

(A free translation of the original in Portuguese)

Ouro Fino Saúde Animal Participações S.A.

**Combined consolidated
financial statements at
December 31, 2013
and independent auditor's report**



(A free translation of the original in Portuguese)

Independent auditor's report

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

We have audited the accompanying combined consolidated financial statements of the Ouro Fino Group (as defined in Note 1 to the financial statements), which comprise the combined consolidated balance sheet as at December 31, 2013, 2012 and 2011 and the combined consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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



Ouro Fino Saúde Animal Participações S.A.

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

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


Opinion


In our opinion, the combined consolidated financial statements referred to above present fairly, in all material respects, the combined consolidated financial position of the Ouro Fino Group as at December 31, 2013, 2012 and 2011, and its combined financial performance and its combined consolidated cash flows for the years then ended, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Emphasis of matter - Financial statements combination

We draw attention to Note 2.1 (a) to these combined consolidated financial statements which describes that the businesses included in these financial statements did not operate as a single corporate entity during the years presented. Therefore, these combined financial statements are not necessarily an indication of the results of operations that would have been obtained if these businesses had been operated by a single corporate entity during the year, or an indication of future results of operations. Our opinion is not qualified in respect of this matter.

Ribeirão Preto, August 20, 2014


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


Eduardo Dias Vendramini
Contador CRC 1SP220017/O-4

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Ouro Fino Saúde Animal Participações S.A.

Combined consolidated balance sheet at December 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

Assets	Note	2013	2012	2011
Current assets				
Cash and cash equivalents	7	38,423	15,775	35,702
Trade receivables	9	133,608	111,767	92,890
Derivative financial instruments	8	2,982	887	88
Inventories	10	65,447	56,033	61,896
Taxes recoverable	11	3,238	2,185	3,009
Income tax and social contribution recoverable		6,900	2,585	1,484
Other assets	12	8,389	13,427	9,142
		<u>258,987</u>	<u>202,659</u>	<u>204,211</u>
Non-current assets held for sale	14	19,494		15,989
		<u>278,481</u>	<u>202,659</u>	<u>220,200</u>
Non-current assets				
Long-term receivables				
Trade receivables	9	1,596	454	589
Derivative financial instruments	8	2,833	3,143	2,115
Taxes recoverable	11	24,878	16,121	11,244
Related parties	13		12,716	24,066
Deferred income tax and social contribution	15	7,168	6,946	7,037
Other assets	12	1,898	21,901	21,870
		<u>38,373</u>	<u>61,281</u>	<u>66,921</u>
Intangible assets	16	53,307	31,008	28,115
Property, plant and equipment	17	168,520	157,182	150,678
		<u>221,827</u>	<u>188,190</u>	<u>178,793</u>
Total non-current assets		<u>260,200</u>	<u>249,471</u>	<u>245,714</u>
Total assets		<u><u>538,681</u></u>	<u><u>452,130</u></u>	<u><u>465,914</u></u>

Ouro Fino Saúde Animal Participações S.A.

Combined consolidated balance sheet at December 31

All amounts in thousands of reais

(continued)

Liabilities and equity	Note	2013	2012	2011
Current liabilities				
Trade payables		16,108	13,102	13,556
Borrowings	18	53,728	32,521	43,059
Salaries and social charges		20,789	13,987	10,791
Taxes payable		3,877	3,145	1,928
Income tax and social contribution payable		596	519	525
Dividends and interest on capital	13	3,565	3,453	1,117
Commissions on sales		4,828	4,491	5,548
Other liabilities		6,011	2,937	3,979
		109,502	74,155	80,503
Liabilities related to non-current assets held for sale	14	965		
		110,467	74,155	80,503
Non-current liabilities				
Derivative financial instruments	8	1,046		
Borrowings	18	172,285	149,250	178,002
Provision for contingencies	19	3,135	2,634	2,134
Deferred income tax and social contribution	15	4,431	5,380	5,887
Related parties	13	37,897	25,876	21,945
		218,794	183,140	207,968
Total liabilities		329,261	257,295	288,471
Equity	20	209,379	194,801	177,415
Non-controlling interests		41	34	28
Total equity		209,420	194,835	177,443
Total liabilities and equity		538,681	452,130	465,914

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

Ouro Fino Saúde Animal Participações S.A.

Combined consolidated statement of income Years ended December 31

All amounts in thousands of reais unless otherwise stated

(A free translation of the original in Portuguese)

	Note	2013	2012	2011
Continuing operations				
Net sales revenue	22	384,021	320,215	296,074
Cost of sales	23	<u>(149,098)</u>	<u>(125,236)</u>	<u>(109,873)</u>
Gross profit		234,923	194,979	186,201
Selling expenses	23	(131,738)	(106,701)	(90,344)
General and administrative expenses	23	(36,542)	(32,826)	(32,856)
Other income (expenses), net	24	<u>11</u>	<u>(665)</u>	<u>1,230</u>
Operating profit		66,654	54,787	64,231
Finance income		11,398	9,917	10,921
Finance costs		<u>(20,060)</u>	<u>(18,260)</u>	<u>(17,265)</u>
Finance result	25	<u>(8,662)</u>	<u>(8,343)</u>	<u>(6,344)</u>
Profit before income tax and social contribution		57,992	46,444	57,887
Income tax and social contribution	26			
Current		(5,274)	(3,643)	(8,780)
Deferred		<u>1,171</u>	<u>416</u>	<u>2,720</u>
Profit for the year from continuing operations		<u>53,889</u>	<u>43,217</u>	<u>51,827</u>
Discontinued operations				
Loss for the year from discontinued operations	14	<u>(11,884)</u>	<u>(11,310)</u>	<u>(18,195)</u>
Profit for the year		<u>42,005</u>	<u>31,907</u>	<u>33,632</u>

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

Ouro Fino Saúde Animal Participações S.A.

Combined consolidated statement of comprehensive income Years ended December 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Profit for the year	42,005	31,907	33,632
Other comprehensive income			
Items that will be reclassified to profit or loss			
Deemed cost			953
Foreign exchange variation of investee located abroad	159	93	(5)
Total comprehensive income for the year	<u>42,164</u>	<u>32,000</u>	<u>34,580</u>
From continuing operations	54,048	43,310	52,775
From discontinued operations	<u>(11,884)</u>	<u>(11,310)</u>	<u>(18,195)</u>
	<u>42,164</u>	<u>32,000</u>	<u>34,580</u>

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

Ouro Fino Saúde Animal Participações S.A.

Combined consolidated statement of changes in equity

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Attributable to the owners of the Company									
	Share capital				Carrying value adjustments	Retained earnings	Total	Non-controlling interests	Total equity	
	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Total						
Note										
At January 1, 2011		78.160	40.610	1.000	119.770	15.011	7.683	142.464	13	142.477
Comprehensive income for the year										
Profit for the year							33.617	33.617	15	33.632
Deemed cost						953		953		953
Foreign exchange variation of subsidiary located abroad						(5)		(5)		(5)
Total comprehensive income for the year						948	33.617	34.565	15	34.580
Contributions by and distributions to the owners of the Company										
Capital increase through merger	20 (a)		39.162		39.162		(24.614)	14.548		14.548
Accumulated deficit through merger	20 (b)						(12.862)	(12.862)		(12.862)
Interest on capital	20 (b)						(1.300)	(1.300)		(1.300)
Total contributions by and distributions to the owners of the Company			39.162		39.162		(38.776)	386		386
At December 31, 2011		78.160	79.772	1.000	158.932	15.959	2.524	177.415	28	177.443
Comprehensive income for the year										
Profit for the year							31.906	31.906	1	31.907
Realization of deemed cost						(953)	953			
Foreign exchange variation of subsidiary located abroad						93		93		93
Total comprehensive income for the year						(860)	32.859	31.999	1	32.000
Contributions by and distributions to the owners of the Company										
Distribution of dividends	20 (b)						(10.550)	(10.550)		(10.550)
Interest on capital	20 (b)						(4.063)	(4.063)		(4.063)
Non-controlling interests									5	5
Total contributions by and distributions to the owners of the Company							(14.613)	(14.613)	5	(14.608)
At December 31, 2012		78.160	79.772	1.000	158.932	15.099	20.770	194.801	34	194.835
Comprehensive income for the year										
Profit for the year							42.004	42.004	1	42.005
Foreign exchange variation of subsidiary located abroad						159		159		159
Total comprehensive income for the year						159	42.004	42.163	1	42.164
Contributions by and distributions to the owners of the Company										
Capital increase	20 (a)	8.905			8.905			8.905		8.905
Distribution of dividends	20 (b)						(32.297)	(32.297)		(32.297)
Interest on capital	20 (b)						(4.193)	(4.193)		(4.193)
Non-controlling interests									6	6
Total contributions by and distributions to the owners of the Company		8.905			8.905		(36.490)	(27.585)	6	(27.579)
At December 31, 2013		87.065	79.772	1.000	167.837	15.258	26.284	209.379	41	209.420

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

(A free translation of the original in Portuguese)

Ouro Fino Saúde Animal Participações S.A.

