(A free translation of the original in Portuguese)

Ouro Fino Saúde Animal Participações S.A.

Combined consolidated interim financial statements at June 30, 2014 and independent auditor's report

(A free translation of the original in Portuguese)

Independent auditor's report

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

We have audited the accompanying combined consolidated interim financial statements of the Ouro Fino Group (as established in Note 1 to the financial statements), which comprise the combined consolidated balance sheet as at June 30, 2014 and the combined consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period 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 the interim financial statements in accordance with International Accounting Standard (IAS) 34 - Interim Financial Reporting, 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 interim 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 interim financial statements are free from material misstatement.

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

PricewaterhouseCoopers, Av. Antônio Diederichsen, 400, 21º e 22º, Ed. Metropolitan Business Center, Ribeirão Preto, SP, Brasil 14020-250 T:(16) 2133-6600, Fax: (16) 2133-6685, www.pwc.com/br

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the interim 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 interim financial 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 interim financial statements referred to above present fairly, in all material respects, the combined consolidated financial position of the Ouro Fino Group as at June 30, 2014, and its combined consolidated financial performance and combined consolidated cash flows for the six-month period then ended, in accordance with International Accounting Standard (IAS) 34 - Interim Financial Reporting, 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 interim financial statements, which describes that the businesses included in these financial statements are not operated by a single corporate entity during the period presented. Therefore, these interim 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 period, or an indication of future results of operations. Our opinion is not qualified in respect of this matter.

Ribeirão Preto, August 21, 2014

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

Eduardo Dias Vendramini
Contador CRC 1SP220017/O-4

(A free translation of the original in Portuguese)

Contents

Ouro Fino Saúde Animal Participações S.A.

Combined consolidated balance sheet
All amounts in thousands of reais (A free translation of the original in Portuguese)

Assets	**Note**	**June 30, 2014**	**December 31, 2013**
Current assets			
Cash and cash equivalents	7	10,029	38,423
Trade receivables	9	140,341	133,608
Derivative financial instruments	8	1,848	2,982
Inventories	10	97,127	65,447
Taxes and contributions recoverable	11	3,595	3,238
Income tax and social contribution recoverable		5,013	6,900
Other assets		6,353	8,389
		264,306	258,987
Non-current assets held for sale	13		19,494
		264,306	278,481
Non-current assets			
Long-term receivables			
Trade receivables	9		1,596
Derivative financial instruments	8	1,639	2,833
Taxes and contributions recoverable	11	27,155	24,878
Deferred income tax and social contribution	14	4,182	7,168
Other assets		1,975	1,898
		34,951	38,373
Intangible assets	15	57,408	53,307
Property, plant and equipment	16	174,865	168,520
		232,273	221,827
Total non-current assets		267,224	260,200
Total assets		531,530	538,681

Ouro Fino Saúde Animal Participações S.A.

Combined consolidated balance sheet

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

Liabilities and equity	**Note**	**June 30, 2014**	**December 31, 2013**
Current liabilities			
Trade payables		28,628	16,108
Derivative financial instruments	8	8	
Borrowings	17	66,461	53,728
Labor and social security obligations		21,908	20,789
Taxes payable		2,689	3,877
Income tax and social contribution payable		1,038	596
Dividends and interest on capital	12		3,565
Commissions on sales		4,414	4,828
Other liabilities		5,546	6,011
		130,692	109,502
Liabilities related to non-current assets held for sale	13		965
		130,692	110,467
Non-current liabilities			
Derivative financial instruments	8	830	1,046
Borrowings	17	150,163	172,285
Provision for contingencies	18	3,007	3,135
Deferred income tax and social contribution	14	2,903	4,431
Related parties	12	22,857	37,897
		179,760	218,794
Total liabilities		310,452	329,261
Equity	19	221,001	209,379
Non-controlling stockholders		77	41
Total equity		221,078	209,420
Total liabilities and equity		531,530	538,681

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

Ouro Fino Saúde Animal Participações S.A.

Combined consolidated statement of income
Six-month periods ended June 30
All amounts in thousands of reais (A free translation of the original in Portuguese)

	Note	2014	2013
Continued operations			
Net sales revenue	21	193,088	152,916
Cost of sales	22	(76,977)	(53,771)
Gross profit		116,111	99,145
Selling expenses	22	(67,562)	(54,588)
General and administrative expenses	22	(15,976)	(17,301)
Other expenses, net	23	(250)	(2,141)
Operating profit		32,323	25,115
Finance income		9,072	6,352
Finance costs		(14,133)	(10,320)
Finance result	24	(5,061)	(3,968)
Profit before income tax and social contribution		27,262	21,147
Income tax and social contribution	25		
Current		(3,853)	(2,451)
Deferred		(1,458)	1,080
Earnings from continuing operations		21,951	19,776
Discontinued operations			
Loss from discontinued operations	13	(580)	(2,651)
Profit for the period		21,371	17,125

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

Ouro Fino Saúde Animal Participações S.A.

Combined consolidated statement of comprehensive income
Six-month period ended June 30
All amounts in thousands of reais (A free translation of the original in Portuguese)

	2014	2013
Net profit for the year	21,371	17,125
Other components of comprehensive income		
Items to be subsequently reclassified to profit or loss		
Foreign exchange variation of investee located abroad	(82)	83
Total comprehensive income for the period	21,289	17,208
From continuing operations	21,869	19,859
From discontinued operations	(580)	(2,651)
	21,289	17,208

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 owners of the parent								
		Share capital								
	Note	Ouro Fino Saúde Animal Ltda.	Ouro Fino Agronegócio Ltda.	Ouro Fino Pet Ltda.	Total	Carrying value adjustments	Retained earnings	Total	Non-controlling interests	Total equity
At January 1, 2013		78,160	79,772	1,000	158,932	15,099	20,770	194,801	34	194,835
Comprehensive income for the period										
Profit for the period							17,089	17,089	36	17,125
Foreign exchange variation of investee located abroad						83		83		83
Total comprehensive income for the period						83	17,089	17,172	36	17,208
Contributions by and distributions to stockholders										
Capital increase	19 (a)	8,905			8,905			8,905		8,905
Distribution of dividends	19 (b)						(19,753)	(19,753)		(19,753)
Non-controlling interests									4	4
Total contributions by and distributions to stockholders		8,905			8,905		(19,753)	(10,848)	4	(10,844)
At June 30, 2013		87,065	79,772	1,000	167,837	15,182	18,106	201,125	74	201,199
At January 1, 2014		87,065	79,772	1,000	167,837	15,258	26,284	209,379	41	209,420
Comprehensive income for the year										
Profit for the year							21,332	21,332	39	21,371
Foreign exchange variation of investee located abroad						(82)		(82)		(82)
Total comprehensive income for the year						(82)	21,332	21,250	39	21,289
Contributions by and distributions to stockholders										
Distribution of dividends	19 (b)						(9,628)	(9,628)		(9,628)
Non-controlling interests									(3)	(3)
Total contributions by and distributions to stockholders							(9,628)	(9,628)	(3)	(9,631)
At June 30, 2014		87,065	79,772	1,000	167,837	15,176	37,988	221,001	77	221,078

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

Ouro Fino Saúde Animal Participações S.A.

