**Hypermarcas S.A.**

# Report on review of Quarterly Information - ITR at June 30, 2014

(A free translation of the original in Portuguese)

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# Hypermarcas announces Net Revenue of R$1,132.7 million and record Adjusted EBITDA of R$287.6 million in 2Q14, with 25.4% margin

**São Paulo, July 25, 2014 – Hypermarcas S.A. (BM&FBovespa: HYPE3; Reuters: HYPE3.SA; Bloomberg: HYPE3 BZ; ADR: HYPMY)** announces its financial results for the second quarter of 2014. Financial data shown here are taken from quarterly consolidated financial information of Hypermarcas S.A., prepared in accordance with norms of the Brazilian Accounting Pronouncement Committee (CPC) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

## Highlights

- **Adjusted EBITDA of R$287.6 million**, with 11.5% increase against 2Q13.
- **Net Income of R$122.2 million**, 532.7% above 2Q13.
- **Free Cash Flow of R$159.3 million**, R$65.6 million higher than 2Q13.

**Table 1**

| (R$ million) | 1H13 | % NR | 1H14 | % NR | Δ % | Δ NR p.p. | 2Q13 | % NR | 2Q14 | % NR | Δ % | Δ NR p.p. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Revenue | 2,027.5 | 100.0% | 2,191.6 | 100.0% | 8.1% | - | 1,069.1 | 100.0% | 1,132.7 | 100.0% | 6.0% | - |
| Gross Profit | 1,316.5 | 64.9% | 1,423.7 | 65.0% | 8.1% | 0.1 p.p. | 703.9 | 65.8% | 742.7 | 65.6% | 5.5% | -0.2 p.p. |
| S,G&A (ex-Marketing) | (460.5) | 22.7% | (480.4) | 21.9% | 4.3% | -0.8 p.p. | (246.0) | 23.0% | (249.6) | 22.0% | 1.4% | -1.0 p.p. |
| Marketing | (392.6) | 19.4% | (431.9) | 19.7% | 10.0% | 0.3 p.p. | (214.4) | 20.0% | (223.2) | 19.7% | 4.1% | -0.3 p.p. |
| Adjusted EBITDA [(1)] | 485.2 | 23.9% | 546.6 | 24.9% | 12.7% | 1.0 p.p. | 258.0 | 24.1% | 287.6 | 25.4% | 11.5% | 1.3 p.p. |
| Net Income | 121.6 | 6.0% | 212.4 | 9.7% | 74.7% | 3.7 p.p. | 19.3 | 1.8% | 122.2 | 10.8% | 532.7% | 9.0 p.p. |
| Free Cash Flow | 244.7 | 12.1% | 305.9 | 14.0% | 25.0% | 1.9 p.p. | 93.7 | 8.8% | 159.3 | 14.1% | 70.1% | 5.3 p.p. |

[(1)] *EBITDA before non-recurring expenses and other non-cash expenses. See Reconciliation of Adjusted EBITDA in Table 8.*



## Operating Scenario

In the second quarter of 2014, Hypermarcas advanced towards restructuring and simplifying its operating platform, aiming, at the same time, at capturing opportunities to strengthen its brands, increase the efficiency in the allocation of its resources and fill in the white spaces in its distribution. Initiatives on these fronts are in line with the Company's strategy of sustainable, profitable, organic growth, adopted since the beginning of 2011.

In 2Q14, Hypermarcas' Net Revenue increased 6.0% compared to the same period of the prior year, to R$1,132.7 million. This result was composed of expansions of 7.4% in the Pharma division and of 4.1% in Consumer. In Pharma, excluding the effect of discontinued manufacturing contracts, growth of the Company's product portfolio was 12.0% in the period. In Consumer, in spite of the demand from clients, the Company could not fulfill about R$20.0 million in orders, because of lack of inventory. This backlog would represent an additional growth of 4.3 p.p. in the quarter.

In spite of such effects, the improvement of the operating result led to the highest quarterly Adjusted EBITDA in the Company's history: in 2Q14, this indicator climbed to R$287.6 million, with 11.5% growth compared to 2Q13 and Margin of 25.4% of Net Revenue. This result was achieved in spite of high marketing investments, in accordance with the strategy of continuously strengthening the Company's brands with end-consumers, the medical community and in the points of sale.

The quarter was also marked by the improvement of the financial result by R$109.8 million compared to 2Q13, to R$99.2 million, mainly because of the elimination of impacts related to the foreign currency exposure of financial liabilities and suppliers. Since the end of 2013, the Company uses hedge instruments to fully mitigate such effects. As a consequence, Hypermarcas' Net Income increased to R$122.2 million in the quarter, up 532.7% if compared to the same period of 2013.

The operating result in the quarter, combined to the Capex reduction, contributed to increase the Free Cash Flow to R$159.3 million, leading to a R$97.9 million reduction in the Company's Net Debt, compared to 1Q14. Consequently, leverage was reduced to 2.6 times LTM Adjusted EBITDA.

During the half-year, the Company posted Net Revenue of R$2,191.6 million, with 8.1% organic growth compared to 1H13. Excluding third-party manufacturing contracts in Pharma and considering the excess of non-fulfilled orders in Consumer, growth in 1H14 would have reached 9.3%. Adjusted EBITDA was R$546.6 million in the period, with Margin of 24.9% of Net Revenue and 12.7% expansion compared to the same period of 2013. That amount is equivalent to 49.6% of the guidance for 2014. In addition, Net Income was R$212.4 million in 1H14, with 9.7% increase compared to 1H13. The Company also posted Free Cash Flow of R$305.9 million in 1H14, or R$61.1 million higher than 1H13. This result led to a Net Debt reduction of R$178.7 million compared to the end of 2013.



**PHARMA DIVISION**

Net Revenue in the Pharma division reached R$645.6 million in 2Q14, which are equivalent to 57.0% of consolidated Net Revenue in the quarter, with 7.4% growth compared to the same quarter of the prior year. Excluding the effect of discontinued third-party manufacturing contracts, growth of Hypermarcas' product portfolio was 12.0% in the same period. The Company kept its focus on the initiatives aiming at higher efficiency, grouped into three broad fronts, which are described below.

On the Marketing/Innovation front, more than 20 campaigns for OTC drugs were broadcasted on radio and TV in 2Q14, including new commercials for the traditional anti-flu brands *Benegrip* and *Fluviral*, with clearer positioning in order to enhance demand in distinct market segments. Such niches are identified by means of initiatives targeting a better understanding of the needs and preferences of Brazilian consumers.

In addition to consolidating recent launches such as *Addera D3* pills (vitamin D), *Predsim 40 mg* (*prednisone*), *Rinosoro Jet* (saline solution) and the innovative dermocosmetic *Ivy C* (nanoencapsulated vitamin C), the division brought to the market new drugs in the generics and branded generics segments under the *Neo Química* brand in 2Q14, including relevant molecules such as *valsartan* (hypertension), *alendronate sodium* (osteoporosis), *azithromycin* (antibiotic) and *sertraline chlroride* (depression symptoms). In OTC products, a new 12 mg presentation was launched for the traditional laxative *Tamarine*.

On the Operations front, the division advanced during the first half of the year in migrating drug manufacturing activities from Rio de Janeiro to Anápolis, completing the transfer of the liquids, semisolids, injectables, dermocosmetics and ophthalmic production lines. The oral solids lines are expected to be transferred to Goiás during the second half of 2014.

Finally, on the Sales/Distribution front, the division started in 2Q14 the implementation of the *HyperTrade* program, aimed at improving the execution of the Company's strategy in the points of sale, by optimizing trade marketing resources. Following the example from a similar initiative already in course in the Consumer division, the Company will start a quantitative monitoring of its performance in a sample of stores in the pharmaceutical retail channel. In parallel, Hypermarcas is focused on completing the implementation of the new merchandising and medical visit forces, which are fundamental for the demand generation strategy in the mid to long term.

**CONSUMER DIVISION**

In 2Q14, the Consumer division achieved Net Revenue of R$487.1 million, corresponding to 43.0% of consolidated Net Revenue in the quarter, with 4.1% growth compared to 2Q13. There was in the quarter an exceeding volume of about R$20.0 million in non-fulfilled orders that were not converted into effective sales. That backlog would result in 4.3 p.p. additional growth in the quarter. The division is still focused in completing the program for restructuring its activities, on the three fronts described below.

On the Marketing/Innovation front, the first half of the year was marked by a fast pace of product launches, contributing to raise the innovation index – which measures the portion of sales resulting from items launched over



the past 2 years – to 70% in 2Q14. The Company was committed to the consolidation of recent re-launches, such as *Monange*, *Bozzano*, *Jontex*, *Silhouette* and *Sanifill*. Seeking to incentivize demand generation, seven campaigns were broadcasted on radio and TV for brands of the division, including new commercials for *Jontex* flavored condoms and for the Men's Care line of *Bozzano*, the leading brand in the Brazilian market.

On the Operations front, the division completed the transfer of incontinence diaper lines to Goiás and shut down activities in the old plant located in Guarulhos, in the state of São Paulo. The migration of production lines from the Mogi das Cruzes plant is expected to be completed in the first half of 2015. Since the beginning of 2Q14, all distribution activities of the division are taking place from the Goiânia Distribution Center.

On the Sales/Distribution front, the division continued in 2Q14 with efforts to increase the penetration of its brands in new channels, regions and clients, particularly for *Adocyl* sweeteners, *Sapeka* infant diapers and *Bozzano* deodorant line. The Company remains on track to improve the exposure of its brands in the points of sale, with better management of its resources and teams, aiming at improving its execution.



# Earnings Discussion

## Income Statement

The following table is a summary of Hypermarcas' Income Statement:

**Table 2**

| (R$ million) | 1H13 | % NR | 1H14 | % NR | Δ | 2Q13 | % NR | 2Q14 | % NR | Δ |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net Revenue** | **2,027.5** | ***100.0%*** | **2,191.6** | ***100.0%*** | ***8.1%*** | **1,069.1** | ***100.0%*** | **1,132.7** | ***100.0%*** | ***6.0%*** |
| **Gross Profit** | **1,316.5** | ***64.9%*** | **1,423.7** | ***65.0%*** | ***8.1%*** | **703.9** | ***65.8%*** | **742.7** | ***65.6%*** | ***5.5%*** |
| Marketing | (392.6) | *-19.4%* | (431.9) | *-19.7%* | *10.0%* | (214.4) | *-20.0%* | (223.2) | *-19.7%* | *4.1%* |
| Selling Expenses | (352.4) | *-17.4%* | (360.8) | *-16.5%* | *2.4%* | (191.1) | *-17.9%* | (187.8) | *-16.6%* | *-1.7%* |
| General and Administrative Expenses | (108.1) | *-5.3%* | (119.6) | *-5.5%* | *10.6%* | (55.0) | *-5.1%* | (61.7) | *-5.5%* | *12.3%* |
| Other Operational Net Expenses | (49.5) | *-2.4%* | (47.1) | *-2.1%* | *-4.8%* | (20.6) | *-1.9%* | (24.6) | *-2.2%* | *19.4%* |
| Equity in Subsidiaries | (0.7) | *0.0%* | (0.5) | *0.0%* | *-37.0%* | (0.5) | *0.0%* | (0.1) | *0.0%* | *-82.2%* |
| **Continuing Operations EBIT** | **413.2** | ***20.4%*** | **463.8** | ***21.2%*** | ***12.3%*** | **222.4** | ***20.8%*** | **245.2** | ***21.6%*** | ***10.2%*** |
| Net Financial Expenses | (262.2) | *-12.9%* | (207.1) | *-9.5%* | *-21.0%* | (209.0) | *-19.6%* | (99.2) | *-8.8%* | *-52.5%* |
| Income Tax and CSLL | (30.5) | *-1.5%* | (38.2) | *-1.7%* | *25.0%* | 4.9 | *0.5%* | (19.9) | *-1.8%* | - |
| Net Income from Discontinued Operations | 1.2 | *0.1%* | (6.1) | *-0.3%* | - | 1.0 | *0.1%* | (3.9) | *-0.3%* | - |
| Net Income (Loss) | 121.6 | *6.0%* | 212.4 | *9.7%* | *74.7%* | 19.3 | *1.8%* | 122.2 | *10.8%* | *532.7%* |
| EBITDA [(1)] | 464.2 | *22.9%* | 516.4 | *23.6%* | *11.2%* | 247.9 | *23.2%* | 271.4 | *24.0%* | *9.5%* |
| **Adjusted EBITDA** | **485.2** | ***23.9%*** | **546.6** | ***24.9%*** | ***12.7%*** | **258.0** | ***24.1%*** | **287.6** | ***25.4%*** | ***11.5%*** |

[(1)] *Based only on Continuing Operations.*



## Net Revenue

Chart 1

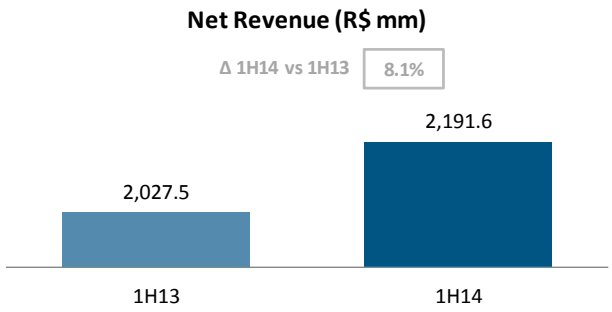



Chart 2

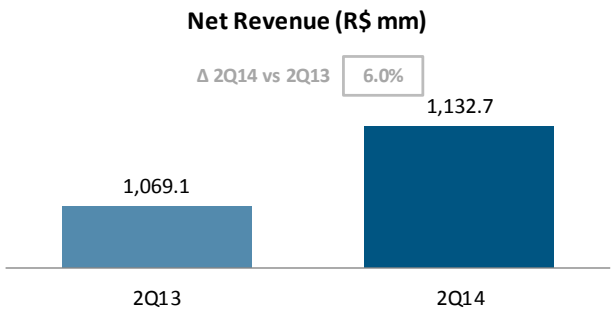



Table 3

| (R$ million) | 1H13 | 1H14 | Δ | 2Q13 | 2Q14 | Δ |
|---|---|---|---|---|---|---|
| Pharma | 1,145.1 | 1,257.6 | *9.8%* | 601.2 | 645.6 | *7.4%* |
| Pharma ex-Third Parties [1] | 1,110.4 | 1,223.7 | *10.2%* | 576.4 | 645.7 | *12.0%* |
| Consumer | 882.4 | 934.0 | *5.8%* | 467.9 | 487.1 | *4.1%* |
| **Total** | **2,027.5** | **2,191.6** | ***8.1%*** | **1,069.1** | **1,132.7** | ***6.0%*** |
| **Total ex-Third Parties [1]** | **1,992.8** | **2,157.7** | ***8.3%*** | **1,044.3** | **1,132.8** | ***8.5%*** |

*[1] Revenue from the Company's brand portfolio (excluding third-party manufacturing contracts)*

Net Revenue in the Pharma division grew 7.4% compared to 2Q13, a quarter when there was a R$24.8 million contribution from sales related to third-party manufacturing contracts. In 2Q14, excluding such contracts from the comparison basis, the growth of the Company's brand portfolio was 12.0%.

In the Consumer division, Net Revenue growth was 4.1% against 2Q13. This performance reflects an excess of non-fulfilled orders of about R$20.0 million by the end of the quarter, which would represent an additional growth of 4.3 percentage points in the period. These orders were not converted into effective sales because of lack of inventories, mainly as a function of longer time to transfer and stabilize the production of *Sapeka* and *BigFral* diapers in Goiás, in addition to a lower number of working days in the quarter, which reduced the amount of production shifts.



## Gross Profit

Chart 3

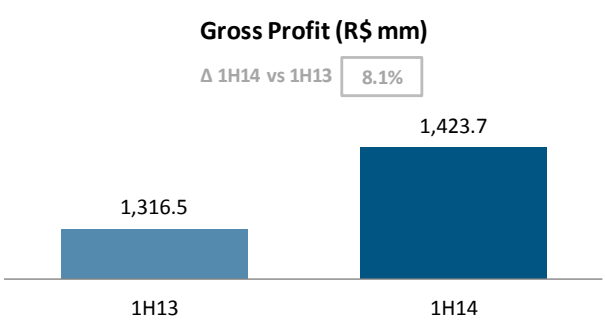



Chart 4

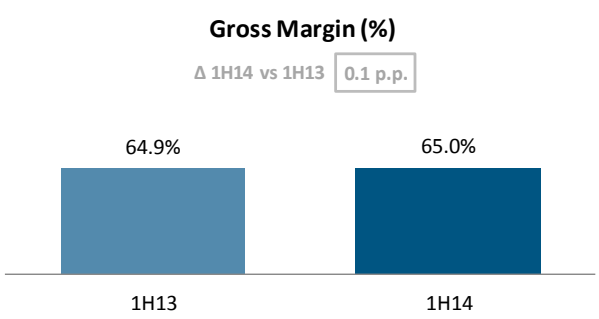



Chart 5

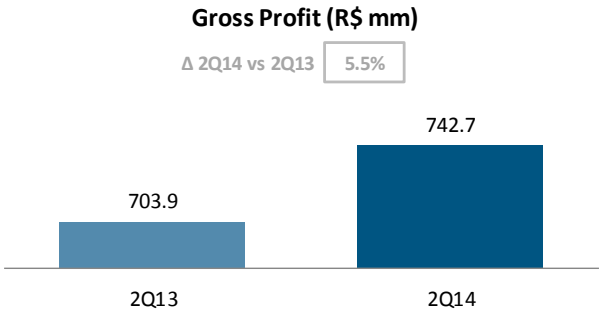



Chart 6

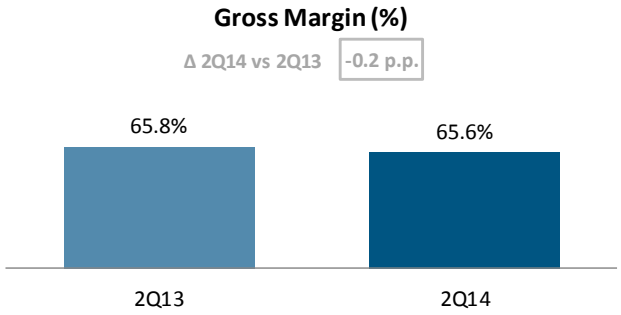



Table 4

| (R$ million) | 1H13 | % NR | 1H14 | % NR | Δ | 2Q13 | % NR | 2Q14 | % NR | Δ |
|---|---|---|---|---|---|---|---|---|---|---|
| Pharma | 878.9 | 76.8% | 961.8 | 76.5% | *-0.3 p.p.* | 463.6 | 77.1% | 503.5 | 78.0% | *0.9 p.p.* |
| Consumer | 437.6 | 49.6% | 461.9 | 49.5% | *-0.1 p.p.* | 240.3 | 51.4% | 239.2 | 49.1% | *-2.3 p.p.* |
| **Total** | **1,316.5** | ***64.9%*** | **1,423.7** | ***65.0%*** | ***0.1 p.p.*** | **703.9** | ***65.8%*** | **742.7** | ***65.6%*** | ***-0.2 p.p.*** |

The 0.9 p.p. Gross Margin increase in Pharma resulted from a more favorable sales mix in 2Q14.

In the Consumer division, the 2.3 p.p. Gross Margin reduction was impacted by a combination of less favorable sales mix, with more participation of diapers and hair care products, and average price increase lower than the expansion of costs in the quarter.



## Marketing Expenses

Table 5

| (R$ million) | 1H13 | % NR | 1H14 | % NR | Δ | 2Q13 | % NR | 2Q14 | % NR | Δ |
|---|---|---|---|---|---|---|---|---|---|---|
| Marketing Expenses | (392.6) | -19.4% | (431.9) | -19.7% | 10.0% | (214.4) | -20.0% | (223.2) | -19.7% | 4.1% |
| Advertisement and Consumer Promotion | (155.6) | -7.7% | (167.2) | -7.6% | 7.5% | (80.6) | -7.5% | (83.4) | -7.4% | 3.5% |
| Trade Deals | (115.8) | -5.7% | (123.2) | -5.6% | 6.4% | (65.4) | -6.1% | (65.3) | -5.8% | -0.3% |
| Medical Visits and Promotional Samples | (121.3) | -6.0% | (141.5) | -6.5% | 16.7% | (68.3) | -6.4% | (74.6) | -6.6% | 9.2% |

In 2Q14, Marketing Expenses amounted to 19.7% of Net Revenue, same level reported for 1H14, up 0.3 p.p. compared to 1H13. This increase came in line the Company's strategy of strengthening its brands in the media, in the points of sale and with the medical community.

## Selling Expenses

Table 6

| (R$ million) | 1H13 | % NR | 1H14 | % NR | Δ | 2Q13 | % NR | 2Q14 | % NR | Δ |
|---|---|---|---|---|---|---|---|---|---|---|
| Selling Expenses | (352.4) | -17.4% | (360.8) | -16.5% | 2.4% | (191.1) | -17.9% | (187.8) | -16.6% | -1.7% |
| Commercial Expenses | (271.1) | -13.4% | (272.3) | -12.4% | 0.4% | (143.3) | -13.4% | (141.6) | -12.5% | -1.1% |
| Freights | (75.2) | -3.7% | (71.9) | -3.3% | -4.5% | (42.7) | -4.0% | (38.6) | -3.4% | -9.6% |
| Delinquency | (6.1) | -0.3% | (16.7) | -0.8% | 172.7% | (5.1) | -0.5% | (7.6) | -0.7% | 49.1% |

Selling Expenses were reduced to 16.6% as a percentage of Net Revenue in 2Q14. In Commercial Expenses, the impact of wage inflation was offset by a reduction of other expenses not related to personnel specifically in the quarter, which contributed to the 1.1% drop compared to 2Q13.

