(A free translation of the original in Portuguese)

Raia Drogasil S.A.

Parent company and consolidated financial statements at December 31, 2017 and independent auditor's report

(A free translation of the original in Portuguese)

São Paulo, February 22, 2018. **RD - People, Health and Well-being** (Raia Drogasil S.A. - B3: RADL3) announces today its results for the 4rd quarter of 2017 (4Q17) and for the year of 2017. The quarterly information of RD was prepared in accordance to the Accounting Pronouncement 21 - Intermediate Statements as well as the standards issued by the Brazilian Securities and Exchange Commission - CVM and was reviewed by our independent auditors in accordance with Brazilian intermediate statements standards of auditing. Such information was prepared in Reais and all growth rates relate to the same period of 2016.

CONSOLIDATED HIGHLIGHTS:

- **DRUGSTORES:** 1,610 stores in operation (210 openings and 20 closures)
- **GROSS REVENUES:** R$ 13.9 billion, 17.1% growth (7.2% retail same-store sales growth)
- **GROSS MARGIN:** 28.8% of gross revenues, a 0.8 percentage point decrease
- **EBITDA:** R$ 1,130.3 million, a margin of 8.2% and a decrease of 0.2 percentage point
- **NET INCOME:** R$ 512.5 million, 3.7% of net margin, an increase of 12.3%
- **CASH FLOW:** R$ 49.7 million negative free cash flow, R$ 211.0 million of cash consumption

Summary	2016	2017	4Q16	1Q17	2Q17	3Q17	4Q17
(R$ thousand)							
# of Stores - Retail + 4Bio	1,420	1,610	1,420	1,457	1,506	1,554	1,610
Store Openings	212	210	62	42	54	54	60
Store Closures	(27)	(20)	(12)	(5)	(5)	(6)	(4)
# of Stores (average)	1,324	1,510	1,394	1,435	1,485	1,533	1,588
Headcount (EoP)	29,009	32,265	29,009	28,952	30,264	31,163	32,265
Pharmacist Count (EoP)	5,515	6,044	5,515	5,561	5,773	5,977	6,044
# of Tickets (000)	187,764	206,286	49,302	48,439	51,091	52,798	53,957
Gross Revenue	11,827,567	13,852,469	3,205,873	3,212,406	3,397,860	3,580,024	3,662,178
Gross Profit	3,504,143	3,987,999	922,344	921,624	999,721	1,020,396	1,046,258
% of Gross Revenues	29.6%	28.8%	28.8%	28.7%	29.4%	28.5%	28.6%
EBITDA	987,649	1,130,285	235,996	244,018	301,085	296,463	288,719
% of Gross Revenues	8.4%	8.2%	7.4%	7.6%	8.9%	8.3%	7.9%
Adjusted Net Income	456,318	512,513	92,236	105,427	137,970	136,493	132,623
% of Gross Revenues	3.9%	3.7%	2.9%	3.3%	4.1%	3.8%	3.6%
Net Income	451,252	512,653	87,169	104,002	137,970	136,493	134,188
% of Gross Revenues	3.8%	3.7%	2.7%	3.2%	4.1%	3.8%	3.7%
Free Cash Flow	18,077	(49,670)	50,097	(172,735)	(47,500)	102,135	68,430

LETTER TO OUR SHAREHOLDERS

Fiscal 2017 was another strong year for **RD**, as we delivered solid revenue growth and efficiency gains that allowed us to sustain only minimal margin loss when compared to a record 2016, when high pharmaceuticals inflation (11.8%) led to an abnormal gross margin boost. Our results underscore the defensive nature of our industry, driven by the secular ageing of the population, the robustness of our expansion, allowing us to open 210 new stores and gain significant market share while maintaining store productivity, as well as to the strength of our execution, entailing strong and sustainable efficiency gains that almost fully offset those pressures, driving a sustainable expense dilution that fully preserved service quality, as attested by another year with record-low customer insatisfaction (1.4% negative evaluations versus 2.0% in 2016).

In April, we unveiled our new corporate brand, **RD – People, Health and Well-being**, which fully reflects our Identity, as well as our Purpose of ***"Taking Close Care of People´s Health and Well-being during all Times of their Lives"***. **RD** will keep guiding its actions through five essential values: ***Ethics, Efficiency, Innovation, Relations of Trust and Long-Term View***. The **RD** brand also reflects the transformation of our business, which combines an integrated portfolio of Healthcare and Wellness Assets: ***RD Pharmacies*** (***Droga Raia, Drogasil and Farmasil***), ***RD Health*** (***4-Bio*** and ***Univers***) and ***RD Brands*** (***Needs, B-Well, Triss, Caretech and Nutrigood***).