Combined consolidated statement of cash flows
Six-month period ended June 30
All amounts in thousands of reais (A free translation of the original in Portuguese)

	Note	2014	2013
Cash flow from operating activities			
Profit before taxation, including discontinued operations		26,682	18,496
Adjustments for:			
Provision for (reversal of) impairment of trade receivables	9	170	(280)
Reversal of provision for inventory losses	10	(750)	(956)
Provision for losses on advances		242	1,468
Depreciation and amortization		8,154	5,961
Provision for impairment of intangible assets		766	
Gain on disposal of property, plant and equipment		(425)	(163)
Foreign exchange variations and interest, net		5,684	6,411
Unrealized derivative financial instruments		951	(1,355)
Reversal of provision for contingencies	18	(128)	(147)
Changes in working capital			
Trade receivables		7,053	17,466
Inventories		(32,070)	(24,769)
Taxes recoverable		(1,201)	(4,319)
Other assets		5,418	4,881
Trade payables		(5,414)	7,577
Taxes payable		(3,600)	330
Other liabilities		2,526	2,346
Cash from operations		14,058	32,947
Interest paid		(4,513)	(4,369)
Income tax and social contribution paid		(1,001)	(2,700)
Net cash provided by operating activities		8,544	25,878
Cash flow from investing activities			
Funds received from related parties - intercompany loan			12,726
Investment of funds in intangible assets	15	(8,155)	(13,353)
Purchases of property, plant and equipment	16	(11,423)	(7,527)
Proceeds from sale of property, plant and equipment		1,136	401
Net cash used in investing activities		(18,442)	(7,753)
Cash flows from financing activities			
Proceeds from borrowings		17,620	39,157
Repayment of borrowings		(26,519)	(13,943)
Funds received from related parties - intercompany loan		13,600	
Repayment of related parties - intercompany loan		(13,780)	(10,145)
Proceeds from advances for future capital increase			16,500
Dividends and interest on capital paid		(9,107)	(19,754)
Net cash (used in) provided by financing activities		(18,186)	11,815
Increase (decrease) in cash and cash equivalents		(28,084)	29,940
Cash and cash equivalents at the beginning of the period	7	38,423	15,775
Exchange gains (losses) on cash and bank overdrafts		(310)	250
Cash and cash equivalents at the end of the period	7	10,029	45,965

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

All amounts in thousands of reais unless otherwise stated

1 General information

The Group's combined financial statements, which are the responsibility of the management of the combined companies, are presented solely for the purpose of providing, by means of a single financial statement, information relating to all of the veterinary activities of the Group, regardless of its corporate structure. In the year ended December 31, 2013 and the period ended June 30, 2014, the companies Ouro Fino Saúde Animal Ltda., Ouro Fino Agronegócio Ltda., Ouro Fino Pet Ltda. and Ouro Fino de Mexico, S.A. de CV (this indirectly) were controlled by Ouro Fino Participações e Empreendimentos S.A., and the other entities under common control (Ouro Fino Química Ltda. and Ouro Fino Hong Kong Limited) have not been combined because they do not operate in the animal health industry.

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

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

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

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

All amounts in thousands of reais unless otherwise stated

The investment held by Ouro Fino Participações e Empreendimentos S.A. in the combined consolidated companies is presented below:

		Ownership interest		
Combined legal entity	**Parent Company**	**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 industry into an entity operating only in this segment, as follows:

Entity	**Parent Company**	**Ownership interest at June 30, 2014**
Ouro Fino Saúde Animal Ltda.	Ouro Fino Saúde Animal Participações S.A.	99.99%
Ouro Fino Agronegócio Ltda.	Ouro Fino Saúde Animal Participações S.A.	97.80%
Ouro Fino Pet Ltda.	Ouro Fino Saúde Animal Participações S.A.	99.50%
Ouro Fino de México, S.A. de CV	Ouro Fino Saúde Animal Ltda.	96.43%

The investments in Ouro Fino Química Ltda. and Ouro Fino Hong Kong Limited. were not included in the net assets contributed to the Company.

The combined consolidated financial statements for the period ended June 30, 2014 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 for the purpose of providing historical information relating to all of the animal health activities under common control of Ouro Fino Participações e Empreendimentos S.A. Regardless of the existing corporate structure at the time, the entities included in these combined financial statements do not operate as a single legal entity during the period presented.

The corporate documents related to the split-off mentioned above were duly registered with the Commercial Registry on July 17, 2014, and their final registration is expected in the following days, according to the regular procedures of this agency.

The issue of these combined consolidated interim financial statements was authorized by the Company's Board of Directors on August 21, 2014.

After the corporate restructuring of 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 privately-held corporation 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. The sales in the foreign market are carried out directly with third parties and the company mentioned in item (e) below (2013 - also with the companies mentioned in items (c) and (e) below). This company also provides manufacturing services to order from third parties.

On May 30, 2014, the Ministry of Agriculture, Cattle Breeding and Supply (MAPA) published the Regulatory Instruction (IN) No. 13, effective on the same date, and resolved to "prohibit the manufacture, processing, fractionation, sale, import and use of long-acting veterinary products having macrocyclic lactones (avermectins) as their active ingredients, and that could be used in the food of any animal or insect" and suspended, as from its effectiveness, the registrations granted to finished products for veterinary use until MAPA carries out studies on the subject.

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

At June 30, 2014, despite the understanding of the full compliance of the products containing avermectins in its formula, conservatively, the Company's management decided to record a provision for the risk of a potential non-realization of some inventory balances and intangible assets, in the amounts of R$ 293 and R$ 330, respectively.

(c) Ouro Fino Agronegócio Ltda.

This company is headquartered in Cravinhos, in the State of São Paulo, and 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 a part of the marketing strategy, this company also carried out the sale of pedigree cattle, embryos and semen. 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 Mexico, 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 Discontinued operations

At a meeting held on December 10, 2013, the members of the Board of Directors decided to discontinue the activity of raising and selling pedigree cattle and *Criollo* horses ("Genetics Division") which was, until then, carried out by the subsidiary Ouro Fino Agronegócio Ltda., as described in Note 13.