## General / Administrative Expenses & Other Revenues and Operating Expenses, net

Table 7

| (R$ million) | 1H13 | % NR | 1H14 | % NR | Δ | 2Q13 | % NR | 2Q14 | % NR | Δ |
|---|---|---|---|---|---|---|---|---|---|---|
| General, Administrative and Other Expenses | (108.1) | -5.3% | (119.6) | -5.5% | 10.6% | (55.0) | -5.1% | (61.7) | -5.5% | 12.3% |
| Other Operating Revenues (Expenses) | (49.5) | -2.4% | (47.1) | -2.1% | -4.8% | (20.6) | -1.9% | (24.6) | -2.2% | 19.4% |

G&A Expenses amounted to 5.5% of Net Revenue in 2Q14, same level reached in 1H14. The 10.6% increase compared to 1H13 is mainly related to the impact of wage inflation in the period.



# Adjusted EBITDA

Chart 7

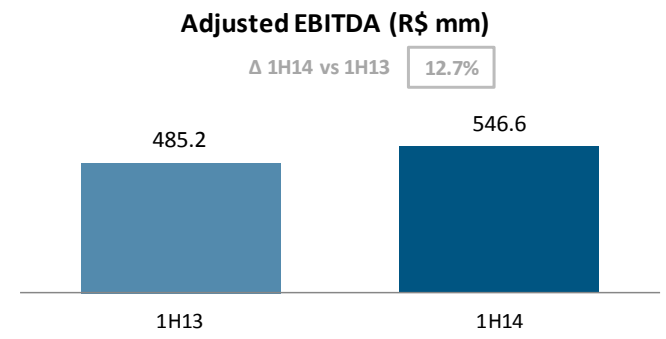



Chart 8

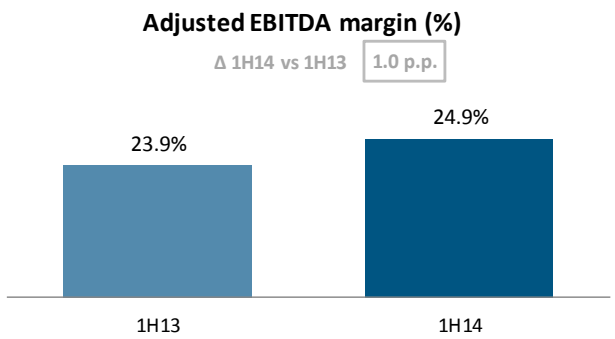



Chart 9

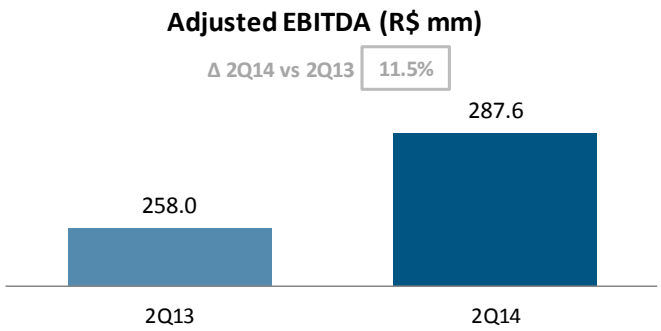



Chart 10

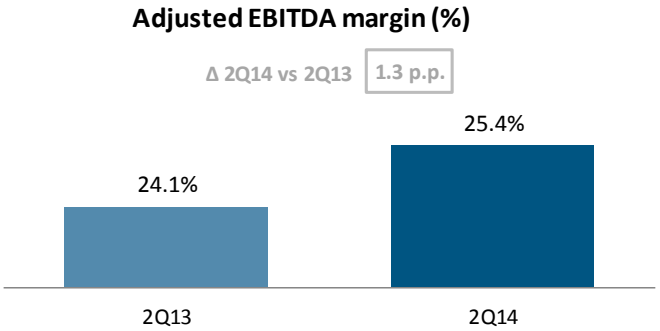



Table 8 – Adjusted EBITDA Reconciliation

| (R$ million) | 1H13 | % NR | 1H14 | % NR | Δ | 2Q13 | % NR | 2Q14 | % NR | Δ |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Income | 121.6 | 6.0% | 212.4 | 9.7% | 74.7% | 19.3 | 1.8% | 122.2 | 10.8% | 532.7% |
| (-) Net Income from Discontinued Operations | (1.2) | -0.1% | 6.1 | 0.3% | - | (1.0) | -0.1% | 3.9 | 0.3% | - |
| (+) Income Tax and CSLL | 30.5 | 1.5% | 38.2 | 1.7% | 25.0% | (4.9) | -0.5% | 19.9 | 1.8% | - |
| (+) Net Interest Expenses | 262.2 | 12.9% | 207.1 | 9.5% | (21.0%) | 209.0 | 19.6% | 99.2 | 8.8% | (52.5%) |
| EBIT | 413.2 | 20.4% | 463.8 | 21.2% | 12.3% | 222.4 | 20.8% | 245.2 | 21.6% | 10.2% |
| (+) Depreciations / Amortizations | 51.0 | 2.5% | 52.5 | 2.4% | 2.9% | 25.5 | 2.4% | 26.2 | 2.3% | 2.8% |
| EBITDA [1] | 464.2 | 22.9% | 516.4 | 23.6% | 11.2% | 247.9 | 23.2% | 271.4 | 24.0% | 9.5% |
| (+) Non-Recurring Expenses | 16.8 | 0.8% | 29.6 | 1.4% | 76.1% | 7.3 | 0.7% | 17.4 | 1.5% | 139.0% |
| (+) Non-Cash Expenses | 4.1 | 0.2% | 0.7 | 0.0% | (83.9%) | 2.9 | 0.3% | (1.2) | -0.1% | - |
| **Adjusted EBITDA** | **485.2** | **23.9%** | **546.6** | **24.9%** | **12.7%** | **258.0** | **24.1%** | **287.6** | **25.4%** | **11.5%** |

[1] *Based only on Continuing Operations.*

*Obs.: Please refer to Explanatory Note 14 of the quarterly financial information*

Adjusted EBITDA grew 11.5% compared to 2Q13 and amounted to R$287.6 million in 2Q14, the Company's best quarterly result. This expansion, which was marked by better operating result, raised the Adjusted EBITDA margin to 25.4% of Net Revenue in 2Q14, with 1.3 p.p. gain compared to 2Q13.



## Net Financial Expenses

Table 9

| (R$ million) | 1H13 | % NR | 1H14 | % NR | Δ R$ | 2Q13 | % NR | 2Q14 | % NR | Δ R$ |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Financial Expenses | (262.2) | -12.9% | (207.1) | -9.5% | 55.1 | (209.0) | -19.6% | (99.2) | -8.8% | 109.8 |
| Net Interest Expenses | (120.9) | -6.0% | (141.0) | -6.4% | (20.1) | (58.3) | -5.5% | (65.1) | -5.8% | (6.8) |
| Cost of Hedge and FX Gains (Losses) | (127.6) | -6.3% | (47.8) | -2.2% | 79.8 | (147.8) | -13.8% | (24.9) | -2.2% | 122.9 |
| Monetary Adjustment on Contingencies | (2.0) | -0.1% | (7.3) | -0.3% | (5.3) | 2.9 | 0.3% | (3.6) | -0.3% | (6.5) |
| NPV Adjustment Realization | (11.8) | -0.6% | (11.0) | -0.5% | 0.8 | (5.8) | -0.5% | (5.6) | -0.5% | 0.2 |

Net Financial Expenses increased mainly because of the use of cash, previously invested at CDI rate, for the partial repurchase of the dollar-denominated Bond (6.5% coupon per annum), completed in 4Q13.

However, Net Financial Expenses were reduced by R$109.8 million compared to 2Q13, to R$99.2 million, mainly as a consequence of the elimination of the effects from foreign currency exposure. Since the end of 2013, the Company uses hedge instruments that mitigate such effects on financial liabilities and supplier payments.

## Net Income

Table 10

| (R$ million) | 1H13 | 1H14 | Δ | 2Q13 | 2Q14 | Δ |
|---|---|---|---|---|---|---|
| Continuing Operations EBIT | 413.2 | 463.8 | 12.3% | 222.4 | 245.2 | 10.2% |
| (-) Net Financial Expenses | (262.2) | (207.1) | -21.0% | (209.0) | (99.2) | -52.5% |
| (-) Income Tax and Social Contribution | (30.5) | (38.2) | 25.0% | 4.9 | (19.9) | - |
| (+) Discontinued Operation Net Income | 1.2 | (6.1) | - | 1.0 | (3.9) | - |
| **Net Income** | **121.6** | **212.4** | **74.7%** | **19.3** | **122.2** | **532.7%** |

The Company's Net Income grew 532.7% to R$122.2 million in 2Q14, if compared to 2Q13, mainly because of the improvement of the financial result in the period.



## Cash Flow

Chart 11

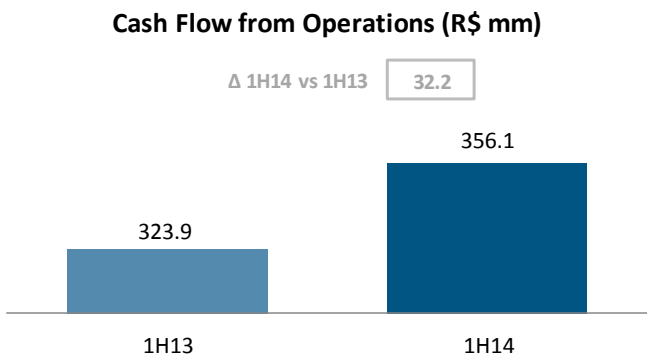



Chart 12

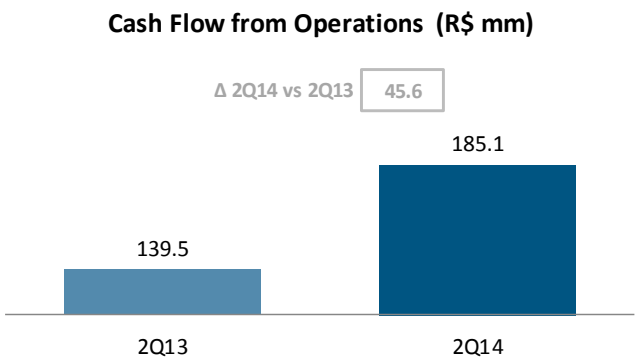



Table 11

| (R$ million) | 1H13 | 1H14 | 2Q13 | 2Q14 |
|---|---|---|---|---|
| Cash Flow from Operations | 323.9 | 356.1 | 139.5 | 185.1 |
| Net Purchase of Property, Plant and Equipment | (71.0) | (40.9) | (42.8) | (21.8) |
| Purchase of Property, Plant and Equipment | (88.4) | (95.0) | (54.2) | (40.0) |
| Sale of Property, Plant and Equipment | 17.4 | 54.1 | 11.4 | 18.1 |
| Purchase of Intangible Assets | (8.1) | (9.3) | (3.1) | (4.0) |
| **(=) Free Cash Flow** | **244.7** | **305.9** | **93.7** | **159.3** |

Cash Flow from Operations increased R$45.6 million to R$185.1 million in 2Q14, mostly as result of lower inventory growth. Free Cash Flow climbed to R$159.3 million, an amount R$65.6 million above 2Q13, as a function of better operating result, allied to the reduction of Net Purchase of Property, Plant and Equipment compared to 2Q13.

## Net Debt

Table 12

| (R$ million) | Balance on 2Q14 | Short Term | Long Term | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 3Q-4Q 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022> |
| Loans and Financing | 4,306.2 | 532.3 | 1,154.2 | 286.8 | 786.3 | 639.1 | 154.3 | 20.6 | 685.7 | 46.9 |
| Notes Payable | 152.4 | 135.3 | 9.8 | 7.3 | - | - | - | - | - | - |
| **Gross Debt** | **4,458.6** | **667.6** | **1,164.0** | **294.1** | **786.3** | **639.1** | **154.3** | **20.6** | **685.7** | **46.9** |
| Cash and Cash Equivalents | (1,719.9) | | | | | | | | | |
| **Net Debt** | **2,738.7** | | | | | | | | | |

In nominal terms, Net Debt was reduced by R$97.9 million compared to 1Q14, to R$2.738.7 million, resulting in a leverage of 2.6 times LTM Adjusted EBITDA, down from 2.7 times in 1Q14. This decrease results from the Free Cash Flow increase in the period.



In May, the Company obtained a stand-by credit line of up to R$620.0 million with Banco do Brasil, as an option to face debt maturities in 2015 and extend the Company's debt profile.This line may be withdrawn in up to two tranches until November 2015, with total term of up to 48 months after withdrawal. In total, Hypermarcas has R$970.0 million in stand-by facilities with top-tier banks.



# Investor Relations Agenda

## Earnings Conference Call

| | Portuguese | English |
|---|---|---|
| **Date:** | July 28, 2014 | July 28, 2014 |
| **Time:** | 10:30 (Brasília)<br>09:30 (New York) | 12:30 (Brasília)<br>11:30 (New York) |
| **Phone:** | +55 (11) 2188-0155 | +1 (877) 317-6776 (USA only)<br>+1 (412) 317-6776 (other countries) |
| **Code:** | Hypermarcas | Hypermarcas |
| **Webcast:** | Click Here | Click Here |
| **Replay:** | +55 (11) 2188-0155 | +1 (877) 344-7529 (USA only)<br>+1 (412) 317-0088 (other countries) |
| **Replay Code:** | Hypermarcas | 10049231 |

## Contact Information

Phone: +55 (11) 3627-4242
Email: ri@hypermarcas.com.br
Site: www.hypermarcas.com.br/ri

## Upcoming events

Table 13

| Date | Event | Place |
|---|---|---|
| 30-31-jul | Credit Suisse Mid-Summer LatAm Conference | New York |
| 19-aug | JP Morgan Retail & Healthcare Checkup | São Paulo |
| 21-aug | Conferência Anual Santander | São Paulo |
| 16-17-sep | Bank of America Merrill Lynch Global Consumer & Retail Conference | London |
| 24-sep | UBS Consumer Round Table | São Paulo |
| 17-18-nov | Bradesco CEO Conference | New York |



## Disclaimer

This release contains forward-looking statements that are exclusively related to the prospects of the business, its operating and financial results, and prospects for growth. These data are merely projections and, as such, based exclusively on our management's expectations for the future of the business and its continued access to capital to fund its business plan. These forward-looking statements substantially depend on changing market conditions, government regulations, competitive pressures, the performance of the Brazilian economy and the industry, among other factors, as well as the risks shown in our filed disclosure documents, and are therefore subject to change without prior notice.

In addition, unaudited information herein reflects management's interpretation of information taken from its quarterly information and their respective adjustments, which were prepared in accordance with market practices and for the sole purpose of a more detailed and specific analysis of our results. Therefore, these additional points and data must also be analyzed and interpreted independently by shareholders and market agents, who should carry out their own analysis and draw their own conclusions from the results reported herein. No data or interpretative analysis provided by our management should be treated as a guarantee of future performance or results and are merely illustrative of our directors' vision of our results.

Our management is not responsible for compliance or accuracy of the management financial data discussed in this report, which must be considered as for informational purposes only, and should not override the analysis of our audited consolidated financial statements or our reviewed quarterly information for purposes of a decision to invest in our stock, or for any other purpose.



# Consolidated Income Statement (R$ thousand)

Table 14

| | 1H13 | 1H14 | 2Q13 | 2Q14 |
|---|---|---|---|---|
| **Revenue** | **2,027,536** | **2,191,619** | **1,069,104** | **1,132,744** |
| Cost of Goods Sold | (711,039) | (767,880) | (365,202) | (390,070) |
| **Gross Profit** | **1,316,497** | **1,423,739** | **703,902** | **742,674** |
| **Operating Income (Expenses)** | | | | |
| Selling and Marketing Expenses | (745,032) | (792,737) | (405,411) | (411,056) |
| General and Administrative Expenses | (108,097) | (119,587) | (54,965) | (61,738) |
| Other Operating Income (Expenses), Net | (49,468) | (47,115) | (20,601) | (24,600) |
| Equity in Subsidiaries | (719) | (453) | (500) | (89) |
| **Operating Income Before Equity Income and Financial Result** | **413,181** | **463,847** | **222,425** | **245,191** |
| Net Financial Expenses | (262,249) | (207,116) | (209,017) | (99,213) |
| Financial Expenses | (335,069) | (285,976) | (245,468) | (143,683) |
| Financial Income | 72,820 | 78,860 | 36,451 | 44,470 |
| **Profit Before Income Tax and Social Contribution** | **150,932** | **256,731** | **13,408** | **145,978** |
| Income Tax and Social Contribution | (30,547) | (38,198) | 4,867 | (19,869) |
| **Net Income from Contining Operations** | **120,385** | **218,533** | **18,275** | **126,109** |
| Net Results from Discontinued Operations | 1,236 | (6,107) | 1,036 | (3,920) |
| **Income for the Period** | **121,621** | **212,426** | **19,311** | **122,189** |
| **Earnings per Share – R$** | **0.1938** | **0.3365** | **0.0307** | **0.1935** |



# Consolidated Balance Sheet (R$ thousand)

**Table 15**

| Assets | 12/31/2013 | 6/30/2014 | Liabilities and Shareholders' Equity | 12/31/2013 | 6/30/2014 |
|---|---|---|---|---|---|
| **Current Assets** | **3,784,978** | **4,405,238** | **Current Liabilities** | **1,916,989** | **1,706,987** |
| Cash and Cash Equivalents | 1,158,833 | 1,719,934 | Suppliers | 500,000 | 482,529 |
| Accounts Receivable | 1,229,329 | 1,322,867 | Loans and Financing | 769,231 | 532,328 |
| Inventories | 591,271 | 563,260 | Salaries Payable | 143,372 | 141,937 |
| Recoverable Taxes | 561,972 | 619,634 | Income Tax and Social Contribution | 3,015 | 1,682 |
| Other Assets | 232,788 | 168,758 | Taxes Payable | 66,564 | 61,098 |
| Assets Held for Sale | 10,785 | 10,785 | Dividends Payable | 9 | 9 |
| | | | Accounts Payable | 305,296 | 352,101 |
| | | | Notes Payable | 129,502 | 135,303 |
| **Non-current assets** | **8,717,009** | **8,707,746** | **Non-Current Liabilites** | **10,584,998** | **11,405,997** |
| **Long term assets** | **244,831** | **161,850** | **Long Term Liabilities** | **3,506,421** | **4,119,920** |
| Related parties | 0 | 0 | Related Parties | 0 | 0 |
| Deferred Income Tax and Social Contribution | 37,233 | 6,560 | Loans and Financing | 3,139,621 | 3,773,915 |
| Recoverable Taxes | 81,630 | 85,875 | Deferred Income Tax and Social Contribution | 33,933 | 41,345 |
| Other Assets | 125,968 | 69,415 | Notes Payable | 37,865 | 17,077 |
| | | | Other Accounts Payable | 144,922 | 130,441 |
| | | | Provisions for Contingencies | 150,080 | 157,142 |
| **Investments** | **8,472,178** | **8,545,896** | **Shareholders' Equity** | **7,078,577** | **7,286,077** |
| Investments | 623 | 170 | Capital | 5,269,124 | 5,269,124 |
| Other Investments | 631 | 631 | Capital Reserve | 1,426,689 | 1,421,763 |
| Property, Plants and Equipments | 1,521,759 | 1,598,615 | Equity Valuation Adjustments | (204,443) | (204,443) |
| Intangible Assets | 6,949,165 | 6,946,480 | Profit Reserves | 587,207 | 587,207 |
| | | | Income for the Period | 0 | 212,426 |
| **Total Assets** | **12,501,987** | **13,112,984** | **Total Liabilities and Shareholders' Equity** | **12,501,987** | **13,112,984** |



