreign currency		
Cash and cash equivalents	2,251	2,221
Trade receivables	7,504	18,941
Advances to suppliers	855	3,113
	10,610	24,275
Liabilities in foreign currency		
Borrowings (*)		810
Trade payables	12,229	12,826
	12,229	13,636
Net exposure - assets (liabilities)	(1,619)	10,639

(*) The balance of borrowings in foreign currency does not consider working capital amounting to R$ 96,224 (2015 - R$ 57,005), because exchange rate swaps had been contracted.

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

In the table below five scenarios are presented, considering the changes in the quotation of the real against the U.S. dollar.

		Impact of the appreciation/depreciation of the U.S. dollar on the portfolio balance					
		3.26	3.45	2.59	1.73	4.31	5.18
Assets/liabilities	**Risk**	**2016**	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**	**Scenario 5**
			(probable)	(US$ depreciation - 25%)	(US$ depreciation - 50%)	(US$ appreciation - 25%)	(US$ appreciation - 50%)
Cash and cash equivalents	US$ depreciation	2,251	132	(596)	(1,192)	596	1,192
Trade receivables	US$ depreciation	7,504	441	(1,986)	(3,973)	1,986	3,973
Advances to suppliers	US$ depreciation	855	50	(226)	(453)	226	453
Trade payables	US$ appreciation	12,229	(719)	3,237	6,474	(3,237)	(6,474)
Net effect		(1,619)	(96)	429	856	(429)	(856)

(ii) Interest rate risk

This risk arises from the possibility that the Group could incur losses due to adverse fluctuations in interest rates. The Group's interest rate risk primarily arises from borrowings. Indebtedness is mainly subject to 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 believes that currently there is a balance between fixed interest rates, which represent 50.0% (2015 - 56.4%), and variable interest rates, which represent 50.0% (2015 - 43.6%) of its borrowings, providing mitigation in risks associated with any fluctuations in interest rates.

(b) Credit risk

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

The credit risk is mitigated through a broad customer base and careful selection of customers by business segment (production animals and companion animals), in addition to the utilization of guarantees, establishment of individual exposure limits and a well-defined credit policy that utilizes credit risk modeling, through which a rating and credit risk level is attributed to each customer, based on the Group's 29 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 customer portfolio through risk evaluation methodologies developed internally, with the purpose of properly assessing the real risk of its customers. Weights are attributed to each variable, including the history of payments, length of the business relationship with the Group, period during which the company has been operating in the market and other variables, and a rating is defined for each customer based on their combination. This classification is defined according to ratings ranging from "AA" (the lowest risk) to "E" (the highest risk) (Note 8).

All amounts in thousands of reais unless otherwise stated

(c) Liquidity risk

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

Cash flow forecasting is based on the approved budget and subsequent adjustments, which takes into consideration, besides all the operating plans, the plan for raising funds to support planned investments and the maturity schedule of the debts. The treasury area monitors daily the forecasts included in the cash flow projections to ensure that 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 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 a guideline, a higher percentage of indebtedness should be in the long-term.

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

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

				Consolidated
	Less than 1 year	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**
At December 31, 2016				
Trade payables	23,316			
Borrowings (*)	92,980	161,332	63,419	38,304
Derivative financial instruments, net	8,820	10,584		
Other liabilities	37,273	1,155	2,695	
	162,389	173,071	66,114	38,304
At December 31, 2015				
Trade payables	29,450			
Borrowings (*)	70,870	138,263	24,644	15,327
Derivative financial instruments, net	1,275	(1,713)		
Dividends and interest on capital	16,433			
Other liabilities	45,554	1,153	2,688	
	163,582	137,703	27,332	15,327

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

All amounts in thousands of reais unless otherwise stated

3.2 Capital management

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

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

The gearing ratios in 2016 and 2015 were as follows:

		Consolidated	
	Note	**2016**	**2015**
Borrowings	18	315,438	216,487
Derivative financial instruments, net	10	19,404	(438)
Cash and cash equivalents	9	(70,325)	(23,380)
Net debt		264,517	192,669
Equity	20	376,295	380,309
Total capital		640,812	572,978
Gearing ratio (%)		41.28	33.63

3.3 Fair value estimation

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

The Group assesses, at the balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets is impaired in relation to its recoverable value.

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

Financial instruments are measured in the balance sheet at fair value, which 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.

		Consolidated	
As per balance sheet	**Classification**	**2016**	**2015**
Assets - Derivative financial instruments			
Exchange rate swap	Level 2		1,735
Liabilities - Derivative financial instruments			
Exchange rate and interest rate swap	Level 2	(19,404)	(1,297)
		(19,404)	438

Section C - Segment reporting

4 Segment reporting

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

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

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

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

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

All amounts in thousands of reais unless otherwise stated

The results by segment are as follows:

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

	2015			
	Business segment			
	Production animals	**Companion animals**	**International operations**	**Total**
Revenue	435,717	62,378	35,950	534,045
Cost of sales	(209,210)	(15,264)	(12,210)	(236,684)
Gross profit	226,507	47,114	23,740	297,361
Selling expenses	(130,390)	(19,634)	(11,594)	(161,618)
Result - Segmented	**96,117**	**27,480**	**12,146**	**135,743**
Result - Not segmented				(66,536)
Profit for the year				69,207

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

	2016	**2015**
Mexico	11,615	12,674
Paraguay	6,147	2,621
Colombia	8,514	3,517
Bolivia	4,410	3,040
Ecuador	2,409	2,159
Other	9,258	11,939
	42,353	35,950

All amounts in thousands of reais unless otherwise stated

Section D - Group structure

5 Investments (Parent company)

(a) Information on the investments

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

(b) Changes in investments

	Parent company	
	2016	**2015**
Opening balance	391,110	231,169
Equity in the results of investees	(2,419)	71,332
Payment of capital through advances for future capital increase (*)		132,660
Share options granted	1,567	1,470
Interest on capital		(5,539)
Dividends received	(14,184)	(40,615)
Foreign exchange variation of foreign investments	(444)	633
Closing balance	375,630	391,110

(*) 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, July 6 and December 31, 2015, increases in the capital of the subsidiary Ouro Fino Saúde Animal Ltda. from R$ 87,064 to R$ 218,874 were approved, with advances for future capital increase made by the Company in the amounts of R$ 103,410, R$ 25,000 and R$ 3,400, respectively.