2 Summary of significant accounting policies

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

2.1 Basis of preparation of the combined consolidated interim financial statements

The combined consolidated interim 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 the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and predecessor bodies.

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

(a) Purpose of presenting the combined consolidated financial statements

The purpose of presenting the Group's combined consolidated financial statements is to provide historical financial information of the Ouro Fino Group to be included in the prospectus for the initial public offering of shares (IPO) and afterwards obtain the approval for the shares of Ouro Fino Saúde Animal Participações S.A. to be traded on BM&FBovespa S.A. - São Paulo Commodities, Futures and Securities Exchange. Management believes that the presentation of these combined consolidated financial statements provides significant, useful and important information of the Group, as well as its financial position for the periods presented.

The presentation of these combined consolidated financial statements is not required by the Brazilian corporate legislation, but they are being presented to provide supplementary information on the Group's operations. These financial statements do not represent the parent company or consolidated financial statements of Ouro Fino Saúde Animal Participações S.A. or Ouro Fino Saúde Animal Participações S.A. and its subsidiaries, and should not be taken as a basis for purposes of calculation of dividends, taxes or for any other corporate purposes or profitability analysis or past or future performance.

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

The definition of control used to assess the existence of common control in the preparation of the combined consolidated financial statements is in accordance with the provisions of IAS 27.

(b) Changes in accounting policies and disclosures

On June 30, 2014, new standards and revisions of IFRS became effective and were adopted by the Company, when applicable. Of these standards, the only ones applicable to the Group are:

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 combined companies were included and the balances resulting from transactions between these companies were eliminated.

(b) The combined equity represents the sum of the accounts presented by individual companies and does not represent the balance sheet accounts of an individual legal entity.

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

All amounts in thousands of reais unless otherwise stated

Equity at June 30, 2014 and December 31, 2013 and the results of operations for the periods ended June 30, 2014 of the combined companies can be presented as follows:

(i) Balance sheet

June 30, 2014

	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	Consolidated and combined
Current								
Assets	103,486	3,346	106,832	182,214	34,589	323,635	(59,329)	264,306
Liabilities	(143,717)	(1,260)	(144,977)	(37,746)	(3,565)	(186,288)	55,596	(130,692)
Current assets (liabilities), net	(40,231)	2,086	(38,145)	144,468	31,024	137,347	(3,733)	133,614
Non-current								
Assets	229,219	81	229,300	39,280	251	268,831	(1,607)	267,224
Liabilities	(86,988)		(86,988)	(92,654)	(259)	(179,901)	141	(179,760)
Non-current assets (liabilities), net	142,231	81	142,312	(53,374)	(8)	88,930	(1,466)	87,464
Equity	102,000	2,167	104,167	91,094	31,016	226,277	(5,199)	221,078

December 31, 2013

	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	Consolidated and combined
Current								
Assets	81,467	2,235	83,702	207,784	21,515	313,001	(34,520)	278,481
Liabilities	(82,833)	(1,133)	(83,966)	(56,178)	(2,527)	(142,671)	32,204	(110,467)
Current assets (liabilities), net	(1,366)	1,102	(264)	151,606	18,988	170,330	(2,316)	168,014
Non-current								
Assets	217,425	44	217,469	43,753	84	261,306	(1,106)	260,200
Liabilities	(107,277)		(107,277)	(111,347)	(170)	(218,794)		(218,794)
Non-current assets (liabilities), net	110,148	44	110,192	(67,594)	(86)	42,512	(1,106)	41,406
Equity	108,782	1,146	109,928	84,012	18,902	212,842	(3,422)	209,420

All amounts in thousands of reais unless otherwise stated

(ii) Statement of income (operations)

								June 30, 2014
								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	Consolidated and combined
Net sales revenue	108,199	2,654	110,853	152,495	27,862	291,210	(98,122)	193,088
Profit (loss) before income tax and social contribution	(2,156)	1,107	(1,049)	17,656	13,138	29,745	(2,483)	27,262
Income tax and social contribution expense	1,046	(2)	1,044	(5,812)	(1,025)	(5,793)	482	(5,311)
Net profit (loss) from continuing operations	(1,110)	1,105	(5)	11,844	12,113	23,952	(2,001)	21,951
Loss from discontinued operations				(580)		(580)		(580)
Net profit (loss) for the period	(1,110)	1,105	(5)	11,264	12,113	23,372	(2,001)	21,371

								June 30, 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	Consolidated and combined
Net sales revenue	78,018	1,506	79,524	128,809	20,704	229,037	(76,121)	152,916
Profit (loss) before income tax and social contribution	5,672	1,012	6,684	6,763	10,704	24,151	(3,004)	21,147
Income tax and social contribution expense	(685)	(2)	(687)	(597)	(778)	(2,062)	691	(1,371)
Net profit (loss) from continuing operations	4,987	1,010	5,997	6,166	9,926	22,089	(2,313)	19,776
Loss from discontinued operations				(2,651)		(2,651)		(2,651)
Net profit (loss) for the period	4,987	1,010	5,997	3,515	9,926	19,438	(2,313)	17,125

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group's chief operating and strategic decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Board of Directors 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 entities are measured using the currency of the primary economic environment in which the entities operate (the "functional currency"), which is substantially the Brazilian real, except as mentioned in item (c) below. Therefore, the consolidated and combined interim financial statements are presented in this currency.

(b) Transactions and balances

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

(c) Consolidated and combined companies with a functional currency different from the Brazilian real

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

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

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

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

2.5 Cash and cash equivalents

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

2.6 Financial assets

2.6.1 Classification

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

(a) Loans and receivables

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

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

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

2.6.2 Recognition and measurement

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

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

2.6.3 Offsetting of financial instruments

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

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 mainly operates with exchange rate and interest rate swap contracts. Derivatives are recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Since the Group does not adopt hedge accounting, the changes in the fair value of derivative instruments are recognized immediately in the statement of income within "Finance result".

2.8 Trade receivables

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

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

2.9 Inventories

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

2.10 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered mainly through a sale transaction and a sale is considered highly probable. They are stated at the lower of the carrying amount and the fair value less costs to sell (Note 13).

2.11 Current and deferred income tax and social contribution

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

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

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

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

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

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

2.12 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 they will bring future economic benefits.

The combined company Ouro Fino Saúde Animal Ltda. evaluates projects based on its own methodology, which considers various analysis structures, and the projects will be successful from the development of "pilots" of the products made according to the requirements of regulatory bodies, accompanied by analyzes of financial feasibility.

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

(b) Trademarks and licenses purchased

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

(c) Computer software

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

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

2.13 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 16. Subsequent costs are included in an asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part or item is derecognized. All other repairs and maintenance are charged to the statement of income when incurred.