We have also reaffirmed our clear commitment towards Sustainability, based on an agenda that is fully aligned with our Purpose: **To Take Care of People's Health, To Take Care of the Planet's Health** and **To Take Care of the Business' Health**. Each of these three main axes is divided into nine specific guidelines containing a work plan approved by the board with specific actions, targets and timetables, many of which influence the variable compensation of each involved executive.

In 2017, for the first time since **RD** was established, we published the 2016 Sustainability Report disclosing our economic, social and environmental performance, according to the G4 version of the Global Reporting Initiative (GRI), which contains guidelines and metrics that constitute a baseline to systematically track our progress in future reports.

Our management agenda has been focused on the four Strategic Pillars established in 2014, which are allowing us to create new differentials and to deliver better service to our Customers: Accelerating Organic Growth, Introducing New Formats, Enhancing Category Management and Shopping Experience, as well as Engaging, Analyzing and Potentializing Customers. We have also worked on the three core enablers for implementing those strategies: People, Processes and Platforms.

We are proud to report on the achievement of several milestones. We accelerated annual growth to 210 new stores, a significant boost in opening pace since the merger while preserving historical returns. We have advanced in Farmasil, with the opening of 7 stores and the closing of one, aiming at creating another long-term lever for the Company. We have started to roll-out of the new Drogasil store identity, aligned with the brand´s positioning to enhance shopper experience. In 2016, we opened 54 stores with the new identity and retrofitted another 27 to the format. Following a leap in Category Management with Dunnhumby, our data science partner, we have continued our capability build-up by starting the implementation of a new pricing platform, which will enhance price discrimination across stores and make us more competitive. We also achieved strides in CRM, with the roll-out of new loyalty programs both in Raia and in Drogasil and with increased personalization now supported both by our store and digital platforms.

In order to reinvent our execution, we have also worked relentlessly on the three core strategic enablers. On the people side, following the big leap in execution achieved in the previous years, we started a cultural transformation by disseminating our Identity, Values and Purpose. By upgrading processes and enhancing platforms, two edges of the same sword, we further improved the supply chain management, achieving a record low level of stock outs and opening a new distribution center in Salvador that has allowed us to increase delivery frequency and reduce shipping costs in Bahia, Sergipe and Espirito Santo. Finally, we delivered a record expense dilution by gaining process efficiency in several expense lines.

Finally, we have also advanced toward our vision of providing unmatched, innovative and integrated services for patients, health operators, manufacturers and physicians through **RD Health**. 4Bio, our Specialty Retailing platform, grew revenues by 53.1%, becoming the undisputed industry leader, while allowing us to cross-sell specialty products to our customers in all 1,610 stores. Also, we have concluded the migration of all institutional clients from our legacy Raia and Drogasil Platforms to Univers, our new proprietary PBM platform, that allows members to buy from any Raia or Drogasil store, and signed many new and meaningful accounts which supported very strong revenue growth in the year.

We ended 2017 with R$ 13.9 billion in consolidated gross revenues, recording 17.1% of growth versus 2016. We opened 210 new stores and closed 20, ending the year with 1,610 stores throughout Brazil. We posted a revenue increase of R$ 2.0 billion in 2017, similar to the total revenues of the fourth largest drugstore Brazilian chain, further consolidating our industry leadership. Consequently, our market share reached 12.0% in the 4Q17, a 0.5 percentage point increase over the 4Q16.

In a year with significant gross margin headwinds due to the abnormal inflationary gains of 2016, our expense dilution allowed us to substantially defend our EBITDA margin, which has now become fully structural as opposed to inflation-boosted. Our consolidated EBITDA reached R$ 1.1 billion, an increase of 14.4%, and a margin of 8.2%, a 0.2 percentage point pressure. Our retail margin was contracted by only 0.1 percentage point, while 4Bio responded for the difference. Our net income amounted to R$ 512.5 million, a net margin of 3.7%. We consumed a free cash flow of R$ 49.7 million, as R$ 589.5 million in cash flows from operations almost totally funded our R$ 639.2 million in investments. Our ROIC totaled 19.7%, a reduction of 1.9 percentage points due to a slightly lower margin and faster investment pace. We distributed R$ 202.5 million in interest on equity, a payout of 39.5%, posting a Total Shareholder Return of 52.3%.