All amounts in thousands of reais unless otherwise stated

(c) Summarized financial information

Presented below is the summarized financial information for the subsidiaries.

(i) Summarized balance sheet

					2016
					Subsidiaries
			Direct		Indirect
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Current					
Assets	212,238	197,623	32,541	10,631	5,911
Liabilities	(101,916)	(84,874)	(4,217)	(12,148)	(6,887)
Current assets (liabilities), net	110,322	112,749	28,324	(1,517)	(976)
Non-current					
Assets	358,535	24,233	714	430	833
Liabilities	(226,313)	(17,970)	(360)		(1,094)
Non-current assets (liabilities), net	132,222	6,263	354	430	(261)
Equity (net capital deficiency)	242,544	119,012	28,678	(1,087)	(1,237)

					2015
					Subsidiaries
			Direct		Indirect
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Current					
Assets	176,630	217,371	26,915	11,273	6,995
Liabilities	(84,606)	(82,709)	(3,659)	(8,135)	(8,040)
Current assets (liabilities), net	92,024	134,662	23,256	3,138	(1,045)
Non-current					
Assets	288,616	24,040	569	439	1,190
Liabilities	(131,637)	(33,318)	(179)		(2,205)
Non-current assets (liabilities), net	156,979	(9,278)	390	439	(1,015)
Equity (net capital deficiency)	249,003	125,384	23,646	3,577	(2,060)

All amounts in thousands of reais unless otherwise stated

(ii) Summarized statement of operations

					2016
					Subsidiaries
			Direct		Indirect
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Net sales revenue	313,882	348,410	58,643	11,615	8,514
Profit (loss) before income tax and social contribution	(7,155)	(9,350)	17,588	(3,729)	(1,912)
Income tax and social contribution	3,308	3,200	(2,329)	(338)	202
Profit (loss) for the year	(3,847)	(6,150)	15,259	(4,067)	(1,710)

					2015
					Subsidiaries
			Direct		Indirect
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Net sales revenue	304,960	420,057	66,052	12,674	2,798
Profit (loss) before income tax and social contribution	6,598	63,184	25,712	665	(1,960)
Income tax and social contribution	2,246	(19,634)	(2,685)	(250)	156
Profit (loss) for the year	8,844	43,550	23,027	415	(1,804)

(iii) Statement of comprehensive income (loss)

	2016	2015
Ouro Fino Saúde Animal Ltda. (direct subsidiary)		
Profit (loss) for the year	(3,847)	8,844
Other comprehensive income (loss)	(444)	633
Total comprehensive income (loss)	(4,291)	9,477

All amounts in thousands of reais unless otherwise stated

(iv) Summarized statement of cash flows

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

					2015
					Subsidiaries
			Direct		Indirect
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Ouro Fino de México, S.A. de C.V.	Ouro Fino Colômbia S.A.S
Cash flows from operating activities					
Cash provided by (used in) operating activities	(3,920)	23,870	26,441	1,577	(571)
Interest paid	(4,793)	(2,993)			
Income tax and social contribution paid		(19,259)	(2,564)		
Net cash provided by (used in) operating activities	(8,713)	1,618	23,877	1,577	(571)
Net cash used in investing activities	(53,584)	(2,967)	(206)	(509)	(89)
Net cash provided by (used in) financing activities	42,738	(26,227)	(27,615)		581
Net increase (decrease) in cash and cash equivalents	(19,559)	(27,576)	(3,944)	1,068	(79)
Cash and cash equivalents at the beginning of the year	30,274	32,660	9,206	302	385
Exchange gains on cash and cash equivalents	105	70			
Cash and cash equivalents at the end of the year	10,820	5,154	5,262	1,370	306

All amounts in thousands of reais unless otherwise stated

(d) Reconciliation of financial information of investments

	Ouro Fino Saúde Animal Ltda.		Ouro Fino Agronegócio Ltda.		Ouro Fino Pet Ltda.		Subsidiaries Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Equity at January 1	249,003	106,476	125,384	99,364	23,646	28,163	398,033	234,003
Profit (loss) for the year	(3,847)	8,844	(6,150)	43,550	15,259	23,027	5,262	75,421
Capital increase with advances for future capital increase		131,810		850				132,660
Share options granted	1,287	1,240	198	159	82	71	1,567	1,470
Distribution of dividends and interest on capital	(3,455)		(420)	(18,539)	(10,309)	(27,615)	(14,184)	(46,154)
Foreign exchange variation of foreign investments	(444)	633					(444)	633
Equity at December 31	242,544	249,003	119,012	125,384	28,678	23,646	390,234	398,033
Percentage holding (%)	99.99%	99.99%	99.99%	99.99%	99.99%	99.99%		
Share of equity	242,544	249,003	119,012	125,384	28,678	23,646	390,234	398,033
Unrealized profit in inventories	(14,604)	(6,923)					(14,604)	(6,923)
Carrying amount of investments in the parent company	227,940	242,080	119,012	125,384	28,678	23,646	375,630	391,110

6 Business combinations

On September 15, 2015, the subsidiary Ouro Fino Saúde Animal Ltda. acquired all of the shares of Ouro Fino Colômbia S.A.S (formerly Bracol Agronegócio S.A.S) for R$ 387. As a result of the acquisition, the Group expects to expand its share of the Colombian market, in line with its strategic growth plan for Latin America.

Goodwill of R$ 618, which arose on the acquisition, is attributable to expected profitability of the investee. According to current legislation, the goodwill recognized is not expected to be deductible for income tax purposes.