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

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

2.14 Impairment of non-financial assets

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

2.15 Trade payables

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

2.16 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 the Company has 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 assets will be surrendered 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 statement of income. These provisions are calculated based on quantitative and qualitative targets established by management and are recorded as personnel expenses in the statement of income.

2.20 Revenue recognition

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

(a) Sales of products

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

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

(b) 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 based on the bylaws of each combined company. Any amount that exceeds the minimum required is only provided on the date it is approved by the stockholders at the Ordinary General Meeting.

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

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

The following new standards and interpretations to existing standards were issued by the IASB but are not effective for the period ended June 30, 2014. Early adoption of the 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 the classification of financial assets in two categories: measured at fair value and 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 assessing the full impact of IFRS 9. The standard is applicable as from January 1, 2015.

- IFRS 15 - "Revenue from Contracts with Clients", specifies how and when revenue must be recognized, as well as defines rules for disclosure of relevant information. IFRS 15 was issued in May 2014 and replaces IAS 18 - "Revenue", IAS 11 - "Construction Contracts" and several interpretations related to revenue. The application of this standard is mandatory for all the companies that issue financial statements for IFRS purposes and it applies to almost all contracts with clients, the main exceptions being leases, financial instruments and insurance contracts. The Group is yet to assess IFRS 15's full impact. The standard is applicable as from January 1, 2017.

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 year are addressed below:

(a) Impairment of intangible assets

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

(i) assumptions of future revenue generation, based on market dimensions (current and expected) and on the 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 combined companies' accounting policy 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, to cover expected losses on processes in progress are established and updated based on management's assessment, according to the opinion of its legal counsel, and require a high level of judgment on the matters involved.

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

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

4 Financial risk management

4.1 Financial risk factors

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

All amounts in thousands of reais unless otherwise stated

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 exchange rate swap.

The swaps, classified as derivatives at fair value through profit or loss, were contracted to exchange the charges on borrowings initially obtained in foreign currency for charges based on the Interbank Deposit Certificate (CDI) rate variation, as well as to exchange interest rates initially contracted as fixed for variable rates. Gains and losses are recognized in "Finance result" in the statement of income, because hedge accounting is not currently adopted.

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

	June 30, 2014	December 31, 2013
Assets in foreign currency		
Cash and cash equivalents	1,383	4,460
Trade receivables	8,457	8,273
Advances to suppliers	11,812	4,786
	21,652	17,519
Liabilities in foreign currency		
Borrowings (*)	951	1,303
Trade payables	16,176	9,939
Advances from suppliers	2	
	17,129	11,242
Asset exposure	4,523	6,277

(*) The balance of borrowings in foreign currency does not consider working capital amounting to R$ 30,195 (December 31, 2013 - R$ 17,924), because an exchange rate swap has been contracted.

All amounts in thousands of reais unless otherwise stated

The assets and liabilities denominated in foreign currency are regularly monitored through the estimated cash flows. The amount of assets and liabilities in foreign currency fluctuates during a year, which may or may not cause a mismatch. Consequently, in order to mitigate risks arising from foreign exchange variations, the Group contracts derivative transactions when necessary, predominantly exchange rate swap.

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

		Impact of the appreciation/depreciation of the US dollar on portfolio balances					
		2.2025	2.3900	1.7925	1.1950	2.9875	3.5850
Assets/liabilities	**Risk**	**June 30, 2014**	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**	**Scenario 5**
			(probable)	(depreciation of US$ - 25%)	(depreciation of US$ - 50%)	(appreciation of US$ - 25%)	(appreciation of US$ - 50%)
Cash and cash equivalents	Depreciation of US$	1,383	118	(257)	(633)	493	868
Trade receivables	Depreciation of US$	8,457	720	(1,574)	(3,869)	3,014	5,308
Advance to suppliers	Depreciation of US$	11,812	1,006	(2,199)	(5,403)	4,210	7,414
Borrowings	Appreciation of US$	951	(81)	177	435	(339)	(597)
Trade payables	Appreciation of US$	16,176	(1,377)	3,011	7,399	(5,765)	(10,154)
Advance from customers	Appreciation of US$	2			1	(1)	(1)
Net effect		4,523	386	(842)	(2,070)	1,612	2,838

(ii) Interest rate risk

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

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

The Group understands that at present the fluctuations in interest rates do not significantly affect its finance result, since at June 30, 2014, 62% (December 31, 2013 - 66%) of its borrowings are 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 their 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.

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), corresponding to highly liquid instruments.

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

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

All amounts in thousands of reais unless otherwise stated

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

	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years
At June 30, 2014				
Trade payables	28,628			
Borrowings (*)	75,953	94,008	68,616	952
Derivative financial instruments, net	(1,840)	(809)		
Other liabilities	32,217	23,365	902	7,878
	134,958	116,564	69,518	8,830
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, net	(2,982)	(1,787)		
Other liabilities	37,066	36,466	1,119	7,878
	116,982	152,262	73,512	8,093

(*) 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 in the balance sheet for borrowings.

4.2 Capital risk 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 combined 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.

All amounts in thousands of reais unless otherwise stated

The gearing ratios at June 30, 2014 and December 31, 2013 are as follows:

	Note	June 30, 2014	December 31, 2013
Borrowings	17	216,624	226,013
Derivative financial instruments	8	(2,649)	(4,769)
Cash and cash equivalents	7	(10,029)	(38,423)
Net debt		203,946	182,821
Equity	19	221,078	209,420
Total capital		425,024	392,241
Financial leverage index %		47.98	46.61

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.

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

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

All the Group's financial instruments have been classified as Level 2 "Other observable significant data", as shown below:

In accordance with the combined balance sheet	Classification	June 30, 2014	December 31, 2013
Assets - Derivative financial instruments			
Exchange rate swap	Level 2	3,487	5,815
Liabilities - Derivative financial instruments			
Interest rate swap	Level 2	(838)	(1,046)
		2,649	4,769

All amounts in thousands of reais unless otherwise stated

5 Financial instruments by category

	June 30, 2014		December 31, 2013		
	Assets at fair value through profit or loss	Loans and receivables	Assets at fair value through profit or loss	Loans and receivables	Available for sale
Assets, in accordance with the balance sheet					
Cash and cash equivalents		10,029		38,423	
Derivative financial instruments	3,487		5,815		
Accounts receivable		140,341		135,204	
Non-current assets held for sale					5,020
Other assets, except prepaid expenses		3,805		7,618	
	3,487	154,175	5,815	181,245	5,020
	Liabilities at fair value through profit or loss	Other financial liabilities	Liabilities at fair value through profit or loss	Available for sale	Other financial liabilities
Liabilities, in accordance with the balance sheet					
Trade payables		28,628			16,108
Derivative financial instruments	838		1,046		
Borrowings		216,624			226,013
Dividends and interest on capital					3,565
Commission on sales		4,414			4,828
Related parties		22,857			37,897
Non-current liabilities held for sale				965	
Other liabilities		5,546			6,011
	838	278,069	1,046	965	294,422

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$ 10,011 (December 31, 2013 - R$ 38,401) were held in prime financial institutions rated as A-2 by Standard & Poor's.