CHALLENGES AND OPPORTUNITIES FOR THE FUTURE

As we progress along the strategic path envisioned in 2014 and wrap-up on the remaining initiatives, which are reaching their final steps of implementation, we have started to lay our eyes on the next cycle ahead. The main priority for 2018, in addition to concluding or enhancing the many initiatives started in the last few years, will be the development of a new strategic planning for the next 5 years aiming at developing new levers that may support another leap in the value that we provide to our clients and create to our shareholders.

We have already identified three core levers for value creation that shall be cornerstone of our strategy, which will be further explored, detailed and challenged during our strategic planning:

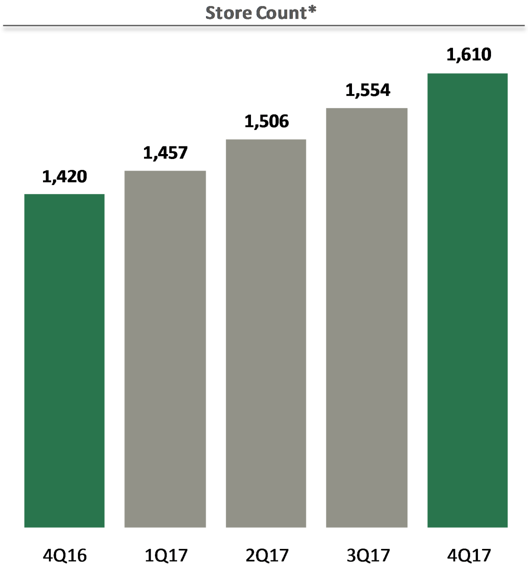
Further Accelerate our Expansion: In 2011, when **RD** was created and in 2012, the *Year 1* of the new company, we opened an average of 100 stores per year. Step by step, by reinforcing our prospection, by leveraging on expansion analytics, by strengthening the governance and the property screening behind our new store decisions, by smoothing our store licensing and engineering processes, by streamlining the opening pace through each year, by continuously forming new store managers through a strengthened career program and by starting to measure and predict cannibalization and marginal revenues per store, we have been able to accelerate to around 130 stores per year in 2013 and 2014, to 156 stores in 2015 and to around 210 stores in 2016 and 2017, totaling 1,040 new store openings. We have today 1,610 stores, of which approximately two thirds were opened in the last 7 years since the merger. Our new stores have been opened in superb locations across 20 states, which deliver consistent revenues per mature store when compared to those of the legacy portfolio, allowing us to significantly expand our margins and boost returns and value creation over this period. We are the only drugstore chain in Brazil with the brands already established and with a track record of consistent sales per mature store and high marginal returns across all states that account for more than 90% of the Brazilian pharmaceutical market. Hence, we have already constituted a truly unique national expansion platform that will allow us to keep accelerating our growth without facing meaningful entry barriers. We have established a guidance of 240 new stores per year for 2018 and 2019 and envision many more years of accelerated expansion with similar historic productivity and returns. We also expect to overcome Farmasil´s expansion learning curve to make it into a new long-term driver for value creation.

Deliver a Customer-Centric Digital Experience: We want to evolve from providing an analog to a digital customer experience. We want to leverage our unmatched customer database from a loyalty program that represents 93% of our revenues and the analytical capabilities provided by Dunnhumby to create a seamless digital experience, based on omnichannel retailing, personalized product and service offerings and a high level of customer engagement in store, in our apps, web-sites and in social media. We believe the stores will remain the cornerstone of the customer experience by delivering enhanced access, convenience, experience and service, but we also believe that digital will allow us enhance customer experience in store and to extend it to out of store, relieving existing pain-points from the shopping experience. Since 2014 we have focused on the physical omnichannel infrastructure, including a new e-commerce platform, the launch of our apps, fulfillment from a DC, which will allow us to extend the reach of our omnichannel offering to several other states, and store neighborhood delivery pilots. In 2018, we will leverage that infrastructure to enhance our apps, promote their adoption and start offering a full omnichannel experience in multiple states, complementing the store experience with affordable remote delivery, fast premium neighborhood delivery and free and painless in-store collection. Beyond 2018, our main challenge will be to enhance personalization and provide value-added services that enhance the customer engagement with integrated touch-points in store, in the apps and web sites and in the social media.