All amounts in thousands of reais unless otherwise stated

The following table summarizes the consideration paid for the investment acquired, the fair value on the acquisition date of the identifiable assets acquired and liabilities assumed and the goodwill determined:

	Purchase price composition
(a) Consideration paid	387

	Carrying amounts	**Adjustments to fair value**	**Adjusted values**
Fair values of identifiable assets acquired and liabilities assumed			
Cash and cash equivalents	385		385
Trade receivables	403		403
Inventories	591	262	853
Taxes recoverable	212		212
Deferred income tax and social contribution		417	417
Intangible assets	2	940	942
Property, plant and equipment	28		28
Other assets	276		276
Trade payables	(1.121)		(1.121)
Borrowings	(577)		(577)
Salaries and social charges	(11)		(11)
Taxes payable	(3)		(3)
Provision for contingencies		(1.204)	(1.204)
Other liabilities	(831)		(831)
(b) Full value of assets and liabilities of the investee	(646)	415	(231)
(c) Holding acquired			100,00%
(d) Investment - (b x c)			(231)
(e) Goodwill arising from the acquisition (a - d)			618

All amounts in thousands of reais unless otherwise stated

Section E - Selected significant notes

7 Financial instruments by category

	2016		2015		
	Parent company	Consolidated	Parent company		Consolidated
	Loans and receivables	Loans and receivables	Loans and receivables	Assets at fair value through profit or loss	Loans and receivables
Assets as per balance sheet					
Cash and cash equivalents	567	70,325	468		23,380
Derivative financial instruments				1,735	
Accounts receivable		162,478			225,740
Related parties	234	468	5,615		1,870
Other assets, except for prepaid expenses		5,826			10,124
	801	239,097	6,083	1,735	261,114

	2016			2015		
	Parent company		Consolidated	Parent company		Consolidated
	Other financial liabilities	Liabilities at fair value through profit or loss	Other financial liabilities	Other financial liabilities	Liabilities at fair value through profit or loss	Other financial liabilities
Liabilities as per balance sheet						
Trade payables			23,316			29,450
Derivative financial instruments		19,404			1,297	
Borrowings			315,438			216,487
Dividends and interest on capital				16,433		16,433
Related parties	41		355	119		660
Commissions on sales			6,070			7,313
Other liabilities			8,440	16		4,790
	41	19,404	353,619	16,568	1,297	275,133

8 Credit quality of financial assets

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

The balances of bank current accounts and financial investments amounting to R$ 70,281 (2015 - R$ 23,344) are held in prime financial institutions rated as BB by Standard & Poor's.

All amounts in thousands of reais unless otherwise stated

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

	Consolidated	
	2016	**2015**
AA	49,077	70,081
A	67,022	83,036
B	24,731	32,773
C	11,687	21,910
D	8,547	17,631
E	7,891	3,069
	168,955	228,500

9 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks, as well as investments in repurchase agreements and Bank Deposit Certificates (CDB) earning on average up to 85.0% of the Interbank Deposit Certificate (CDI) rate variation.

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Cash				
In local currency			6	6
In foreign currency			38	30
			44	36
Banks				
In local currency	14	14	1,973	2,746
In foreign currency			2,213	2,191
	14	14	4,186	4,937
Financial investments				
In local currency				
Repurchase agreements	553	454	44,084	18,365
Bank Deposit Certificates (CDB)			22,011	
Other				42
	553	454	66,095	18,407
	567	468	70,325	23,380

All amounts in thousands of reais unless otherwise stated

10 Derivative financial instruments (consolidated)

	2016	2015	
	Liabilities	**Assets**	**Liabilities**
Exchange rate and interest rate swaps	19.404	1.735	1.297
Non-current	(10.584)	(1.713)	
Current	8.820	22	1.297

The notional principal amounts of the exchange rate swap contracts in 2016 corresponded to US$ 28,961 thousand (2015 - US$ 14,500 thousand) and of the interest rate swap contracts to R$ 20,400 thousand in 2015.

11 Trade receivables (consolidated)

	2016	2015
In local currency	156,205	209,559
In foreign currency	12,750	18,941
Provision for impairment of trade receivables	(6,477)	(2,760)
Current	162,478	225,740

The analysis by maturity of trade receivables is as follows:

	2016	2015
Falling due		
Up to 3 months	120,635	133,399
From 3 to 6 months	32,321	60,683
Over 6 months	2,640	17,954
	155,596	212,036
Past due		
Up to 3 months	5,582	7,631
From 3 to 6 months	2,582	2,079
Over 6 months	5,195	6,754
	13,359	16,464
	168,955	228,500

All amounts in thousands of reais unless otherwise stated

The analysis of the provision for impairment of trade receivables is made individually by customer and, in general, is constituted on 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. The changes in the provision were as follows:

	2016	2015
Opening balance	2.760	3.410
Additions	8.077	2.287
Reversals	(654)	(1.182)
Foreign exchange variations	(162)	
Definitive write-offs	(3.544)	(1.755)
Closing balance	6.477	2.760

The additions to and reversals of the provision for impaired receivables were included in "Selling expenses" in the statement of operations (Note 23). Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

12 Inventories (consolidated)

	2016	2015
Finished products	81,728	49,386
Raw materials	36,861	34,403
Packaging materials	10,551	9,189
Work in progress	5,292	6,288
Imports in transit	231	695
Advances to suppliers	876	4,382
Other	5,532	6,765
Provision for inventory losses	(9,768)	(1,845)
	131,303	109,263

All amounts in thousands of reais unless otherwise stated

13 Taxes recoverable

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
ICMS			42,506	32,108
ICMS, PIS and COFINS on acquisitions of property, plant and equipment			1,488	1,010
IRRF	113	201	670	3,747
IPI			342	703
PIS and COFINS			711	1,199
Other			1,803	1,026
	113	201	47,520	39,793
Non-current	(113)	(201)	(42,643)	(32,322)
Current			4,877	7,471

ICMS – State Value-added Tax; PIS – Social Integration Program; COFINS – Social Contribution on Revenues; IRRF – Income Tax Withheld at Source; IPI – Excise Tax

ICMS credits were substantially generated by Ouro Fino Saúde Animal Ltda. (2016 - R$ 41,604; 2015 - R$ 31,698) and are not subject to monetary restatement. These credits are generated by tax exempt sales in domestic and foreign transactions and by 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 rural funding documents, prepared in accordance with the Coordinating Committee of Tax Administration Board (CAT) Ordinance 83/2009, are filed and approved by the tax authorities, the credit balances are converted into accumulated credits to be appropriated according to applicable legislation and, therefore, can be utilized in the purchase of inputs and machinery and equipment and/or transferred to other Group companies with which there is an interdependence relationship and which regularly calculate ICMS payable. Currently, Ouro Fino Saúde Animal Ltda. has been filing, on a retroactive basis, rural funding documents (CAT Ordinance 83/2009), which must be submitted in chronological order to enable the transformation of the credit balances into accumulated credits, thereby permitting its utilization as described above.