# Consolidated Cash Flow Statement (R$ thousand)

**Table 16**

| | 1H13 | 1H14 | 2Q13 | 2Q14 |
|---|---|---|---|---|
| **Cash Flows from Operating Activities** | | | | |
| Income (Loss) Before Income Taxes | 152.805 | 249.872 | 14.978 | 141.364 |
| Depreciation and Amortization | 51.041 | 52.514 | 25.467 | 26.175 |
| Impairment | 0 | (1.444) | 0 | (2.904) |
| Gain on Permanent Asset Disposals | (987) | (5.458) | 178 | (5.985) |
| Equity Method | 719 | 453 | 500 | 89 |
| Foreign Exchange (Gains) Losses | 127.550 | 47.771 | 147.759 | 24.863 |
| Interest and Related Expense | 134.700 | 159.345 | 61.259 | 74.350 |
| Provisions | 39.246 | 62.211 | 25.017 | 33.324 |
| Stock Option Expense | 4.146 | 668 | 2.854 | (1.173) |
| **Adjusted Results** | **509.220** | **565.932** | **278.012** | **290.103** |
| **Decrease (Increase) in Assets** | **(192.876)** | **(148.893)** | **(210.807)** | **(117.910)** |
| Trade Accounts Receivable | 64.545 | (110.191) | (103.021) | (105.404) |
| Inventories | (231.358) | (8.301) | (94.144) | (1.033) |
| Recoverable Taxes | (45.443) | (37.654) | (3.071) | (12.667) |
| Judicial Deposits and Others | (1.538) | 1.814 | (2.113) | 1.158 |
| Other Accounts Receivable | 20.918 | 5.439 | (8.458) | 36 |
| **Increase (Decrease) in Liabilities** | **7.527** | **(60.943)** | **72.343** | **12.932** |
| Suppliers | 82.469 | (17.470) | 61.448 | 11.289 |
| Income Tax and Social Contribution Paid | (4.076) | (3.287) | (4.076) | (272) |
| Taxes Payable | (11.521) | (5.046) | (4.238) | 1.051 |
| Salaries and Payroll Charges | (12.180) | (1.438) | 19.208 | 28.325 |
| Accounts Payable | (41.331) | (41.152) | 23.588 | (28.506) |
| Operations Interest Paid | (2.933) | 17.440 | (10.162) | 6.717 |
| Other Accounts Payable | (2.901) | (9.990) | (13.425) | (5.672) |
| **Net Cash Provided by Operating Activities** | **323.871** | **356.096** | **139.548** | **185.125** |
| **Cash flows from investing activities** | | | | |
| Acquisitions of Property, Plant and Equipment | (88.370) | (95.014) | (54.158) | (39.954) |
| Intangible Assets | (8.111) | (9.285) | (3.111) | (3.973) |
| Proceeds from the Sale of Assets with Permanent Nature | 17.351 | 54.092 | 11.393 | 18.121 |
| Interest and Others | 60.630 | 47.650 | 31.370 | 26.898 |
| **Net Cash Provided by (Used in) Investing Activities** | **(18.500)** | **(2.557)** | **(14.506)** | **1.092** |
| **Cash Flows from Financing Activities** | | | | |
| Capital Integralization | 38.058 | 0 | 38.058 | 0 |
| Borrowings | 59.264 | 935.227 | 891 | 413.983 |
| Treasury Stock Purchase / Sale | 4.201 | (7.199) | 86 | 9.096 |
| Repayment of Loans - Principal | (176.375) | (585.949) | (73.108) | (281.607) |
| Interest Paid on Loans - Interest | (129.967) | (133.536) | (80.887) | (72.206) |
| Dividends Paid | (102.110) | 0 | (102.110) | 0 |
| Debt Issuance Cost | 0 | (981) | 0 | (223) |
| **Net Cash Provided by (Used in) Financing Activities** | **(306.929)** | **207.562** | **(217.070)** | **69.043** |
| **Net Increase in Cash and Cash Equivalents** | **(1.558)** | **561.101** | **(92.028)** | **255.260** |
| **Statement of Increase in Cash and Cash Equivalents, Net** | | | | |
| Cash and Cash Equivalents at the Beginning of the Period | 1.736.402 | 1.158.833 | 1.826.872 | 1.464.674 |
| Cash and Cash Equivalents at the End of the Period | 1.734.844 | 1.719.934 | 1.734.844 | 1.719.934 |
| **Change in Cash and Cash Equivalent** | **(1.558)** | **561.101** | **(92.028)** | **255.260** |



# Other Information

## Non-Recurring Expenses

Table 17

| (R$ million) | 1H13 | 1H14 | 2Q13 | 2Q14 | | |
|---|---|---|---|---|---|---|
| | | | | Other Revenues/ Expenses | Other Lines | Total |
| Other Non-Recurring Expenses | 6.7 | 17.2 | 3.1 | - | 7.8 | 7.8 |
| Expenses Related to Restructurings [1] | 31.6 | 50.1 | 18.9 | 26.8 | - | 26.8 |
| Other Revenues | (21.5) | (37.7) | (14.7) | (17.1) | - | (17.1) |
| **Non-Recurring from Continued Operations** | **16.8** | **29.6** | **7.3** | **9.7** | **7.8** | **17.4** |
| Result from Divestitures / Discontinued Operations | (1.9) | 6.9 | (1.6) | - | 4.6 | 4.6 |
| **Total Non-Recurring** | **14.9** | **36.5** | **5.7** | **9.7** | **12.4** | **22.1** |

*[1] Expenses related to the integration of acquired businesses, or operating restructuring costs, such as severance and termination of labor and expenses with closing plants to transfer production to Goiás.*

## Cash Conversion Cycle

Table 18

| (Days) | 1Q14 | 2Q14 | Δ |
|---|---|---|---|
| Receivables [1] | 91 | 93 | 2 |
| Inventories | 137 | 130 | (7) |
| Payables | (112) | (111) | 1 |
| **Cash Conversion Cycle** | **116** | **112** | **(4)** |

| (R$ million) | 1Q14 | 2Q14 | Δ |
|---|---|---|---|
| Receivables | 1,225 | 1,323 | 98 |
| Inventories | 577 | 563 | (14) |
| Payables | (471) | (483) | (11) |
| **Working Capital** | **1,331** | **1,404** | **73** |

*[1] Calculations based on Gross Revenue of Continuing and Discontinued Operations.*

## Tax Goodwill Amortization and Income Tax & Social Constribution Losses Carry-Forward

The Company holds R$3,280.9 million of tax goodwill to be amortized over the coming years, according to the following table. In addition, there are income tax and social contribution losses carry-forward, with the tax effect of R$1,086.5 million, after applying the income tax and social contribution rates (please refer to Explanatory Note 20(a) of the quarterly financial information.)



**Table 19**

| (R$ million) | |
|---|---|
| 3Q-4Q14 | 387.1 |
| 2015 | 747.2 |
| 2016 | 657.1 |
| 2017 | 607.4 |
| 2018 | 593.2 |
| 2019 | 250.0 |
| 2020 | 36.3 |
| 2021 | 2.7 |
| **Total** | **3,280.9** |

*Source: Hypermarcas*

## Historical Net Revenue and Third Parties – Pharma Division

**Table 20**

| (R$ million) | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 |
|---|---|---|---|---|---|---|---|---|---|---|
| Pharma | 520.3 | 530.6 | 530.6 | 494.4 | 543.9 | 601.2 | 613.6 | 570.0 | 612.0 | 645.6 |
| Third Parties | (12.1) | (18.9) | (13.0) | (17.7) | (9.9) | (24.8) | (39.9) | (7.2) | (34.0) | 0.1 |
| **Pharma ex-Third Parties*** | **508.2** | **511.7** | **517.6** | **476.7** | **534.0** | **576.4** | **573.7** | **562.8** | **578.0** | **645.7** |

(1) *Revenue from the Company's brand portfolio (excluding third-party manufacturing contracts).*



# Report on review of Quarterly Information - ITR

To the Board of Directors and Shareholders
Hypermarcas S.A.
São Paulo - SP

**Introduction**
We have reviewed the accompanying individual and consolidated interim financial information of Hypermarcas S.A. ("The Company"), comprised in the Quarterly Information Form - ITR for the quarter ended June 30, 2014, comprising the balance sheet as at June 30, 2014 and the respective statements of income and comprehensive income for the three and six months periods then ended, and changes in shareholders' equity and cash flows for the six months period then ended, including the footnotes.

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

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

**Conclusion on the parent company interim financial information**
Based on our review, nothing has come to our attention that causes us to believe that the individual interim financial information included in the Quarterly Information - ITR referred to above has not been prepared, in all material respects, in accordance with CPC 21(R1) applicable to the preparation of Quarterly Information - ITR, and presented in accordance with the standards issued by the Brazilian Securities Commission - CVM.

**Conclusion on the consolidated interim financial information**
Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial information included in the Quarterly Information - ITR referred to above has not been prepared, in all material respects, in accordance with CPC 21(R1) and IAS 34 applicable to the preparation of Quarterly Information - ITR, and presented in accordance with the standards issued by the Brazilian Securities Commission - CVM.

**Others matters**

***Interim information of the value added***
We have also reviewed the individual and consolidated statements of value added (DVA), related to the six months period ended June 30, 2014, prepared under the responsibility of the Company's management, which presentation in the interim information is required in accordance with standards issued by the Brazilian Securities Commission - CVM applicable to the preparation of Quarterly Information - ITR, and is considered as a supplementary information under IFRS, which do not require the presentation of DVA. These statements were subject to the same review procedures described above, and based on our review, nothing has come to our attention that causes us to believe that it has not been prepared, in all material respects, in accordance with the individual and consolidated interim financial information taken as a whole.

São Paulo, July 25, 2014

KPMG Auditores Independentes
CRC 2SP014428/O-6
*(Original report in Portuguese signed by)*
Wagner Bottino
Accountant CRC 1SP196907/O-7

# Hypermarcas S.A.

## Balance sheets at June 30, 2014 and December 31, 2013
**In thousands of Reais**

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| **Assets** | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| Current assets | | | | |
| Cash and cash equivalents (Note 9) | 1,455,707 | 416,634 | 1,719,934 | 1,158,833 |
| Accounts receivable (Note 10) | 1,322,864 | 1,231,215 | 1,322,867 | 1,229,329 |
| Inventories (note 11) | 231,859 | 290,510 | 563,260 | 591,271 |
| Related parties (Note 30) | 134 | 90 | - | - |
| Recoverable taxes (Note 12) | 521,016 | 471,956 | 619,634 | 561,972 |
| Proposed dividends receivable | - | 7,697 | - | - |
| Other assets (Note 13) | 152,245 | 206,448 | 168,758 | 232,788 |
| | 3,683,825 | 2,624,550 | 4,394,453 | 3,774,193 |
| Non-current assets held for sale | 10,785 | 10,785 | 10,785 | 10,785 |
| | 3,694,610 | 2,635,335 | 4,405,238 | 3,784,978 |
| Non-current assets | | | | |
| Long-term receivables | | | | |
| Related parties (Note 30) | 75 | 1,294 | - | - |
| Deferred income tax and social contribution (note 20 (a)) | - | 24,541 | 6,560 | 37,233 |
| Recoverable taxes (Note 12) | 56,437 | 55,494 | 85,875 | 81,630 |
| Other assets (Note 13) | 64,810 | 121,087 | 69,415 | 125.968 |
| | 121,322 | 202,416 | 161,850 | 244,831 |
| Investments (Note 15) | 1,148,517 | 1,710,343 | 170 | 623 |
| Other investments | 631 | 631 | 631 | 631 |
| Property, plant and equipment (Note 16) | 705,641 | 714,907 | 1,598,615 | 1,521,759 |
| Intangible assets (Note 17) | 6,792,189 | 6,795,795 | 6,946,480 | 6,949,165 |
| | 8,646,978 | 9,221,676 | 8,545,896 | 8,472,178 |
| Total assets | 12,462,910 | 12,059,427 | 13,112,984 | 12,501,987 |

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| **Liabilities and shareholders' equity** | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| Current liabilities | | | | |
| Accounts payable to suppliers (note 18) | 201,927 | 254,996 | 482,529 | 500,000 |
| Loans and financing (Note 19) | 500,255 | 741,419 | 532,328 | 769,231 |
| Salaries payable | 86,438 | 95,093 | 141,937 | 143,372 |
| Related parties (Note 30) | 3,719 | 71,830 | - | - |
| Income tax and social contribution payable | - | - | 1,682 | 3,015 |
| Taxes payable (Note 21) | 38,909 | 38,092 | 61,098 | 66,564 |
| Notes payable (Note 23) | 135,303 | 220,108 | 135,303 | 129,502 |
| Dividends payable | 9 | 9 | 9 | 9 |
| Accounts payable (Note 22) | 301,317 | 249,265 | 352,101 | 305,296 |
| | 1,267,877 | 1,670,812 | 1,706,987 | 1,916,989 |
| Non-current liabilities | | | | |
| Loans and financing (Note 19) | 3,624,188 | 2,996,927 | 3,773,915 | 3,139,621 |
| Related parties (Note 30) | 8 | - | - | - |
| Notes payable (Note 23) | 17,077 | 37,865 | 17,077 | 37,865 |
| Deferred income tax and social contribution (note 20 (b)) | 3,269 | - | 41,345 | 33,933 |
| Provisions for contingencies (Note 29) | 148,711 | 146,205 | 157,142 | 150,080 |
| Other accounts payable | 115,703 | 129,041 | 130,441 | 144,922 |
| | 3,908,956 | 3,310,038 | 4,119,920 | 3,506,421 |
| | 5,176,833 | 4,980,850 | 5,826,907 | 5,423,410 |
| Shareholders' equity | | | | |
| Capital (Note 26 (a)) | 5,269,124 | 5,269,124 | 5,269,124 | 5,269,124 |
| Capital reserves | 1,421,763 | 1,426,689 | 1,421,763 | 1,426,689 |
| Equity valuation adjustments | (204,443) | (204,443) | (204,443) | (204,443) |
| Profit reserves | 587,207 | 587,207 | 587,207 | 587,207 |
| Income for the period | 212,426 | - | 212,426 | - |
| | 7,286,077 | 7,078,577 | 7,286,077 | 7,078,577 |
| Total liabilities and shareholders' equity | 12,462,910 | 12,059,427 | 13,112,984 | 12,501,987 |

See the accompanying notes to the quarterly information.

# Hypermarcas S.A.

## Statements of income
## Three and six months period ended June 30, 2014 and 2013
**In thousands of Reais, except when indicated otherwise**

| | Parent company | | | |
|---|---|---|---|---|
| | **April 1, 2014 to June 30, 2014** | **January 1, 2014 to June 30, 2014** | **April 1, 2013 to June 30, 2013** | **January 1, 2013 to June 30, 2013** |
| **Continuing operations** | | | | |
| Net revenue (Note 28) | 1,152,174 | 2,232,214 | 1,084,112 | 2,056,890 |
| Cost of sales (Note 25 (a)) | (471,006) | (899,779) | (437,658) | (842,239) |
| **Gross profit** | 681,168 | 1,332,435 | 646,454 | 1,214,651 |
| Selling and marketing expenses (Note 25 (a)) | (392,837) | (754,922) | (384,292) | (702,321) |
| General and administrative expenses (Note 25 (a)) | (37,287) | (79,466) | (38,317) | (80,211) |
| Other operating (expenses) income, net (Note 25(b)) | (14,142) | (31,888) | 9,715 | (4,867) |
| Equity in the results of investees (Note 15(a)) | 11,245 | 8,847 | (4,905) | 1,882 |
| **Income before financial income and expenses** | 248,147 | 475.006 | 228,655 | 429,134 |
| Financial income (Note 25(c)) | 39,575 | 61,397 | 18,466 | 38,145 |
| Financial expenses (Note 25(b)) | (142,562) | (282,393) | (240,366) | (329,121) |
| **Net financial expenses** | (102,987) | (220,996) | (221,900) | (290,976) |
| **Income before income tax and social contribution** | 145,160 | 254,010 | 6,755 | 138,158 |
| Income tax and social contribution (note 20 (c)) | (19,051) | (35,477) | 11,520 | (17,773) |
| **Net income from continuing operations** | 126,109 | 218,533 | 18.275 | 120.385 |
| **Discontinued operations** | | | | |
| Net income from discontinued operations (Note 14) | (3,920) | (6,107) | 1,036 | 1,236 |
| **Net income for the period** | 122,189 | 212,426 | 19,311 | 121,621 |
| **Earnings per share** | | | | |
| Basic earnings per share (in R$) | 0.1935 | 0.3365 | 0.0307 | 0.1938 |
| Diluted earnings per share (in R$) | 0.1895 | 0.3294 | 0.0303 | 0.1912 |
| **Earnings per share - Continuing operations** | | | | |
| Basic earnings per share (in R$) | 0.1935 | 0.3365 | 0.0307 | 0.1938 |
| Diluted earnings per share (in R$) | 0.1895 | 0.3294 | 0.0303 | 0.1912 |

See the accompanying notes to the quarterly information.

# Hypermarcas S.A.

## Statements of income
## Three and six months period ended June 30, 2014 and 2013
**In thousands of Reais, except when indicated otherwise**

| | | | Consolidated | |
|---|---|---|---|---|
| | **April 1, 2014 to June 30, 2014** | **January 1, 2014 to June 30, 2014** | **April 1, 2013 to June 30, 2013** | **January 1, 2013 to June 30, 2013** |
| **Continuing operations** | | | | |
| Net revenue (Note 28) | 1,132,744 | 2,191,619 | 1,069,104 | 2,027,536 |
| Cost of sales (Note 25(a)) | (390,070) | (767,880) | (365,202) | (711,039) |
| **Gross profit** | 742,674 | 1,423,739 | 703,902 | 1,316,497 |
| Selling and marketing expenses (Note 25 (a)) | (411,056) | (792,737) | (405,411) | (745,032) |
| General and administrative expenses (Note 25 (a)) | (61,738) | (119,587) | (54,965) | (108,097) |
| Other operating (expenses) income, net (Note 25(b)) | (24,600) | (47,115) | (20,601) | (49,468) |
| Equity in the results of investees (Note 15(a)) | (89) | (453) | (500) | (719) |
| **Income before financial income and expenses** | 245,191 | 463,847 | 222,425 | 413,181 |
| Financial income (Note 25(c)) | 44,470 | 78,860 | 36,451 | 72,820 |
| Financial expenses (Note 25(b)) | (143,683) | (285,976) | (245,468) | (335,069) |
| **Net financial expenses** | (99,213) | (207,116) | (209,017) | (262,249) |
| **Income before income tax and social contribution** | 145,978 | 256,731 | 13,408 | 150,932 |
| Income tax and social contribution (note 20 (c)) | (19,869) | (38,198) | 4,867 | (30,547) |
| **Net income from continuing operations** | 126,109 | 218,533 | 18,275 | 120,385 |
| **Discontinued operations** | | | | |
| Net income from discontinued operations (Note 14) | (3,920) | (6,107) | 1,036 | 1,236 |
| **Net income for the period** | 122,189 | 212,426 | 19,311 | 121,621 |
| **Earnings per share** | | | | |
| Basic earnings per share (in R$) | 0.1935 | 0.3365 | 0.0307 | 0.1938 |
| Diluted earnings per share (in R$) | 0.1895 | 0.3294 | 0.0303 | 0.1912 |
| **Earnings per share - Continuing operations** | | | | |
| Basic earnings per share (in R$) | 0.1935 | 0.3365 | 0.0307 | 0.1938 |
| Diluted earnings per share (in R$) | 0.1895 | 0.3294 | 0.0303 | 0.1912 |

See the accompanying notes to the quarterly information.

| | Parent company | | | |
|---|---|---|---|---|
| | April 1, 2014 to June 30, 2014 | January 1, 2014 to June 30, 2014 | April 1, 2013 to June 30, 2013 | January 1, 2013 to June 30, 2013 |
| **Net income for the period** | 122,189 | 212,426 | 19,311 | 121,621 |
| Other comprehensive income | - | - | - | - |
| **Comprehensive income for the period** | 122,189 | 212,426 | 19,311 | 121,621 |

| | Consolidated | | | |
|---|---|---|---|---|
| | April 1, 2014 to June 30, 2014 | January 1, 2014 to June 30, 2014 | April 1, 2013 to June 30, 2013 | January 1, 2013 to June 30, 2013 |
| **Net income for the period** | 122,189 | 212,426 | 19,311 | 121,621 |
| Other comprehensive income | - | - | - | - |
| **Comprehensive income for the period** | 122,189 | 212,426 | 19,311 | 121,621 |

See the accompanying notes to the quarterly information.

# Hypermarcas S.A.

## Statements of changes in shareholders' equity (Parent Company and Consolidated)
## Six-months ended June 30, 2014 and 2013
**In thousands of reais**

| | Capital reserves | | | | | Profit reserves | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital | Share premium | Stock options | Treasury shares | Equity valuation adjustments | Legal reserve | Tax incentive reserve | Profit retention reserve | Proposed additional dividends | Retained earnings | Total |
| **At January 1, 2013** | **5,231,066** | **1,390,660** | **39,883** | **(21,397)** | **(204,443)** | **28,141** | **265,344** | **37,000** | **102,112** | **-** | **6,868,366** |
| Share purchase option | - | - | 4,146 | - | - | - | - | - | - | - | 4,146 |
| Capital contribution - proceeds from the share purchase option program | 38,058 | - | - | - | - | - | - | - | - | - | 38,058 |
| Result on sales of treasury shares | - | (3,699) | - | - | - | - | - | - | - | - | (3,699) |
| Sales of shares (Note 26(b)) | - | - | - | 7,900 | - | - | - | - | - | - | 7,900 |
| Income for the period | - | - | - | - | - | - | - | - | - | 121,621 | 121,621 |
| Proposed additional dividends | - | - | - | - | - | - | - | - | (102,112) | - | (102,112) |
| **At June 30, 2013** | **5,269,124** | **1,386,961** | **44,029** | **(13,497)** | **(204,443)** | **28,141** | **265,344** | **37,000** | **-** | **121,621** | **6,934,280** |
| **At January 1, 2014** | **5,269,124** | **1,382,980** | **49,267** | **(5,558)** | **(204,443)** | **40,977** | **546,230** | **-** | **-** | **-** | **7,078,577** |
| Share purchase option | - | - | 668 | - | - | - | - | - | - | - | 668 |
| Result on sales of treasury shares | - | (10,827) | - | - | - | - | - | - | - | - | (10,827) |
| Sales of shares (Note 26(b)) | - | - | - | 24,813 | - | - | - | | - | - | 24,813 |
| Acquisitions of shares (Note 26(b)) | - | - | - | (19,580) | - | - | - | - | - | - | (19,580) |
| Net income for the period | - | - | - | - | - | - | - | - | - | 212,426 | 212,426 |
| **At June 30, 2014** | **5,269,124** | **1,372,153** | **49,935** | **(325)** | **(204,443)** | **40,977** | **546,230** | **-** | **-** | **212,426** | **7,286,077** |

See the accompanying notes to the quarterly information.