All amounts in thousands of reais unless otherwise stated

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

	June 30, 2014	December 31, 2013
AA	36,616	38,279
A	42,848	46,689
B	28,853	25,146
C	20,946	19,787
D	11,195	5,635
E	2,973	2,588
	143,431	138,124

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 100% of the Interbank Deposit Certificate (CDI) rate variation.

	June 30, 2014	December 31, 2013
Cash		
In local currency	3	3
In foreign currency	15	19
	18	22
Banks		
In local currency	3,303	8,840
In foreign currency	1,368	4,441
	4,671	13,281
Bank Deposit Certificates (CDBs)	5,340	25,120
	10,029	38,423

8 Derivative financial instruments

	June 30, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Exchange rate and interest rate *swaps*	3,487	838	5,815	1,046
Non-current	(1,639)	(830)	(2,833)	(1,046)
Current	1,848	8	2,982	

All amounts in thousands of reais unless otherwise stated

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

The notional principal amounts of the outstanding exchange rate swap contracts at June 30, 2014 were US$ 13,625 thousand (December 31, 2013 - US$ 11,250 thousand) and of the interest rate swap contracts were R$ 20,400 thousand (December 31, 2013 - R$ 20,400 thousand).

9 Trade receivables

	June 30, 2014	December 31, 2013
Local customers	134,974	129,851
Foreign customers (US dollars)	8,457	8,273
Provision for impairment of trade receivables	(3,090)	(2,920)
	140,341	135,204
Non-current		(1,596)
Current	140,341	133,608

The foreign trade receivables at June 30, 2014 corresponded to US$ 3,841 thousand (December 31, 2013 - US$ 2.744 thousand).

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

	June 30, 2014	December 31, 2013
Falling due		
Up to three months	96,847	89,533
From three to six months	30,275	34,401
More than six months	3,305	3,765
	130,427	127,699
Past due		
Up to three months	5,273	5,861
From three to six months	1,474	1,701
More than six months	6,257	2,863
	13,004	10,425
	143,431	138,124

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

All amounts in thousands of reais unless otherwise stated

Changes in the provision were as follows:

At January 1, 2013	2,412
Additions	508
At December 31, 2013	2,920
Additions	170
At June 30, 2014	3,090

After attempting all collection methods, the Group opted to write-off receivables overdue for more than 2 years, which amounted to R$ 68 (December 31, 2013 - R$ 1,304).

10 Inventories

	June 30, 2014	December 31, 2013
Finished products	36,073	28,565
Raw materials	24,537	18,277
Imports in transit	11,722	1,831
Packaging materials	11,623	6,159
Advances to suppliers	4,844	2,766
Semi-finished products	5,238	5,252
Others	4,565	4,822
Provision for inventory losses	(1,475)	(2,225)
	97,127	65,447

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

At January 1, 2013	1,528
Additions	1,962
Write-offs	(1,265)
At December 31, 2013	2,225
Additions	771
Reversal of provision for inventories	(1,521)
At June 30, 2014	1,475

All amounts in thousands of reais unless otherwise stated

11 Taxes recoverable

	June 30, 2014	December 31, 2013
ICMS	27,698	24,819
ICMS, PIS and COFINS on acquisitions of property, plant and equipment	1,220	769
IRRF	752	735
IPI	529	483
PIS and COFINS	453	1,143
Others	98	167
	30,750	28,116
Non-current	(27,155)	(24,878)
Current	3,595	3,238

ICMS credits, which amounted to R$ 24,553 (December 31, 2013 23,627), were mainly generated by 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 inspection processes.

At June 30, 2014, all ICMS credits related to 2010, 2011 and 2012 were approved by the tax authorities, and R$ 7,000 were released for immediate use. The residual balance of R$ 5,034 was temporarily withheld in connection with tax assessment notices which have been discussed at an administrative level and obligations related to the submission of electronic files under the terms of the Coordinating Committee of Tax Administration Board (CAT) Ordinance 83/2009. Of the credits released, R$ 2,753 were used and the remaining amount will be used during 2014.

All amounts in thousands of reais unless otherwise stated

12 Related parties

	June 30, 2014	December 31, 2013
Liabilities		
Intercompany loans (d)	22,857	
Borrowings (c)	14,389	17,708
Interest on capital (a)		3,565
Advance for future capital increase (b)		37,897
	37,246	59,170
Result		
Interest on borrowings (c)	(556)	(1,393)
Interest on intercompany loans (d)	(183)	(60)
	(739)	(1,453)

(a) Dividends and interest on capital

The balance payable at December 31, 2013 of R$ 3,565 referred to interest on capital payable to the related party Ouro Fino Participações e Empreendimentos S.A.

(b) Advances for future capital increase

The balance payable at December 31, 2013 of R$ 37,897 referred to advances for future capital increase to the related party Ouro Fino Participações e Empreendimentos S.A. As a result of the corporate restructuring described in Note 1, the advance for future capital increase of R$ 22,857 was converted into a loan as from June 30, 2014.

(c) Borrowings - related parties

Refers to the balance of borrowings obtained from BNDES, under conditions similar to those practiced with third parties.

(d) Loans

At June 30, 2014, the balance payable of R$ 22,857 relates to a loan from the related party Ouro Fino Participações e Empreendimentos S.A. In the six-month period ended June 30, 2014 there are the results of interest on loans related to transactions with related parties Ouro Fino Química Ltda. (settled at June 30, 2014) and Ouro Fino Participações e Empreendimentos S.A., bearing interest of 100% of the CDI rate variation (June 30, 2013 - interest of 10% p.a.).

(e) Management remuneration

Key management personnel include members of the Executive Board, whose remuneration is approved at the Ordinary General Meeting. At June 30, 2014, remuneration expenses totaled R$ 1,864 (June 30, 2013 - R$ 2,199), of which R$ 310 (June 30, 2013 - R$ 366) referred to labor charges.

All amounts in thousands of reais unless otherwise stated

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

Genetics Division

At the end of 2013, the Group decided to discontinue operations related to purchase, management and sale of pedigree Nelore cattle and *Criollo* horses ("Genetics Division") (Note 1.1). The assets and liabilities related to this activity were reclassified in the combined to "assets and liabilities held for sale". The transaction was carried out in January 2014 and, therefore, the cash flows presented below at June 30, 2014 represent the result of this transaction.