ICMS credits related to 2010, 2011, 2012 and 2013 amounting to R$ 18,846 were approved by the tax authorities, and R$ 11,048 was released for immediate use. The residual balance of R$ 7,798 was temporarily withheld in relation to tax assessment notices which have been discussed at an administrative level and obligations related to the submission of electronic documents under the terms of the Coordinating Committee of Tax Administration Board (CAT) Ordinance 83/2009. All released credits had been used up to December 31, 2016.

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

In this context, the Company's management understands that there is no risk of not realizing the amounts recorded and, therefore, no provision for losses on credits is necessary.

All amounts in thousands of reais unless otherwise stated

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

The Company and its subsidiaries 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 presumed profit method. The companies located in Mexico and Colombia calculate their taxes based on the regulations of those countries. Therefore, there is no direct correlation between the amounts presented in the consolidated statement of operations and the results that would have been obtained by applying the standard rates mentioned above.

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

(a) Composition, nature and realization of deferred taxes

(i) Deferred income tax and social contribution

	2016	2015
Tax credits on:		
Accumulated income tax and social contribution losses	792	645
Tax benefit of goodwill merged (Note 1.1)	54,433	
Provision for unrealized tax benefit of goodwill merged (Note 1.1)	(54,433)	
Temporary differences		
Provisions	12,308	7,422
Unrealized profit in inventories	7,524	3,567
Foreign exchange variations - cash basis		738
Pre-operating expenses written-off	768	960
Derivative financial instruments	6,597	441
Appreciation - business combination	695	253
	28,684	14,026
Tax liabilities on:		
Temporary differences		
Deemed cost of land	(7,878)	(7,878)
Foreign exchange variations - cash basis	(3,725)	
Derivative financial instruments		(590)
	(11,603)	(8,468)
Net assets	17,081	5,558
Total deferred tax credits	28,684	14,026
Total deferred tax liabilities	11,603	8,468

All amounts in thousands of reais unless otherwise stated

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:

	2016	**2015**
Opening balance	5,558	(1,892)
Pre-operating expenses written-off	(192)	(192)
Accumulated income tax and social contribution losses	147	645
Tax benefit of goodwill merged (Note 1.1)	54,433	
Provision for unrealized tax benefit of goodwill merged (Note 1.1)	(54,433)	
Derivative financial instruments	6,746	2,980
Provisions	4,886	270
Unrealized profit in inventories	3,957	2,107
Foreign exchange variations - cash basis	(4,463)	1,168
Appreciation - business combination	442	253
Accelerated depreciation		219
Closing balance	17,081	5,558

The amounts by estimated offset years are as follows:

	2016	**2015**
Deferred tax assets to be recovered		
within 1 year	23,398	12,080
from 2 to 5 years	5,286	1,946
	28,684	14,026
Deferred tax liabilities to be settled		
within 1 year	3,725	4
from 2 to 5 years		586
after 5 years	7,878	7,878
	11,603	8,468

All amounts in thousands of reais unless otherwise stated

15 Intangible assets (consolidated)

	At January 1, 2015	Additions	Provision for impairment	Purchase of investments	Write-offs	Amortization	At December 31, 2015
Goodwill on the acquisition of subsidiaries				618			618
Trademarks and licenses purchased	494			942		(759)	677
Development and registration of products	44.831	17.881	(407)		(1.354)	(3.374)	57.577
Computer software	19.811	3.820			(23)	(5.054)	18.554
Other	1.164	264				(164)	1.264
	66.300	21.965	(407)	1.560	(1.377)	(9.351)	78.690

	At December 31, 2015	Additions	Provision for impairment	Foreign exchange variation	Write-offs	Amortization	At December 31, 2016
Goodwill on the acquisition of subsidiaries	618						618
Trademarks and licenses purchased	677	4		(31)		(614)	36
Development and registration of products	57.577	19.931	(3.721)		(481)	(4.251)	69.055
Computer software	18.554	3.019			(1)	(5.116)	16.456
Other	1.264					(271)	993
	78.690	22.954	(3.721)	(31)	(482)	(10.252)	87.158

	December 31, 2015			
	Cost	Provision for impairment	Accumulated amortization	Net
Goodwill on the acquisition of subsidiaries	618			618
Trademarks and licenses purchased	3,142		(2,465)	677
Development and registration of products	72,612	(1,285)	(13,750)	57,577
Computer software	29,696		(11,142)	18,554
Other	1,428		(164)	1,264
	107,496	(1,285)	(27,521)	78,690

	December 31, 2016			
	Cost	Provision for impairment	Accumulated amortization	Net
Goodwill on the acquisition of subsidiaries	618			618
Trademarks and licenses purchased	3,116		(3,080)	36
Development and registration of products	92,018	(4,962)	(18,001)	69,055
Computer software	32,714		(16,258)	16,456
Other	1,333		(340)	993
	129,799	(4,962)	(37,679)	87,158

All amounts in thousands of reais unless otherwise stated

The development and registration of products substantially refer to expenditures incurred on new drugs of R$ 69,055 (2015 - R$ 57,577). The amortization of intangible assets related to product development and registration was recognized within "Cost of sales".

In 2016, the Group recognized an impairment loss of R$ 3,721 (December 31, 2015 - R$ 407).

The assumptions utilized to analyze evidence of impairment are disclosed in Note 31.8.