# Hypermarcas S.A.

## Statements of cash flows
## Period of six months period ended June 30, 2014 and 2013
**In thousands of reais**

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30, 2014** | **June 30, 2013** | **June 30, 2014** | **June 30, 2013** |
| **Cash flows from operating activities** | | | | |
| **Income before income tax and social contribution, including discontinued operations** | 247,152 | 140,030 | 249,872 | 152,805 |
| **Adjustments** | | | | |
| Depreciation and amortization | 27,517 | 29,319 | 52,514 | 51,041 |
| Decrease to recoverable value of assets (*Impairment*) | (1,301) | - | (1,444) | |
| Results on the sale of permanent assets | (6,070) | (1,876) | (5,458) | (987) |
| Equity on the results of investees of continuing operations | (4,199) | (1,882) | 453 | 719 |
| Foreign exchange (gains) losses | 41,344 | 126,184 | 47,771 | 127,550 |
| Interest and related expenses | 179,652 | 164,792 | 159,345 | 134,700 |
| Stock options | (626) | 3,020 | 668 | 4,146 |
| Provisions | 61,514 | 20,278 | 62,211 | 39,246 |
| **Adjusted income** | 544,983 | 479,865 | 565,932 | 509,220 |
| Changes in assets and liabilities | | | | |
| Trade accounts receivable | (108,858) | 78,469 | (110,191) | 64,545 |
| Inventories | 18,623 | (75,911) | (8,301) | (231,358) |
| Recoverable taxes | (37,892) | (37,960) | (37,654) | (45,443) |
| Deposits in court and others | 1,660 | (1,657) | 1,814 | (1,538) |
| Other accounts receivable | 52 | 1,031 | 5,439 | 20,918 |
| Accounts payable to suppliers | (53,069) | (60,535) | (17,470) | 82,469 |
| Income tax and social contribution paid | - | - | (3,287) | (4,076) |
| Taxes payable | 1,189 | (10,402) | (5,046) | (11,521) |
| Salaries and payroll charges | (8,655) | (26,315) | (1,438) | (12,180) |
| Accounts payable | (24,115) | (33,153) | (41,152) | (41,331) |
| Interest from the transaction | 10,695 | 5,232 | 17,440 | (2,933) |
| Other accounts payable | (9,279) | (2,655) | (9,990) | (2,901) |
| **Net cash provided by operating activities** | 335,334 | 316,009 | 356,096 | 323,871 |
| **Cash flows from investment activities** | | | | |
| Capital increase in subsidiaries/affiliated companies | 318,274 | (7,375) | | |
| Purchase of property, plant and equipment | (17,668) | (28,543) | (95,014) | (88,370) |
| Purchase of Intangible assets | (4,509) | (4,214) | (9,285) | (8,111) |
| Dividends received | 7,697 | - | | |
| Proceeds from sale of assets of a permanent nature | 52,273 | 17,538 | 54,092 | 17,351 |
| Interest and others | 38,427 | 26,585 | 47,650 | 60,630 |
| **Net cash provided by (used in) investment activities** | 394,494 | 3,991 | (2,557) | (18,500) |
| **Cash flows from financing activities** | | | | |
| Proceeds from borrowings | 1,020,338 | 30,744 | 935,227 | 59,264 |
| Payment of loans - Principal | (575,170) | (163,792) | (585,949) | (176,375) |
| Payment of loans - interest | (127,743) | (126,713) | (133,536) | (129,967) |
| Capital increase | | 38,058 | | 38,058 |
| Purchase of treasury shares | (19,580) | - | (19,580) | |
| Sales of treasury shares | 12,381 | 4,201 | 12,381 | 4,201 |
| Dividends paid | | (102,110) | | (102,110) |
| Cost of funding transaction | (981) | - | (981) | |
| **Net cash provided by (used in) financing activities** | 309,245 | (319,612) | 207,562 | (306,929) |
| **Net increase (decrease) in cash and cash equivalents** | 1,039,073 | 388 | 561,101 | (1,558) |
| Cash and cash equivalents at beginning of the period | 416,634 | 727,356 | 1,158,833 | 1,736,402 |
| Cash and cash equivalents at the end of the period | 1,455,707 | 727,744 | 1,719,934 | 1,734,844 |
| **Change in cash and cash equivalents** | 1,039,073 | 388 | 561,101 | (1,558) |
| **Transactions not involving cash** | | | | |
| Acquisition of property, plant & equipment through leasing/FINAME | 13,291 | 3,160 | 15,694 | 4,492 |
| Assets of a permanent nature | - | 2,910 | - | 19,800 |

See the accompanying notes to the quarterly information.

# Hypermarcas S.A.

## Statements of value added
## Period of six months period ended June 30, 2014 and 2013
**In thousands of reais**

| | Parent company | | Consolidated (*) | |
|---|---|---|---|---|
| | June 30, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 |
| **Gross revenue** | | | | |
| Sales of goods and products, including discontinued operations | 2,382,333 | 2,261,752 | 2,371,400 | 2,251,776 |
| Other income | (33,814) | (4,867) | (50,106) | (49,468) |
| Revenues related to the construction of own assets | 15,331 | 23,286 | 68,227 | 78,315 |
| Allowance for doubtful accounts | (17,209) | (5,503) | (16,652) | (4,892) |
| | 2,346,641 | 2,274,668 | 2,372,869 | 2,275,731 |
| **Inputs acquired from third parties** | | | | |
| Costs of products, goods and services sold | (947,895) | (918,328) | (706,954) | (688,027) |
| Materials, power, third-party services and others | (578,352) | (595,998) | (731,516) | (721,478) |
| Loss/recovery of asset values | 1,301 | | 1,444 | |
| | (1,524,946) | (1,514,326) | (1,437,026) | (1,409,505) |
| **Gross value added** | 821,695 | 760,342 | 935,843 | 866,226 |
| Depreciation/amortization | (27,517) | (29,319) | (52,514) | (51,041) |
| **Net value added produced by the Company** | 794,178 | 731,023 | 883,329 | 815,185 |
| **Transferred value added** | | | | |
| Equity on the results of investees - continuing operations | 4,199 | 1,882 | (453) | (719) |
| Financial income | 61,397 | 38,145 | 78,860 | 72,820 |
| | 65,596 | 40,027 | 78,407 | 72,101 |
| **Total value added to be distributed** | 859,774 | 771,050 | 961,736 | 887,286 |
| **Distribution of value added** | | | | |
| Personnel and charges | 237,028 | 221,866 | 416,761 | 372,396 |
| Direct remuneration | 187,410 | 175,968 | 324,638 | 289,128 |
| Benefits | 36,880 | 33,915 | 70,843 | 63,400 |
| FGTS (Government severance indemnity fund for employees) | 12,738 | 11,983 | 21,280 | 19,868 |
| Taxes, fees and contributions | 99,424 | 74,217 | 8,179 | 24,885 |
| Federal | 42,562 | 9,154 | 17,785 | 13,260 |
| State | 55,395 | 63,585 | (11,465) | 9,598 |
| Municipal | 1,467 | 1,478 | 1,859 | 2,027 |
| Interest | 288,462 | 331,585 | 296,088 | 339,745 |
| Rents | 22,434 | 21,761 | 28,282 | 28,639 |
| Retained earnings | 212,426 | 121,621 | 212,426 | 121,621 |
| **Value added distributed** | 859,774 | 771,050 | 961,736 | 887,286 |

(*) The Statements of added value are not an integral part of the consolidated financial statements under IFRS.

See the accompanying notes to the quarterly information.

# Notes to the quarterly information - ITR

***(In thousands of Reais, except when indicated otherwise)***

## 1 General Information

Hypermarcas S.A. ("Company") with its head office located in São Paulo - SP, is a Brazilian Company of products of health and wellness brands, operating in two major business segments: (i) Pharma and (ii) Consumer (beauty and personal care), with a broad portfolio of traditional brands. Among them are: Addera D3, Agecare, Alivium, Apracur, Apraz, Atroveran, Benegrip, Biotônico Fontoura, Calminex, Celastamine, Celestone, Coristina, Digedrat, Diprogenta, Diprosalic, Diprosone, Diprospan, Doralgina, Doril, Engov, Escabin, Epocler, Estomazil, Epidrat, Episol, Fluir, Fluviral, Gastrol, Gelol, Gingilone, Histamin, Lacto-purga, Lisador, Lioram, Lipanon, Maracugina, Massageol, Maxsulid, Melhoral, Merthiolate, Mioflex-A, Miorrelax, Neo Química Genéricos, Neosoro, Polaramine, Predsim, Quadriderm, Rinosoro, Scaflam, Tamarine, Torsilax, Virineo, Adocyl, Aquamarine, Avanço, Bigfral, Biocolor, Bitufo, Bozzano, Cenoura & Bronze, Contouré, Cremer Disney, Denorex, Éh!, Finn, Fluidgel, Jontex, Leite de Colônia, Lovetex, Lucretin, Maturidade, Monange, Niasi Professional, NY.Looks, Olla, Paixão, Pom Pom, Rastro, Risqué, Sanifill, Sapeka, Silhouette, Summer Radical, Très Marchand,York and Zero-Cal.

The production of goods is carried out mainly in its subsidiaries Cosmed Indústria de Cosméticos e Medicamentos S.A. (Consumer) and Brainfarma Indústria Química e Farmacêutica S.A. (Pharma).

The main industrial parks are located in: Anápolis-GO, Senador Canedo-GO, Rio de Janeiro-RJ, São Roque-SP, Goiânia-GO and Aparecida de Goiânia-GO.

The main distribution centers are located in: Annapolis-GO, Goiânia-GO and Duque de Caxias-RJ.

## 2 Description of significant accounting policies

The main accounting policies applied in the preparation of this individual and consolidated Quarterly Information have not changed materially with respect to the policies presented in the financial statements for the year ended December 31, 2013. In the cases where the notes to the quarterly information are not presented in full, due to redundancy of information in relation to that presented in the financial statements, the complete information should be read in the corresponding note to the annual financial statements. Certain new accounting standards in force for 2014, as disclosed in the annual financial statements of 2013, have had no impact on the accounting policies adopted previously.

The individual and consolidated interim financial information was prepared in accordance with Technical Pronouncement CPC 21 (R1) - Interim Financial Reporting and with International Accounting Standard IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), and presented in accordance with the standards issued by the Brazilian Securities Commission (CVM) applicable to the preparation of the Quarterly Information.

The present quarterly information was approved by the Board of Directors on July 25, 2014.

# 3 Critical accounting estimates and judgments

Estimates and judgments are evaluated on an on-going basis and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The critical accounting judgments and estimates of these quarterly information have not been changed from the published annual financial statements of 2013.

# 4 Financial risk management

## a. Financial risk factors

There has been no change in the financial risk factors and in the management policy for these risks in relation to what is described in the financial statements presented as of December 31, 2013. In the following tables the financial data for the current period are presented comparatively with the financial data as of December 31, 2013.

## b. Foreign exchange risk

At June 30, 2014 and December 31, 2013, the assets and liabilities denominated in foreign currencies and the financial instruments that mitigate exchange risks are as follow:

| | Consolidated | | | |
|---|---|---|---|---|
| | June 30, 2014 | | December 31, 2013 | |
| | US$ '000 | R$'000 | US$ '000 | R$'000 |
| **Assets** | | | | |
| Accounts receivable | (187) | (415) | (91) | (215) |
| Other assets | (16,777) | (37,162) | (31,001) | (73,169) |
| **Liabilities** | | | | |
| Accounts payable to suppliers | 76,304 | 169,010 | 85,974 | 202,916 |
| Loans and financing | 630,304 | 1,396,428 | 514,959 | 1,215,407 |
| Notes payable | 14,245 | 31,552 | 13,777 | 32,517 |
| Derivative instruments that mitigate risks | (746,625) | (1,653,775) | (588,732) | (1,389,525) |
| Net exposure | (42,598) | (94,362) | (5,114) | (12,069) |

## c. Risk for the cash flow or fair value associated with rate of interest and inflation

The exposure to interest rate risk of the transactions pegged to the variation of the CDI (Interbank Deposit Certificate), TJLP (long-term interest rate) and IPCA (Amplified Consumer Price Index) is presented in the following table:

| | June 30, 2014 |
|---|---|
| | Consolidated |

| | Parent company | |
|---|---|---|
| Loans, financing and Swaps - CDI | 856,380 | 856,380 |
| Financing - TJLP | 12,343 | 30,061 |
| Debentures - CDI | 1,335,601 | 1,335,601 |
| Debentures - IPCA | 840,291 | 840,291 |
| Notes payable - CDI | 72,152 | 72,152 |
| Financial investments (note 9) | (1,399,953) | (1,665,263) |
| Net exposure | 1,716,814 | 1,469,222 |

## d. Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits in banks and financial institutions as well as credit exposures to wholesale and retail customers, including outstanding accounts receivables and repurchase transactions.

For banks and financial institutions, the Company has the policy of diversifying its financial investments in top-tier institutions with ratings described in note 8 (Credit quality of financial assets).

## e. Liquidity risk

The amounts disclosed in the table below are the non-discounted future cash flows, which include interest to be incurred, which is why these values do not match the values disclosed in the balance sheet.

| | Consolidated -2014 | | | | |
|---|---|---|---|---|---|
| | **Less than 1 year** | **From 1 to 2 years** | **From 2 to 5 years** | **More than five years** | **Overall total** |
| Debentures | 326,815 | 1,452,424 | 1,628,896 | - | 3,408,135 |
| Loans and financing | 341,292 | 106,661 | 697,659 | 920,111 | 2,065,723 |
| Notes payable | 130,367 | 22,203 | - | - | 152,570 |
| Suppliers | 482,529 | - | - | - | 482,529 |
| Other accounts payable | - | 130,441 | - | - | 130,441 |
| Derivative financial instruments | 154,290 | 34,685 | (164,391) | - | 24,584 |
| | 1,435,293 | 1,746,414 | 2,162,164 | 920,111 | 6,263,982 |

| | Consolidated -2013 | | | | |
|---|---|---|---|---|---|
| | **Less than 1 year** | **From 1 to 2 years** | **From 2 to 5 years** | **More than 5 years** | **Overall total** |
| Debentures | 495,128 | 1,357,110 | 1,212,028 | - | 3,064,266 |
| Loans and financing | 348,423 | 103,752 | 442,069 | 1,010,400 | 1,904,644 |
| Notes payable | 124,366 | 36,815 | 9,260 | - | 170,441 |
| Suppliers | 500,000 | - | - | - | 500,000 |
| Other accounts payable | - | 144,922 | - | - | 144,922 |
| Derivative financial instruments | (2,553) | (15,295) | 25,886 | - | 8,038 |
| | 1,465,364 | 1,627,304 | 1,689,243 | 1,010,400 | 5,792,311 |

## f. Derivatives

At June 30, 2014, derivative instruments operations contracted by the Company totaled R$ 1,788,775 (At December 31, 2013 - R$ 1,539,525) in consolidated and R$ 1,666,741 (At December 31, 2013 - R$ 1,426,847) in the parent company. The results of unsettled transactions represented losses of R$ 151,961 (losses of R$ 1,983 at December 31, 2013,) in consolidated and losses of R$ 143,471 (losses of R$ 6,442 at December 31, 2013) in the parent company.

At June 30, 2014 and December 31, 2013, these transactions can be summarized as follows:

## Parent company

| Type | Counterparties | Notional value | | Fair value receivable (payable) | | Realized gains (losses) | |
|---|---|---|---|---|---|---|---|
| *(In R$ thousands)* | | **Jun 2014** | **Dec 2013** | **Jun 2014** | **Dec 2013** | **Jun 2014** | **Dec 2013** |
| **Foreign Currency** | | | | | | | |
| **Forward contracts** | | **856,591** | **1,076,683** | **(90,712)** | **(5,407)** | **(100)** | **48,249** |
| Purchased position | Merrill Lynch, DB, HSBC, JP Morgan, Itaú, Santander, Bradesco, BTG Pactual, Pine, Votorantim, Morgan Stanley, BR Partners, BTG Pactual | 898,676 | 1,077,259 | (91,348) | (5,372) | (88) | 48,591 |
| Sold position | JP Morgan, Merrill Lynch, BR Partners | (42,085) | (576) | 636 | (35) | (12) | (342) |
| ***Swaps*** | | **675,150** | **200,164** | **(52,864)** | **(76)** | **(5,343)** | **37,657** |
| Purchased position | Citibank, Itaú, Safra | 675,150 | 200,164 | (52,864) | (76) | (5,343) | 37,657 |
| **Subtotal** | | **1,531,741** | **1,276,847** | **(143,576)** | **(5,483)** | **(5,443)** | **85,906** |
| **Interest rate** | | | | | | | |
| **Swaps** | | **135,000** | **150,000** | **105** | **(959)** | **1,066** | **-** |
| Asset Position - Pre | Santander | 135,000 | 150,000 | 105 | (959) | 1,066 | - |
| **Total** | | **1,666,741** | **1,426,847** | **(143,471)** | **(6,442)** | **(4,377)** | **85,906** |

## Consolidated

| Type | Counterparties | Notional value | | Fair Value receivable (payable) | | Realized gains (losses) | |
|---|---|---|---|---|---|---|---|
| *(In R$ thousands)* | | Jun 2014 | Dec 2013 | Jun 2014 | Dec 2013 | Jun 2014 | Dec 2013 |
| **Foreign Currency** | | | | | | | |
| **Forward contracts** | | **978,625** | **1,189,361** | **(99,202)** | **(948)** | **588** | **55,982** |
| Purchased position | Merrill Lynch, DB, HSBC, JP Morgan, Itaú, Santander, Bradesco, BTG Pactual, Pine, Votorantim, Morgan Stanley, BR Partners, BTG Pactual | 1,022,298 | 1,191,653 | (99,845) | (810) | 570 | 56,528 |
| Sold position | JP Morgan, Merrill Lynch, BR Partners | (43,673) | (2,292) | 643 | (138) | 18 | (546) |
| **Swaps** | | **675,150** | **200,164** | **(52,864)** | **(76)** | **(5,343)** | **37,657** |
| Purchased position | Citibank, Itaú, Safra | 675,150 | 200,164 | (52,864) | (76) | (5,343) | 37,657 |
| **Subtotal** | | **1,653,775** | **1,389,525** | **(152,066)** | **(1,024)** | **(4,755)** | **93,639** |
| **Interest rate Swaps** | | **135,000** | **150,000** | **105** | **(959)** | **1,066** | **-** |
| Asset Position - Pre | Santander | 135,000 | 150,000 | 105 | (959) | 1,066 | - |
| **Total** | | **1,788,775** | **1,539,525** | **(151,961)** | **(1,983)** | **(3,689)** | **93,639** |

The consolidated contracts listed above have expiration dates on:

| **Maturity** | | **Future value** |
|---|---|---|
| **Foreign currency - USD** | **Jun 2014** | **Rate** |
| Jul 2014 | 23,383 | 2.468 |
| Aug 2014 | 393,761 | 2.453 |
| Sep 2014 | 10,475 | 2.419 |
| Oct 2014 | 45,243 | 2.435 |
| Nov 2014 | 13,132 | 2.526 |
| Dec 2014 | 53,567 | 2.476 |
| Jan 2015 | 647,640 | 2.462 |
| Feb 2015 | 62,572 | 2.439 |
| Mar 2015 | 37,400 | 2.443 |
| Apr 2015 | 41,950 | 2.429 |
| May 15 | 9,259 | 2.461 |
| Jun 15 | 10,991 | 2.425 |
| Jan 2017 | 236,101 | 2.784 |
| Feb 2017 | 336,454 | 2.804 |
| **Total** | **1,921,928** | 2.558 |

| **Maturity** | | |
|---|---|---|
| **Interest rate** | **Jun 2014** | **Liability rate % CDI** |
| Oct 2014 | 452 | 98.10% |
| Apr 2015 | 336 | 98.10% |
| Oct 2015 | 40 | 98.10% |
| Apr 2016 | (164) | 98.10% |
| Oct 2016 | (182) | 98.10% |
| Apr 2017 | (124) | 98.10% |
| Oct 2017 | (129) | 98.10% |
| Apr 2018 | (81) | 98.10% |
| Oct 2018 | (43) | 98.10% |
| **Total** | **105** | **98.10%** |

## g. Methodology for calculating the fair value of derivatives

- Foreign currency forward contracts are valued using the interpolation of the market rates of American dollar futures contracts for each base date, as informed by BM&F BOVESPA.

- Swaps are valued using the interpolation of the exchange coupon market and future interbank deposit rates for each base date, as informed by BM&F BOVESPA.

## h. Sensitivity analysis

We present below the sensitivity analysis chart of the financial instruments, including derivatives that describe the risks that may cause material losses for the company, with the most likely scenario (scenario I, considering a fluctuation of 2.86% for the American dollar which corresponds to 3 standard deviations of the fluctuation of the three months of the second quarter of the year) according to the evaluation made by the Management, considering a range of perception of three months, when the next financial information containing this analysis should be released. In addition, two other scenarios are presented in order to provide 25% and 50% deterioration in the exchange rate of the real against the U.S. dollar, respectively (scenarios II and III).

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| **Risk** | **Scenario I** | | **Scenario II** | | **Scenario III** | |
| *(In R$ thousands)* | | | **25% fluctuation** | | **50% fluctuation** | |
| | **Appreciation** | **Depreciation** | **Appreciation** | **Depreciation** | **Appreciation** | **Depreciation** |
| **Quotation of the dollar** | 2.152 | 2.278 | 1.661 | 2.769 | 1.108 | 3.323 |
| **Foreign Currency** | | | | | | |
| **Economic hedges** | **(48,374)** | **48,374** | **(423,050)** | **423,050** | **(846,100)** | **846,100** |
| Forward contracts | (29,074) | 29,074 | (254.263) | 254,263 | (508,525) | 508,525 |
| Swap | (19,300) | 19,300 | (168,787) | 168,787 | (337,575) | 337,575 |
| **Object of the economic hedge** | **47,275** | **(47,275)** | **413,444** | **(413,444)** | **826,888** | **(826,888)** |
| Loans and financing and notes payable subject to short term exchange rate variation | 47,275 | (47,275) | 413,444 | (413,444) | 826,888 | (826,888) |
| **Net effect** | **(1,099)** | **1,099** | **(9,606)** | **9,606** | **(19,212)** | **19,212** |
| **Other liabilities** | **1,063** | **(1,063)** | **9,299** | **(9,299)** | **18,597** | **(18,597)** |
| Other Loans and financing and notes payable subject to exchange rate variation | 1,063 | (1,063) | 9,299 | (9,299) | 18,597 | (18,597) |

The sensitivity analysis presented above considers changes regarding the quotation of the American dollar, keeping all other variables, associated with other hazards, constant.