(i) Cash flows

	June 30, 2014	June 30, 2013
Cash flows from operating activities		1,829
Cash flows from investing activities		(1,195)
Cash flows from the realization of assets and liabilities held for sale	18,529	
Cash flows - total	18,529	634

(ii) Nature of assets held for sale

	December 31, 2013
Trade receivables	4,906
Biological assets	9,948
Intangible assets	3
Property, plant and equipment	4,523
Other assets	114
	19,494

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

	December 31, 2013
Trade and other payables	965

All amounts in thousands of reais unless otherwise stated

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 below:

	June 30, 2014	June 30, 2013
Discontinued operations		
Net revenue from sales		1,722
Costs of sales		(3,942)
Gross loss		(2,220)
Selling expenses	(21)	(530)
General and administratrive expenses	(213)	
Other expenses (income), net	(346)	99
Loss for the period from discontinued operations	(580)	(2,651)

14 Current and deferred income tax and social contribution

Ouro Fino Saúde Animal Ltda. and Ouro Fino Agronegócio Ltda. and Ouro Fino Química 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 company 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 that future taxable profit will be available to offset temporary differences and/or tax losses, considering projections of future results based on internal assumptions and future economic scenarios, which are, therefore, subject to changes.

All amounts in thousands of reais unless otherwise stated

(a) Composition, nature and realization of taxes

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

	June 30, 2014	December 31, 2013
Tax credits on:		
Accumulated income tax and social contribution losses	411	1,632
Temporary differences		
Provisions	3,182	5,270
Adjustment to market value	589	266
Total assets, net	4,182	7,168

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

	June 30, 2014	December 31, 2013
Tax credits on:		
Accumulated income tax and social contribution losses	(1,049)	
Temporary differences		
Provisions	(3,287)	(2,637)
Pre-operating expenses written-off	(1,248)	(1,344)
	(5,584)	(3,981)
Tax liabilities on:		
Cost attributed to land	7,878	7,878
Exchange variation - cash basis	373	280
Accelerated depreciation	236	254
	8,487	8,412
Total liabilities, net	2,903	4,431
Total deferred tax assets	9,766	11,149
Total deferred tax liabilities	8,487	8,412

All amounts in thousands of reais unless otherwise stated

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

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

	June 30, 2014	December 31, 2013
Opening balance	2,737	1,566
Provisions	(1,438)	2,815
Accumulated income tax and social contribution losses	(172)	(1,418)
Pre-operating expenses written-off	(96)	(193)
Exchange variation - taxation on cash basis	(93)	(323)
Accelerated depreciation	18	24
Adjustment to market value	323	266
Closing balance	1,279	2,737

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.

The amounts by estimated offset period are as follows:

	June 30, 2014	December 31, 2013
Deferred tax assets to be recovered		
within 1 year	8,792	10,073
from 2 to 5 years	974	1,076
	9,766	11,149
Deferred tax liabilities to be settled		
within 1 year	609	534
after 5 years	7,878	7,878
	8,487	8,412

All amounts in thousands of reais unless otherwise stated

15 Intangible assets

	Brands and licenses purchased	Product development and registration	Software	Total
At January 1, 2013	4,118	25,149	1,741	31,008
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	4,118	25,149	1,741	31,008
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	3,788	33,205	16,314	53,307
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	3,788	33,205	16,314	53,307
At January 1, 2014				
Opening balance	3,788	33,205	16,314	53,307
Additions		4,338	3,817	8,155
Transfers	(2,965)	2,965		
Provision for impairment		(766)		(766)
Amortization	(163)	(1,423)	(1,702)	(3,288)
At June 30, 2014	660	38,319	18,429	57,408
Total cost	2,198	48,545	22,673	73,416
Provision for impairment		(2,907)		(2,907)
Accumulated amortization	(1,538)	(7,319)	(4,244)	(13,101)
Net book value	660	38,319	18,429	57,408

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 for new veterinary drugs of R$ 31,687 (December 31, 2013 - R$ 26,005) and expenditures for the development of a vaccine against foot-and-mouth disease totaling R$ 6,632 (December 31, 2013 - R$ 7,200).

At June 30, 2014, the Group recognized impairment losses of R$ 766 (December 31, 2013 - R$ 808), of which R$ 330 related to intangible assets of avermectins (Note 1) and R$ 436 (December 31, 2013 - R$ 808) to the appraisal of the economic feasibility of other products.

All amounts in thousands of reais unless otherwise stated

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

Additionally, in 2013 expenditures were incurred in software SAP ERP R3 of R$ 3,021 and in other project-related items of R$ 11,624.

16 Property, plant and equipment

	Land	Buildings and improvements	Machinery, equipment and industrial installations	Vehicles, tractors and aircraft	Furniture and fittings	IT equipment	Others	Work in progress	Total
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
Acquisitions		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)
Amounts transferred to the disposal group and 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
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
At January 1, 2014									
Opening balance	24,947	69,322	46,559	10,075	2,519	3,612	1,865	9,621	168,520
Acquisitions			1,899	2,484	603	377	1,034	5,620	12,017
Transfers		(1,878)	1,887	(8)	(18)	1	(100)	116	
Write-offs			(2)	(801)		(3)			(806)
Depreciation		(1,101)	(2,067)	(810)	(254)	(499)	(135)		(4,866)
At June 30, 2014	24,947	66,343	48,276	10,940	2,850	3,488	2,664	15,357	174,865
Cost	24,947	78,998	73,619	19,684	5,733	9,129	4,539	15,357	232,006
Accumulated depreciation		(12,655)	(25,343)	(8,744)	(2,883)	(5,641)	(1,875)		(57,141)
Net book value	24,947	66,343	48,276	10,940	2,850	3,488	2,664	15,357	174,865
Annual average depreciation rates - %		2.68	6.09	12.00	10.25	18.79	11.57		

The balance of construction in progress mainly comprises the construction of the new plant of the biological products unit of R$ 12,804 (December 31, 2013 - R$ 8,978).

(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$ 1,050 at June 30, 2014 (December 31, 2013 - R$ 1,647).

All amounts in thousands of reais unless otherwise stated

(b) Guarantees

Land, buildings, machinery and equipment amounting to R$ 14,905 (December 31, 2013 - R$ 18,824) are pledged as collaterals for borrowings (Note 17).