16 Property, plant and equipment (consolidated)

	At January 1, 2015	Additions	On acquisition of investee	Transfers	Write-offs	Depreciation	At December 31, 2015
Land	24.947	38					24.985
Buildings and improvements	74.589			1.735		(2.225)	74.099
Machinery and equipment and industrial facilities	54.369	8.379		3.722	(66)	(5.012)	61.392
Vehicles and tractors	5.062	2.058			(711)	(1.546)	4.863
Furniture and fittings	3.079	587		(168)	(14)	(564)	2.920
IT equipment	3.365	1.311			(33)	(1.078)	3.565
Construction in progress (i)	3.029	21.268		(4.597)			19.700
Other	2.195	1.446	28	(692)	(50)	(356)	2.571
	170.635	35.087	28		(874)	(10.781)	194.095

	At December 31, 2015	Additions	Foreign exchange variation	Transfers	Write-offs	Depreciation	At December 31, 2016
Land	24.985						24.985
Buildings and improvements	74.099	97		9.007	(111)	(2.243)	80.849
Machinery, equipment and industrial facilities	61.392	17.611		5.378	(50)	(5.599)	78.732
Vehicles and tractors	4.863	2.826	(143)		(1.207)	(1.750)	4.589
Furniture and fittings	2.920	631	(4)	(1)	(2)	(567)	2.977
IT equipment	3.565	415	(5)	1	(29)	(1.240)	2.707
Construction in progress (i)	19.700	40.900		(11.953)	(49)		48.598
Other	2.571	2.666	(16)	(2.432)	(149)	(276)	2.364
	194.095	65.146	(168)		(1.597)	(11.675)	245.801

	At December 31, 2015			At December 31, 2016			
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net	Annual average depreciation rates
Land	24.985		24.985	24.985		24.985	
Buildings and improvements	88.359	(14.260)	74.099	96.810	(15.961)	80.849	2,44%
Machinery, equipment and industrial facilities	93.315	(31.923)	61.392	116.235	(37.503)	78.732	5,60%
Vehicles and tractors	7.291	(2.428)	4.863	7.726	(3.137)	4.589	19,47%
Furniture and fittings	6.462	(3.542)	2.920	7.084	(4.107)	2.977	8,22%
IT equipment	9.654	(6.089)	3.565	9.883	(7.176)	2.707	11,92%
Construction in progress (i)	19.700		19.700	48.598		48.598	
Other	4.914	(2.343)	2.571	4.272	(1.908)	2.364	8,03%
	254.680	(60.585)	194.095	315.593	(69.792)	245.801	

(i) The balance of construction in progress substantially comprises the expenditure on the construction of the new plant of the biological products unit (vaccines), amounting to R$ 45,337 (2015 - R$ 10,444).

All amounts in thousands of reais unless otherwise stated

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

In 2016, borrowing costs totaling R$ 693 (2015 - R$ 546) were capitalized, at an average rate of 4.23% (2015 - 4.35%).

Land, buildings, machinery and equipment amounting to R$ 89,537 (2015 - R$ 88,470) are pledged as collaterals for borrowings (Note 18).

17 Trade payables (consolidated)

	2016	2015
In local currency	11,087	16,624
In foreign currency	12,229	12,826
	23,316	29,450

18 Borrowings (consolidated)

	Financial charges	Maturity	2016	2015
In foreign currency				
BNDES - FINEM	Average of exchange variations of funds obtained by BNDES and weighted average rate of 2.23% p.a. (December 31, 2015 - 2.37% p.a.)	2016		228
Export credit note	Exchange variation and weighted average rate of 4.65% p.a.	2017	8.365	
Working capital (i)	Exchange variation and Libor rate + 5.19% p.a.	2016		582
Working capital	Exchange variation and weighted average rate of 3.06% p.a. (December 31, 2015 - 2.97% p.a.)	2019	87.859	57.005
In local currency				
FINEP (Technological innovation)	Weighted average rate of 4.23% p.a. (December 31, 2015 - 4.35% p.a.)	2024	165.385	132.890
BNDES - FINEM	Weighted average rate of 10.3% p.a. (December 31, 2015 - 9.80% p.a.)	2016		1.151
BNDES - EXIM	Weighted average rate of 12.47%	2018	38.339	
BNDES - FINAME	Weighted average rate of 6.67% p.a. (December 31, 2015 - 6.09% p.a.)	2023	1.270	1.364
Export credit note	Weighted average rate of 15.26% p.a. (December 31, 2015 - 8% p.a.)	2016		22.306
Working capital (ii)	Mexican Interbank Equilibrium Interest Rate (TIIE) + 1.5% p.a.	2017	6.160	
Working capital (ii)	DTF (Fixed term deposit) + 3.5% p.a.	2017	5.454	
Finance lease	Weighted average rate of 16.95% p.a. (December 31, 2015 - 16.88% p.a.)	2019	2.606	961
			315.438	216.487
Current			(73.550)	(57.260)
Non-current			241.888	159.227

BNDES – National Bank for Economic and Social Development; FINEM - Enterprises Financing; EXIM – Export/Import financing

(i) Borrowings obtained by the subsidiary Ouro Fino Colômbia S.A.S. in U.S. dollars.

All amounts in thousands of reais unless otherwise stated

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

(a) Guarantees for borrowings

The borrowings for research, innovation and development of products obtained from the Fund for Financing of Studies and Projects (FINEP) are guaranteed by a surety of the related parties Ouro Fino Participações e Empreendimentos S.A., Ouro Fino Saúde Animal Participações S.A. and bank guarantees totaling R$ 50,695, in addition to the guarantee represented by the industrial facilities of animal health products located in the city of Cravinhos, state of São Paulo. No amounts are charged for the guarantees given.

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

The carrying amounts of borrowings approximate their fair values.

The composition of non-current borrowings is as follows:

	2016	2015
From 1 to 2 years	146,166	53,937
From 2 to 3 years	23,623	69,043
From 3 to 4 years	17,738	7,323
From 4 to 5 years	17,644	7,163
Over 5 years	36,717	21,761
	241,888	159,227

(b) Working capital borrowings in foreign currency

Exchange rate swap transactions were contracted for working capital borrowings denominated in foreign currency (US$), which amounted to R$ 96,224 (2015 - R$ 57,005), in order to exchange the charges for those based on the Interbank Deposit Certificate (CDI) rate variation (Note 10), except for the borrowing of R$ 582 obtained by the subsidiary Ouro Fino Colômbia S.A.S. in 2015.