Notes to the combined consolidated financial statements

All amounts in thousands of reais unless otherwise stated

	<u>Note</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash flows from operating activities				
Profit before income tax and social contribution including discontinued operations		46.108	35.134	39.692
Adjustments for:				
Constitution (reversal) of provision for impairment of trade receivables	9	508	(644)	1.681
Constitution (reversal) of provision for inventory losses	10	697	(280)	1.363
Provision for losses on advances		2.385		
Depreciation and amortization		12.485	10.618	11.124
Provision for impairment of intangible assets		808	1.333	
Gains on disposal of property, plant and equipment		407	409	731
Interest and monetary and foreign exchange variations, net		11.442	10.634	11.834
Unrealized derivative financial instruments		(739)	(1.827)	(2.203)
Provisions for contingencies	19	501	500	621
Changes in working capital				
Trade receivables		(28.396)	(18.099)	(45.600)
Inventories		(11.198)	11.013	8.533
Taxes recoverable		(14.035)	(5.087)	(549)
Other assets		12.789	1.749	(5.534)
Trade payables		3.971	(448)	4.730
Taxes and charges payable		3.244	579	7.587
Other liabilities		10.214	1.098	(3.833)
Cash from operations		51.191	46.682	30.177
Income tax and social contribution paid		(8.413)	(3.128)	(7.151)
Interest paid		(9.327)	(10.421)	(8.928)
Net cash provided by operating activities		<u>33.451</u>	<u>33.133</u>	<u>14.098</u>
Cash flows from investing activities				
Investment of funds in related parties - loan			(11.550)	(39.080)
Receipt of funds from related parties - loan		12.726	25.137	14.310
Investment of funds in intangible assets	16	(25.059)	(7.100)	(6.796)
Purchase of property, plant and equipment	17	(27.571)	(15.117)	(14.421)
Proceeds from sale of property, plant and equipment		2.076	5.046	1.901
Merged cash and cash equivalents				4.813
Net cash used in investing activities		<u>(37.828)</u>	<u>(3.584)</u>	<u>(39.273)</u>
Cash flows from financing activities				
New borrowings		73.171	2.021	124.182
Repayment of borrowings		(31.713)	(42.980)	(46.179)
New funds from related parties - loan				3.320
Repayment to related parties - loan		(10.145)		(17.029)
Advances for future capital increase		31.000	3.000	
Dividends and interest on capital paid		(35.750)	(11.666)	(10.530)
Net cash provided by (used in) financing activities		<u>26.563</u>	<u>(49.625)</u>	<u>53.764</u>
Increase (decrease) in cash and cash equivalents		22.186	(20.076)	28.589
Cash and cash equivalents at the beginning of the year	7	15.775	35.702	7.022
Foreign exchange gains on cash and bank overdrafts		462	149	91
Cash and cash equivalents at the end of the year	7	<u>38.423</u>	<u>15.775</u>	<u>35.702</u>

(A free translation of the original in Portuguese)

Ouro Fino Saúde Animal Participações S.A.

Notes to the combined consolidated financial statements

All amounts in thousands of reais unless otherwise stated

1 General information

The combined consolidated financial statements of the Group, which are the responsibility of the management of the companies that are an integral part of the combination, are being presented solely with the purpose to provide, through unified financial statements, information concerning all the veterinary activities of the Group, irrespective of its corporate structure. In the years ended December 31, 2013, 2012 and 2011, Ouro Fino Saúde Animal Ltda., Ouro Fino Agronegócio Ltda., Ouro Fino Pet Ltda. and Ouro Fino de México, S.A. de CV (the last one indirectly) were subsidiaries of Ouro Fino Participações e Empreendimentos S.A., and the other entities under joint control are not being combined because they are not part of the animal health segment.

Ouro Fino Saúde Animal Participações S.A. (the "Company", formerly A.H.N.S.P.E. Empreendimentos e Participações S.A., is a private limited company headquartered in Cravinhos, in the State of São Paulo. It was established on May 15, 2014 and it has as its objective and main activity the investment in companies which operate in the animal health segment (production and sale of veterinary drugs, vaccines and other products for livestock and pets).

The Stockholders' Extraordinary General Meeting held on June 30, 2014 approved the merger of net assets consisting of investments, net of the corresponding carrying value adjustments of the companies Ouro Fino Saúde Animal Ltda. (and its subsidiary Ouro Fino de México, S.A. de CV), Ouro Fino Agronegócio Ltda. and Ouro Fino Pet Ltda., based on the appraisal report at book values of June 24, 2014, issued by independent appraisers, summarized as follows:

Component	Amount
Assets	
Investments	
Ouro Fino Saúde Animal Ltda.	101,410
Ouro Fino Agronegócio Ltda.	76,587
Ouro Fino Pet Ltda.	25,838
	<u>203,835</u>
Liabilities	
Equity	
Carrying value adjustments	(15,208)
Net assets at book value	<u><u>188,627</u></u>

Before the merger, Ouro Fino Saúde Animal Ltda. (and its subsidiary Ouro Fino de México, S.A. de CV), Ouro Fino Agronegócio Ltda. and Ouro Fino Pet Ltda. were subsidiaries of the related party Ouro Fino Participações e Empreendimentos S.A. Additionally, Ouro Fino Participações e Empreendimentos S.A. held interest of 99.55% in Ouro Fino Química Ltda. and 100% in Ouro Fino Hong Kong Limited in the period presented in the financial statements.

Ouro Fino Saúde Animal Participações S.A.

Notes to the combined consolidated financial statements

All amounts in thousands of reais unless otherwise stated

The ownership interest of Ouro Fino Participações e Empreendimentos S.A. in the combined consolidated companies is as follows:

Combined entity	Parent company	Ownership percentage		
		2013	2012	2011
Ouro Fino Saúde Animal Ltda.	Ouro Fino Participações e Empreendimentos S.A.	99.99%	99.99%	99.99%
Ouro Fino Agronegócio Ltda.	Ouro Fino Participações e Empreendimentos S.A.	97.80%	97.50%	97.50%
Ouro Fino Pet Ltda.	Ouro Fino Participações e Empreendimentos S.A.	99.50%	96.50%	96.50%
Ouro Fino de México, S.A. de CV	Ouro Fino Saúde Animal Ltda.	96.43%	96.43%	96.43%

The objective of the corporate restructuring was to unify the control of the companies operating in the animal health segment in one entity operating solely in this segment.

Ownership interest in Ouro Fino Química Ltda. and Ouro Fino Hong Kong Limited. was not included in the net assets contributed to the Company.

The combined consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 of Ouro Fino Saúde Animal Ltda. (and its wholly-owned subsidiary Ouro Fino de México, S.A. de CV), Ouro Fino Agronegócio Ltda. and Ouro Fino Pet Ltda. hereinafter referred to as the Ouro Fino Group (“Group”), are being presented with the purpose to provide historical information on all the animal health activities under joint control of Ouro Fino Participações e Empreendimentos S.A., irrespective of the corporate structure at the time, the combined entities in these financial statements did not operate as a single corporate entity in the years presented.

The corporate documents concerning the spin-off mentioned above were duly registered with the Board of Trade on July 17, 2014 and its definite registration is expected to occur on the subsequent days, in accordance with the regular procedures of this body.

The issue of these combined consolidated financial statements, which are the responsibility of the management of the companies that are an integral part of the combination, was authorized by the executive board of directors on August 20, 2014.

With the corporate restructuring that occurred on June 30, 2014, the Group is now comprised of the following companies:

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

Ouro Fino Saúde Animal Participações S.A. is a private limited company headquartered in Cravinhos, in the State of São Paulo. Its objective and main activity is the direct or indirect investment in the subsidiaries listed below.

(b) Ouro Fino Saúde Animal Ltda.

This subsidiary, headquartered in Cravinhos, in the State of São Paulo, has as its objective and main activity the research, development, production and sale of veterinary drugs, vaccines and products. The sales in the domestic market are carried out through the companies mentioned in items (c) and (d) below. As from 2013, the sales in the foreign market are carried out directly through third parties and also by the companies mentioned in items (c) and (e) below. This company also provides manufacturing services to order from third parties.

Ouro Fino Saúde Animal Participações S.A.

Notes to the combined consolidated financial statements

All amounts in thousands of reais unless otherwise stated

(c) Ouro Fino Agronegócio Ltda.

This subsidiary, headquartered in Cravinhos, in the State of São Paulo, has as its main activities the sale in the domestic and foreign markets of veterinary drugs and products for livestock (cattle, pigs, poultry, sheep, horses and goats) acquired from the company mentioned in item (b) above. As part of its marketing strategy, the main activities of this subsidiary also included the sale of thoroughbred cattle, embryos and semen. However, this activity was discontinued at the end of 2013.

(d) Ouro Fino Pet Ltda.

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

(e) Ouro Fino de México, S.A. de CV

A subsidiary of Ouro Fino Saúde Animal Ltda., headquartered in Guadalajara, Mexico, its main activity is the sale, exclusively in Mexico, of veterinary drugs and products purchased from its parent company and the company mentioned in item (c) above.

1.1 Corporate restructurings

- (a)** At the meeting held on December 10, 2013, the Board of Directors decided to discontinue the activity of breeding and selling pedigree cattle and Criollo horses ("Genetics Division"), which had been carried out by the subsidiary Ouro Fino Agronegócio Ltda., as described in Note 14.
- (b)** At December 31, 2011, the Group's management decided to discontinue the lay seed and food supplement units. These activities had been carried out by the subsidiary Ouro Fino Agronegócio Ltda. and all of its assets were classified as held for sale (Note 14).
- (c)** On July 1, 2011, the Group's management implemented a corporate restructuring process with the purpose to simplify the structure of the companies in the commercial, logistics and administrative areas.

The mergers became effective at the carrying amounts based on the balance sheets of the merged companies as at June 30, 2011. However, considering the period necessary to finalize the balance sheets at June 30, 2011, the mergers were approved by adopting estimates of the net assets of the merged companies based on their trial balances at May 31, 2011. The corporate restructuring was realized in two stages, as follows:

- (i)** Ouro Fino Produtos Veterinários Ltda. (formerly Ouro Fino Agronegócio Ltda.) merged Alvos Consultoria, Desenvolvimento e Comercialização de Produtos Biotecnológicos S.A., which was fully acquired on March 1, 2011.
- (ii)** Ouro Fino Agronegócio Ltda. (formerly Ouro Fino Sementes Ltda.) merged Ouro Fino Produtos Veterinários Ltda. (formerly Ouro Fino Agronegócio Ltda.) and Ethika Suplementos e Bem Estar Ltda.

Ouro Fino Saúde Animal Participações S.A.

Notes to the combined consolidated financial statements All amounts in thousands of reais unless otherwise stated

2 Summary of significant accounting policies

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

2.1 Basis of preparation of the combined consolidated financial statements

The combined consolidated financial statements have been prepared and are being presented in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the respective preceding bodies.

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

(a) Purpose of the presentation of the combined consolidated financial statements

The purpose of the presentation of the Group's combined consolidated financial statements is to provide historical financial information of the Ouro Fino Group to be included in the Initial Public Offering of shares (IPO) and consequent admission for negotiation of the shares of Ouro Fino Saúde Animal Participações S.A. in the Brazilian Securities, Commodities and Futures Exchange (BM&FBOVESPA). Management believes that the presentation of these combined financial statements provides material, useful and significant information about the Group, as well as its financial breakdown for the years presented.