Leverage our Healthcare Platform: RD Health already constitutes a powerful healthcare platform, which is already the undisputed leader in Brazil with health operators as well as with corporations, both in primary care and in specialty through Univers and 4Bio, respectively. We want to take that platform to the next level, integrating our offerings, accelerating account growth and member adoption while assessing other adjacencies where we might be able to leverage our know-how and infrastructure to create value to our institutional clients.

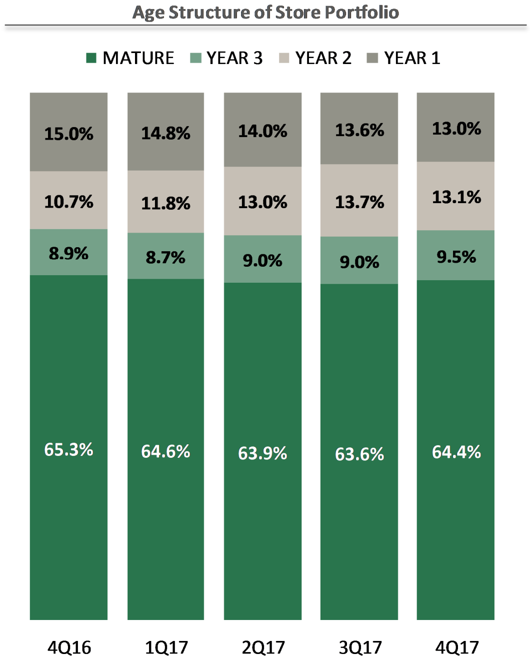
Finally, we would like to thank our shareholders for their continued trust, our more than 30 thousand employees for their relentless commitment, and the millions of clients that, every month, entrust us with their health and well-being. We would like to reiterate our commitment to keep on creating value for our shareholders, opportunities for our employees and well-being for our clients by living up to our Purpose of ***Taking Close Care of People´s Health and Well-being during all Times of their Lives.***

STORE DEVELOPMENT



	4Q16	1Q17	2Q17	3Q17	4Q17
Openings	62	42	54	54	60
Closures	(12)	(5)	(5)	(6)	(4)

* Includes three 4Bio stores.



We opened 210 new stores and closed 20 in 2017 (60 openings and 4 closures in the 4Q17), ending year with 1,610 stores in operation, including three 4Bio units.

We have surpassed the 200 gross openings guidance for the second year in a row, reflecting the robustness of our expansion. Additionally, 2017 is shaping up to become our strongest vintage since 2012, with expected mature revenues per store higher than the current average for the Company. We reiterate the gross openings guidance of 240 stores per year for 2018 and 2019.

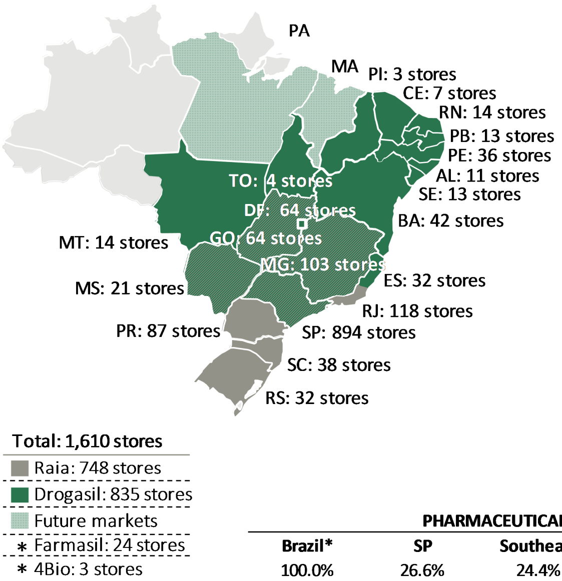
At the end of the period, 35.6% of our stores were still in the process of maturation and had not yet reached their full potential both in terms of revenue and of profitability.

Of the 20 store closures undertaken in 2017 (4 in the 4Q17), 7 stores were still in the maturation process and represent corrections of expansion mistakes that are normal in such large-scale expansion. The remaining 13 closures were driven by the optimization of our store portfolio, with positive return expectations associated to them.