All amounts in thousands of reais unless otherwise stated

19 Provisions (consolidated)

						2016
	Opening balance	Additions	Reversals	Foreign exchange variation	Definitive write-offs	Closing balance
Sales returns		2,761				2,761
Provision for discounts on sales of vaccines against foot-and-mouth disease	3,723	5,765	(7,045)			2,443
Bonuses on products		9,259	(8,479)			780
Contingencies	3,841	1,363	(1,206)	(148)		3,850
Provision for impairment of intangible assets	1,285	3,721	(44)			4,962
Provision for impairment of trade receivables	2,760	8,077	(654)	(162)	(3,544)	6,477
Provision for inventory losses	1,845	10,309	(2,386)			9,768
	13,454	41,255	(19,814)	(310)	(3,544)	31,041

						2015
	Opening balance	Additions	Reversals	On acquisition of investee	Definitive write-offs	Closing balance
Provision for discounts on sales of vaccines against foot-and-mouth disease	4,475	10,052	(10,804)			3,723
Contingencies	2,664	1,521	(1,548)	1,204		3,841
Provision for impairment of intangible assets	1,285	407	(407)			1,285
Provision for impairment of trade receivables	3,410	2,287	(1,182)		(1,755)	2,760
Provision for inventory losses	2,582	2,061				4,643
	14,416	16,328	(13,941)	1,204	(1,755)	16,252

(a) Sales returns and discounts on sales of vaccines against foot-and-mouth disease

The Group recognizes a provision in respect of customers entitled to return a product within a given period. Revenue is adjusted by the expected value of the returns and the cost of sales is adjusted by the value of the corresponding goods that could be returned. The Group also recognizes a provision for the adjustment of prices practiced in sales of foot-and-mouth disease vaccines, according to Note 2(h).

(b) Bonuses on products

Provisions for product bonuses are related to sales campaigns already negotiated with customers and still pending. These provisions are recognized in the statement of operations under "Cost of sales".

(c) Contingencies

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

	2016	2015
Labor	2,903	2,981
Civil, social security and tax	947	860
	3,850	3,841

(d) Provision for impairment of trade receivables

As a rule, the Group recognizes a provision for impairment for trade receivables overdue for over 180 days and without guarantees (Notes 2(b) and 11).

(e) Provision for inventory losses

The Group recognizes a provision for loss of inventories when there is uncertainty about the realization of the balances (products that are close to maturity and/or damaged) (Note 12).

(f) Provision for impairment of intangible assets

The Group evaluates product development balances in intangible assets for impairment, whenever practicable through the discounted cash flow method (Notes 2(g) and 15).

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

The Group is a party to tax, civil and labor litigation involving risks of loss classified by management as possible, based on the evaluation of the legal advisors, for which no provision for estimated possible losses was recognized. Disputes for which a favorable outcome was considered as possible totaled R$ 66,228 (2015 - R$ 44,761), and mainly corresponded to tax (ICMS) and labor claims.

20 Equity

(a) Capital

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

In 2016, fully subscribed and paid-up capital comprised 53.949.006 common shares, with no par value.

(b) Capital reserve

As mentioned in Note 1.1, the Company recorded a special goodwill reserve on merger. Considering the non-expectation of the realization of the tax benefit of goodwill at this time, management decided to record a provision in the full amount of the merged balance, with a corresponding entry in the same line item of the special goodwill reserve on merger where the benefit was initially recorded.

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

All amounts in thousands of reais unless otherwise stated

(c) Allocation of profit

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

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

Allocation of profit	2016	2015
Profit (loss) for the year	(5,206)	69,192
Legal reserve (5%)		(3,460)
Calculation basis for minimum dividends	(5,206)	65,732
Distributed dividends (25%)		16,433
Interest on capital		5,025
Withholding tax on interest on capital		(723)
Minimum mandatory dividends		12,131

At the Annual General Meeting held on April 29, 2016, the stockholders decided on the allocation of the profit for 2015. The loss for 2016 was absorbed by the revenue reserve.

(d) Carrying value adjustments

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

(e) Stock option plan

The Group has a Stock Option Plan ("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) making it possible to attract and retain professionals and service providers, thereby stimulating the generation of value for the Company, and (iv) sharing risks and gains equally among stockholders, management and employees.

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

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

All amounts in thousands of reais unless otherwise stated

The exercise price will be defined based on the average price of the quotations of the Company's shares on the São Paulo Futures, Commodities & Stock Exchange (BM&FBOVESPA), weighted by the trading volume, in 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 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.
At December 30, 2014, the Board of Directors 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 period	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023

On September 28, 2016, the Board of Directors approved the grant of 40,000 new stock options.

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

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

Grant on December 30, 2014			**General assumptions and information on the evaluation**		
Vesting period closing	**12/31/2015**	**12/31/2016**	**12/31/2017**	**12/31/2018**	**12/31/2019**
Price of the share on the grant date	30.61	30.61	30.61	30.61	30.61
Estimated exercise price (strike price)	33.45	35.41	37.46	39.35	41.38
Estimated lifetime (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%

All amounts in thousands of reais unless otherwise stated

Grant on September 28, 2016	**General assumptions and information on the evaluation**				
Vesting period closing	**9/28/2017**	**9/28/2018**	**9/28/2019**	**9/28/2020**	**9/28/2021**
Price of the share on the grant date	39.00	39.00	39.00	39.00	39.00
Estimated exercise price (strike price)	41.57	43.91	46.40	49.07	51.91
Estimated lifetime (in years)	3.0	4.0	5.0	6.0	7.0
Expected volatility	30.40%	30.40%	30.40%	30.40%	30.40%
Risk-free interest rate	11.60%	11.60%	11.70%	11.70%	11.80%

Expenses amounting to R$ 1,585 for stock options were recognized in 2016 (2015 - R$ 1,491).

The changes in stock options are shown below:

	Number of options	
	2016	**2015**
Balance at the beginning of the year	772,723	809,135
Number of options granted (i)	40,000	
Number of options exercised	(6,699)	
Number of options canceled (ii)	(126,799)	(36,412)
Balance at the end of the year	679,225	772,723

(i) Refers to the additional grant to statutory officers approved on September 28, 2016.

(ii) Refers to employees who left the Company whose options were canceled, in accordance with the Plan regulations.