The combined consolidated financial statements are not required by the Brazilian Corporate Law and are being presented in order to provide additional information on the Group's operations, not representing the parent company or consolidated financial statements of Ouro Fino Saúde Animal Participações S.A. and Ouro Fino Saúde Animal Participações S.A. and its subsidiaries, and must not be taken as a basis for the calculation of dividends, taxes or for any other corporate purposes or analysis of profitability or concerning the past or future performance.

The structure that Ouro Fino Saúde Animal Participações S.A. will offer to the market in the IPO will include the entities and businesses that were combined in these combined consolidated financial statements, as presented in Note 2.2.

The definition of control used to evaluate the existence of joint control in the preparation of the combined consolidated financial statements is in conformity with IAS 27.

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Notes to the combined consolidated financial statements

All amounts in thousands of reais unless otherwise stated

(b) Changes in accounting policies and disclosures

In 2013, new IFRS standards and reviews became effective and started being adopted by the Company, when applicable. The only one of these standards that is relevant for the Group is:

IFRS 13 – “Fair value measurement”. This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

2.2 Combination

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

- (a) The balance sheet accounts and the statements of income of the companies that are an integral part of the combination were included and the balances resulting from transactions carried out between these companies were eliminated.
- (b) Combined equity represents the sum of the accounts presented by the parent companies and do not represent the balance sheet accounts of an individual legal entity.
- (c) Transactions, balances and unrealized gains between companies that are an integral part of the combination are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of combined companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Consolidation

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

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

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Notes to the combined consolidated financial statements All amounts in thousands of reais unless otherwise stated

	2011							
	Combined							
	Consolidated							
	Ouro Fino Saúde Animal Ltda.	Ouro Fino de México, S.A. de C.V.	Total	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Total	Eliminations	Combined- consolidated
Current								
Assets	87.943	3.510	91.453	172.989	7.684	272.126	(30.270)	241.856
Liabilities	(55.660)	(2.735)	(58.395)	(51.126)	(1.089)	(110.610)	30.107	(80.503)
Current assets, net	<u>32.283</u>	<u>775</u>	<u>33.058</u>	<u>121.863</u>	<u>6.595</u>	<u>161.516</u>	<u>(163)</u>	<u>161.353</u>
Non-current								
Assets	192.509	13	192.522	45.077	9.034	246.633	(22.575)	224.058
Liabilities	(133.986)		(133.986)	(95.329)	(467)	(229.782)	21.814	(207.968)
Non-current assets (liabilities), net	<u>58.523</u>	<u>13</u>	<u>58.536</u>	<u>(50.252)</u>	<u>8.567</u>	<u>16.851</u>	<u>(761)</u>	<u>16.090</u>
Equity	<u>90.806</u>	<u>788</u>	<u>91.594</u>	<u>71.611</u>	<u>15.162</u>	<u>178.367</u>	<u>(924)</u>	<u>177.443</u>

(ii) Statement of income (operations)

	2013							
	Combined							
	Consolidated							
	Ouro Fino Saúde Animal Ltda.	Ouro Fino de México, S.A. de C.V.	Total	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Total	Eliminations	Combined- consolidated
Net sales revenue	198.442	3.170	201.612	313.583	47.785	562.980	(178.959)	384.021
Profit before income tax and social contribution	11.917	46	11.963	23.291	23.842	59.096	(1.104)	57.992
Income tax and social contribution income (expenses)	393	(17)	376	(3.065)	(1.780)	(4.469)	366	(4.103)
Profit from continuing operations	12.310	29	12.339	20.226	22.062	54.627	(738)	53.889
Loss from discontinued operations				(11.884)		(11.884)		(11.884)
Profit for the year	<u>12.310</u>	<u>29</u>	<u>12.339</u>	<u>8.342</u>	<u>22.062</u>	<u>42.743</u>	<u>(738)</u>	<u>42.005</u>

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Notes to the combined consolidated financial statements All amounts in thousands of reais unless otherwise stated

	2012							
	Consolidated							Combined
	Ouro Fino Saúde Animal Ltda.	Ouro Fino de México, S.A. de C.V.	Total	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Total	Eliminations	Combined- consolidated
Net sales revenue	144.946	1.670	146.616	271.987	37.300	455.903	(135.688)	320.215
Profit before income tax and social contribution	651	17	668	25.380	21.513	47.561	(1.117)	46.444
Income tax and social contribution income (expenses)	(678)	23	(655)	(1.179)	(1.759)	(3.593)	366	(3.227)
Profit (loss) from continuing operations	(27)	40	13	24.201	19.754	43.968	(751)	43.217
Loss from discontinued operations				(11.310)		(11.310)		(11.310)
Profit (loss) for the year	<u>(27)</u>	<u>40</u>	<u>13</u>	<u>12.891</u>	<u>19.754</u>	<u>32.658</u>	<u>(751)</u>	<u>31.907</u>

	2011							
	Consolidated							Combined
	Ouro Fino Saúde Animal Ltda.	Ouro Fino de México, S.A. de C.V.	Total	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Total	Eliminations	Combined- consolidated
Net sales revenue	126.970	4.180	131.150	250.545	28.377	410.072	(113.998)	296.074
Profit before income tax and social contribution	2.498	703	3.201	39.253	14.105	56.559	1.328	57.887
Income tax and social contribution income (expenses)	712	(277)	435	(4.771)	(1.133)	(5.469)	(591)	(6.060)
Profit from continuing operations	3.210	426	3.636	34.482	12.972	51.090	737	51.827
Loss from discontinued operations				(18.195)		(18.195)		(18.195)
Profit for the year	<u>3.210</u>	<u>426</u>	<u>3.636</u>	<u>16.287</u>	<u>12.972</u>	<u>32.895</u>	<u>737</u>	<u>33.632</u>

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Notes to the combined consolidated financial statements

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2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating and strategic decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Executive Board of Ouro Fino Participações e Empreendimentos S.A.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the combined companies are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"), which is substantially the Brazilian real, except as mentioned in item (c) below, and, accordingly, the combined 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 the dates of 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 income, as finance income or cost.

(c) Combined companies with a different functional currency

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

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- (ii) Income and expenses for each statement of income are translated at 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 the account "Carrying value adjustments".

2.5 Cash and cash equivalents

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

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Notes to the combined consolidated financial statements

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2.6 Financial assets

2.6.1 Classification

The Group classifies its financial assets, upon initial recognition, in the following categories: loans and receivables 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 certain cash and cash equivalents in the balance sheet.

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

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

2.6.2 Recognition and measurement

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

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

2.6.3 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount presented in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

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Notes to the combined consolidated financial statements **All amounts in thousands of reais unless otherwise stated**

2.6.4 Impairment of financial assets

Assets carried at amortized cost

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

2.7 Derivative financial instruments

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

2.8 Trade receivables

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

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

2.9 Inventories

Inventories are stated at the lower of average cost of purchase or production and net realizable value. Inventories are determined using the fixed weighted moving average method. The costs of finished products and work in process comprise 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 execution costs and selling expenses. Imports in transit are stated at the accumulated cost of each transaction.

2.10 Available-for-sale financial assets

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell (Note 14).

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2.11 Current and deferred income tax and social contribution

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

The current and deferred income tax and social contribution is 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. The presumed profit system is a simplified taxation method to determine the calculation basis of corporate entities that are not obliged, in the calendar year, to use the taxable profit method, or whose total gross revenue is equal to or lower than R\$ 48,000. With Law 12,814/13, this amount will be adjusted to R\$ 78,000 as from January 2014.

2.12 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 future economic benefits associated with the products will flow to the Group.

The Company evaluates its projects based on its own methodology, which considers various analysis landmarks. The projects will be successful as from the development of pilot products, carried out in accordance with the requirements of the regulatory bodies and followed up by financial feasibility analyses.

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.

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(b) Trademarks and licenses acquired

Separately acquired 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.

(c) Computer software

Computer software licenses purchased 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 programs are recognized as an expense as incurred.

2.13 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Depreciation adjusted to reflect the deemed cost of land on the date of transition to IFRS, is calculated on the straight-line method, considering the estimated useful lives of the respective assets. The annual depreciation rates are disclosed in Note 17. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item and the costs of the item will flow to the Group and they can be measured reliably. The carrying amount of the replaced items or parts is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

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

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

2.14 Impairment of non-financial assets

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

2.15 Trade payables

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

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2.16 Borrowings

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

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

2.17 Provisions

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

2.18 Other assets and liabilities

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

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

2.19 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 a private pension plan on contractual bases. After the contributions have been made, the companies have no further obligations for additional payments. The regular contributions comprise the net periodic costs for the period in which they are due and are included in personnel expenses.

(b) Profit sharing

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

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2.20 Revenue recognition

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

(a) Sales of goods

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

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

The average collection period for sales is between 90 and 100 days, that is, it is a short term, which is consistent with the animal health market practices, and, accordingly, the sales are not discounted to present value.

(b) Interest income

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

2.21 Other income and expenses

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

2.22 Leases

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

Lease obligations are included in borrowings.

2.23 Distribution of dividends and interest on capital

The distribution of dividends and interest on capital to stockholders is recognized as a liability in the parent company financial statements recorded based on the bylaws of each of the companies that are an integral part of the combination. Any amount that exceeds the minimum required is only provided on the date it is approved by the quotaholders at the Ordinary General Meeting

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

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

The following new standards and interpretation to existing standards were issued by the IASB but are not effective for the year ended December 31, 2013. The early adoption of standards is encouraged by the IASB.

- IFRS 9, "Financial instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial instruments. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of income, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact. The standard is applicable as from January 1, 2015.
- IFRS 15 – "Revenue from Contracts with Customers" specifies how and when revenue must be recognized and also defines rules for the disclosure of more significant information. IFRS 15 was issued in May 2014 and replaces IAS 18 – "Revenue", IAS 11 - "Construction contracts" and a series of interpretations concerning revenue. The application of this standard is mandatory for all the companies which issue IFRS financial statements and is applicable to almost all of the contracts with customers, with the main exceptions being leases, financial instruments and insurance contracts. The Group is yet to assess IFRS 15's application's impact. The standard is applicable as from January 1, 2017.

Other standards issued are not relevant to the Group.