The amounts resulting from monetary variations and floating interest on our loans, financing, debentures and notes payable projected for the third quarter of 2014 are shown below.

## Parent company

| **Scenarios of change** | **Likely scenario*** | **25% change** | **50% change** |
|---|---|---|---|
| Loans - CDI | (77) | (97) | (116) |
| Debentures - CDI | (121) | (151) | (181) |
| Debentures - IPCA | (4,780) | (5,975) | (7,170) |
| Notes payable - CDI | (7) | (8) | (10) |
| Financial investments | 126 | 158 | 190 |
| **Total effect - loss (gain)** | **(4,859)** | **(6,073)** | **(7,287)** |

*** Likely Scenario Assumptions**
Forecast CDI 10.79%
Accumulated IPCA 0.96%
Forecast TJLP - 5.00%

**Consolidated**

| Scenarios of change | Likely scenario* | 25% change | 50% change |
|---|---|---|---|
| Loans - CDI | (77) | (97) | (116) |
| Debentures - CDI | (121) | (151) | (181) |
| Debentures - IPCA | (4,780) | (5,975) | (7,170) |
| Notes payable - CDI | (7) | (8) | (10) |
| Financial investments | 150 | 188 | 225 |
| **Total effect - loss (gain)** | **(4,835)** | **(6,043)** | **(7,252)** |

*** Likely Scenario Assumptions**
Forecast CDI 10.79%
Accumulated IPCA 0.96%
Forecast TJLP - 5.00%

# 5 Capital management

The Company's objectives when managing its capital are to safeguard the Company's ability to continue to offer a return for its shareholders and benefits for the other interested parties and to maintain an optimal capital structure in order to reduce this cost.

To maintain or adjust the capital structure, the Company can review the dividend payment policy, return capital to shareholders, or issue new shares or sell assets to reduce, for example, the level of indebtedness.

The Company monitors its capital based on the financial leverage ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short and long term loans, financing, debentures and notes payable, as presented in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated based on the sum of shareholders' equity, as presented in the consolidated balance sheet, with the net debt.

The financial leverage ratios at June 30, 2014 and December 31, 2013 may be summarized as follows:

| | Consolidated | |
|---|---|---|
| | **June 30, 2014** | **December 31, 2013** |
| Total loans and financing (Note 19) | 4,306,243 | 3,908,852 |
| Total notes payable (Note 23) | 152,380 | 167,367 |
| Less: Cash and cash equivalents (Note 9) | (1,719,934) | (1,158,833) |
| Net debt | 2,738,689 | 2,917,386 |
| Total shareholders' equity | 7,286,077 | 7,078,577 |
| Total capital | 10,024,766 | 9,995,963 |
| Financial leverage ratio - % | 27% | 29% |

# 6 Estimate of fair value (Consolidated)

It is assumed that the balances of trade accounts receivable and accounts payable to suppliers at book value, less loss (impairment), closely approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows by the prevailing interest rate on the market, which is available to the Company for similar financial instruments (Note 19 b).

The company applies CPC 40/IFRS 7 to financial instruments stated in the balance sheet at fair value, which requires disclosure of the fair value measurements per level of the following hierarchy of fair value measurement:

- Prices quoted (unadjusted) on active markets for similar assets and liabilities (level 1).
- Information, other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2).
- Inputs for the assets or liabilities that are not based on data adopted by the market (i.e. unobservable inputs) (level 3).

The table below presents the Company's assets and liabilities measured at fair value at June 30, 2014, as well as the amounts stated at fair value.

| | Consolidated | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total balance** |
| Assets | | | | |
| Financial investments (note 9) | - | 1,665,263 | - | 1,665,263 |
| Derivative financial instruments | - | 735 | - | 735 |
| Total assets | - | 1,665,998 | - | 1,665,998 |
| Liabilities | | | | |
| Loans and financing stated at fair value (Note 19) | 779,485 | 3,500,135 | - | 4,279,620 |
| Derivative financial instruments | - | 152,696 | - | 152,696 |
| Total liabilities | 779,485 | 3,652,831 | - | 4,432,316 |

The table below presents the Company's assets and liabilities measured at fair value at December 31, 2013, as well as the amounts stated at fair value.

| | Consolidated | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total balance** |
| Assets | | | | |
| Financial investments (note 9) | - | 1,140,356 | - | 1,140,356 |
| Derivative financial instruments | - | 39,914 | - | 39,914 |
| Total assets | - | 1,180,270 | - | 1,180,270 |
| Liabilities | | | | |
| Loans and financing stated at fair value (Note 19) | 807,255 | 3,017,013 | - | 3,824,268 |
| Derivative financial instruments | - | 41,897 | - | 41,897 |
| Total liabilities | 807,255 | 3,058,910 | - | 3,866,165 |

The fair value of financial instruments that are not traded on active markets (e.g. derivatives) is determined through the use of valuation techniques. These valuation techniques maximize the use of data adopted by the market where it is available and rely as little as possible on the Company's specific estimates.

# 7 Financial instruments by category (Consolidated)

| | June 30, 2014 | | |
|---|---|---|---|
| | **Loans and receivables** | **Assets at fair value through profit or loss** | **Total** |
| **Assets, according to the balance sheet** | | | |
| Trade accounts receivable (Note 10) | 1,322,867 | - | 1,322,867 |
| Financial investments (note 9) | - | 1,665,263 | 1,665,263 |
| Cash and banks (Note 9) | 54,671 | - | 54,671 |
| Derivative financial instruments | - | 735 | 735 |
| | 1,377,538 | 1,665,998 | 3,043,536 |

| | June 30, 2014 | | |
|---|---|---|---|
| | **Fair value through profit or loss** | **Other financial liabilities** | **Total** |
| **Liabilities, according to the balance sheet** | | | |
| Loans and financing (Note 19) | - | 4,306,243 | 4,306,243 |
| Accounts payable to suppliers (note 18) | - | 482,529 | 482,529 |
| Derivative financial instruments | 152,696 | - | 152,696 |
| | 152,696 | 4,788,772 | 4,941,468 |

| | December 31, 2013 | | |
|---|---|---|---|
| | **Loans and receivables** | **Assets at fair value through profit or loss** | **Total** |
| **Assets, according to the balance sheet** | | | |
| Trade accounts receivable (Note 10) | 1,229,329 | - | 1,229,329 |
| Financial investments (note 9) | - | 1,140,356 | 1,140,356 |
| Cash and banks (Note 9) | 18,477 | - | 18,477 |
| Derivative financial instruments | - | 39,914 | 39,914 |
| | 1,247,806 | 1,180,270 | 2,428,076 |

| | December 31, 2013 | | |
|---|---|---|---|
| | **Fair value through profit or loss** | **Other financial liabilities** | **Total** |
| **Liabilities, according to the balance sheet** | | | |
| Loans and financing (Note 19) | - | 3,908,852 | 3,908,852 |
| Accounts payable to suppliers (note 18) | - | 500,000 | 500,000 |
| Derivative financial instruments | 41,897 | - | 41,897 |
| | 41,897 | 4,408,852 | 4,450,749 |

# 8 Credit quality of financial assets

The credit quality of financial assets (cash and cash equivalents) can be evaluated using historical information on default rates:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30 2014** | **December 31, 2013** | **June 30 2014** | **December 31, 2013** |
| **Current account and short-term bank deposits** (*) | | | | |
| AAA | 1,455,406 | 416,269 | 1,719,537 | 1,158,374 |
| AA | - | - | - | 12 |
| A+ | 15 | 3 | 38 | 11 |
| | 1,455,421 | 416,272 | 1,719,575 | 1,158,397 |

The residual balance of “Cash and cash equivalents” in the balance sheet is substantially cash on hand.

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| **Derivative financial assets** | | | | |
| AAA | 105 | 33,765 | 105 | 36,646 |
| AA | - | 197 | - | 286 |
| AA- | 199 | 834 | 213 | 1,601 |
| A+ | 411 | 143 | 411 | 1,126 |
| A | - | 13 | - | 225 |
| NA | - | - | 6 | 30 |
| | 715 | 34,952 | 735 | 39,914 |

(*) Source: Moody's, Standard & Poor's and Fitch, on a local scale.

None of the fully performing financial assets was renegotiated in the last period. None of the loans to related parties is expired or impaired.

Trade accounts receivable - The credit analysis department assesses the credit quality of the client considering their financial position, payment history, public information and credit analysis institutions (Serasa, CISP and Credinfar). Individual risk limits are determined based on internal and regular monitoring processes.

A significant portion of the Company's sales are made to distributors, large retail chains and supermarkets with a widespread distribution network in Brazil, which mitigates the Company's consolidated credit risk. Additionally, the credit analysis department uses the aforementioned controls to constantly monitor and assess the Company's portfolio. Historically, there have been no records of material losses in the Company's accounts receivable. See details on the analysis of due dates in Note 10.

# 9 Cash and cash equivalents

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| Cash and banks | 55,754 | 17,867 | 54,671 | 18,477 |
| Financial investments: | | | | |
| Repurchase operations | 967,284 | 398,767 | 1,223,134 | 754,383 |
| CDB (Bank deposit certificates) | 432,669 | - | 442,129 | 385,973 |
| | 1,399,953 | 398,767 | 1,665,263 | 1,140,356 |
| | 1,455,707 | 416,634 | 1,719,934 | 1,158,833 |

Repurchase transactions yield from 99.5% to 101.2% (at December 31, 2013 from 75% to 104%) of the CDI with a weighted average of 100.90% (at December 31, 2013 - 101.3%). CDBs yield from 90% to 101.8% (at December 31, 2013 from 96.5% to 101.8%) of the CDI with a weighted average of 101.0% (at December 31, 2013 - 101.6%).

# 10 Accounts receivable

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| Domestic customers / Foreign customers | 1,406,196 | 1,304,095 | 1,408,275 | 1,305,470 |
| Customers - related parties (Note 30 (a)) | 572 | 1,931 | - | - |
| | 1,406,768 | 1,306,026 | 1,408,275 | 1,305,470 |
| Allowance for doubtful accounts | (83,904) | (74,811) | (85,408) | (76,141) |
| | 1,322,864 | 1,231,215 | 1,322,867 | 1,229,329 |

The fair values of trade accounts receivables closely approximate their carrying values because all the above amounts are realized in the short term.

At June 30, 2014, the balance of domestic customers/ foreign customers in the amount of R$ 45,636 (December 31, 2013 - R $ 50,897) in consolidated are overdue, but not impaired. These accounts refer to a series of independent clients for whom there is no recent history of default. At June 30, 2014, the balance of domestic customers/ foreign customers in the amount of R$ 45,747 (December 31, 2013 - R $ 51,074) in the Parent company are overdue, but not impaired. These accounts receivables are related to clients for whom there is no history of default. The aging analysis of these trade receivables is presented as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| Up to three months | 44,839 | 50,817 | 44,778 | 50,836 |
| Over three months | 908 | 257 | 858 | 61 |
| | 45,747 | 51,074 | 45,636 | 50,897 |

The additions and write-off of the allowance for doubtful accounts were recorded in the income statement as "Selling and marketing expenses." Amounts charged to the allowance are generally written off from accounts receivable when there is no expectation of recovering the funds.

The maximum exposure to credit risk on the reporting date is the carrying value of each class of receivables mentioned above. The Company holds certain notes as a guarantee, as described in Note 19 (a).

Changes in the allowance for doubtful accounts for the period ended June 30, 2014 and for the year ended December 31, 2013 are presented as follows:

| | Parent company | Consolidated |
|---|---|---|
| Balance at December 31, 2013 | (74,811) | (76,141) |
| Additions for the period | (19,013) | (19,831) |
| Write-offs for the period | 9,920 | 10,564 |

| | | |
|---|---|---|
| Balance at June 30, 2014 | (83,904) | (85,408) |

# 11 Inventories

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| Finished goods and resale | 177,652 | 215,319 | 211,404 | 255,953 |
| Semi-finished goods | 13,945 | 23,798 | 40,084 | 43,300 |
| Raw material | 32,978 | 42,929 | 285,287 | 269,407 |
| Maintenance and Supplies | 7,284 | 8,464 | 26,485 | 22,611 |
| | 231,859 | 290,510 | 563,260 | 591,271 |

The balance of inventories is presented net of the provision for losses. The contra entry of this provision was included in "other operating expenses".

The table below presents the changes in the provision:

| | Parent company | Consolidated |
|---|---|---|
| Balance at December 31, 2013 | (57,862) | (94,623) |
| Additions for the period (a) | (48,248) | (68,862) |
| Write-offs for the period (b) | 52,047 | 78,932 |
| Balance at June 30, 2014 | (54,063) | (84,553) |

(a) They refer to the additions to the provision for losses due to discontinuity, validity and quality, to cover expected losses on the realization of inventories, in accordance with the policy established by the Company and its Subsidiaries.

(b) Refer to the write-offs of products discarded by the Company and its Subsidiaries.

# 12 Recoverable taxes

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| PIS/COFINS/IPI and others | 303,081 | 254,635 | 326,908 | 283,784 |
| ICMS (credit balance and tax substitution) | 173,095 | 162,315 | 249,773 | 227,533 |
| Recoverable IRPJ and CSSL | 101,277 | 110,500 | 128,828 | 132,285 |
| | 577,453 | 527,450 | 705,509 | 643,602 |
| Current | 521,016 | 471,956 | 619,634 | 561,972 |
| Non-current | 56,437 | 55,494 | 85,875 | 81,630 |

# 13 Other assets

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| Prepaid expenses | 70,579 | 100,709 | 80,364 | 109,969 |
| Notes receivable (*) | 44,183 | 85,763 | 44,183 | 85,763 |
| Deposits in court | 56,095 | 56,028 | 59,658 | 59,639 |
| Advances and others | 45,483 | 50,082 | 53,233 | 63,471 |
| Gains on derivative transactions | 715 | 34,953 | 735 | 39,914 |
| | 217,055 | 327,535 | 238,173 | 358,756 |
| Current | 152,245 | 206,448 | 168,758 | 232,788 |
| Non-current | 64,810 | 121,087 | 69,415 | 125,968 |

(*) These amounts refer mainly to the sale of assets to MSD Brazil Investimentos BV.

# 14 Discontinued operations

## Analysis and reconciliation of continuing and discontinued operations

Below is the analysis of the results of discontinued operations and reconciliation of the income statements of continuing and discontinued operations with the statements of the consolidated income.

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | Accumulated at June 30,2014 | | | Accumulated at June 30, 2013 | | |
| | **Continuing operations** | **Discontinued operations** | **Total** | **Continuing operations** | **Discontinued operations** | **Total** |
| Net sales | 2,191,619 | 4 | 2,191,623 | 2,027,536 | - | 2,027,536 |
| Cost of goods sold | (767,880) | - | (767,880) | (711,039) | - | (711,039) |
| **Gross profit** | **1,423,739** | **4** | **1,423,743** | **1,316,497** | **-** | **1,316,497** |
| (Expenses)/ Income | (959,892) | (2,215) | (962,107) | (903,316) | 1,873 | (901,443) |
| Impairment (*) | - | (4,648) | (4,648) | - | - | - |
| **Income before financial income and expenses** | **463,847** | **(6,859)** | **456,988** | **413,181** | **1,873** | **415,054** |
| Financial expenses | (207,116) | - | (207,116) | (262,249) | - | (262,249) |
| **Result before income tax and social contribution** | **256,731** | **(6,859)** | **249,872** | **150,932** | **1,873** | **152,805** |
| Income tax and social contribution | (38,198) | 752 | (37,446) | (30,547) | (637) | (31,184) |
| **Net income for the year** | **218,533** | **(6,107)** | **212,426** | **120,385** | **1,236** | **121,621** |

(*) mainly the discontinued operation in Argentina.

# 15 Investments

The investments held by the Company are presented below:

| Company | Country | Business | Direct interest in shares /quotas |
|---|---|---|---|
| Cosmed Indústria de Cosméticos e Medicamentos S.A. | Brazil | Consumption | 100% |
| My Agência de Propaganda Ltda. | Brazil | Advertising agency | 99.99% |
| Brainfarma Indústria Química e Farmacêutica S.A. | Brazil | Pharma | 100% |
| Bionovis S.A. | Brazil | Joint Venture | 25% |
| Street Distribuidora de Medicamentos e Cosméticos S.A. | Brazil | Pharma | 100% |

## Changes in the investments

| | Brainfarma | Cosmed | | My | Bionovis | Street | |
|---|---|---|---|---|---|---|---|
| | Cost | Cost | Goodwill | Cost | Cost | Cost | Total |
| Balances at December 31, 2013 | 542,953 | 1,115,054 | 48,085 | 3,492 | 623 | 136 | 1,710,343 |
| Capital increase/(decrease) | (35,000) | (550,076) | - | 4,000 | - | - | (581,076) |
| Equity in the results of investees | (2,479) | 8,122 | - | (991) | (453) | - | 4,199 |
| Stock Option | 1,643 | (357) | - | 8 | - | - | 1,294 |
| Equity valuation adjustment | - | 13,757 | | - | - | - | 13,757 |
| Balances at June 30, 2014 | 507,117 | 586,500 | 48,085 | 6,509 | 170 | 136 | 1,148,517 |

Below is the Company's interest in the results of the main direct subsidiaries, as well as in their total assets (including goodwill) and liabilities:

| June 30, 2014 | Assets | Liability | Revenue | Income (loss) | Adjusted Profit (Loss) (*) |
|---|---|---|---|---|---|
| Cosmed Indústria de Cosméticos e Medicamentos S.A. | 1,020,293 | 433,351 | 511,987 | 9,912 | 8,122 |
| My Agência de Propaganda Ltda. | 8,091 | 1,583 | 2,850 | (991) | (991) |
| Brainfarma Indústria Química e Farmacêutica S.A. | 850,505 | 339,512 | 352,675 | (1,187) | (2,479) |
| Street Distribuidora de Medicamentos e Cosméticos S.A. | 136 | - | - | - | - |

| December 31, 2013 | Asset | Liability | Revenue | Income (loss) | Adjusted Profit (Loss) (*) |
|---|---|---|---|---|---|
| Cosmed Indústria de Cosméticos e Medicamentos S.A. | 1,542,256 | 428,548 | 1,118,173 | 12,734 | 21,612 |
| My Agência de Propaganda Ltda. | 4,434 | 942 | 1,800 | (3,643) | (3,643) |
| Brainfarma Indústria Química e Farmacêutica S.A. | 886,917 | 340,367 | 593,934 | 38,001 | 34,483 |
| Street Distribuidora de Medicamentos e Cosméticos S.A. | 136 | - | - | (249) | (249) |

(*) Refers to profit (loss) for the period adjusted mainly by elimination of profits on inventory.

## (a) Equity in the results of investees

| | Adjusted shareholder s' equity as of June 30, 2014 | Ownership % | Equity in the results of investees - June 30, 2014 (vi) | Balance of the investment as of June 30, 2014 | Equity in the results of investees - June 30, 2013 | Balance of the investment as of December 31, 2013 |
|---|---|---|---|---|---|---|
| Cosmed Indústria de Cosméticos e Medicamentos S.A. (i) | 586,500 | 100% | 8,122 | 586,500 | 6,942 | 1,115,054 |
| My Agência de Propaganda Ltda. (ii) | 6,509 | 99.99% | (991) | 6,509 | (1,880) | 3,492 |
| Brainfarma Indústria Química e Farmacêutica S.A. (iii) | 507,117 | 100% | (2,479) | 507,117 | (2,461) | 542,953 |
| Bionovis S.A. (iv) | 679 | 25% | (453) | 170 | (719) | 623 |
| Street Distribuidora de Medicamentos e Cosméticos S.A. (v) | 136 | 100% | - | 136 | - | 136 |
| | | | 4,199 | 1,100,432 | 1,882 | 1,662,258 |
| Goodwill of non-merged Companies | | | - | 48,085 | - | 48,085 |
| | | | 4,199 | 1,148,517 | 1,882 | 1,710,343 |

(i) Hypermarcas holds 1,582,212,335 common shares of its wholly owned subsidiary Cosmed Indústria de Cosméticos e Medicamentos S.A.;

(ii) Hypermarcas owns 14,009,999 of the total 14,010,000 quotas issued by its subsidiary My Agência de Propaganda Ltda.;

(iii) Hypermarcas holds 174,833,227 common shares of its wholly owned subsidiary Brainfarma Indústria de Cosméticos e Medicamentos S.A.;

(iv) Hypermarcas owns 2,500,000 common shares issued by Bionovis S.A.;

(v) Hypermarcas holds 950,100 common shares of its wholly owned subsidiary Street Distribuidora de Medicamentos e Cosméticos S.A.

(vi) Equity in the results of continuing operations: R$ 8,847 and discontinued operations: (R$ 4,648).