17 Borrowings

	Finance charges levied	Final maturity	June 30, 2014	December 2013
In foreign currency				
BNDES - FINEM	Exchange variation average of funds raised by BNDES and weighted average rate of 2.58% p.a. (December 31, 2013 - 2.59%)	2016	951	1,303
Export credit note	Exchange variation and weighted average rate of 4,28% p.a. (December 31, 2013 - 4.28% p.a.)	2016	12,575	17,924
Working capital	Exchange variation and weighted average rate of 1.95% p.a.	2015	17,620	
In local currency				
FINEP (Technological innovation)	Weighted average rate of 4.46% p.a. (December 31, 2013 - 4.46% p.a.)	2018	149,188	167,645
BNDES - FINEM	Weighted average rate of 2.89% p.a. (December 31, 2013 - 2.89% p.a.)	2016	8,824	11,387
BNDES - FINAME	Weighted average rate of 4.50% p.a. (December 31, 2013 - 4.50% p.a.)	2022	4,614	5,018
Export credit note	Weighted average rate of 8% p.a. (December 31, 2013 - 8% p.a.)	2016	22,336	21,619
Finance lease	Weighted average rate of 12.87% p.a. (December 31, 2013 - 13.22% p.a.)	2015	516	1,117
			216,624	226,013
Current			(66,461)	(53,728)
Non-current			150,163	172,285

(a) Finance lease liabilities

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

Leases are payable as follows:

	June 30, 2014	December 31, 2013
Within 1 year	468	839
From 1 to 3 years	48	278
	516	1,117

All amounts in thousands of reais unless otherwise stated

(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 June 30, 2014 totaled R$ 149,188, are guaranteed by a surety of Ouro Fino Participações e Empreendimentos S.A. and bank guarantees of R$ 17,748.

For the financing contracted with the National Bank for Economic and Social Development (BNDES), mainly for the construction of plants, purchases of Brazilian equipment and working capital, the Group pledged the industrial plant of animal health products, in the City of Cravinhos, in the State of São Paulo, up to the limit of the debit balance of the borrowings, as well as the financed equipment items themselves.

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 June 30, 2014, the companies Ouro Fino Saúde Animal Ltda. and Ouro Fino Agronegócio Ltda. are guarantors of some borrowings of the related party Ouro Fino Química Ltda. totaling R$ 21,140 (December 31, 2013 - R$ 3,657). Related parties Ouro Fino Química Ltda. and Ouro Fino Participações e Empreendimentos S.A. are also guarantors of borrowings from Ouro Fino Saúde Animal Ltda. and Ouro Fino Agronegócio Ltda. totaling R$ 186,935 (December 31, 2013 - R$ 191,481). No amounts are charged by the parties for the guarantees granted.

The carrying amounts of borrowings approximate their fair values.

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

	June 30, 2014	December 31, 2013
2015	27,057	52,232
2016	58,254	58,779
2017	34,674	31,679
2018	29,236	28,651
2019 to 2022	942	944
	150,163	172,285

(c) Working capital borrowings in foreign currency

Foreign exchange rate swap transactions were contracted for working capital borrowings contracted in foreign currency (US$), which amounted to R$ 30,195 (December 31, 2013 - R$ 17,924), to exchange the charges for those based on the CDI rate variation (Note 8).

All amounts in thousands of reais unless otherwise stated

18 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, as supported by external legal counsel. The provisions are as follows:

	June 30, 2014	December 31, 2013
Labor	2,657	2,714
Civil and social security	350	421
	3,007	3,135

In addition, certain Group companies are parties to other administrative disputes, including those which were the object of tax assessments. No provisions were constituted to cover possible losses, based on the opinion of the legal advisors. Disputes for which a favorable outcome was considered as possible amounted to approximately R$ 24,783 (December 31, 2013 - R$ 22,387), and mainly corresponded to tax (ICMS) and labor claims.

The changes in the provision for contingencies were as follows:

	June 30, 2014	December 31, 2013
Opening balance	3,135	2,634
Filing of new proceedings	813	1,292
Write-off of proceedings	(941)	(791)
Closing balance	3,007	3,135

19 Equity

(a) Share capital

(i) Ouro Fino Saúde Animal Ltda.

Fully paid-up capital comprises 87,064,319 quotas with no par value.

On March 31, 2013, a capital increase of R$ 8,905 took place, representing 8,904,319 quotas, through an advance for future capital increase by the parent company Ouro Fino Participações e Empreendimentos S.A.

(ii) Ouro Fino Agronegócio Ltda.

Fully paid-up capital comprises 79,772,495 quotas with no par value.

(iii) Ouro Fino Pet Ltda.

Fully paid-up capital comprises 1,000,000 quotas with no par value.

(b) Allocation of profit

According to the bylaws of the combined companies profit will be allocated as follows:
The profit determined, as resolved by quotaholders representing 75% of capital can be:

- distributed to quotaholders, totally or partially, in proportion to their ownership interest or as resolved at the quotaholders' meeting, not excluding, however, any quotaholder from the results computed; and/or
- allocated, totally or partially, in retained earnings or a reserve account or capitalized.

For the six-month period ended June 30, 2014, dividends distributed totaled R$ 9,628 (June 30, 2013 - R$ 19,753).

(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 foreign subsidiaries.

(d) Reconciliation of equity

The consolidated and combined equity differs from the consolidated equity of the parent company Ouro Fino Saúde Animal Participações S.A. at June 30, 2014 by R$ 2,819, because of the existing liability of the parent company to minority interests of the combined companies Ouro Fino Pet Ltda. and Ouro Fino Agronegócio Ltda.

20 Segment information

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

These segments are:

- Livestock - production and sale in the domestic market of veterinary drugs, vaccines and other products for livestock (cattle, pigs, poultry, sheep, horses and goats).

All amounts in thousands of reais unless otherwise stated

- Pets - production and sale in the domestic market of veterinary drugs and other products for pets (dogs, cats and ornamental birds).

- Foreign operations - production and sale in the foreign market of veterinary drugs, vaccines and other products for livestock (cattle, pigs, poultry, sheep, horses and goats). Exports of these products are mainly to Latin America.