3 Critical accounting estimates and judgments

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

3.1 Critical accounting estimates and assumptions

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

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(a) Impairment of intangible assets

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

- (i) assumptions of future revenue generation, based on market dimensions (current and expected) and on the market share that the Group hopes to achieve;
- (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 accounting policy of the combined companies presented in Note 2.14.

(b) Income tax, social contribution and other taxes

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

(c) Provision for contingencies

The Group is a party to labor, civil and tax lawsuits at various court levels. Provisions for contingencies, constituted to cover potential probable losses arising from unfavorable outcomes on ongoing lawsuits, are determined and restated based on management's assessment, supported by the opinion of legal consultants, and require a high degree of judgment on the matters involved.

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

The recoverability of assets used in the activities of the Group is assessed 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 amounts of such assets are higher than their recoverable value, their net value and useful lives are adjusted accordingly.

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4 Financial risk management

4.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

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

The swaps, recorded as derivatives at fair value through profit or loss, are contracted for swapping the charges on borrowings originally made in foreign currency for charges based on the variation of the Interbank Deposit Certificate (CDI) interest rate, as well as for swapping originally contracted fixed rates for floating rates.

The derivatives of foreign exchange swaps comprise transactions made to hedge the Group against variations in the results of operations arising from a mismatch between assets and liabilities denominated in a foreign currency. Gains and losses are recognized in "Finance result" in the statement of income, since hedge accounting is not currently adopted.

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

	2013	2012	2011
Assets in foreign currency			
Cash and cash equivalents	4,460	992	1,084
Trade receivables	8,273	10,026	14,054
Advance to suppliers	4,786	4,991	3,064
	<u>17,519</u>	<u>16,009</u>	<u>18,202</u>
Liabilities in foreign currency			
Borrowings (*)	1,303	1,720	2,251
Trade payables	9,939	5,239	6,147
Advances from customers		174	384
	<u>11,242</u>	<u>7,133</u>	<u>8,782</u>
Asset exposure	<u><u>6,277</u></u>	<u><u>8,876</u></u>	<u><u>9,420</u></u>

(*) The balances of borrowings denominated in foreign currency do not include working capital loans of R\$ 17,924 (2012 – R\$ 19,454 and 2011 – R\$ 17,858), because foreign exchange swaps have been contracted.

The assets and liabilities denominated in foreign currency are regularly monitored through estimated cash flows projecting receipts and payments of foreign currency 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 foreign exchange variations, the Group contracts derivative transactions, when necessary, foreign exchange rate swaps.

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

		Impact of the appreciation/depreciation of the U.S. dollar on the portfolio balances					
		2.3426	2.4500	1.8375	1.2250	3.0625	3.6750
Assets/liabilities	Risk	2013	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
				(US\$ depreciation - 25%)	(US\$ depreciation - 50%)	(US\$ appreciation - 25%)	(US\$ appreciation - 50%)
Cash and cash equivalents	US\$ depreciation	4,460	204	(962)	(2,128)	1,371	2,537
Trade receivables	US\$ depreciation	8,273	379	(1,784)	(3,947)	2,542	4,705
Advance to suppliers	US\$ depreciation	4,786	219	(1,032)	(2,283)	1,471	2,722
Borrowings	US\$ appreciation	1,303	(60)	281	622	(400)	(741)
Trade payables	US\$ appreciation	9,939	(456)	2,143	4,742	(3,054)	(5,653)
Net effect		<u>6,277</u>	<u>286</u>	<u>(1,354)</u>	<u>(2,994)</u>	<u>1,930</u>	<u>3,570</u>

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(ii) Interest rate risk

This risk arises from the possibility that the Group may incur losses due to adverse fluctuations in interest rates. The Group's interest rate risk primarily arises from borrowings. The indebtedness is mainly subject to the fixed interest rate 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 at present the occasional fluctuations in interest rates do not significantly affect its finance result, since, at December 31, 2013, 66% (2012 - 62% and 2011 - 58%) of its borrowings are essentially linked to fixed 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, the Group carries out transactions only with prime financial institutions.

The credit risk is mitigated through the broad customer base and careful selection of customers by business segment (cattle, horses, pigs, poultry and pets), in addition to the utilization of guarantees, establishment of individual exposure limits and a well-defined credit policy that utilizes credit risk modeling, through which a rating and credit risk level is attributed to each customer, based on the Group's 27 years of experience in the market.

The Group has a Credit Committee that establishes guidelines and assesses and monitors the levels of credit risk that the Group is willing to accept in the course of its business.

In addition to the risk mitigations established in credit policies, the Group has credit insurance coverage contracted for a portion of its sales.

The Group classifies its customers portfolio through risk evaluation methodologies developed with the purpose of expressing the real risk of its customers. Weights are attributed to each indicator and a rating is defined based on their combination. The Group's synthetic credit risk rating for its customers is defined according to ratings ranging from "AA" (the lowest risk) to "E" (the highest risk) (Note 6).

(c) Liquidity risk

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

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

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

Cash and cash equivalents are primarily invested in Bank Deposit Certificates (CDB), which are highly liquid instruments.

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

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

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

	Less than 1 year	and 2 years	2 and 5 years	Over 5 years
At December 31, 2013				
Trade payables	16,108			
Borrowings (*)	63,225	117,583	72,393	215
Dividends payable and interest on capital	3,565			
Derivative financial instruments	(2,982)	(1,787)		
Other payables	37,066	36,466	1,119	7,878
	<u>116,982</u>	<u>152,262</u>	<u>73,512</u>	<u>8,093</u>
At December 31, 2012				
Trade payables	13,102			
Borrowings (*)	41,338	88,734	72,618	1,395
Dividends payable and interest on capital	3,453			
Derivative financial instruments	(887)	(3,143)		
Other payables	25,079	25,436	1,012	7,442
	<u>82,085</u>	<u>111,027</u>	<u>73,630</u>	<u>8,837</u>
At December 31, 2011				
Trade payables	13,556			
Borrowings (*)	57,564	88,499	90,609	20,916
Dividends payable and interest on capital	1,117			
Derivative financial instruments	(88)	(2,115)		
Other payables	22,771	19,164	3,669	7,133
	<u>94,920</u>	<u>105,548</u>	<u>94,278</u>	<u>28,049</u>

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

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4.2 Capital management

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

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

The gearing ratios at December 31 were as follows:

	<u>Note</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Borrowings	18	226,013	181,771	221,061
Derivative financial instruments	8	(4,769)	(4,030)	(2,203)
Cash and cash equivalents	7	<u>(38,423)</u>	<u>(15,775)</u>	<u>(35,702)</u>
Net debt		182,821	161,966	183,156
Equity	20	<u>209,420</u>	<u>194,835</u>	<u>177,443</u>
Total capital		<u>392,241</u>	<u>356,801</u>	<u>360,599</u>
Gearing ratio - %		<u>46.61</u>	<u>45.39</u>	<u>50.79</u>

4.3 Fair value estimation

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

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

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The carrying amounts of trade receivables, less provision for impairment, and payables are assumed to approximate their fair values, especially considering the 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 that are measured in the balance sheet at fair value; this requires disclosure of fair value measurements by level of the hierarchy.

All of the Group's financial instruments were classified as Level 2 "Other observable significant data", as shown below.

In accordance with the combined balance sheet	Classification	2013	2012	2011
Asset - Derivative financial instruments				
Foreign exchange rate swap	Level 2	5,815	4,030	2,203
Liabilities - Derivative financial instruments				
Interest rate swaps	Level 2	(1,046)		
		<u>4,769</u>	<u>4,030</u>	<u>2,203</u>

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5 Financial instruments by category

	2013		
	Assets at fair value through profit or loss	Loans and receivables	Available-for- sale
Assets as per balance sheet			
Cash and cash equivalents		38,423	
Derivative financial instruments	5,815		
Trade receivables		135,204	
Non-current assets held for sale			5,020
Other assets, except for prepaid expenses		7,618	
	<u>5,815</u>	<u>181,245</u>	<u>5,020</u>
			2012
	Assets at fair value through profit or loss	Loans and receivables	
Assets as per balance sheet			
Cash and cash equivalents			15,775
Derivative financial instruments		4,030	
Trade receivables			112,221
Related parties			12,716
Other assets, except for prepaid expenses and biological assets			10,720
		<u>4,030</u>	<u>151,432</u>
			2011
	Assets at fair value through profit or loss	Loans and receivables	
Assets as per balance sheet			
Cash and cash equivalents			35,702
Derivative financial instruments		2,203	
Trade receivables			93,479
Related parties			24,066
Other assets, except for prepaid expenses and biological assets			2,342
		<u>2,203</u>	<u>155,589</u>

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	2013		
	Liabilities at fair value through profit or loss	Available-for- sale	Other financial liabilities
Liabilities as per balance sheet			
Trade pay ables			16,108
Derivative financial instruments	1,046		
Borrowings			226,013
Dividends and interest on capital			3,565
Commissions on sales			4,828
Related parties			37,897
Non-current liabilities held for sale		965	
Other liabilities			6,011
	<u>1,046</u>	<u>965</u>	<u>294,422</u>
			2012
			Other financial liabilities
Liabilities as per balance sheet			
Trade pay ables			13,102
Borrowings			181,771
Dividends and interest on capital			3,453
Commissions on sales			4,491
Related parties			25,876
Other liabilities			2,937
			<u>231,630</u>
			2011
			Other financial liabilities
Liabilities as per balance sheet			
Trade pay ables			13,556
Borrowings			221,061
Dividends and interest on capital			1,117
Commissions on sales			5,548
Related parties			21,945
Other liabilities			3,979
			<u>267,206</u>

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6 Credit quality of financial assets

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

The balances of bank current accounts and bank deposits amounting to R\$ 38,401 (2013 - R\$ 15,757 and 2012 - R\$ 35,683) were held in prime financial institutions rated as A-2 by Standard & Poor's.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
AA	38,279	27,151	21,723
A	46,689	33,887	29,600
B	25,146	23,952	19,652
C	19,787	20,661	16,513
D	5,635	7,165	6,855
E	<u>2,588</u>	<u>1,817</u>	<u>2,192</u>
	<u>138,124</u>	<u>114,633</u>	<u>96,535</u>

7 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks, as well as investments in Bank Deposit Certificates (CDB) earning up to 102.4% of the Interbank Deposit Certificate (CDI) rate variation.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash			
Local currency	3	3	4
Foreign currency	<u>19</u>	<u>15</u>	<u>15</u>
	22	18	19
Banks			
Local currency	8.840	5.555	5.655
Foreign currency	<u>4.441</u>	<u>977</u>	<u>1.069</u>
	13.281	6.532	6.724
Bank Deposit Certificates (CDBs)	<u>25.120</u>	<u>9.225</u>	<u>28.959</u>
	<u>38.423</u>	<u>15.775</u>	<u>35.702</u>

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8 Derivative financial instruments

	<u>2013</u>		<u>2012</u>		<u>2011</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Assets</u>	<u>Assets</u>	<u>Assets</u>
Foreign exchange rate and interest rate swaps	5,815	1,046	4,030		2,203	
Non-current	(2,833)	(1,046)	(3,143)		(2,115)	
Current	<u>2,982</u>	<u></u>	<u>887</u>		<u>88</u>	

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

The notional principal amounts of the outstanding foreign exchange rate swap contracts at December 31, 2013 were US\$ 11,250 thousand (2012 - US\$ 13,125 thousand and 2011 - US\$ 15,000 thousand) and of the interest rate swaps were R\$ 20,400 (2012 and 2011 - R\$ 20,400).