21 Revenue (consolidated)

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

	2016	**2015**
Domestic customers		
Gross sales revenue	489.019	559.192
Taxes and deductions on sales	(74.785)	(61.097)
	414.234	498.095
Foreign customers		
Gross sales revenue	44.405	36.172
Taxes and deductions on sales	(2.052)	(222)
	42.353	35.950
	456.587	534.045

All amounts in thousands of reais unless otherwise stated

22 Costs and expenses by nature

	Parent company		Consolidated	
	2016	2015	2016	2015
Cost of sales				
Variable costs (raw and consumption materials)			133,238	152,109
Personnel expenses			45,439	45,218
Depreciation and amortization			13,742	12,167
Outsourced services			13,718	12,269
Provision for inventory losses			7,931	(679)
Electricity			5,386	6,569
Provision for impairment of intangible assets			3,721	407
Other			7,329	8,624
			230,504	236,684
Selling expenses				
Personnel expenses			67,867	62,870
Sales team expenses			50,213	54,694
Outsourced services			16,648	15,855
Freight charges			15,330	13,136
Provision for impairment of trade receivables			7,423	1,105
Depreciation and amortization			4,736	4,473
Telecommunications and electricity			1,434	1,584
Other			8,005	7,901
			171,656	161,618
General and administrative expenses				
Personnel expenses	1,579	1,035	30,353	27,927
Outsourced services	676	450	4,450	3,669
Depreciation and amortization			3,449	3,492
Travel expenses	31	24	1,001	1,087
Telecommunications and electricity			831	852
Vehicle expenses		1	233	245
Donations and sponsorship			190	217
Other	535	178	2,551	2,393
	2,821	1,688	43,058	39,882
	2,821	1,688	445,218	438,184

All amounts in thousands of reais unless otherwise stated

23 Other income (expenses), net

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Gains on sale and write-off of Property, Plant and Equipment			21	210
Gains (losses) on disposal of intangible assets			(160)	1,645
Gains (losses) on sales of scrap, rentals and other	91	121	(102)	(67)
Federal, state and municipal taxes and fees	(9)	(11)	(493)	501
Other losses	(36)		(1,785)	(248)
	46	110	(2,519)	2,041

24 Finance income and costs

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Finance income				
Income from financial investments	5	2	2.829	3.632
Interest receivable			1.240	723
Monetary variations	24		386	265
Other	(2)	2	32	87
	27	4	4.487	4.707
Finance costs				
Interest payable		(2)	(9.955)	(8.485)
Finance charges			(1.449)	(1.149)
Other	(39)	(564)	(876)	(1.061)
	(39)	(566)	(12.280)	(10.695)
Derivative financial instruments, net				
Gains (losses) on derivatives (foreign exchange variations)			(17.257)	13.655
Losses on derivatives (interest)			(10.793)	(2.557)
			(28.050)	11.098
Foreign exchange variations, net			13.643	(15.745)
Finance result	(12)	(562)	(22.200)	(10.635)

All amounts in thousands of reais unless otherwise stated

25 Income tax and social contribution expense

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

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Profit (loss) before income tax and and social contribution	(5,206)	69,192	(13,350)	87,267
Standard rates	34%	34%	34%	34%
	1,770	(23,525)	4,539	(29,671)
Reconciliation to the effective rate:				
Permanent differences:				
Equity in the results of investees	(823)	24,253		
R&D incentive			3,791	6,010
Adjustment related to the calculation of tax based on the presumed profit method in subsidiary			3,651	6,058
Adjustment related to the calculation of tax of foreign subsidiary based on the rate in effect in that country			(2,054)	(535)
Interest on capital		(175)		1,708
Deferred taxes, not recorded	(947)	(553)	(947)	(553)
Other permanent differences			(981)	(1,077)
Income tax and social contribution			7,999	(18,060)
Reconciliation with the statement of operations:				
Current			(3,604)	(25,237)
Deferred			11,603	7,177
			7,999	(18,060)

26 Earnings (loss) per share

(a) Basic

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

	2016	**2015**
Profit (loss) for the year attributable to owners of the parent	(5,206)	69,192
Weighted average number of common shares in the year	53,946	53,942
Basic earnings (loss) per share	(0.09650)	1.28271

All amounts in thousands of reais unless otherwise stated

(b) Diluted

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

	2016	**2015**
Profit (loss) for the year attributable to owners of the parent	(5,206)	69,192
Weighted average number of common shares in the year considering instruments with dilutive effects	53,983	54,012
Diluted earnings (loss) per share	(0.09644)	1.28105

27 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 2016 totaled R$ 1,133 (2015 - R$ 1,070).

(b) Profit sharing

The Group companies offer to their employees a variable remuneration program, calculated based on quantitative and qualitative goals established by management. The amount of the profit-sharing provision in 2016 was R$ 1,311 (2015 - R$ 8,678), which was recorded based on the minimum amount established in the collective bargaining agreement.

28 Balances and transactions with related parties

(a) Main balances and transactions

							Parent company
			2016				**2015**
	Current assets	**Non-current assets**	**Current liabilities**	**Current assets**		**Current liabilities**	
	Other assets (i)	Other assets (i)	Other liabilities (i)	Interest on capital	Other assets (i)	Dividends and interest on capital	Other liabilities (i)
Related parties:							
Ouro Fino Saúde Animal Ltda.			24				41
Ouro Fino Agronegócio Ltda.	21			4,708			
Ouro Fino Pet Ltda.	6						
Ouro Fino Química Ltda.	42				42		
Stockholders			17		448	16,433	78
Other		165			417		
	69	165	41	4,708	907	16,433	119

All amounts in thousands of reais unless otherwise stated

	Parent company					
	Main transactions					
	2016			2015		
	Royalties	Reimburse-ment of CSC expenses (i)	Finance result	Royalties	Reimburse-ment of CSC expenses (i)	Other expenses, net
Related parties:						
Ouro Fino Saúde Animal Ltda.		(350)			(154)	(2)
Ouro Fino Agronegócio Ltda.		31			4	
Ouro Fino Pet Ltda.		9			6	
Ouro Fino Química Ltda.	100	1	12	100		
	100	(309)	12	100	(144)	(2)