# 16 Property, plant and equipment

## Parent company

| | Land | Buildings and improvements | Machinery, equipment and facilities | Vehicles | Furniture and fixtures | Other | Total in operation | Fixed assets under construction | Total property, plant and equipment |
|---|---|---|---|---|---|---|---|---|---|
| Balances at December 31, 2013 | 72,298 | 178,420 | 354,168 | 5,416 | 19,438 | 7,933 | 637,673 | 77,234 | 714,907 |
| Additions | - | 18 | 4,911 | - | 432 | 13,636 | 18,997 | 15,331 | 34,328 |
| Disposal | (3,514) | (552) | (494) | (86) | (140) | - | (4,786) | (500) | (5,286) |
| Transfer | - | 44,525 | (43,949) | - | (2,565) | 2,561 | 572 | (572) | - |
| Equity valuation adjustment | (1,487) | (19,185) | - | - | - | - | (20,672) | - | (20,672) |
| Impairment | - | | 1,608 | - | - | - | 1,608 | - | 1,608 |
| Depreciation | - | (5,110) | (11,050) | (656) | (803) | (1,625) | (19,244) | - | (19,244) |
| Balances at June 30, 2014 | 67,297 | 198,116 | 305,194 | 4,674 | 16,362 | 22,505 | 614,148 | 91,493 | 705,641 |
| Total cost | 67,297 | 286,384 | 583,949 | 12,383 | 28,587 | 33,445 | 1,012,045 | 91,493 | 1,103,538 |
| Accumulated depreciation | - | (88,268) | (278,755) | (7,709) | (12,225) | (10,940) | (397,897) | - | (397,897) |
| Residual value | 67,297 | 198,116 | 305,194 | 4,674 | 16,362 | 22,505 | 614,148 | 91,493 | 705,641 |

## Consolidated

| | Land | Buildings and improvements | Machinery, equipment and facilities | Vehicles | Furniture and fixtures | Other | Total in operation | Fixed assets under construction | Total property, plant and equipment |
|---|---|---|---|---|---|---|---|---|---|
| Balances at December 31, 2013 | 81,041 | 432,016 | 802,442 | 6,162 | 30,911 | 25,508 | 1,378,080 | 143,679 | 1,521,759 |
| Additions | - | 54 | 25,203 | - | 1,012 | 21,143 | 47,412 | 68,227 | 115,639 |
| Disposal | (4,114) | (552) | (2,157) | (119) | (173) | (103) | (7,218) | (500) | (7,718) |
| Transfer | - | 47,744 | (39,873) | - | (2,493) | 2,564 | 7,942 | (7,902) | 40 |
| Impairment | - | 25 | 6,040 | - | 215 | 99 | 6,379 | - | 6,379 |
| Depreciation | - | (8,799) | (22,265) | (782) | (1,302) | (4,336) | (37,484) | - | (37,484) |
| Balances at June 30, 2014 | 76,927 | 470,488 | 769,390 | 5,261 | 28,170 | 44,875 | 1,395,111 | 203,504 | 1,598,615 |
| Total cost | 76,927 | 594,666 | 1,207,726 | 15,394 | 51,628 | 81,202 | 2,027,543 | 203,504 | 2,231,047 |
| Accumulated depreciation | - | (124,178) | (438,336) | (10,133) | (23,458) | (36,327) | (632,432) | - | (632,432) |
| Residual value | 76,927 | 470,488 | 769,390 | 5,261 | 28,170 | 44,875 | 1,395,111 | 203,504 | 1,598,615 |

# 17 Intangible assets

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30 2014** | **December 31, 2013** | **June 31 2014** | **December 31, 2013** |
| **Goodwill in non-merged company** | | | | |
| Cosmed Indústria de Cosméticos e Medicamentos S.A. | - | - | 48,085 | 48,085 |
| **Goodwill on acquisition of investments in merged companies** | | | | |
| Active Indústria e Comércio de Produtos de Higiene Pessoal e Cosméticos S.A. | - | - | 10,992 | 10,992 |
| IPH&C Indústria de Produtos de Higiene e Cosméticos Ltda. | - | - | 16,003 | 16,003 |
| Mantecorp Indústria Química Farmacêutica S.A. | 1,798,470 | 1,798,470 | 1,798,470 | 1,798,470 |
| Mabesa do Brasil S.A. | 353,146 | 353,146 | 353,146 | 353,146 |
| Luper Indústria Farmacêutica Ltda. | 45,917 | 45,917 | 45,917 | 45,917 |
| Sapeka Indústria e Comércio de Fraldas Descartáveis S.A. | 413,775 | 413,775 | 413,775 | 413,775 |
| Versoix Participações Ltda. | 150,059 | 150,059 | 150,059 | 150,059 |
| York S.A Indústria e Comércio Ltda. | 62,061 | 62,061 | 62,061 | 62,061 |
| Facilit Odontológica e Perfumaria Ltda. | 39,011 | 39,011 | 39,011 | 39,011 |
| DPH Distribuidora de Produtos de Higiene Ltda. | 28,267 | 28,267 | 28,267 | 28,267 |
| Laboratório Neo Química Comércio e Indústria S.A. | 967,154 | 967,154 | 967,154 | 967,154 |
| DM Indústria Farmacêutica Ltda. | 743,029 | 743,029 | 743,029 | 743,029 |
| Farmasa - Laboratório Americano de Farmacoterapia S.A. | 666,808 | 666,808 | 666,808 | 666,808 |
| Pom Pom Produtos Higiênicos Ltda. | 267,928 | 267,928 | 267,928 | 267,928 |
| Aprov Comércio de Cosméticos Ltda. | 275,535 | 275,535 | 275,535 | 275,535 |
| Inal - Indústria Nacional do Látex S.A. | 156,260 | 156,260 | 156,260 | 156,260 |
| Ceil Comércio e Distribuidora Ltda. | 148,887 | 148,887 | 148,887 | 148,887 |
| Barrenne Indústria Farmacêutica Ltda. | 33,955 | 33,955 | 33,955 | 33,955 |
| Finn Administradora de Marcas Ltda. | 17,857 | 17,857 | 17,857 | 17,857 |
| Éh Cosméticos S.A. | 15,860 | 15,860 | 15,860 | 15,860 |
| | 6,183,979 | 6,183,979 | 6,259,059 | 6,259,059 |
| Trademarks and patents | 582,382 | 585,954 | 582,875 | 586,276 |
| Rights of use and software | 19,504 | 20,545 | 21,731 | 23,337 |

| | | | | |
|---|---|---|---|---|
| Product development | 6,324 | 5,317 | 82,815 | 80,493 |
| | 6,792,189 | 6,795,795 | 6,946,480 | 6,949,165 |

Goodwill is measured as the excess of the consideration transferred in relation to the net assets acquired and is based mainly on future profitability which is supported by appraisal reports prepared by a specialized company, where the cash flow discounted to present value is used. The discount rates used in the calculations were determined by adopting the Weighted Average Cost of Capital (WACC). For acquisitions after 2009, the allocations were made from the consideration transferred to certain assets acquired in the business dealings (inventories, property, plant and equipment, brands, among others).

## Changes in the balances

## Parent company

| | **Trademarks and patents** | **Rights of use & software** | **Product development** | **Goodwill** | **Total** |
|---|---|---|---|---|---|
| Balances at December 31, 2013 | 585,954 | 20,545 | 5,317 | 6,183,979 | 6,795,795 |
| Additions | - | 3,497 | 1,170 | - | 4,667 |
| Amortization | (3,572) | (4,538) | (163) | - | (8,273) |
| Balances at June 30, 2014 | 582,382 | 19,504 | 6,324 | 6,183,979 | 6,792,189 |
| Total cost | 638,064 | 84,000 | 8,750 | 6,183,979 | 6,914,793 |
| Accumulated amortization | (55,682) | (64,496) | (2,426) | - | (122,604) |
| Residual value | 582,382 | 19,504 | 6,324 | 6,183,979 | 6,792,189 |

### Consolidated

| | Trademarks and patents | Rights of use & software | Product development | Goodwill | Total |
|---|---|---|---|---|---|
| Balances at December 31, 2013 | 586,276 | 23,337 | 80,493 | 6,259,059 | 6,949,165 |
| Additions | - | 3,630 | 8,735 | - | 12,365 |
| Transfer | 172 | (152) | (60) | - | (40) |
| Impairment | - | 20 | - | - | 20 |
| Amortization | (3,573) | (5,104) | (6,353) | - | (15,030) |
| Balances at June 30, 2014 | 582,875 | 21,731 | 82,815 | 6,259,059 | 6,946,480 |
| Total cost | 638,580 | 95,365 | 142,199 | 6,259,059 | 7,135,203 |
| Accumulated amortization | (55,705) | (73,634) | (59,384) | - | (188,723) |
| Residual value | 582,875 | 21,731 | 82,815 | 6,259,059 | 6,946,480 |

### Decrease to recoverable value of assets (Impairment)

The Company tests the recoverable value of its intangible assets with indefinite useful lives annually, or when there are indications that the value may not be recoverable. These assets are represented mainly by the portion of goodwill for expected future results and trademarks arising from business combinations.

## 18 Suppliers

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Domestic suppliers | 53,666 | 59,182 | 306,836 | 288,607 |
| Foreign suppliers | 28,753 | 50,847 | 169,010 | 202,916 |
| Related party suppliers (note 30(a)) | 119,508 | 144,967 | 6,683 | 8,477 |
| | 201,927 | 254,996 | 482,529 | 500,000 |

# 19 Loans, financing and debentures

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | **Nominal rate** | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| **Foreign Currency** | | | | | |
| Loans (i) | US$ + 2.15% to 3.05% p.a. | 681,789 | 453,414 | 681,789 | 453,414 |
| Bonds (ii) | US$ + 6.50% p.a. | 714,639 | 761,993 | 714,639 | 761,993 |
| **Local currency** | | | | | |
| Loans | Fixed rate of 10.64% p.a. | - | 22,232 | - | 22,232 |
| FCO (i) | Fixed rate from 2.50% to 8.50% p.a. | 40,276 | 33,095 | 185,656 | 163,451 |
| Financing | Fixed rate from 2.50% to 8.70% p.a. and TJLP + 2.91% to 3.00% p.a. CDI + 1.57% | 20,845 | 10,525 | 37,394 | 25,635 |
| BNDES (i) | Fixed rate from 3.50% to 4.50% p.a. and TJLP + 1.50% to 3.00% p.a. | 21,802 | 21,807 | 41,673 | 46,847 |
| Debentures (i) | IPCA + 3% to 8.43% p.a.; 109.95% to 111.00% of the CDI; CDI + 1.85% p.a. and Fixed rate of 11.30% p.a. | 2,645,092 | 2,435,280 | 2,645,092 | 2,435,280 |
| | | 4,124,443 | 3,738,346 | 4,306,243 | 3,908,852 |
| Current | | 500,255 | 741,419 | 532,328 | 769,231 |
| Non-current | | 3,624,188 | 2,996,927 | 3,773,915 | 3,139,621 |

(i) The financial agents must approve contracts with covenants on debt levels and coverage of interest in relation to certain financial information (EBITDA and net interest expenses), disposal, spin-off, merger or any corporate restructuring, which occur, in advance. If any of these events occur without the consent of the lenders, the outstanding balances will have early maturity. Up till June 30, 2014, the covenants were complied with and the next measurement will be at December 31, 2014.

(ii) On April 20, 2011, the Company issued instruments of indebtedness abroad ("Bonds"), in the amount of seven hundred and fifty million dollars, bearing interest at 6.5% per annum and maturing on April 20, 2021. The total charges correspond to an internal rate of return of 8% per annum, amortized semiannually.

In November 2013, the Company decided to repurchase an amount of US$ 420,164,000 of the total outstanding bonds at face value. The purpose of the transaction was to reduce the Company's exposure to exchange rate variations. The amount of R$ 49,331 is recorded as current and R$ 695,308 as noncurrent.

Transaction costs totaled R$ 32,383, where R$ 11,474 is unrealized, as presented below:

| | **June 30, 2014** |
|---|---|
| 2014 | 1,090 |
| 2015 | 1,329 |
| 2016 | 1,439 |
| 2017 | 1,550 |
| 2018 | 1,675 |
| 2019 | 1,809 |
| 2020 | 1,959 |
| 2021 | 623 |
| | 11,474 |

## Debentures - Breakdown (Parent Company and Consolidated)

| | **Date of issue:** | **Date of maturity** | **Form of amortization** | **Type of emission** | **Value at date of issue** | **Quantity issued** | **Quantity placed on the market** | **Unit Value** | **Annual financial charges** | **Convertibility** |
|---|---|---|---|---|---|---|---|---|---|---|
| 3rd Public Issue 2nd Series | 07/15/2010 | 07/15/2015 | Final | Public | 335,601,000 | 335,601 | 335,601 | 1,000 | CDI + 1.85% | Not convertible into shares |
| 3rd Public Issue 3rd Series | 07/15/2010 | 07/15/2016 | 50% - 07/15/2015 50% - 07/15/2016 | Public | 114,415,000 | 114,415 | 114,415 | 1,000 | IPCA + 8.4% | Not convertible into shares |
| 1st Private Issue 1st Series | 10/15/2010 | 10/15/2015 | Final | Private | 549,998,042 | 548,725 | 548,725 | 1,002.32 | IPCA + 3% | Right to subscription of common shares |
| 1st Private Issue 2nd Series | 10/15/2010 | 10/15/2018 | Semiannual as from 04/15/2013 | Private | 549,998,042 | 548,725 | 548,725 | 1,002.32 | 11.30% | Not convertible into shares |
| 5th Public Issue Single Series | 08/02/2013 | 08/02/2018 | Final | Public | 400,000,000 | 40,000 | 40,000 | 10,000 | 109.95% of DI | Not convertible into shares |
| 5th Public Issue Single Series | 11/24/2013 | 07/24/2017 | Final | Public | 200,000,000 | 200 | 200 | 1,000,000 | 110.75% of DI | Not convertible into shares |
| 7th Public Issue Single Series | 04/10/2014 | 04/10/2019 | Final | Public | 400,000,000 | 400 | 400 | 1,000,000 | 110.75% of DI | Not convertible into shares |

## Debentures - Changes (Parent company and Consolidated)

| | 1st Private Issue<br>1st & 2nd Series | 3rd Public Issue<br>1st, 2nd & 3rd Series | 4th Public Issue<br>1st & 2nd Series | 5th Public Issue<br>Single series | 6th Public Issue<br>Single series | 7th Public Issue<br>Single series | Total |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2013 | 1,103,428 | 496,155 | 219,086 | 414,850 | 201,761 | - | 2,435,280 |
| Principal | - | - | - | - | - | 400,000 | 400,000 |
| Expenses to be incurred | - | - | - | - | (60) | - | (60) |
| Amortization of principal | (45,833) | - | (214,000) | - | - | - | (259,833) |
| Financial charges | 71,489 | 32,182 | 7,870 | 22,007 | 10,286 | 5,249 | 149,083 |
| Amortization of interest | (25,015) | (18,459) | (12,956) | (20,198) | (2,750) | - | (79,378) |
| Balance at June 30, 2014 | 1,104,069 | 509,878 | - | 416,659 | 209,237 | 405,249 | 2,645,092 |
| **Unrealized transaction cost** | 1,180 | 1,024 | - | 1,218 | 307 | 2,526 | 6,255 |
| Current | 635 | 871 | - | 252 | 91 | 667 | 2,516 |
| Non-current | 545 | 153 | - | 966 | 216 | 1,859 | 3,739 |
| | 1,180 | 1,024 | - | 1,218 | 307 | 2,526 | 6,255 |

Long-term loans, financing and debentures have the following breakdown, by year of maturity:

| | Parent company | Consolidated |
|---|---|---|
| | June 30, 2014 | June 30, 2014 |
| 2015 | 1,140,901 | 1,154,199 |
| 2016 | 267,287 | 286,802 |
| 2017 | 769,327 | 786,290 |
| 2018 | 622,254 | 639,136 |
| 2019 | 137,869 | 154,336 |
| 2020 | 4,502 | 20,635 |
| 2021 | 669,810 | 685,655 |
| 2022 | 4,353 | 19,845 |
| 2023 | 3,959 | 15,783 |
| 2024 | 3,926 | 11,234 |
| | 3,624,188 | 3,773,915 |

## a. Guarantee for loans and financing

| | Parent company | Consolidated |
|---|---|---|
| | June 30, 2014 | June 30, 2014 |
| Accounts receivables - pledged in guarantee | 33,343 | 114,955 |
| Letter of Guarantee | 21,720 | 41,592 |
| Pledged fixed assets | 28,435 | 109,479 |
| | 83,498 | 266,026 |

## b. Book values and estimated fair value

The book values and estimated fair values of loans, financing and debentures are as follows:

| | | Consolidated | | Fair Value | |
|---|---|---|---|---|---|
| | Nominal rate | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| **Foreign Currency** | | | | | |
| Loans | US$ + 2.15% to 3.05% p.a. | 681,789 | 453,414 | 681,789 | 453,693 |
| Bonds | US$ + 6.50% p.a. | 714,639 | 761,993 | 779,485 | 807,255 |
| **Local currency** | | | | | |
| Loans | Fixed rate of 10.64% p.a. | - | 22,232 | - | 22,232 |
| FCO | Fixed rate from 2.5% to 8.50% p.a. | 185,656 | 163,451 | 131,409 | 111,923 |
| Financing | Fixed rate from 2.50% to 8.70% p.a. and TJLP + 2.91% to 3.00% p.a. CDI + 1.57% | 37,394 | 25,635 | 31,326 | 19,378 |
| BNDES | Fixed rate from 3.50% to 4.50% p.a. and TJLP + 1.50% to 3.00% p.a. | 41,673 | 46,847 | 39,332 | 43,300 |
| Debentures | IPCA + 3% to 8.43% p.a.; 109.95% and 111.00% of the CDI; CDI + 1.85% p.a. and Fixed rate of 11.30% p.a. | 2,645,092 | 2,435,280 | 2,616,279 | 2,366,487 |
| | | 4,306,243 | 3,908,852 | 4,279,620 | 3,824,268 |

The fair value of some of the current loans is equal to their book value, since the impact of the discount is not material. The fair values are based on discounted cash flows using a market rate of CDI + 0.49% to CDI + 2.31% p.a. (December 31, 2013 - CDI + 0.48% to CDI + 2.80% p.a.).

### c. Debentures with indexed subscription bonus

Linked to the issue of the simple debentures issued on October 15, 2010, 548,725 share subscription bonuses were issued at the price of R$ 29.48 (twenty-nine reais and forty-eight cents) per share, updated in the same way as the debt balance of the debentures of the first series, so that the conversion will always give a fixed number of common shares of 34 shares for each subscription bonus, totaling a fixed number of 18,656,650 common shares.

The fair value of the liability component included in non-current loans was calculated using the market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the subscription bonus, is included in the shareholders' equity in an equity valuation adjustment, net of income taxes and social contribution in the amount of R$ 50,243.

At June 30, 2014, the balance of the first series of the first private issue of simple debentures with a floating guarantee, together with a subscription bonus, recognized in the balance sheet is composed as follows:

| | |
|---|---|
| Updated value of the convertible debentures | 709,666 |
| Expenses to be incurred | (26,581) |
| Liability component at June 30, 2014 | 683,085 |

For the second series, which does not include the option of being converted into shares, the amount recorded in liabilities amounts to R$ 420,984.

## 20 Deferred income tax and social contribution

### a. Breakdown of deferred tax assets

It refers to tax credits on accumulated tax losses, negative basis of social contribution and temporary differences. These assets are recognized in proportion to the likelihood of realization of the related tax benefit through future taxable income based on a study of future realization whose projection is the generation of taxable income as from 2015. Tax loss carry forwards and negative bases of social contribution are generated mainly due to the fiscal use of goodwill from acquisition of companies (Note 17). According to projections prepared by management, the use of goodwill has already presented decreases and will end in 2021.

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| **Deferred tax assets:** | | | | |
| Tax loss carry forwards and negative bases of CSLL | 1,050,544 | 952,878 | 1,086,469 | 983,904 |
| Exchange gain | 100,181 | 102,717 | 100,181 | 102,717 |
| Contingencies | 62,506 | 60,347 | 69,395 | 64,926 |
| Amortized goodwill | 172,235 | 193,866 | 172,235 | 193,866 |
| Allowance for doubtful accounts and others | 28,527 | 26,796 | 29,039 | 27,248 |
| Provision for losses on inventories | 18,382 | 19,774 | 28,748 | 33,933 |
| Other temporary differences | 41,747 | 47,154 | 56,261 | 64,736 |
| Total deferred tax assets | 1,474,122 | 1,403,532 | 1,542,328 | 1,471,330 |
| (-) Portion of deferred tax assets recoverable through deferred liabilities of the same company with the same tax authority (also recoverable in the calculation of the current tax) | (1,474,122) | (1,378,991) | (1,535,768) | (1,434,097) |
| Remaining balance of deferred tax assets | - | 24,541 | 6,560 | 37,233 |

## b. Deferred tax liabilities

Comprising mainly by deferred income tax and social contribution tax liabilities, arising from temporary differences between the tax basis of goodwill and its book value in the balance sheet, considering that the goodwill is still amortized for tax purposes but is no longer amortized in the accounting records as from January 1, 2009. This temporary difference may result in amounts to be added in the calculation of taxable income of future years when the book value of the asset is reduced (impairment) or settled, thus making it necessary to record a deferred tax liability.

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| Goodwill | 1,336,255 | 1,226,263 | 1,336,255 | 1,226,263 |
| Other adjustments from business combinations | 111,185 | 121,774 | 169,165 | 175,535 |
| Adjustment to present value and others | 29,951 | 30,954 | 71,693 | 66,232 |
| | 1,477,391 | 1,378,991 | 1,577,113 | 1,468,030 |
| (-) Portion of deferred tax liabilities recoverable through deferred assets of the same company with the same tax authority (also recoverable in the calculation of the current tax) | (1,474,122) | (1,378,991) | (1,535,768) | (1,434,097) |
| Remaining balance of deferred liabilities | 3,269 | - | 41,345 | 33,933 |

## c. Reconciliation of the expense for income tax and social contribution

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30, 2014** | **June 30, 2013** | **June 30, 2014** | **June 30, 2013** |
| **Results before income tax and social contribution** | 247,152 | 140,030 | 249,872 | 152,805 |
| Income tax and social contribution rate - % | 34% | 34% | 34% | 34% |
| Income tax and social contribution at the statutory rate | (84,032) | (47,610) | (84,947) | (51,930) |
| Equity in the results of investees | 1,428 | 640 | (154) | (244) |
| Nondeductible expenses (permanent) | (19,306) | (10,941) | (23,277) | (20,568) |
| Tax incentives | 66,204 | 40,732 | 66,204 | 40,732 |
| Others | 981 | (1,231) | 4,728 | 826 |
| Income tax and social contribution expense | (34,725) | (18,410) | (37,446) | (31,184) |
| *Continuing operations* | | | | |
| Current | 96,915 | 129,533 | 102,191 | 124,385 |
| Deferred | (132,392) | (147,306) | (140,389) | (154,932) |
| | (35,477) | (17,773) | (38,198) | (30,547) |
| *Discontinued operations* | | | | |
| Current | 752 | (637) | 752 | (637) |
| *Total* | (34,725) | (18,410) | (37,446) | (31,184) |
| | 14% | 13% | 15% | 20% |

## d. Transition Tax Regime (RTT)

For purposes of calculating the income tax and social contribution on net income for the years 2013 and 2012, the Company and its subsidiaries opted for the transition tax regime (RTT), which allows the entity to eliminate the accounting effects of Law 11.638/07 and MP 449/08, transformed into Law 11941/09, through entries in the Taxable Income Control Register (LALUR) or auxiliary controls, without any change in the commercial accounting.