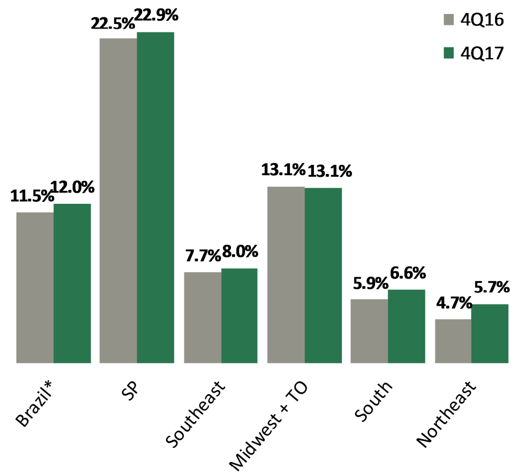
Our average national market share reached 12.0% in the quarter (including 4Bio), a 0.5 percentage point increase when compared to the 4Q16. We have increased or maintained our market share in all five core regions where we operate. The Northeast remained as our main highlight, where we recorded a market share of 5.7%, a 1.0 percentage point increase driven by our organic expansion. We recorded a market share of 22.9% in São Paulo, a 0.4 percentage point increase, and of 8.0% in the remaining states of the Southeast, a 0.3 percentage point gain. Finally, we recorded a 13.1% market share in the Midwest, which has finally stabilized after 2 quarters of year-on-year decline due to a strong comp base in Brasilia.

In December, we entered the state of Piauí by opening three stores in Teresina with great initial results. We are now present in 20 states that account for 94% of the Brazilian pharmaceutical market. In the upcoming quarters, we will also enter the states of Pará and Maranhão, which will extend our presence to 22 states, which will include a full presence in the Northeast (Bahia, Sergipe, Alagoas, Pernambuco, Paraíba, Rio Grande do Norte, Ceará, Piauí and Maranhão).

Geographic Presence



Market Share



PHARMACEUTICAL MARKET BREAKDOWN BY REGION (%)

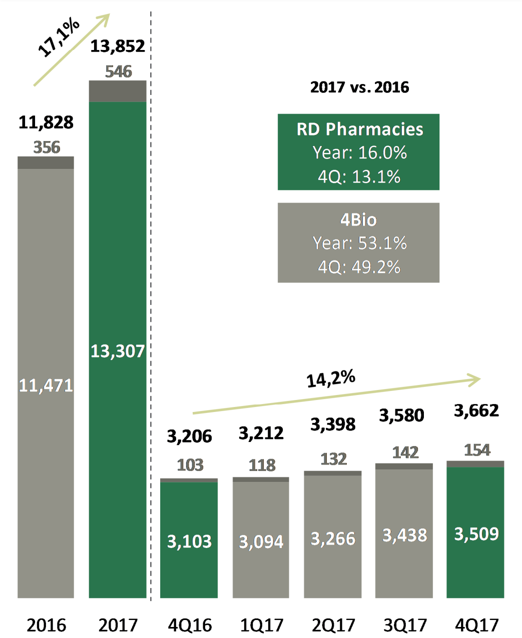
Brazil*	SP	Southeast	Midwest + TO	South	Northeast
100.0%	26.6%	24.4%	9.8%	16.2%	18.6%

Source: IMS Health

* Includes 4Bio only for Brazil total.