	Consolidated							
	2016				2015			
	Current assets	Non-current assets	Current liabilities		Current assets		Current liabilities	
	Other assets (i)	Other assets (i)	Borrowings (ii)	Other liabilities (i)	Other assets (i)	Dividends and interest on capital	Borrowings (ii)	Other liabilities (i)
Related parties:								
Ouro Fino Part. e Empreendimentos S.A.	16				29			
Ouro Fino Química Ltda.	278			110	952			582
Condomínio Rural Ouro Fino	9				24			
BNDES Participações S.A.			39,609				2,743	
Stockholders				77	448	16,433		78
Other		165		168	417			
	303	165	39,609	355	1,870	16,433	2,743	660

	Consolidated									
	Main transactions:									
	2016					2015				
	Gross profit on the sales of goods	Reimburse-ment of CSC expenses (i)	Royalties	Other expenses, net	Finance result	Gross profit on the sales of goods	Reimburse-ment of CSC expenses (i)	Royalties	Other expenses, net	Finance result
Related parties:										
Ouro Fino Part. e Empreendimentos S.A.		14		67			66		142	46
Ouro Fino Química Ltda.		2,686	100	(824)	12		3,171	100	(740)	
Condomínio Rural Ouro Fino	29			(1,603)		84			(855)	
Stockholders				(720)						
Other				(557)						
BNDES Participações S.A.					(1,508)					(652)
	29	2,700	100	(3,637)	(1,496)	84	3,237	100	(1,453)	(606)

(i) Other assets and liabilities

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

(ii) Borrowings

The borrowings were from the related party BNDES Participações S.A., under conditions similar to those adopted in transactions with third parties (Note 18).

All amounts in thousands of reais unless otherwise stated

(b) Key management remuneration

Key management personnel include members of the Board of Directors and officers appointed pursuant to the Company's bylaws, whose remuneration is authorized by the stockholders at the Annual General Meeting. The remuneration paid or payable to key management for their services is presented below:

	2016	2015
Salaries	2.746	2.563
Indemnity paid	3.041	
Share-based payments	489	515
Labor charges	291	176
Remuneration and fringe benefits	182	146
Variable remuneration	1	486
	6.750	3.886

Despite the fact that management does not consider share-based payments as remuneration, these amounts are presented in this Note, as required by the Technical Pronouncement CPC 05 - Related-party Disclosures.

29 Insurance

In 2016, the Group had insurance coverage for operating risks and comprehensive civil liability, with a maximum indemnity of R$ 420,000.

Section F - Accounting policies

30 Summary of significant accounting policies

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

30.1 Consolidation

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

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

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

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

30.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies with a different functional currency

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

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

(ii) Income and expenses for each statement of operations are translated at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

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

30.3 Financial assets

30.3.1 Classification

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

(a) Loans and receivables

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

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

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

30.3.2 Recognition and measurement

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

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

30.3.3 Impairment of financial assets

Assets carried at amortized cost

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

30.4 Derivative financial instruments

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

30.5 Trade receivables

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

30.6 Inventories

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

30.7 Current and deferred income tax and social contribution

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

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

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

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

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

30.8 Intangible assets

(a) Research and development of products

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

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

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

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

(b) Trademarks and licenses purchased

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

Trademarks and licenses acquired in a business combination are recognized at fair value at the acquisition date. Amortization is calculated using the straight-line method over the estimated useful lives of between 10 and 18 months.

(c) Computer software

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

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

(d) Goodwill on the acquisition of subsidiaries

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

30.9 Property, plant and equipment

Property, plant and equipment are stated at historical cost, less accumulated depreciation. This cost was adjusted in subsidiaries to reflect the deemed cost of land on the date of transition to IFRS and is depreciated 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 operations when incurred.

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

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

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

30.10 Impairment of non-financial assets

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

30.11 Trade payables

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

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

30.12 Borrowings

Borrowings are initially recognized on the receipt of funds, net of transaction costs, and are subsequently presented at cost plus charges and interest in proportion to the period elapsed, using the effective interest rate method.

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

30.13 Employee benefits

(a) Private pension plan

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

(b) Profit sharing

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

(c) Share-based payments

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

30.14 Revenue recognition

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

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

30.15 Distribution of dividends and interest on capital

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

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

30.16 New standards that are not yet effective

The following new standards were issued by IASB but were not effective in 2016. The early adoption of standards, even though encouraged by IASB, has not been implemented in Brazil by the Brazilian Accounting Pronouncements Committee (CPC).

- IFRS 9, "Financial instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. The full version of IFRS 9 was published in July 2014, effective on January 1, 2018. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. The main amendments brought by IFRS 9 are: (i) new criteria for the classification of financial assets; (ii) new impairment model for financial assets, which is a hybrid of expected and incurred losses, replacing the current model of incurred losses; and (iii) relaxation of the requirements for adoption of hedge accounting. Management is assessing the full impact of the adoption of IFRS 9.

- IFRS 15 - "Revenue from Contracts with Customers" - This new standard introduces the principles to be applied by an entity to determine the measurement and recognition of revenue. This standard is based on the principle that revenue is recognized when control of a product or service is transferred to a customer, so that the control principle replaces the risk and benefit principle. Its effective date is January 1, 2018 and it replaces IAS 11 - "Construction Contracts", IAS 18 - "Revenue" and related interpretations. Management is assessing the full impact of the adoption of IFRS 15.

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

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's accounting information.

Section G - Events after the reporting period

At the Extraordinary General Meeting (AGE) held on January 23, 2017, the stockholders approved a Program for the Repurchase of Shares Issued by the Company ("Repurchase Program") aiming at purchasing shares of the Company's own issue, as approved by the Board of Directors on December 22, 2016.

The objective of the Program for the Repurchase of Shares Issued by the Company is to purchase up to 1,500,000 (one million, five hundred thousand) registered common shares without par value of the Company's own issue, without any reduction in share capital, for the relevant shares to be held in treasury, with a view to maximizing the generation of value for its stockholders, and, possibly, to be used to comply with the requirements of the Stock Option Plan. Such shares could also be canceled or sold.

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