9 Trade receivables

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Domestic	129,851	104,607	82,481
Foreign (U.S. dollars)	8,273	10,026	14,054
Provision for impairment of trade receivables	(2,920)	(2,412)	(3,056)
	135,204	112,221	93,479
Non-current	(1,596)	(454)	(589)
Current	<u>133,608</u>	<u>111,767</u>	<u>92,890</u>

The foreign trade receivables correspond to US\$ 2,744 thousand at December 31, 2013 (2012 - US\$ 2,623 thousand and 2011 - US\$ 5,874 thousand).

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Not yet due			
Up to 3 months	89,533	81,234	64,212
From 3 to 6 months	34,401	17,708	21,466
More than 6 months	<u>3,765</u>	<u>2,365</u>	<u>1,711</u>
	<u>127,699</u>	<u>101,307</u>	<u>87,389</u>
Expired			
Up to 3 months	5,861	8,860	2,974
From 3 to 6 months	1,701	764	1,902
More than 6 months	<u>2,863</u>	<u>3,702</u>	<u>4,270</u>
	<u>10,425</u>	<u>13,326</u>	<u>9,146</u>
	<u><u>138,124</u></u>	<u><u>114,633</u></u>	<u><u>96,535</u></u>

The provision for impairment of trade receivables was constituted for receivables overdue over 180 days and without guarantees. Management maintains the appropriate collection procedures in relation to the other overdue receivables and believes that the Group will not incur losses.

Changes in the provision were as follows:

At January 1, 2011	1,375
Additions	2,108
Definitive write-offs	<u>(427)</u>
At December 31, 2011	3,056
Additions	713
Definitive write-offs	<u>(1,357)</u>
At December 31, 2012	2,412
Additions	1,812
Definitive write-offs	<u>(1,304)</u>
At December 31, 2013	<u><u>2,920</u></u>

After attempting all collection methods, at December 31, 2013, the Group opted to write off receivables overdue for more than 2 years, totaling R\$ 1,304 (2012 – R\$ 1,357 and 2011 - R\$ 427).

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10 Inventories

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Finished products	28,565	13,537	18,100
Raw materials	18,277	25,821	25,470
Packaging materials	6,159	4,094	5,169
Semi-finished products	5,252	5,824	5,301
Others	4,822	3,200	4,186
Advances to suppliers	2,766	3,041	4,223
Imports in transit	1,831	2,044	1,255
Provision for inventory losses	<u>(2,225)</u>	<u>(1,528)</u>	<u>(1,808)</u>
	<u>65,447</u>	<u>56,033</u>	<u>61,896</u>

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

At January 1, 2011	445
Additions	4,377
Write-offs	<u>(3,014)</u>
At December 31, 2011	1,808
Additions	2,611
Write-offs	<u>(2,891)</u>
At December 31, 2012	1,528
Additions	1,962
Write-offs	<u>(1,265)</u>
At December 31, 2013	<u>2,225</u>

11 Taxes recoverable

	<u>2013</u>	<u>2012</u>	<u>2011</u>
ICMS	24,819	15,905	10,964
PIS and COFINS	1,143	998	1,385
ICMS, PIS and COFINS on purchases of property, plant and equipment	769	451	814
IRRF	735	188	504
IPI	483	690	578
Others	<u>167</u>	<u>74</u>	<u>8</u>
	28,116	18,306	14,253
Non-current	<u>(24,878)</u>	<u>(16,121)</u>	<u>(11,244)</u>
Current	<u>3,238</u>	<u>2,185</u>	<u>3,009</u>
ICMS - Value-added Tax on Sales and Services			
PIS - Social Integration Program			
COFINS - Social Contribution on Revenues			
IRRF - Withholding Income Tax			
IPI - Excise Tax			

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The ICMS credits, which amounted to R\$ 23,627 in 2013 (2012 – R\$ 15,123 and 2011 - R\$ 10,089), were mainly generated by the subsidiary Ouro Fino Saúde Animal Ltda. These credits are generated by exempted sales on domestic transactions and sales with a sixty-percent reduction in the calculation basis on interstate transactions, with the full/partial maintenance of credits on inputs, pursuant to the ICMS Agreement 100/97.

After the credit balances were inspected, they were considered to be appropriate according to the applicable legislation and can be utilized in the purchase of inputs and machinery and equipment and/or transferred to other Group companies with an interdependence relationship and which regularly calculate ICMS payable. Currently, most of these credits have been subjected to regular audit processes and management does not expect losses on their realization.

12 Other assets

The balances of other assets at December 31, 2012 and 2011 refer mainly to the biological assets ("Genetics Division") amounting to R\$ 18,396 and R\$ 21,656, respectively. The operation was discontinued for 2013 (Note 14).

13 Related parties

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets			
Loan (d)		12,716	24,066
Liabilities			
Advance for future capital increase (b)	37,897	15,802	12,801
Borrowings (c)	17,708	24,507	43,089
Interest on capital (a)	3,565	3,453	1,117
Loan (d)		10,074	9,144
	<u>59,170</u>	<u>53,836</u>	<u>66,151</u>
Result			
Interest on loan (d)	(60)	1,307	(346)
Interest on borrowings (c)	(1,393)	(2,080)	(2,812)
	<u>(1,453)</u>	<u>(773)</u>	<u>(3,158)</u>

(a) Dividends and interest on capital

The balance payable of R\$ 3,565 (2012 – R\$ 3,453 and 2011 – R\$ 1,117) refers to interest on capital payable to the parent company Ouro Fino Participações e Empreendimentos S.A.

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(b) Advances for future capital increase

The balances payable of R\$ 37,897 (2012 – R\$ 15,802 and 2011 – R\$ 12,801) refer to advances for future capital increase to the parent company Ouro Fino Participações e Empreendimento S.A. The advances for future capital increase were approved by the stockholders, are irrevocable and unconditional and will be utilized to pay up capital, when the corporate acts are registered. During the year ended December 31, 2013, advances for future capital increase of Ouro Fino Saúde Animal Ltda. of R\$ 8,905 were capitalized.

(c) Borrowings from related parties

Refers to borrowings from the National Bank for Economic and Social Development (BNDES), under conditions similar to those established with independent parties.

(d) Loans

At December 31, 2012 and 2011, these were loans to the related parties Ouro Fino Química Ltda. and Ouro Fino Participações e Empreendimentos S.A. earning interest of 10% p.a.

(e) Management remuneration

Key management personnel include members of the Executive Board, whose remuneration is approved at the Annual General Meeting. Remuneration expenses totaled R\$ 4,191 in 2013 (2012 - R\$ 3,874 and 2011 - R\$ 4,036), of which R\$ 698 (2012 - R\$ 646 and 2013 - R\$ 673) referred to labor charges.

14 Non-current assets and liabilities held for sale and discontinued operations

(a) Genetics Division

As mentioned in Note 1.1, at the end of 2013 the Group decided to discontinue the activities of purchase, husbandry and sale of pedigree Nelore cattle and Criollo horses ("Genetics Division"). The assets and liabilities related to this activity were reclassified to the heading "assets and liabilities held for sale" in the combined financial statements. The operation was completed in January 2014.

(i) Cash flows

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating cash flows	19,534	5,274	2,352
Investing cash flows	<u>(4,654)</u>	<u>(11,219)</u>	<u>(140)</u>
Total cash flows	<u>14,880</u>	<u>(5,945)</u>	<u>2,212</u>

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(ii) Nature of the assets held for sale

	<u>2013</u>
Trade receivables	4,906
Biological assets	9,948
Intangible assets	3
Property, plant and equipment	4,523
Other assets	114
	<u>19,494</u>

(iii) Nature of the liabilities related to the assets held for sale

	<u>2013</u>
Trade and other payables	<u>965</u>

The assets and liabilities held for sale were written down to their fair value less costs to sell. This is a non-recurring fair value which has been measured using market observable inputs, being the prices for recent sales of similar businesses, and is therefore within Level 2 of the fair value hierarchy.

The statement of income of the Genetics Division is presented as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Discontinued operations			
Net sales revenue	5,737	2,213	4,052
Cost of sales	<u>(13,610)</u>	<u>(8,233)</u>	<u>(5,762)</u>
Gross loss	(7,873)	(6,020)	(1,710)
Selling expenses	(1,476)	(1,381)	(3,160)
General and administrative expenses		(446)	(477)
Other income, net	<u>(2,530)</u>	<u>(413)</u>	<u>198</u>
Operating loss	(11,879)	(8,260)	(5,149)
Finance result	<u>(5)</u>	<u>(24)</u>	<u>(39)</u>
Loss for the year from continuing operations	<u>(11,884)</u>	<u>(8,284)</u>	<u>(5,188)</u>

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(b) Seeds and food supplements

The Group decided to discontinue the seeds and food supplements segments at the end of 2011. Management assumed the commitment to discontinue these segments at the end of 2011, following a strategic decision to focus more on the Group's core capacities, which are the production and sale of veterinary drugs and crop protection products. All the sale transactions were realized in 2012.