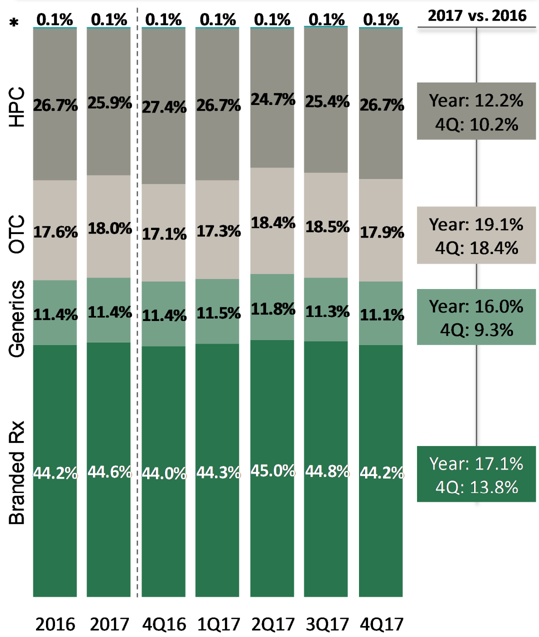
GROSS REVENUES

Consolidated Gross Revenue



* Services

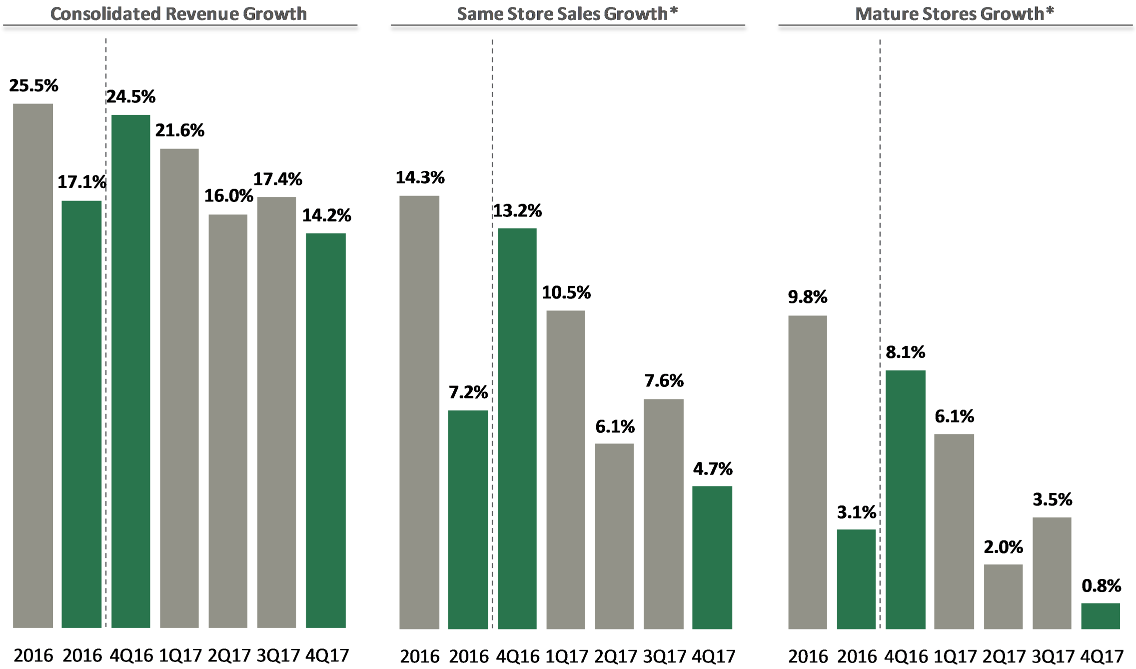
Retail Sales Mix



We ended 2017 with consolidated gross revenues of R$ 13,852.5 million (R$ 3,662.2 in the quarter), a 17.1% increase over the previous year (14.2% in the quarter). Our drugstore revenues increased by 16.0% (13.1% in the quarter), while 4Bio grew 53.1% in the period (49.2% in the quarter). We recorded a negative calendar effect of 0.8% in the quarter.

OTC was the highlight of 2017 by growing 19.1% (18.4% in the quarter) and gaining 0.4 percentage point of participation in the sales mix (0.8% in the quarter). Branded Rx grew 17.1% (13.8% in the quarter), and also gained 0.4 percentage point in the sales mix (0.2% in the quarter). On the other hand, Generics grew by 16.0% in the year (9.3% in the quarter), maintaining its participation in the sales mix (reduction of 0.3% in the quarter), while HPC grew by 12.2% (10.2% in the quarter) and lost 0.8 percentage point in the sales mix (reduction of 0.7% in the quarter).

It is important to highlight that we recorded an unusually colder and rainier quarter, especially in the peak days preceding the new year break, which penalized our seasonal HPC mix in the quarter (although partially mitigated by a peak in repellents sales due to the yellow fever pandemic), while benefiting the OTC category.



* RD Pharmacies only

Considering our retail operations, same store sales increased by 7.2%, while our mature stores recorded 3.1% of growth. In the 4Q17, same store sales increased by 4.7% while mature stores recorded an increase of 0.8%, penalized by the adverse calendar effect.

Finally, the Brazilian pharmaceutical market grew by 9.5% in the last twelve months ended in December 2017, according to IMS Health, a testament to the defensive nature of our Industry.