On November 11, 2013, Provisional Measure (MP) 627 was published, repealing the Transition Tax Regime (RTT) and it governs the taxation of persons resident in Brazil related to profits earned abroad. One of the purposes of the standard is to establish the adjustments that must be made in ledgers for calculating the basis of corporate income tax (IRPJ) and social contribution on net income (CSLL), with the end of tax neutrality, to new accounting methods and criteria introduced by Law 11.638/07 and Law 11.941/09. Considering the text converted into law, the Company opted not to anticipate the end of the RTT, adopting the new procedures as from January 1, 2015.

# 21 Taxes payable

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| ICMS payable | 27,404 | 23,347 | 32,479 | 30,451 |
| IPI/PIS/COFINS payable | 1,227 | 1,166 | 13,373 | 17,693 |
| Tax recovery program (REFIS) | 9,160 | 9,014 | 11,923 | 11,656 |
| Other taxes payable | 1,118 | 4,565 | 3,323 | 6,764 |
| | 38,909 | 38,092 | 61,098 | 66,564 |

# 22 Accounts payable

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| Freight payable | 31,936 | 28,863 | 34,828 | 33,682 |
| Services rendered | 24,716 | 29,192 | 38,025 | 46,001 |
| Commercial agreements and advertising | 116,623 | 168,834 | 116,992 | 168,938 |
| Rents | 2,973 | 3,781 | 7,986 | 8,683 |
| Losses on derivative transactions | 117,806 | 8,817 | 126,316 | 9,319 |
| Purchases of fixed assets | 2,194 | 1,657 | 17,880 | 13,561 |
| Provision for operational restructuring | - | - | - | 11,395 |
| Other | 5,069 | 8,121 | 10,074 | 13,717 |
| | 301,317 | 249,265 | 352,101 | 305,296 |

# 23 Notes payable

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30, 2014** | **December 31, 2013** | **June 30, 2014** | **December 31, 2013** |
| Acquisition of Sapeka Indústria de Fraldas Descartáveis Ltda. (i) | 24,411 | 26,155 | 24,411 | 26,155 |
| Acquisition of Pom Pom Produtos Higiênicos Ltda. (i) | 53,590 | 49,906 | 53,590 | 49,906 |
| Acquisition of Ind. Nacional de Artefatos de Látex S.A. (ii) | 31,552 | 32,517 | 31,552 | 32,517 |
| Acquisition of Facilit Odontológica e Perfumaria Ltda. (i) | 12,313 | 19,176 | 12,313 | 19,176 |
| Acquisition of Bitufo. (i) | 20,351 | 19,233 | 20,351 | 19,233 |
| Promissory notes with subsidiaries | - | 90,606 | - | - |
| Other | 10,163 | 20,380 | 10,163 | 20,380 |
| | 152,380 | 257,973 | 152,380 | 167,367 |
| Current liabilities | 135,303 | 220,108 | 135,303 | 129,502 |
| Non-current liabilities | 17.077 | 37,865 | 17,077 | 37,865 |

The non-current liability of R$ 17,077 (in consolidated) matures until May 2016.

(i) Updated according to the CDI.

(ii) The contract includes a clause for adjustments of the installments in accordance with the exchange variation of the U.S. dollar.

## Adjustment to present value

Adjustments were made to present value, in accordance with Technical Pronouncement CPC-12 for notes payable resulting from the acquisition of companies and/or assets, adjusted by the exchange rate or CDI, without interest. For the calculation of the initial adjustment and the applicable updates, the average rate for raising funds on the date of acquisition was used. The contra entries of the initial adjustments are recorded as a reduction of cost of assets-goodwill, and at June 30, 2014 the amount was of R$ 2,087 (at December 31, 2013 - R$ 3,983). The rates range from 2.00% p.a. to 5.00% p.a.

# 24 Insurance coverage

The insurance policy takes into consideration mainly the concentration of risks, their relevance and the replacement value of the assets. The main information on the current insurance coverage, according to the insurance policies, is presented below:

| | **June 30, 2014** |
|---|---|
| Fire, IDT, lightning and explosions of any nature | 1,070,000 |
| Inclusions, exclusions of goods or places and changes of values in risk | 300,000 |
| Other coverages | 128,849 |

# 25 Breakdown of the statement of income accounts

## a. Operating expenses and cost of goods sold

| | **Parent company** | | | |
|---|---|---|---|---|
| | **04/01/2014 to 06/30/2014** | **01/01/2014 to 06/30/2014** | **04/01/2013 to 06/30/2013** | **01/01/2013 to 06/30/2013** |
| Cost of goods sold | (471,006) | (899,779) | (437,658) | (842,239) |
| Raw material | (30,386) | (67,926) | (42,396) | (82,289) |
| Packaging material | (5,805) | (11,116) | (8,437) | (13,983) |
| Cost of processing | (18,089) | (36,483) | (22,316) | (44,146) |
| Depreciation and amortization | (4,682) | (9,459) | (5,635) | (12,510) |
| Resale | (416,959) | (778,556) | (358,198) | (648,777) |
| Changes in inventories/others | 4,915 | 3,761 | (676) | (40,534) |
| Selling and marketing expenses | (392,837) | (754,922) | (384,292) | (702,321) |
| Advertising and publicity | (85,305) | (169,469) | (80,942) | (156,011) |
| Agreements, budgets and others | (66,196) | (124,553) | (65,678) | (115,983) |
| Medical visitation, promotions, gifts and samples | (75,678) | (144,340) | (67,836) | (120,425) |
| Sales force and selling expenses | (115,689) | (220,581) | (118,117) | (221,831) |
| Freight and insurance of sales | (38,231) | (70,388) | (40,628) | (71,370) |
| Allowances for doubtful accounts and losses | (7,551) | (17,209) | (5,841) | (6,718) |

| | | | | |
|---|---|---|---|---|
| Depreciation and amortization | (4,187) | (8,382) | (5,250) | (9,983) |
| General and administrative expenses | (37,287) | (79,466) | (38,317) | (80,211) |
| Other expenses | (33,808) | (72,408) | (35,090) | (73,938) |
| Depreciation and amortization | (3,479) | (7,058) | (3,227) | (6,273) |

| | Consolidated | | | |
|---|---|---|---|---|
| | **04/01/2014 to 06/30/2014** | **01/01/2014 to 06/30/2014** | **04/01/2013 to 06/30/2013** | **01/01/2013 to 06/30/2013** |
| Cost of goods sold | (390,070) | (767,880) | (365,202) | (711,039) |
| Raw material | (180,607) | (358,731) | (181,338) | (324,729) |
| Packaging material | (68,302) | (131,047) | (73,000) | (132,532) |
| Cost of processing | (96,692) | (193,972) | (105,851) | (191,069) |
| Depreciation and amortization | (11,661) | (23,275) | (10,935) | (22,461) |
| Resale | (14,193) | (29,628) | (22,585) | (42,088) |
| Changes in inventories/others | (18,615) | (31,227) | 28,507 | 1,840 |
| Selling and marketing expenses | (411,056) | (792,737) | (405,411) | (745,032) |
| Advertising and publicity | (83,370) | (167,249) | (80,583) | (155,575) |
| Agreements, budgets and others | (65,271) | (123,184) | (65,438) | (115,755) |
| Medical visitation, promotions, gifts and samples | (74,603) | (141,505) | (68,332) | (121,261) |
| Sales force and selling expenses | (133,227) | (255,478) | (133,576) | (252,211) |
| Freight and insurance of sales | (38,603) | (71,851) | (42,706) | (75,225) |
| Allowances for doubtful accounts and losses | (7,582) | (16,652) | (5,084) | (6,107) |
| Depreciation and amortization | (8,400) | (16,818) | (9,692) | (18,898) |
| General and administrative expenses | (61,738) | (119,587) | (54,965) | (108,097) |
| Other expenses | (57,916) | (111,857) | (51,484) | (101,261) |
| Depreciation and amortization | (3,822) | (7,730) | (3,481) | (6,836) |

## b. Other operating (expenses) income, net

| | Parent company | | | |
|---|---|---|---|---|
| | **04/01/2014 to 06/30/2014** | **01/01/2014 to 06/30/2014** | **04/01/2013 to 06/30/2013** | **01/01/2013 to 06/30/2013** |
| Tax revenues | 6,748 | 21,873 | 17,085 | 23,889 |
| Expenditures on operational restructuring | (12,449) | (28,998) | (3,475) | (5,892) |
| Losses on products and inputs | (18,028) | (39,835) | (5,270) | (25,439) |
| Other gains | 9,587 | 15,072 | 1,375 | 2,575 |
| | (14,142) | (31,888) | 9,715 | (4,867) |

| | Consolidated | | | |
|---|---|---|---|---|
| | **04/01/2014 to 06/30/2014** | **01/01/2014 to 06/30/2014** | **04/01/2013 to 06/30/2013** | **01/01/2013 to 06/30/2013** |
| Tax revenues | 12,099 | 29,166 | 17,534 | 24,338 |
| Expenditures on operational restructuring | (26,823) | (48,688) | (19,498) | (32,175) |
| Losses on products and inputs | (14,872) | (36,120) | (20,794) | (43,848) |
| Other gains | 4,996 | 8,527 | 2,157 | 2,217 |
| | (24,600) | (47,115) | (20,601) | (49,468) |

## c. Financial income

| | Parent company | | | |
|---|---|---|---|---|
| | **04/01/2014 to 06/30/2014** | **01/01/2014 to 06/30/2014** | **04/01/2013 to 06/30/2013** | **01/01/2013 to 06/30/2013** |
| Interest received | 6,550 | 11,682 | 4,406 | 10,049 |
| Income from financial investments and others | 33,025 | 49,715 | 14,060 | 28,096 |
| | 39,575 | 61,397 | 18,466 | 38,145 |

| | Consolidated | | | |
|---|---|---|---|---|
| | **04/01/2014 to 06/30/2014** | **01/01/2014 to 06/30/2014** | **04/01/2013 to 06/30/2013** | **01/01/2013 to 06/30/2013** |
| Interest received | 6,793 | 12,194 | 4,462 | 10,186 |
| Income from financial investments and others | 37,677 | 66,666 | 31,989 | 62,634 |
| | 44,470 | 78,860 | 36,451 | 72,820 |

## d. Financial expenses

| | Parent company | | | |
|---|---|---|---|---|
| | **04/01/2014 to 06/30/2014** | **01/01/2014 to 06/30/2014** | **04/01/2013 to 06/30/2013** | **01/01/2013 to 06/30/2013** |
| FINEP / FINIMP financing | - | - | (130) | (306) |
| BNDES Financing | (278) | (613) | (486) | (872) |
| FINAME - Financing of Machinery and Equipment | (218) | (330) | (165) | (337) |
| | (496) | (943) | (781) | (1,515) |
| Interest on foreign currency loans | (28,567) | (56,895) | (33,659) | (65,812) |
| Interest on notes payable | (2,850) | (6,473) | (4,970) | (10,026) |
| Monetary restatement on contingencies | (3,513) | (7,282) | 2,903 | (1,973) |
| Refis | (3,163) | (6,467) | (2,124) | (3,529) |
| Debentures | (70,738) | (141,387) | (48,138) | (103,077) |
| Interest and commission on letters of credit | (672) | (1,344) | (1,100) | (2,268) |
| Bank expenses, discounts granted and others | (1,570) | (1,960) | (1,193) | (1,855) |
| Cost of hedge and exchange variations on loans | (18,628) | (33,851) | (142,840) | (124,095) |
| Cost of hedge and exchange variation on acquisition of companies | (825) | (1,181) | (2,464) | (3,615) |
| Cost of hedge and exchange rate variations on suppliers and clients | (3,077) | (6,312) | 184 | 1,525 |
| Other | (2,886) | (7,350) | (443) | (1,247) |
| | (136,489) | (270,502) | (233,844) | (315,972) |
| Reversals of adjustment to present value | (5,577) | (10,948) | (5,741) | (11,634) |
| | (142,562) | (282,393) | (240,366) | (329,121) |

| | Consolidated | | | |
|---|---|---|---|---|
| | **04/01/2014 to 06/30/2014** | **01/01/2014 to 06/30/2014** | **04/01/2013 to 06/30/2013** | **01/01/2013 to 06/30/2013** |
| Center-West financing (FCO) | (1,172) | (2,446) | (403) | (812) |
| FINEP / FINIMP financing | - | - | (158) | (364) |
| BNDES Financing | (585) | (1,324) | (1,035) | (1,840) |
| FINAME - Financing of Machinery and Equipment | (423) | (815) | (333) | (657) |
| | (2,180) | (4,585) | (1,929) | (3,673) |
| Interest on foreign currency loans | (29,283) | (55,181) | (33,659) | (65,812) |
| Interest on notes payable | (2,850) | (6,473) | (5,199) | (10,462) |
| Monetary restatement on contingencies | (3,589) | (7,326) | 2,885 | (2,001) |
| Refis | (3,552) | (7,239) | (2,746) | (4,578) |
| Debentures | (66,464) | (137,113) | (48,138) | (103,077) |
| Interest and commission on letters of credit | (712) | (1,471) | (1,100) | (2,268) |
| Bank expenses, discounts granted and others | (1,699) | (2,327) | (1,441) | (2,373) |
| Cost of hedge and exchange variations on loans | (18,628) | (33,851) | (142,923) | (124,166) |
| Cost of hedge and exchange variation on acquisition of companies | (825) | (1,181) | (2,464) | (3,615) |
| Cost of hedge and exchange rate variations on suppliers and clients | (5,410) | (12,738) | (2,372) | 231 |
| Other | (2,870) | (5,455) | (563) | (1,483) |
| | (135,882) | (270,355) | (237,720) | (319,604) |
| Reversals of adjustment to present value | (5,621) | (11,036) | (5,819) | (11,792) |
| | - | | | |
| | (143,683) | (285,976) | (245,468) | (335,069) |

# 26 Capital

## a. Capital

At June 30, 2014, the Company was authorized to increase the share capital up to the limit of R$ 5,500,000, pursuant to a provision in its bylaws and as approved by the Board of Directors at the Extraordinary General Meeting held on January 24, 2011.

Capital at June 30, 2014 is R$ 5,269,124 (at December 31, 2013 - R$ 5,269,124), represented by 632,100,787 common shares (at December 31, 2013 - 632.100.787).

## b. Treasury shares

The changes in treasury shares occurred as shown in the table below:

| | Number | Amount |
|---|---|---|
| Balance at December 31, 2013 | 408,870 | 5,558 |
| Purchase in the period | 1,252,000 | 19,580 |
| Sale in the period | (1,639,836) | (24,813) |
| Balance at June 30, 2014 | 21,034 | 325 |

# 27 Segment information

Management has determined the Company's operating segments based on the reports used for taking strategic decisions, reviewed by the Chief Executive Officer (CEO).

The Presidency (CEO) also analyzes the business from the perspective of business segments. The segments defined are: Pharma and Consumer.

The revenue generated by the reporting operating segments arises mainly from the manufacture and trading of pharmaceuticals and hygiene & beauty products.

The consolidated segment information, reviewed by the CEO and corresponding to the periods ended June 30, 2014 and 2013 are as follows:

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 04/01/2014 to 06/30/2014 | | | 01/01/2014 to 06/30/2014 | | |
| | Pharma | Consumer | Total | Pharma | Consumer | Total |
| Net sales | 645,644 | 487,100 | 1,132,744 | 1,257,619 | 934,000 | 2,191,619 |
| Cost of goods sold | (142,135) | (247,935) | (390,070) | (295,778) | (472,102) | (767,880) |
| Gross profit | 503,509 | 239,165 | 742,674 | 961,841 | 461,898 | 1,423,739 |

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 04/01/2013 to 06/30/2013 | | | 01/01/2013 to 06/30/2013 | | |
| | Pharma | Consumer | Total | Pharma | Consumer | Total |
| Net sales | 601,186 | 467,918 | 1,069,104 | 1,145,088 | 882,448 | 2,027,536 |
| Cost of goods sold | (137,567) | (227,635) | (365,202) | (266,150) | (444,889) | (711,039) |
| Gross profit | 463,619 | 240,283 | 703,902 | 878,938 | 437,559 | 1,316,497 |

Consolidated assets by business segment are as follows:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Pharma | 6,263,566 | 6,173,770 |
| Consumer | 3,997,296 | 3,965,411 |
| Unallocated (*) | 2,852,122 | 2,362,806 |
| | 13,112,984 | 12,501,987 |

(*) Manly cash and cash equivalents, taxes and others.

# 28 Revenue

The reconciliation of gross revenue with the net revenue is as follows:

| | Parent company | | | |
|---|---|---|---|---|
| | 04/01/2014 to 06/30/2014 | 01/01/2014 to 06/30/2014 | 04/01/2013 to 06/30/2013 | 01/01/2013 to 06/30/2013 |
| Gross revenue of products and services | 1,277,585 | 2,491,250 | 1,266,269 | 2,400,899 |
| Returns | (24,717) | (48,651) | (50,523) | (93,134) |
| Unconditional discounts | (2,342) | (4,562) | (1,958) | (2,750) |
| Promotional discounts | (30,143) | (55,704) | (25,965) | (43,263) |
| Taxes | (68,209) | (150,119) | (103,711) | (204,862) |
| Net revenue | 1,152,174 | 2,232,214 | 1,084,112 | 2,056,890 |

| | Consolidated | | | |
|---|---|---|---|---|
| | 04/01/2014 to 06/30/2014 | 01/01/2014 to 06/30/2014 | 04/01/2013 to 06/30/2013 | 01/01/2013 to 06/30/2013 |
| Gross revenue of products and services | 1,274,373 | 2,479,429 | 1,262,848 | 2,390,024 |
| Returns | (23,971) | (47,763) | (50,512) | (92,235) |
| Unconditional discounts | (2,342) | (4,562) | (1,958) | (2,750) |
| Promotional discounts | (30,143) | (55,704) | (25,965) | (43,263) |
| Taxes | (85,173) | (179,781) | (115,309) | (224,240) |
| Net revenue | 1,132,744 | 2,191,619 | 1,069,104 | 2,027,536 |

# 29 Contingencies

## Provisions for probable losses and contingencies assumed in a business combination

At June 30, 2014, the Company had the following provisions for contingencies and corresponding deposits in court related to the contingencies:

| | Parent company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2014 | | | | December 31, 2013 | | | |
| | Probable Loss | Contingencies assumed in a business combination (a) | Deposit in court | Contingencies net of deposit in court | Probable Loss | Contingencies assumed in a business combination (a) | Deposit in court | Contingencies net of deposit in court |
| Civil (i) | 1,290 | 18,781 | (101) | 19,970 | 741 | 21,911 | (86) | 22,566 |
| Labor (ii) | 12,667 | 17,791 | (5,744) | 24,714 | 8,796 | 17,230 | (5,378) | 20,648 |
| Fiscal and Tax (iii) | 22,918 | 106,869 | (29,287) | 100,500 | 20,004 | 104,895 | (25,823) | 99,076 |
| Administrative/other (iv) | 1,262 | 2,265 | - | 3,527 | 1,263 | 2,652 | - | 3,915 |
| | 38,137 | 145,706 | (35,132) | 148,711 | 30,804 | 146,688 | (31,287) | 146,205 |

| | Consolidated | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2014 | | | | December 31, 2013 | | | |
| | Probable Loss | Contingencies assumed in a business combination (a) | Deposit in court | Contingencies net of deposit in court | Probable Loss | Contingencies assumed in a business combination (a) | Deposit in court | Contingencies net of deposit in court |
| Civil (i) | 1,595 | 18,781 | (116) | 20,260 | 967 | 21,911 | (86) | 22,792 |
| Labor (ii) | 21,420 | 17,791 | (6.679) | 32,532 | 12,583 | 17,230 | (5,669) | 24,144 |
| Fiscal and Tax (iii) | 33,796 | 106,869 | (40,165) | 100,500 | 29,306 | 104,895 | (35,123) | 99,078 |
| Administrative/other (iv) | 1,585 | 2,265 | - | 3,850 | 1,414 | 2,652 | - | 4,066 |
| | 58,396 | 145,706 | (46,960) | 157,142 | 44,270 | 146,688 | (40.878) | 150,080 |

## Changes in the contingencies

| | Parent company | | | | | |
|---|---|---|---|---|---|---|
| | Balance at December 31, 2013 | Monetary restatement | Additions | Reversions | Payments | Balance at June 30, 2014 |
| Civil | 22,652 | 1,121 | 1,257 | (4,885) | (74) | 20,071 |
| Labor | 26,026 | 734 | 14,301 | (9,495) | (1.108) | 30,458 |
| Fiscal and Tax | 124,899 | 5,213 | 3,572 | (3,897) | - | 129,787 |
| Administrative/ other | 3,915 | 214 | 550 | (1,152) | - | 3,527 |
| | 177,492 | 7,282 | 19,680 | (19,429) | (1.182) | 183,843 |
| Deposits in court | (31,287) | (468) | (3.755) | 239 | 139 | (35,132) |
| | 146,205 | 6,814 | 15,925 | (19,190) | (1.043) | 148,711 |

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | **Balance at December 31, 2013** | **Monetary restatement** | **Additions** | **Reversions** | **Payments** | **Balance at June 30, 2014** |
| Civil | 22,878 | 1,138 | 1,320 | (4,886) | (74) | 20,376 |
| Labor | 29,813 | 804 | 19,862 | (10,095) | (1.173) | 39,211 |
| Fiscal and Tax | 134,201 | 5,154 | 5,208 | (3,898) | - | 140,665 |
| Administrative/ other | 4,066 | 229 | 707 | (1,152) | - | 3,850 |
| | 190,958 | 7,325 | 27,097 | (20,031) | (1.247) | 204,102 |
| Deposits in court | (40,878) | (804) | (5.749) | 312 | 159 | (46,960) |
| | 150,080 | 6,521 | 21,348 | (19,719) | (1.088) | 157,142 |

## a. Judicial claims under the responsibility of the Company, assumed in business combinations

Table summarizing the main contingencies:

| | **Labor / Civil / Administrative and Other** | | **Fiscal and Tax** | | |
|---|---|---|---|---|---|
| | **Probable** | **Possible** | **Probable** | **Possible** | **Total** |
| Mabesa | 170 | 51 | 9,797 | 20,121 | 30,139 |
| Mantecorp | 26,073 | 12,543 | - | 76,951 | 115,567 |
| | 26,243 | 12,594 | 9,797 | 97,072 | 145,706 |

On the acquisition of Mabesa and Mantecorp, the Company assumed some of their contingencies. In addition to the provision for probable losses, the Company also recorded provisions for possible losses, at fair value, as required by CPC 15 - Business Combinations.