(i) Cash flows

	<u>2012</u>	<u>2011</u>
Operating cash flows	4,870	14,199
Investing cash flows	<u>11,119</u>	<u>431</u>
Total cash flows	<u><u>15,989</u></u>	<u><u>14,630</u></u>

(ii) Nature of the assets held for sale

	<u>2011</u>
Property, plant and equipment	11,119
Inventories	<u>4,870</u>
	<u><u>15,989</u></u>

The statement of income is as follows:

	<u>2012</u>	<u>2011</u>
Discontinued operations		
Net sales revenue	3,197	16,917
Cost of sales	<u>(4,339)</u>	<u>(24,253)</u>
Gross loss	(1,142)	(7,336)
Selling expenses	(975)	(3,810)
General and administrative expenses	(156)	(756)
Other expenses, net	<u>(658)</u>	<u>(539)</u>
Operating loss	(2,931)	(12,441)
Finance result	<u>(95)</u>	<u>(566)</u>
Loss for the year from discontinued operations	<u><u>(3,026)</u></u>	<u><u>(13,007)</u></u>

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15 Current and deferred income tax and social contribution

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 Group also has a subsidiary located in Mexico, which calculates its taxes based on the regulations of that country. Therefore, there is no correlation between the amounts presented in the combined statement of income and the results that would have been obtained by applying the standard rates mentioned above.

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

(a) Composition, nature and realization of taxes

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Tax credits			
Accumulated income tax and social contribution losses	1.632	3.052	3.528
Temporary differences			
Provisions	5.270	3.894	4.000
Mark-to-market adjustments	266		
	<u>7.168</u>	<u>6.946</u>	<u>7.528</u>
Tax liabilities			
Temporary differences			
Deemed cost of land			(491)
			<u>(491)</u>
	<u>7.168</u>	<u>6.946</u>	<u>7.037</u>

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Tax credits on:			
Temporary differences			
Pre-operating expenses written-off	(1,344)	(1,536)	(1,490)
Provisions	(2,637)	(1,208)	(606)
Foreign exchange variations - cash basis		(43)	(219)
	<u>(3,981)</u>	<u>(2,787)</u>	<u>(2,315)</u>
Tax liabilities on:			
Deemed cost of land	7,878	7,878	7,878
Foreign exchange variations - cash basis	280		
Accelerated depreciation	254	289	324
	<u>8,412</u>	<u>8,167</u>	<u>8,202</u>
	<u>4,431</u>	<u>5,380</u>	<u>5,887</u>
Total deferred tax liabilities	<u>11,149</u>	<u>9,733</u>	<u>9,843</u>
Total deferred tax credits	<u>8,412</u>	<u>8,167</u>	<u>8,693</u>

The deferred income tax and social contribution are presented net, by entity, in the balance sheet. The net changes in the deferred tax account were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Opening balance	1,566	1,150	(117)
Provisions	2,815	495	2,187
Mark-to-market adjustments	266		
Accelerated depreciation	24	36	35
Pre-operating expenses written-off	(193)	48	(428)
Foreign exchange variations - cash basis	(323)	(176)	385
Accumulated income tax and social contribution losses	(1,418)	(478)	(912)
Deemed cost of land		491	
Closing balance	<u>2,737</u>	<u>1,566</u>	<u>1,150</u>

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

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The amounts by estimated offset year are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Deferred tax assets to be recovered			
within to 1 year	10,073	8,465	7,577
from 2 to 5 years	1,076	832	1,887
after 5 years		436	379
	<u>11,149</u>	<u>9,733</u>	<u>9,843</u>
Deferred tax liabilities to be settled			
within to 1 year	534	289	491
from 2 to 5 years			324
after 5 years	7,878	7,878	7,878
	<u>8,412</u>	<u>8,167</u>	<u>8,693</u>

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16 Intangible assets

	Trademarks and licenses acquired	Product development and registration	Software	Total
At January 1, 2011				
Total cost	3.792	19.541	1.948	25.281
Accumulated amortization	(385)		(1.071)	(1.456)
Net book value	<u>3.407</u>	<u>19.541</u>	<u>877</u>	<u>23.825</u>
At January 1, 2011				
Opening balance	3.407	19.541	877	23.825
Additions		6.040	756	6.796
Transfers	(1.247)	1.239	8	
Amortization	(330)	(1.809)	(367)	(2.506)
At December 31, 2011	<u>1.830</u>	<u>25.011</u>	<u>1.274</u>	<u>28.115</u>
Total cost	2.545	26.820	2.712	32.077
Accumulated amortization	(715)	(1.809)	(1.438)	(3.962)
Net book value	<u>1.830</u>	<u>25.011</u>	<u>1.274</u>	<u>28.115</u>
At January 1, 2012				
Opening balance	1.830	25.011	1.274	28.115
Additions		6.038	1.062	7.100
Write-offs			(12)	(12)
Transfers	2.618	(2.618)		
Provision for impairment		(1.333)		(1.333)
Amortization	(330)	(1.949)	(583)	(2.862)
At December 31, 2012	<u>4.118</u>	<u>25.149</u>	<u>1.741</u>	<u>31.008</u>
Total cost	5.163	30.240	3.762	39.165
Provision for impairment		(1.333)		(1.333)
Accumulated amortization	(1.045)	(3.758)	(2.021)	(6.824)
Net book value	<u>4.118</u>	<u>25.149</u>	<u>1.741</u>	<u>31.008</u>
At January 1, 2013				
Opening balance	4.118	25.149	1.741	31.008
Additions		11.002	15.097	26.099
Transfer to discontinued operations			(3)	(3)
Provision for impairment		(808)		(808)
Amortization	(330)	(2.138)	(521)	(2.989)
At December 31, 2013	<u>3.788</u>	<u>33.205</u>	<u>16.314</u>	<u>53.307</u>
Total cost	5.163	41.242	18.856	65.261
Provision for impairment		(2.141)		(2.141)
Accumulated amortization	(1.375)	(5.896)	(2.542)	(9.813)
Net book value	<u>3.788</u>	<u>33.205</u>	<u>16.314</u>	<u>53.307</u>

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The amortization of intangible assets with product development and registration is recorded as "Cost of sales".

The development and registration of products substantially refer to expenditures incurred with new veterinary drugs of R\$ 26,005 (2012 - R\$ 16,864 and 2011 - R\$ 15,858), with the development of a vaccine against foot-and-mouth disease of R\$ 7,200 (2012 - R\$ 8,285 and 2011 - R\$ 9,153).

At December 31, 2013, the Group recognized an impairment loss of R\$ 808 (2012 - R\$ 1,333 and 2011 - there were no impairment losses).

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

The Group implemented the ERP SAP R3 system in 2013, incurring software costs of R\$ 3,021 and other project-related expenditures of R\$ 11,624 (2012 - R\$ 31 and 2011 - there were no ERP SAP R3 software costs).

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17 Property, plant and equipment

	Land	Buildings and improvements	Machinery, equipment and industrial facilities	Vehicles, tractors and aircraft	Furniture and fittings	IT equipment	Others	Construction in progress	Total
At January 1, 2011									
Cost	24.947	71.740	52.940	12.379	3.921	4.316	1.652	1.194	173.089
Accumulated depreciation		(6.012)	(13.016)	(2.821)	(1.313)	(2.608)	(635)		(26.405)
Net book value	24.947	65.728	39.924	9.558	2.608	1.708	1.017	1.194	146.684
At January 1, 2011									
Opening balance	24.947	65.728	39.924	9.558	2.608	1.708	1.017	1.194	146.684
Purchases		1.098	1.843	3.450	349	1.826	2.855	3.000	14.421
Merged balance	7.807	37	2.182	759	159	83	229		11.256
Transfers		1.535	1.785	181	133	(333)	(1.125)	(2.176)	
Write-offs		108	(440)	(905)	(26)	109	(753)	(39)	(1.946)
Depreciation		(1.691)	(3.368)	(1.937)	(411)	(837)	(374)		(8.618)
Transferred to the disposal group classified as held for sale	(7.807)	(65)	(2.088)	(817)	(144)	(62)	(136)		(11.119)
At December 31, 2011	24.947	66.750	39.838	10.289	2.668	2.494	1.713	1.979	150.678
At January 1, 2012									
Cost	24.947	74.453	56.222	15.047	4.392	5.939	2.722	1.979	185.701
Accumulated depreciation		(7.703)	(16.384)	(4.758)	(1.724)	(3.445)	(1.009)		(35.023)
Net book value	24.947	66.750	39.838	10.289	2.668	2.494	1.713	1.979	150.678
At January 1, 2012									
Opening balance	24.947	66.750	39.838	10.289	2.668	2.494	1.713	1.979	150.678
Purchases		4.565	2.657	1.636	452	547	3.781	1.479	15.117
Transfers		1.768	3.563	(232)	(152)	192	(2.723)	(2.416)	
Transfers of discontinued operations			315	583	54	30	7		989
Write-offs		(471)	(741)	(365)	(20)	(52)	(194)	(3)	(1.846)
Depreciation		(1.566)	(3.147)	(1.536)	(436)	(879)	(192)		(7.756)
At December 31, 2012	24.947	71.046	42.485	10.375	2.566	2.332	2.392	1.039	157.182
At January 1, 2013									
Cost	24.947	80.315	62.016	16.669	4.726	6.656	3.593	1.039	199.961
Accumulated depreciation		(9.269)	(19.531)	(6.294)	(2.160)	(4.324)	(1.201)		(42.779)
Net book value	24.947	71.046	42.485	10.375	2.566	2.332	2.392	1.039	157.182
At January 1, 2013									
Opening balance	24.947	71.046	42.485	10.375	2.566	2.332	2.392	1.039	157.182
Purchases		969	3.535	2.210	627	2.189	9.119	8.922	27.571
Transfers		2.171	5.702	(27)	17	1	(7.555)	(309)	
Write-offs		(36)	(1.000)	(831)	(125)	(74)	(117)	(31)	(2.214)
Depreciation		(2.285)	(3.745)	(1.640)	(469)	(818)	(539)		(9.496)
Transferred to the disposal group classified as held for sale		(2.543)	(418)	(12)	(97)	(18)	(1.435)		(4.523)
At December 31, 2013	24.947	69.322	46.559	10.075	2.519	3.612	1.865	9.621	168.520
At January 1, 2013									
Cost	24.947	80.876	69.835	18.009	5.148	8.754	3.605	9.621	220.795
Accumulated depreciation		(11.554)	(23.276)	(7.934)	(2.629)	(5.142)	(1.740)		(52.275)
Net book value	24.947	69.322	46.559	10.075	2.519	3.612	1.865	9.621	168.520
Annual average depreciation rates - %		3,23	6,78	13,29	10,25	18,76	9,88		

The balance of construction in progress of R\$ 8,978 (2012 – R\$ 1,039 and 2011 - R\$ 1,979) refers mainly to the new plant of the biological products unit.