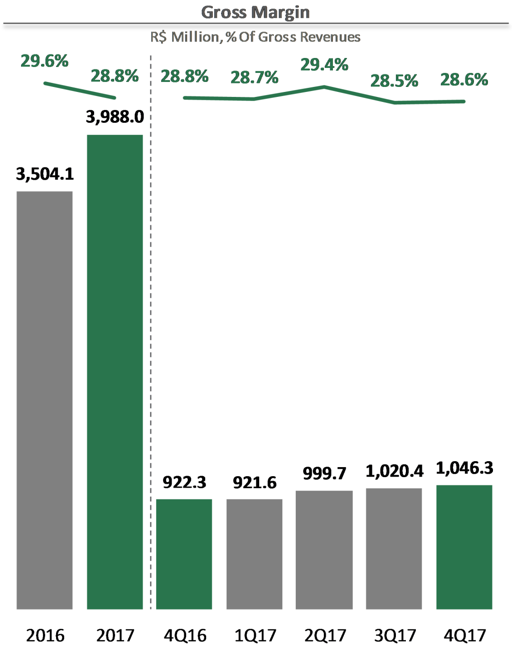
GROSS MARGIN

Our gross margin reached 28.8%, a 0.8 percentage point pressure versus 2016. In the 4Q17, we recorded a gross margin of 28.6%, a 0.2 percentage point pressure over the 4Q16.

The margin pressure recorded in the year was mainly due to the high comp base of 2016, when the price cap increase averaged a very high 11.8%, as opposed to the normal increase of 3.1% recorded in 2017, a margin pressure of 0.7 percentage point (no effect in the quarter).

We also recorded a 0.1 percentage point margin pressure due to a lower Net Present Value (NPV) adjustment (0.2 percentage point in the quarter), which is a non-cash effect, since interest rates have sharply declined in Brazil, and a 0.3 percentage point pressure from 4Bio (also 0.3 percentage point in the quarter), due to its negative mix effect and to gross margin pressures.

These gross margin pressures registered in 2017 were partially offset by scale gains in purchasing which, combined with other effects, amounted to a 0.3 percentage point gain (0.3 percentage point gain also in the 4Q17).



SELLING EXPENSES

In the 2017, selling expenses totaled R$ 2,529.1 million, equivalent to 18.3% of gross revenue, a 0.5 percentage point dilution over 2016.

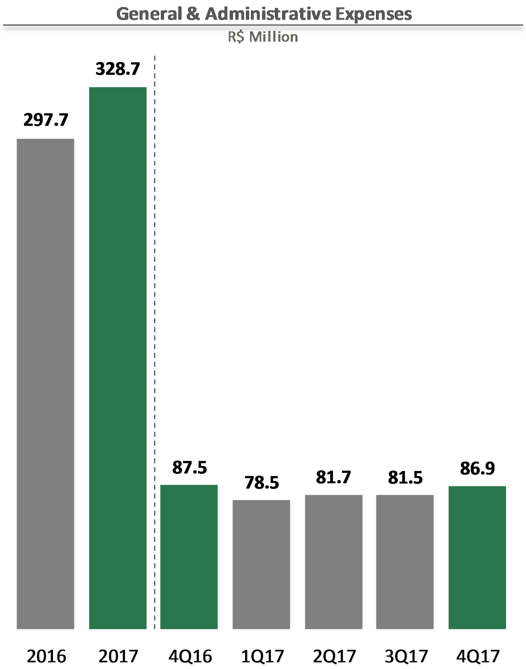
This expense dilution is a result of an enhanced expense control and of a very disciplined execution carried out by the Company throughout the year. The unfavorable calendar effect recorded in the quarter has transitorily penalized expense dilution when compared to the previous two quarters.

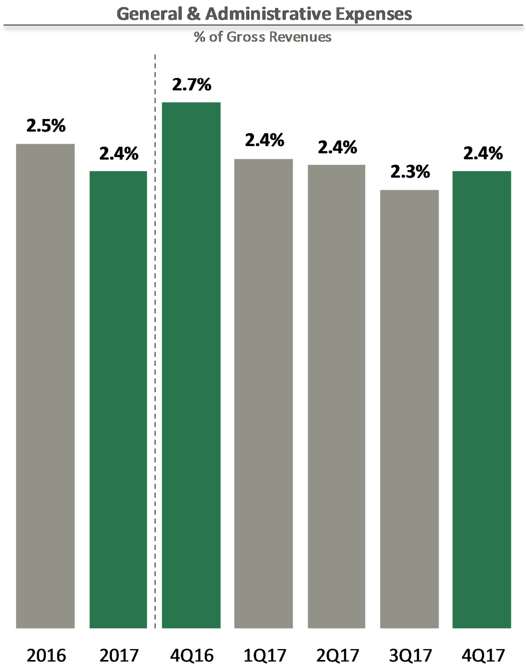
Personnel expenses were diluted by 0.2 percentage point, while marketing, logistics, pre-operating expenses and other expenses recorded dilutions of 0.1 percentage point each. We also recorded a 0.1 percentage point dilution from 4Bio, which has lower selling expenses than the average for the Company. Finally, these dilutions were partially offset by a pressure of 0.2 percentage point in rentals.