The possible and probable losses arising from the business combinations are estimated at R$145,706, of which R$17,791 refers to labor lawsuits, R$18,781 to civil lawsuits, R$106,869 to tax lawsuits and R$2,265 to administrative, regulatory and other proceedings.

### (i) Civil

There are approximately 29 processes, 8 of which resulted from the acquisition of Mabesa and 21 from the acquisition of Mantecorp Indústria Química, where the likelihood of losses in the business combination is estimated at R$ 18,781.

The Medicine Market Regulation Chamber (CMED) applied a fine in the restated amount of R$5,426 against Mantecorp, in view of the alleged irregular increase in the prices of Desalex. This fine has been discussed in court. According to the opinion of external legal counsel, the likelihood of loss is probable.

Lawsuit 2008.34.00.000496-0 discuss the application of a fine of R$8,862, by the Brazilian Antitrust Agency (CADE) against Mantecorp, due to the alleged formation of a cartel of

pharmaceutical laboratories, in order to prejudice the sale of generic products. According to the opinion of the external lawyers, the likelihood of loss is possible.

### (ii) Labor

There are approximately 199 claims, 59 of which resulted from the acquisition of Mabesa, 81 from the acquisition of Mantecorp Logística and 59 from the acquisition of Mantecorp Indústria Química, where the likelihood of losses in the business combination is estimated at R$ 17,791.

### (iii) Fiscal and Tax

There are approximately 330 claims, 146 of which resulted from the acquisition of Mabesa, 27 from the acquisition of Mantecorp Logistica and 157 from the acquisition of Mantecorp Indústria Química, where the likelihood of losses in the business combination is estimated at R$ 106,869.

Mantecorp was questioned by the Brazilian Federal Revenue Department regarding the offsetting made based on an injunction granted in the case records of the process in which the illegitimacy of the inclusion of ICMS in the calculation basis of PIS/COFINS is being discussed. The updated value of possible loss amounts to R$ 27,676, and the process is at the administrative level, with the debt guaranteed by a Letter of Guarantee.

### (iv) Administrative / other

There are approximately 46 claims of a regulatory nature, arising from the acquisition of Mantecorp Indústria Química, where the likelihood of loss in the business combination is estimated at R $ 2,265.

## b. Possible contingencies - (Responsibility of the Company and its subsidiaries)

The Company and its subsidiaries are parties to labor, civil, tax and regulatory lawsuits which, because of the current assessment of the outcome, based on the opinion of legal counsel and legal aspects, do not require the recording of provisions, either because they are classified as possible losses, or because of exclusion of responsibility arising from contractual agreements.

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| | Possible loss | Possible loss | Possible loss | Possible loss |
| Civil | 49,366 | 22,099 | 49,725 | 22,552 |
| Labor | 71,832 | 54,255 | 138,346 | 103,980 |
| Fiscal and Tax | 32,680 | 38,659 | 32,680 | 38,659 |
| Administrative/other | 2,561 | 2,561 | 3,444 | 2,964 |
| | 156,439 | 117,574 | 224,195 | 168,155 |

The amount of the possible loss of these processes is estimated at R$ 224,195, where R$138,346 refers to labor processes, R$ 49,725 refers to civil processes, R$ 32,680 refers to tax processes and R$ 3,444 refers to regulatory administrative proceedings and others.

The Company has litigations with competitors, where the registration of trademarks with the National Institute of Industrial Property (INPI), with no ascertainable financial contingency at this time, is being discussed.

## (i) Civil

The Public Prosecutions Office of the State of Mato Grosso filed a Public Civil Suit against the Company and various other laboratories to require that the pharmaceutical industries start to produce drugs in fractional (small) units, based on Law 5,348/05, which authorizes the sale of such packaged drugs in drugstores. On September 11, 2013, the court decision which judged justified the action to sentence the defendants to manufacture drugs registered at ANVISA, in a batch preparation method allowing future bulk-breaking for drugs authorized to be produced in this manner, was rendered. The Company will file an appeal on the merits of the case. The amount involved cannot be estimated and, according to the opinion of external legal counsel, the likelihood of loss is possible.

The Federal Public Prosecutions Office of the judicial district of Bauru, State of São Paulo, filed a Public Civil Suit against the Company and various other laboratories in order to compel them to sell medicines to the public administration in accordance with the rules of the Medicine Market Regulation Chamber (CMED). The Public Prosecutions Office also required the conviction of the laboratories to the payment of damages for collective pain and suffering in an amount to be determined in court. A decision was handed down by the Federal Regional Court (TRF) to compel the defendants to supply medicines to the public administration, whenever they are requested, at the maximum sale price to the government and the application of the Coefficient of Adequacy of Price (CAP), subject to a daily fine of R$50. The Company filed an objection and appealed against the decision of the TRF. The amount involved cannot be estimated and, according to the opinion of external legal counsel, the likelihood of loss is possible.

Cepalgo Embalagens Flexíveis Ltda. requested arbitration against the Company to discuss the alleged breach of contract for the supply of raw material for diaper manufacturing. The amount involved is R$ 27,626 and, according to the opinion of external counsel, the likelihood of loss is possible.

## (ii) Labor

The Company and its subsidiaries are parties to legal proceedings in labor cases, the liability of the Company, its subsidiaries and/or selling partners of the acquired and merged companies, where the possible loss of liability of the Company and/or its subsidiaries is estimated at R$ 138,346.

In these proceedings overtime, wage differentials, compensation due to occupational diseases and/or accidents, health hazard allowances or for hazardous work, and recognition of employment relationships, among other claims are being discussed.

Of these labor claims, 80 arise from the acquisition of Laboratório Americano de Farmacoterapia S.A. (Farmasa), which was merged by the Company, and they present a likelihood of possible loss of liability of the Company in the amount of R$ 6,757, and 140 arise from the acquisition of Mantecorp Logística Distribuição e Comércio S.A. and Mantecorp Indústria Química e Farmacêutica S.A, which present a likelihood of possible loss of liability of

the Company in the amount of R$ 24,113, where compensation resulting from illnesses or accidents at work, employment relationships and consequent payment of labor charges, wage differentials, overtime and effects and tenure, among other claims, are being discussed.

The Company is being investigated in civil investigations through which (i) the Regional Office of the Attorney of Labor of São Paulo is investigating the changes in the work contracts of the employees transferred from Mantecorp to the Company, (ii) the Regional Office of the Attorney of Labor of Rio de Janeiro is investigating the methodology adopted by the Company to establish sales goals for the business area, specifically the Farmasa and DM divisions and (iii) the Regional Office of the Attorney of Labor of São Paulo is investigating the implementation of the quota of young apprentices by the Company. They address investigative procedures with respect to which the Company at this time is unable to estimate the amounts involved. Cosmed Indústria de Cosméticos e Medicamentos S.A., a wholly owned subsidiary of the Company ("Cosmed"), is being investigated in civil investigations where the Regional Office of the Attorney of Labor of Goiás is investigating (i) the existence of a crèche / nursery or payment of a crèche allowance by Cosmed in Senador Canedo and (ii) compliance with the rules related to the limitation of working hours of employees of Cosmed in Aparecida de Goiânia. It is also being investigated in civil investigations in which the Regional Office of the Attorney of Labor of Osasco is investigating compliance with the quota of apprentices by Cosmed. They address investigative procedures with respect to which Cosmed at this time is unable to estimate the amounts involved.

Cosmed is defendant in a collective labor claim filed by the Workers' Union of the Chemical, Pharmaceutical, Plastic Material and Alcohol Industries in the State of Goiás, in which the union, the plaintiff, is requesting payment of time spent in commuting and its consequences for employees who use transport provided by Cosmed. This claim is being processed by the 1st Labor Court of Aparecida de Goiânia and is still in the stage of production of evidence. The possible loss, the responsibility of Cosmed, estimated for this claim is assessed at R$ 2,613 and the probable loss is estimated at R$ 316.

Cosmed is also the defendant in a labor claim filed by the Workers' Union of the Chemical, Pharmaceutical, Plastic Material and Alcohol Industries in the State of Goiás, in which the union is requesting the payment of overtime due to time at the disposal of the employer. This claim is being tried by the 1st Labor Court of Aparecida de Goiânia and is still in the stage of production of evidence. The estimated possible loss of Cosmed's liability in these claims is assessed at R$ 3,251.

## (iii) Fiscal and Tax

The Company had a tax assessment notice issued by the department of Finance (SEFAZ/SC) (Itajaí plant) in which the recognition of ICMS credits on a transaction of return of goods stored in a third party warehouse and of reversal of ICMS debits made in the tax bookkeeping, in the updated amount of R $ 10,288 is being discussed. The final administrative decision was declared final and unappealable on May 31, 2014, wholly favorable to the taxpayer, culminating in the cancellation of the tax assessment.

### c. Contingencies of acquired companies, the responsibility of the former shareholders - possible and probable:

The Company has no provision for contingencies whose likelihood is a probable and possible loss, in cases that are the responsibility of the selling partners.

The São Paulo State filed a public civil action against the Company to require the payment of compensation for alleged illegal sale of medicines by Mantecorp in 2008. The amount involved was estimated at R$ 125,613 and, according to the opinion of external counsel, the likelihood of loss is possible. The process is in the fact-finding phase.

Cremer S.A. filed an execution of debt instrument against the Company, charging the amount of R$ 34,200, as well as a daily fine up to the fulfillment of the obligation established in the award or the termination of the License Agreement for use of the Cremer trademark. Cremer S.A. alleges that the Company failed to comply with the arbitration award, since it did not adjust the products of the Cremer brand after the end of the arbitration. According to the opinion of the external legal counsel, the likelihood of loss is possible.

The Company recorded possible losses from tax matters related to the company DM in the approximate amount of R$ 8,941, due to the adhesion according to the reopening of Refis V, law 12.865/2013 and voluntary appeals in CARF.

Below, there is a summary the contingencies of liability of the selling partners with probable and possible losses:

| Company and/or acquired brands | Possible | Probable | Total |
|---|---|---|---|
| Aprov | 1,394 | 1,496 | 2,890 |
| Bitufo | 992 | 23 | 1,015 |
| Ceil | 27,343 | 1,480 | 28,823 |
| Cosmed (Niasi) + Pom Pom | 8,181 | 3,817 | 11,998 |
| DM | 1,721 | 2,494 | 4,215 |
| Etti | 177 | 647 | 824 |
| Facilit | 1,980 | 590 | 2,570 |
| Farmasa | 74,693 | 2,898 | 77,591 |
| Inal | 10,468 | - | 10,468 |
| Luper | 2,921 | 1,164 | 4,085 |
| Mabesa | 63,702 | 19,298 | 83,000 |
| Mantecorp | 126,346 | - | 126,346 |
| Neo Química (Brainfarma) | 25,162 | 13,459 | 38,621 |
| Ny-Looks | 2,177 | 141 | 2,318 |
| Sapeka | 9,298 | 1,585 | 10,883 |
| Sul Química | 820 | 1,469 | 2,289 |
| York | 10,199 | 3,102 | 13,301 |
| | 367,574 | 53,663 | 421,237 |

## 30 Related party transactions

### a. Transactions and balances

The main asset and liability balances as well as the transactions between related parties that influenced the results for the period, result from transactions with the Company and its subsidiaries, which Management considers were carried out under normal market conditions and

terms for the respective types of transactions.

Loans with related parties are restated by the variation of the CDI plus a spread and the term is one year.

In business relationships with related parties prices are set considering the characteristics and nature of these transactions.

Business transactions for purchase and sale of products, raw materials and contracting of services and rent, as well as the financial transactions for loans and raising of funds between the companies of the group are conducted as described below:

- The rent agreement with TV Serra Dourada Ltda. is adjusted by the IGPM - FGV and the maturity is open-ended.

- The rent agreement with Neo Marcas Indústria Farmacêutica e Alimentos e Participações Ltda. has no provision for inflation adjustments and maturity is open-ended.

- The rent agreement with Brainfarma Indústria Química Farmacêutica S.A is adjusted by the IGPM - FGV and the maturity date is May 1, 2016 and may be extended based on agreement between the parties.

## a.1 In assets and liabilities

| | Parent company | | | | | |
|---|---|---|---|---|---|---|
| | 06/30/2014 | | | | | |
| | **Cosmed Indústria de Cosméticos e Medicamentos S.A.** | **My - Agência Propaganda Ltda.** | **Brainfarma Ind. Quim. e Farmacêutica S.A.** | **Neolatina Comércio e Ind. Farmacêutica Ltda.** | **Embalagens Allbox Ltda.** | **Total** |
| Accounts receivables | 194 | 40 | 338 | - | - | 572 |
| Proposed dividends receivable | - | | - | - | - | - |
| Other receivables (*) | - | 110 | - | 24 | - | 134 |
| Loans | - | 2 | - | 73 | - | 75 |
| Suppliers | (77,909) | - | (41,599) | - | - | (119,508) |
| Other amounts payable | (2,374) | - | (1,345) | - | - | (3,719) |
| Loans | (7) | - | (1) | - | - | (8) |

(*) This amount is mainly related to capital decrease.

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 06/30/2014 | | | | | |
| | Cosmed Indústria de Cosméticos e Medicamentos S.A. | My - Agência Propaganda Ltd. | Brainfarma Ind. Quim, e Farmacêutica S.A. | Neolatina Comércio e Ind. Farmacêutica Ltda. | Embalagens Allbox Ltda. | Total |
| Suppliers | - | - | - | - | (6,683) | (6,683) |

| | Parent company | | | | | |
|---|---|---|---|---|---|---|
| | 12/31/2013 | | | | | |
| | Cosmed Indústria de Cosméticos e Medicamentos S.A. | My - Agência Propaganda Ltda. | Brainfarma Ind. Quim. e Farmcêutica S.A. | Neolatina Comércio e Ind. Farmacêutica Ltda. | Embalagens Allbox Ltda. | Total |
| Accounts receivables | 1,473 | 2 | 456 | - | - | 1,931 |
| Proposed dividends receivable | - | - | 7,697 | - | - | 7,697 |
| Other receivables | - | 73 | - | 17 | - | 90 |
| Loans | 1,046 | 20 | 159 | 69 | - | 1,294 |
| Suppliers | (80,201) | - | (64,766) | - | - | (144,967) |
| Notes payable | (62,438) | - | (28,168) | - | - | (90,606) |
| Other amounts payable | (34,293) | - | (37,537) | - | - | (71,830) |

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 31/12/2013 | | | | | |
| | Cosmed Indústria de Cosméticos e Medicamentos S.A. | My - Agência Propaganda Ltda. | Brainfarma Ind, Quim, e Farmacêutica S.A. | Neolatina Comércio e Ind, Farmacêutica Ltda. | Embalagens Allbox Ltda. | Total |
| Suppliers | - | - | - | - | (8,477) | (8,477) |

## a. 2 In the income for the period

| | Parent company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 06/30/2014 | | | | | | | | |
| | **Cosmed Indústria de Cosméticos e Medicamentos S.A.** | **My - Agência Propaganda Ltda.** | **TV Serra Dourada Ltda.** | **Neo Marcas Ind. Farm. e Alim. e Participações Ltda.** | **Brainfarma Ind. Quim. e Farmacêutica S.A.** | **Embalagens Allbox Ltda.** | **ICF Instituto de Ciências Farmacêuticas Ltda.** | **Universo Online S.A.** | **Total** |
| Transactions | (503,940) | (2,850) | - | - | (346,397) | - | - | - | (853,187) |
| Sales of goods/products | 4,891 | - | - | - | 6,278 | - | - | - | 11,169 |
| Purchases of goods/products | (508,831) | (2,850) | - | - | (352,675) | - | - | - | (864,356) |
| Other expenses/income | - | (2,850) | (6,685) | (480) | - | - | - | (134) | (10,149) |
| Advertising | - | (2,850) | (6,474) | | - | - | - | - | (9,324) |
| Rents | - | | (211) | (480) | - | - | - | - | (691) |
| Services provided | | | | | | | | (134) | (134) |
| Interest on loan | (21) | - | - | (3) | 18 | - | - | - | (6) |
| Financial expenses | - | - | - | - | - | - | - | - | - |
| Financial income | (21) | - | - | (3) | 18 | - | - | - | (6) |

| | Consolidated | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 06/30/2014 | | | | | | | | |
| | **Cosmed Indústria de Cosméticos e Medicamentos S.A.** | **My - Agência Propaganda Ltda.** | **TV Serra Dourada Ltda.** | **Neo Marcas Ind. Farm. e Alim. e Participações Ltda.** | **Brainfarma Ind. Quim. e Farmacêutica S.A.** | **Embalagens Allbox Ltda.** | **ICF Instituto de Ciências Farmacêuticas Ltda.** | **Universo Online S.A.** | **Total** |
| Transactions | - | - | - | - | - | 17,050 | - | - | 17,050 |
| Purchases of goods / products / raw material | - | - | - | - | - | 17,050 | - | - | 17,050 |
| Other expenses/income | - | - | (6,685) | (480) | - | - | (596) | (134) | (7,895) |
| Advertising | - | - | (6,474) | - | - | - | - | - | (6,474) |
| Rents | - | - | (211) | (480) | - | - | - | - | (691) |
| Services provided | - | - | - | - | - | - | (596) | (134) | (730) |

| | Parent company | | | | | | |
|---|---|---|---|---|---|---|---|
| | 06/30/2013 | | | | | | |
| | **Cosmed Indústria de Cosméticos e Medicamentos S.A.** | **My - Agência Propaganda Ltda.** | **TV Serra Dourada Ltda.** | **Neo Marcas Ind. Farm. e Alim. e Participações Ltda.** | **Brainfarma Ind. Quim. e Farmacêutica S.A.** | **Neolatina Comércio e Ind. Farmacêutica Ltda.** | **Total** |
| Transactions | (463,288) | - | - | - | (254,604) | - | (717,892) |
| Sales of goods/products | - | - | - | - | - | - | - |
| Purchases of goods/products | (463,288) | - | - | - | (254,604) | - | (717,892) |
| Other expenses/income | - | (900) | (5,634) | (480) | (672) | - | (7,686) |
| Advertising | - | (900) | (5,348) | - | - | - | (6,248) |
| Rents | - | - | (286) | (480) | (672) | - | (1,438) |
| Services provided | - | - | - | - | - | - | - |
| Interest on loan | 5 | (75) | - | - | 25 | (1) | (46) |
| Financial expenses | - | (75) | - | - | - | (1) | (76) |
| Financial income | 5 | - | - | - | 25 | - | 30 |

| | Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| | 06/30/2013 | | | | | | |
| | **Cosmed Indústria de Cosméticos e Medicamentos S.A.** | **My - Agência Propaganda Ltda.** | **TV Serra Dourada Ltda.** | **Neo Marcas Ind. Farm. e Alim. e Participações Ltda.** | **Brainfarma Ind. Quim. e Farmacêutica S.A.** | **IPH&C Ind. de Produtos de Higiene e Cosm. Ltda.** | **Total** |
| Transactions | - | - | - | - | - | - | - |
| Sales of goods/products | - | - | - | - | - | - | - |
| Purchases of goods/products | - | - | - | - | - | - | - |
| Other expenses/income | - | - | - | - | - | - | - |
| Advertising | - | - | - | - | - | - | - |
| Rents | - | - | - | - | - | - | - |
| Services provided | - | - | - | - | - | - | - |
| Interest on loan | - | - | - | - | - | - | - |
| Financial expenses | - | - | - | - | - | - | - |
| Financial income | - | - | - | - | - | - | - |

## b. Key management compensation

The key management personnel comprises the board members and directors and members of the executive committees. The compensation paid or payable to key management personnel is as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **June 30, 2014** | **June 30, 2013** | **June 30, 2014** | **June 30, 2013** |
| Salaries and other short term benefits | 26,521 | 28,564 | 32,701 | 33,648 |
| Board members' fees | 518 | 389 | 561 | 396 |
| Share-based payments | 2.765 | 3,020 | 3,366 | 4,146 |
| | 29,804 | 31,973 | 36,628 | 38,190 |