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(a) Leases

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

The net book value of leased vehicles totaled R\$ 1,647 at December 31, 2013 (2012 - R\$ 2,593 and 2011 - R\$ 1,981).

(b) Guarantees

Land, buildings, machinery and equipment amounting to R\$ 18,824 (2012 - R\$ 26,148 and 2011 - R\$ 99,053) are pledged as collaterals for borrowings (Note 18).

18 Borrowings

	Financial charges	Final maturity	2013	2012	2011
Foreign currency					
BNDES - FINEM	Average of foreign exchange variations of funds obtained by BNDES and weighted average rate of 2.59% p.a. (2012 - 2.61% p.a. and 2011 - 2.65% p.a.)	2016	1,303	1,720	2,251
Export credit note	Foreign exchange variation and weighted average rate of 4.28% p.a. (2012 - 4.28% p.a. and 2011 - 4.28% p.a.)	2016	17,924	19,454	17,858
Local currency					
FINEP (technological innovation)	Weighted average rate of 4.46% p.a. (2012 - 4.17% p.a. and 2011 - 4.13% p.a.)	2018	167,645	135,557	154,865
BNDES - PROGEREN	Weighted average rate of 3.50% p.a. (2011 - 3.50% p.a.)	2013		410	2,052
BNDES - FINEM	Weighted average rate of 2.89% p.a. (2012 - 2.90% p.a. and 2011 - 2.90% p.a.)	2016	11,387	16,505	21,640
BNDES Exim Pre-shipment	Weighted average rate of 4.40% p.a.	2012			10,031
BNDES - FINAME	Weighted average rate of 4.50% p.a. (2012 - 4.50% p.a. and 2011 - 4.50% p.a.)	2022	5,018	5,872	7,115
Rural certificate and NCR	Weighted average rate of 6.50% p.a.	2012			3,332
Export credit note	Weighted average rate of 8% p.a.	2016	21,619		
Finance lease	Weighted average rate of 13.22% p.a. (2012 - 13.49% p.a. and 2011 - 13.50% p.a.)	2015	1,117	2,253	1,917
			<u>226,013</u>	<u>181,771</u>	<u>221,061</u>
Current			<u>(53,728)</u>	<u>(32,521)</u>	<u>(43,059)</u>
Non-current			<u>172,285</u>	<u>149,250</u>	<u>178,002</u>

FINEM - Financing for Enterprises

FINEP - Fund for Financing of Studies and Projects

PROGEREN - Support Program for the Strengthening of the Employment and Income Generation Capacity

Exim - Import and Export

FINAME - Government Agency for Machinery and Equipment Financing

NCR - Rural Credit Notes

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(a) Finance lease liabilities

Finance lease transactions were mainly contracted to renew the vehicle fleet.

Leases are payable as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Within 1 year	839	1,093	852
From 1 and 3 years	<u>278</u>	<u>1,160</u>	<u>1,065</u>
	<u>1,117</u>	<u>2,253</u>	<u>1,917</u>

(b) Guarantees for borrowings

The financing for research, innovation and development of products obtained from the Fund for Financing of Studies and Projects (FINEP) and which, at December 31, 2013, totaled R\$ 167,645, are guaranteed by a surety of Ouro Fino Participações e Empreendimentos S.A. and bank guarantees of R\$ 17,748.

The borrowings contracted with the National Bank for Economic and Social Development (BNDES), mainly for the construction of plants, purchases of Brazilian equipment and for working capital, are guaranteed by the industrial plant of animal health, in the City of Cravinhos, in the State of São Paulo, and the financed equipment, up to no more than the debt balance of the borrowings.

Borrowings for working capital, rural credit notes and guaranteed borrowings are collateralized by personal guarantees. Finance leases and borrowings from the Government Agency for Machinery and Equipment Financing (FINAME) are guaranteed through the statutory lien of the assets leased and financed.

At December 31, 2013, 2012, and 2011, Ouro Fino Saúde Animal Ltda. and Ouro Fino Agronegócio Ltda. are the guarantors of some borrowings to the related party Ouro Fino Química Ltda. of R\$ 3,657 (2012 – R\$ 4,355 and 2011 – R\$ 4,512). Related parties Ouro Fino Química Ltda. and Ouro Fino Participações e Empreendimentos S.A. are also the guarantors of borrowings to companies Ouro Fino Saúde Animal Ltda. and Ouro Fino Agronegócio Ltda. of R\$ 191,481 (2012 – R\$ 136,513 and 2011 – R\$ 162,005). There is no collection between the parties for the guarantees given.

The carrying amounts of borrowings approximate their fair values.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
2013			35,508
2014		42,553	39,135
2015	52,232	39,828	36,705
2016	58,779	26,194	26,209
2017	31,679	20,942	20,817
2018	28,651	18,799	18,670
2019	806	799	838
2020 to 2022	138	135	120
	<u>172,285</u>	<u>149,250</u>	<u>178,002</u>

(c) Working capital borrowings in foreign currency

Foreign exchange rate swap transactions were contracted for working capital borrowings contracted in foreign currency (USD), which amounted to R\$ 17,924 at December 31, 2013 (2012 – R\$ 19,454 and 2011 – R\$ 17,858), to exchange the charges for those based on the CDI rate variation (Note 8.).

19 Provision for contingencies

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Labor	2,714	2,143	1,882
Civil and social security	421	491	252
	<u>3,135</u>	<u>2,634</u>	<u>2,134</u>

In addition, certain Group companies are parties to other administrative disputes, including those which were the object of tax assessments. No provisions were recorded to cover possible losses, based on the opinion of legal counsel. The claims classified as possible success, which are substantially comprised of tax (ICMS) and labor lawsuits, amount to approximately R\$ 22,387 (2012 – R\$ 2,358 and 2011 - R\$ 2,230).

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The changes in the provision for contingencies were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Opening balance	2,634	2,134	1,513
New claims	1,292	1,082	1,389
Cancellation of claims	<u>(791)</u>	<u>(582)</u>	<u>(768)</u>
Closing balance	<u>3,135</u>	<u>2,634</u>	<u>2,134</u>

20 Equity

(a) Share capital

(i) Ouro Fino Saúde Animal Ltda.

Fully paid-up capital comprises 87,064,319 (2012 and 2011 - 78,160,000) quotas with no par value.

At March 31, 2013, there was a capital increase of R\$ 8,905, which represents 8,904,319 quotas, through Advances for Future Capital Increase (AFAC) carried out by the parent company Ouro Fino Participações e Empreendimentos S.A.

(ii) Ouro Fino Agronegócio Ltda.

Fully paid-up capital comprises 79,772,495 (2012 and 2011 - 79,772,495) quotas with no par value.

On July 1, 2011, there was a capital increase of R\$ 39,162 through the mergers of the companies Ouro Fino Produtos Veterinários Ltda. (formerly Ouro Fino Agronegócio Ltda.) and Ethika Suplementos e Bem Estar Ltda., as described in Note 1.1.

(iii) Ouro Fino Pet Ltda.

Fully paid-up capital comprises 1,000,000 (2012 and 2011 - 1,000,000) quotas with no par value.

(b) Allocation of profit

Profit is allocated as follows according to the bylaws of the combined companies:

The profits recorded, as decided by the partners representing 75% of the share capital, may be:

- distributed to the partners, totally or partially, in proportion to the respective percentages of ownership or in another proportion approved by the partners, without excluding any partners of the results accrued and/or
- retained, totally or partially, in a retained earnings or reserve account, or capitalized.

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At December 31, 2013, interest on capital was distributed (gross of Income Tax Withheld at Source (IRRF) of R\$ 4,193 (2012 – R\$ 4,063 and 2011 – R\$ 1,300) and advance payments of dividends of R\$ 32,297 (2012 – R\$ 10,550 and 2011 – there were no advance payments of dividends).

On July 1, 2011, accumulated deficit of R\$ 12,862 was offset through the mergers of the companies Ouro Fino Produtos Veterinários Ltda. (formerly Ouro Fino Agronegócio Ltda.) and Ethika Suplementos e Bem Estar Ltda., as described in Note 1.1.

(c) Carrying value adjustments

The carrying value adjustments in equity refer to the adoption of the deemed cost for land, because the Group opted for measuring land at fair value at January 1, 2009, as well as all exchange rate differences resulting from the translation of the balance sheet and the statement of income of the subsidiaries abroad.

21 Segment information

The Board of Directors of Ouro Fino Participações e Empreendimentos S.A. is the main decision-maker and has determined the Group's operating segments according to the markets in which it operates, based on strategic business decisions.

The segments are:

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

As described in Note 4.1 (b), the broad customer base is a characteristic of the veterinary products segment; therefore, the Group does not have customers representing more than 10% of its total net revenue.