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

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

The results by segment are as follows:

				June 30, 2014
	Results by business segment			
	Livestock	Pets	International Operations	Total
Net revenue	154,757	27,862	10,469	193,088
Cost of sales	(68,221)	(4,730)	(4,026)	(76,977)
Gross profit	86,536	23,132	6,443	116,111
Selling expenses	(57,618)	(7,478)	(2,466)	(67,562)
General and administrative expenses (not segmented)				(15,976)
Other revenues, net (not segmented)				(250)
Operating profit				32,323
Finance income (not segmented)				9,072
Finance costs (not segmented)				(14,133)
Finance result (not segmented)				(5,061)
Profit before income tax and social contribution				27,262
Income tax and social contribution				
Current (not segmented)				(3,853)
Deferred (not segmented)				(1,458)
Net profit from continuing operations				21,951

All amounts in thousands of reais unless otherwise stated

				June 30, 2013
	Results by business segment			
	Livestock	Pets	International Operations	Total
Net revenue	123,060	19,864	9,992	152,916
Cost of sales	(48,019)	(2,602)	(3,150)	(53,771)
Gross profit	75,041	17,262	6,842	99,145
Selling expenses	(46,291)	(5,999)	(2,298)	(54,588)
General and administrative expenses (not segmented)				(17,301)
Other revenues, net (not segmented)				(2,141)
Operating profit				25,115
Finance income (not segmented)				6,352
Finance costs (not segmented)				(10,320)
Finance result (not segmented)				(3,968)
Profit before income tax and social contribution				21,147
Income tax and social contribution				
Current (not segmented)				(2,451)
Deferred (not segmented)				1,080
Net profit from continuing operations				19,776

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

	June 30, 2014	June 30, 2013
Mexico	2,665	1,506
Colombia	1,479	12
Venezuela	1,420	4,237
Paraguay	939	1,108
Sudan	787	374
Others	3,179	2,755
	10,469	9,992

All amounts in thousands of reais unless otherwise stated

21 Revenues

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

	June 30, 2014	June 30, 2013
Local customers		
Gross sales of products	208,919	162,349
Taxes and deductions on sales	(26,300)	(19,425)
	182,619	142,924
Foreign customers		
Gross sales of products	10,469	10,698
Taxes and deductions on sales		(706)
	10,469	9,992
	193,088	152,916

22 Costs and expenses by nature

	June 30, 2014	June 30, 2013
Personnel expenses	52,542	45,379
Variable costs (raw and consumable materials)	47,692	27,432
Sales team expenses	22,670	20,982
Others	12,056	6,880
Depreciation and amortization	8,154	5,961
Outsourced services	7,264	11,217
Freight expenses	5,527	3,759
Telecommunications and electricity	2,800	2,762
Provision for impairment of intangible assets	766	
Maintenance and consumable materials	636	1,504
Vehicle expenses	620	263
Travel expenses	448	414
Donations and sponsorship	218	210
Reversal of provision for contingencies	(128)	(147)
Reversal of provision for inventory losses	(750)	(956)
	160,515	125,660
Cost of sales	76,977	53,771
Selling expenses	67,562	54,588
General and administrative expenses	15,976	17,301
	160,515	125,660

All amounts in thousands of reais unless otherwise stated

23 Other expenses, net

	June 30, 2014	June 30, 2013
Gains on sale and write-off of property, plant and equipment	425	163
Bonus received	9	68
Losses on other sales	(35)	(160)
Sundry charges	(57)	(322)
Sundry losses	(203)	(1,540)
Sundry taxes	(220)	(233)
Others	(169)	(117)
	(250)	(2,141)

24 Finance result

	June 30, 2014	June 30, 2013
Finance income		
Foreign exchange variation	5,268	2,005
Gains on derivatives	2,655	2,174
Income from financial investments	407	1,281
Others	300	
Interest receivable	259	685
Discounts obtained	183	24
Monetary variation		183
	9,072	6,352
Finance costs		
Interest payable	(5,330)	(4,456)
Foreign exchange variation	(4,349)	(4,094)
Losses on derivatives	(3,606)	(819)
Financial charges	(453)	(884)
Bank fees	(191)	(46)
Discounts granted	(156)	(10)
Others	(48)	
Monetary variation		(11)
	(14,133)	(10,320)
Finance result	(5,061)	(3,968)

All amounts in thousands of reais unless otherwise stated

25 Income tax and social contribution expense

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

	June 30, 2014	June 30, 2013
Profit before income tax and social contribution including discontinued operations	26,682	18,496
Tax rates in effect	34%	34%
	(9,072)	(6,289)
Reconciliation to the effective rate:		
Permanent differences:		
R&D Incentive		1,863
Adjustment related to the calculation of subsidiary taxed based on the deemed profit method	3,442	2,861
Adjustment related to the calculation of foreign subsidiary taxed based on the rate in effect in that country	375	342
Prior-year adjustments	(14)	
Other permanent differences	(42)	(148)
Income tax and social contribution	(5,311)	(1,371)
Reconciliation with the statement of income:		
Current	(3,853)	(2,451)
Deferred	(1,458)	1,080
	(5,311)	(1,371)

Transitional Tax System (RTT) - Law 12,973/2014 - Conversion of Provisional Measure (MP) 627

The Regulatory Instruction (IN) 1,397 of the Federal Revenue Secretariat (RFB) dated September 16, 2013 defined a significant understanding of the federal tax rules with respect to the required adjustments to the Transitional Tax System established by Article 15 of Law 11,941 dated May 27, 2009, especially with regard to the recognition of revenue, costs and expenses that have affected the determination of taxable income after December 31, 2007, including, among others, restrictions on the amount of profit subject to distribution that may be exempt from taxation.

Subsequently, on November 11, 2013 the Provisional Measure (MP) 627 was issued, repealing the Transitional Tax Regime and introducing a number of tax rules aimed to harmonize the recognition of revenue, costs and expenses that affect tax bases, in order to maintain tax neutrality considering the new accounting practices required by Laws 6,404/1976 and 11,638/2007 after December 31, 2007, including exemption rules in connection with the provisions of Regulatory Instruction (IN) 1,397/2013, especially with respect to the distribution of profit. This Provisional Measure will become effective on January 1, 2015, but early adoption by the taxpayers as from January 1, 2014 is permitted.

Provisional Measure No. 627 was converted into Law 12,973 on May 13, 2014, with modifications in its original wording, but keeping essentially the initial provisions, mainly maintaining benefits for periods and exemption limits initially granted. In the same line of the initial wording, the Law will become effective on January 1, 2015; however, it assures taxpayers of early adoption on January 1, 2014.

Based on the analysis made by management about the possible tax impacts brought by the Law, the Group tends to decide by the early application of its legal provisions at January 1, 2014, in accordance with the rules established in RFB's Regulatory Instruction 1,469 of May 29, 2014. The analysis performed by management evidenced that no significant impact would affect the Group's interim financial statements.

26 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 companies' contributions to the plan during the six-month period ended June 30, 2014 totaled R$ 443 (June 30, 2013 - R$ 364).

(b) Profit sharing

The combined companies offer to their employees a variable remuneration program, calculated based on quantitative and qualitative goals established by management. During the six-month period ended June 30, 2014, the amount of the profit-sharing provision was R$ 3,902 (December 31, 2013 - R$ 3,160).

27 Insurance cover

The consolidated and combined companies had insurance coverage for operating risks and comprehensive civil liability, with a maximum indemnity of R$ 269,302 at June 30, 2014. The Group's management considers these amounts to be sufficient to cover any potential liability risks and damages to the assets and loss of profits.

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