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

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The results per segment are as follows:

	2012			
	Results by business segment			
	Livestock	Pets	International operations	Total
Net revenue	267.231	36.133	16.851	320.215
Cost of sales	<u>(113.143)</u>	<u>(5.982)</u>	<u>(6.111)</u>	<u>(125.236)</u>
Gross profit	154.088	30.151	10.740	194.979
Selling expenses	(89.997)	(11.487)	(5.217)	(106.701)
General and administrative expenses (not segmented)				(32.826)
Other expenses, net (not segmented)				<u>(665)</u>
Operating profit				54.787
Finance income (not segmented)				9.917
Finance costs (not segmented)				<u>(18.260)</u>
Finance result (not segmented)				<u>(8.343)</u>
Profit before income tax and social contribution				46.444
Income tax and social contribution				
Current (not segmented)				(3.643)
Deferred (not segmented)				<u>416</u>
Profit from continuing operations				<u><u>43.217</u></u>

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All amounts in thousands of reais unless otherwise stated

	2011			
	Results by business segment			
	Livestock	Pets	International operations	Total
Net revenue	251.635	27.562	16.877	296.074
Cost of sales	(97.017)	(4.903)	(7.953)	(109.873)
Gross profit	154.618	22.659	8.924	186.201
Selling expenses	(76.947)	(8.512)	(4.885)	(90.344)
General and administrative expenses (not segmented)				(32.856)
Other income, net (not segmented)				1.230
Operating profit				64.231
Finance income (not segmented)				10.921
Finance costs (not segmented)				(17.265)
Finance result (not segmented)				(6.344)
Profit before income tax and social contribution				57.887
Income tax and social contribution				
Current (not segmented)				(8.780)
Deferred (not segmented)				2.720
Profit from continuing operations				<u>51.827</u>

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The results of the international operations segment per country are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net revenue			
Venezuela	7,130	5,152	3,867
Mexico	3,170	1,670	4,180
Paraguay	2,066	1,142	858
Sudan	2,014	1,016	584
Colombia	1,965	2,503	1,922
Others	6,319	5,368	5,466
	<u>22,664</u>	<u>16,851</u>	<u>16,877</u>

22 Revenues

The reconciliation between gross and net revenue is as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Domestic			
Gross sales revenue	408,288	339,450	309,400
Taxes and sales deductions	<u>(46,931)</u>	<u>(36,086)</u>	<u>(30,203)</u>
	<u>361,357</u>	<u>303,364</u>	<u>279,197</u>
Foreign			
Gross sales revenue	23,721	16,851	16,877
Taxes and sales deductions	<u>(1,057)</u>		
	<u>22,664</u>	<u>16,851</u>	<u>16,877</u>
	<u>384,021</u>	<u>320,215</u>	<u>296,074</u>

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23 Costs and expenses by nature

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Personnel	99,176	78,881	50,236
Variable costs (raw and consumable materials)	91,152	73,515	71,628
Sales team expenses	54,689	50,579	57,037
Third-party services	22,688	20,609	18,356
Others	14,939	12,236	6,796
Depreciation and amortization	12,485	10,618	11,124
Freight	10,342	7,984	7,913
Telecommunications and electric power	5,299	4,796	3,994
Industrial maintenance	2,733	3,160	2,039
Constitution (reversal) of provision for inventory losses	1,363	(280)	697
Travel	908	1,058	1,104
Provision for contingencies	501	500	621
Vehicles	421	394	396
Donations and sponsorships	409	336	543
Maintenance and consumable materials	273	377	589
	<u>317,378</u>	<u>264,763</u>	<u>233,073</u>
Cost of sales	149,098	125,236	109,873
Selling expenses	131,738	106,701	90,344
General and administrative expenses	36,542	32,826	32,856
	<u>317,378</u>	<u>264,763</u>	<u>233,073</u>

24 Other income (expenses), net

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Sundry income	338		1,930
Capital gain on the disproportionate distribution of profits	267		230
Gains on sale and write-off of property, plant and equipment	219	166	415
Bonuses received	116	288	576
Others	(56)	(182)	(273)
Sundry taxes	(85)	(700)	(611)
Sundry losses	(89)	(209)	(303)
Sundry charges	(699)	(386)	(473)
Sundry provisions		358	(261)
	<u>11</u>	<u>(665)</u>	<u>1,230</u>

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25 Finance result

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Finance income			
Foreign exchange variation	5,272	3,935	4,349
Financial investments	3,061	1,244	637
Gains on derivatives	1,785	1,827	2,203
Interest receivable	950	2,598	3,339
Monetary variations	214	246	251
Others	69		34
Discounts obtained	47	67	108
	<u>11,398</u>	<u>9,917</u>	<u>10,921</u>
Finance costs			
Interest payable	(10,517)	(10,915)	(9,403)
Foreign exchange variation	(6,620)	(5,754)	(6,407)
Financial charges	(1,833)	(1,380)	(1,131)
Derivatives	(1,046)		
Bank fees	(123)	(105)	(79)
Monetary variations	(11)		
Discounts granted	90	(49)	(234)
Others		(57)	(11)
	<u>(20,060)</u>	<u>(18,260)</u>	<u>(17,265)</u>
Finance result	<u>(8,662)</u>	<u>(8,343)</u>	<u>(6,344)</u>

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26 Income tax and social contribution expense

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Profit before income tax and social contribution including discontinued operations	46,108	35,134	39,692
Standard rates	34%	34%	34%
	(15,677)	(11,946)	(13,495)
Reconciliation to the effective rate:			
Permanent differences:			
R&D incentive	3,989	3,727	3,512
Adjustment related to the calculation of the subsidiary taxed based on the presumed profit method	6,327	4,668	3,662
Adjustment related to the calculation of the foreign subsidiary taxed at the effective rate in its country	(1)	29	(38)
Interest on capital	1,425	1,270	442
Adjustment in respect of prior years		(987)	(245)
Other permanent differences	(166)	12	102
Income tax and social contribution	<u>(4,103)</u>	<u>(3,227)</u>	<u>(6,060)</u>
Reconciliation with the statement of income:			
Current	(5,274)	(3,643)	(8,780)
Deferred	1,171	416	2,720
	<u>(4,103)</u>	<u>(3,227)</u>	<u>(6,060)</u>

Transitional Tax System - Law 12,973/2014, conversion of Provisional Measure 627

Normative Instruction 1,397 issued by the Brazilian Federal Revenue Service on September 16, 2013 provided significant understanding on the Brazilian federal tax rules concerning the adjustments required in relation to the Transitional Tax System established by Article 15 of Law 11,941 of May 27, 2009, mainly in relation to the recognition of revenues, costs and expenses affecting the calculation of taxable income after December 31, 2007, among others, establishing restrictions for the amount of profits distributable that are exempt from taxation.

Subsequently, on November 11, 2013, Provisional Measure 627 was published, determining the repeal of the Transitional Tax System and establishing a series of tax rules with the objective to converge the recognition of revenues, costs and expenses which affect the taxation bases in order to maintain tax neutrality due to the new accounting practices required by Laws 6,404/1976 and 11,638/2007 after December 31, 2007, including exemption rules as a result of Normative Instruction 1,397/2013, mainly in relation to profit distribution. The aforementioned Provisional Measure will be effective as from January 1, 2015, but early adoption by the taxpayers as from January 1, 2014 is permitted.

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Provisional Measure (MP) 627 was converted into Law 12,973 on May 13, 2014 with changes in its original text, but essentially maintaining what was initially established, especially with regard to the periods and limits of exemption initially granted. Like the original text, the Law is effective as from January 1, 2015, however, early adoption by the taxpayers as from January 1, 2014 is permitted.

Based on the analysis made by management regarding the possible tax impacts arising from the adoption of this Law, the Group intends to opt for the early adoption of its legal provisions at January 1, 2014, according to the rules established by Normative Instruction 1,469 of the Brazilian Federal Revenue Service of May 29, 2014. According to management's analysis, no significant impacts will affect the financial statements.

27 Employee benefits

(a) Private pension plan - defined contribution

The combined 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 plan contributions made by the companies in the year ended December 31, 2013 totaled R\$ 786 (2012 - R\$ 499 and 2011 - R\$ 287).

(b) Profit sharing

The combined companies offer to their employees a variable remuneration program, calculated based on quantitative and qualitative goals established by management. In the year ended December 31, 2013, profit sharing totaled R\$ 5,433 (2012 - R\$ 2,883 and 2011 - R\$ 2,147).

28 Insurance

The consolidated and combined companies have insurance coverage for operating risks and comprehensive civil liability, with a maximum indemnity of R\$ 269,374 at December 31, 2013. The Group's management considers these amounts to be sufficient to cover any potential liability risks and damages to the assets and loss of profits.

29 Events after the reporting period

(a) At the Meeting held on January 6, 2014, the partners of Ouro Fino Agronegócio Ltda. decided to discontinue the activities of purchase, husbandry and sale of pedigree Nelore cattle and Criollo horses ("Genetics Division") (Note 14) and approved the distribution of dividends of R\$ 4,180, corresponding to the profit for the year ended December 31, 2013. These dividends will be proportionately paid to the partners, as follows:

- The partner Ouro Fino Participações e Empreendimentos S.A. ("Company") received dividends in cash of R\$ 4,088, related to the facilities located in the State of Rio Grande do Sul (State Taxpayer Registry number 109.0370.358), comprised of the Criollo horse assets.

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- The remaining partners received dividends in local currency of R\$ 92, in accordance with their holdings.
- (b) At June 30, 2014, all ICMS credits related to 2010, 2011 and 2012 were approved by the authorities, of which R\$ 7,000 was released immediately for use. The residual balance of R\$ 5,034 was temporarily retained due to tax assessment notices at the administrative level and obligations related to the submission of electronic files pursuant to Ordinance 83/2009 of the Coordinating Committee of Tax Administration Board (CAT). The credits released were used in the amount of R\$ 2,753 at June 30, 2014 and the remaining amount will be used during 2014.
- (c) On May 30, 2014, the Ministry of Agriculture, Cattle Breeding and Supply (MAPA) published Normative Instruction 13, which is effective as from that same date, and established the “prohibition of the manufacture, processing, fractionation, sale, import and use of long-acting antiparasitic products, whose active ingredients are the macrocyclic lactones (ivermectins), for veterinary use, and which may be used to feed all animals and insects” and suspended, as from its effectiveness, the registrations granted to the finished products for veterinary use until MAPA conducts studies regarding such matter.

The Group's veterinary division has some products in its portfolio that, depending on the interpretation to be adopted by the Ministry, may be subject to the terms of this Normative Instruction, however, management understands that these products are fully regulated, also taking into consideration that all the tests and studies approved for the granting of the product registrations by MAPA itself provided evidence of their effectiveness, safety and grace periods, accordingly, it will adopt the applicable defense measures to protect its interests.

At June 30, 2014, in spite of management's understanding that its products containing ivermectins are in accordance with the regulations, the Company's management opted for the conservative decision of recording a provision for the possible risk of non-realization of some balances of inventories and intangible assets, in the amounts of R\$ 293 and R\$ 330, respectively.

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