In the quarter, selling expenses totaled R$ 670.6 million, equivalent to 18.3% of gross revenues, a 0.4 percentage point dilution over the 4Q16, also stemming from our enhanced expense control. Personnel expenses, marketing, logistics and other expenses were diluted by 0.1 percentage point each. We also recorded a 0.1 percentage point dilution from 4Bio, which has lower selling expenses than the average for the company. Finally, these dilutions were partially offset by pressures in Electricity of 0.1 percentage point.

GENERAL & ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to R$ 328.7 million in 2017, equivalent to 2.4% of gross revenue, a 0.1 percentage point dilution over 2016. This expense reduction was due to a dilution of personnel expenses stemming from economies of scale.



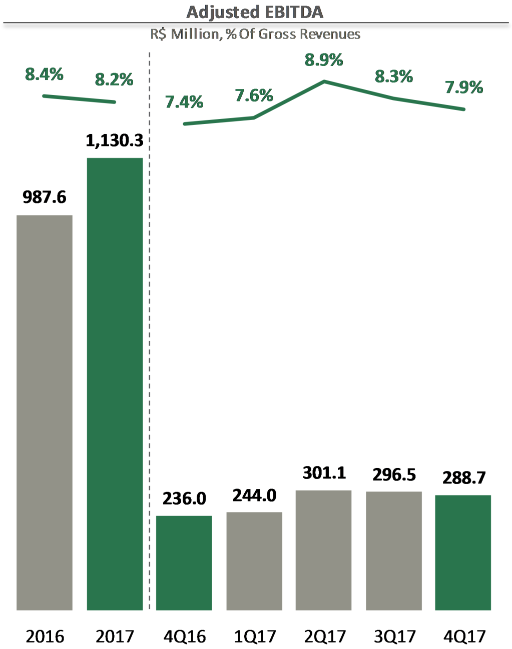


In the 4Q17, general and administrative expenses amounted to R$ 86.9 million, equivalent to 2.4% of gross revenue, a 0.3 percentage point dilution over the same period of last year. This expense reduction was due to an inflated base in the 4Q16, when we had a 0.2 percentage point pressure in our compensation allowance that reflected the annual appreciation of our share price over the outstanding shares granted under our restricted shares incentive program. Finally, we recorded another 0.1 percentage point dilution in labor contingencies.

EBITDA

Our Adjusted EBITDA reached R$ 1,130.3 in 2017, an EBITDA margin of 8.2%, representing a contraction of 0.2 percentage point and an increase of 14.4% over 2016. In the 4Q17, the Adjusted EBITDA totaled R$ 288.7 million, a 22.3% increase over the 4Q16. Our adjusted EBITDA margin totaled 7.9%, a 0.5 percentage point expansion over the same period of last year.

Although we faced a gross margin pressure of 0.8 percentage point due to the higher comp base of the 2Q16 and the 3Q16, we mitigated it through a strong SG&A dilution of 0.6% that reflected a disciplined expense control throughout the year.



It is important to mention that we recorded a 0.1 percentage point margin pressure due to a lower Net Present Value (NPV) adjustment (0.2 percentage point in the quarter), which is a non-cash adjustment driven by lower interest rates. Excluding that adjustment, the annual EBITDA margin pressure amounted to only 0.1 percentage point, with a 0.1 percentage point retail margin expansion (excluding 4Bio) in 2017.

New stores opened in the year, as well as those that were in the opening process, reduced the EBITDA by R$ 17.0 million in the 2017, but generated a positive quarterly contribution of R$ 6.1 million. This was a result of the high quality of the new store portfolio, since 2017 is shaping up to be the best sore vintage in terms of projected mature store sales since 2012, and of the consistent expansion pace implemented throughout the year, as the 96 stores opened in the 1H17 had enough time and traction to contribute positively, more the offsetting the opening pressures of the 114 stores opened in the 2H17, which did not have enough time to break-even.

Considering only the 1,400 stores in operation since the end of 2016 and the full absorption of logistics, as well as of general and administrative expenses by such stores, our adjusted EBITDA would have totaled R$ 1,147.3 million (R$ 282.6 in the quarter), equivalent to an EBITDA margin of 8.6% over gross revenues (8.3% in the quarter).

RD Pharmacies reached an adjusted EBITDA of R$ 1,119.3 (R$ 286.1 million in the quarter) and a margin of 8.4% (8.2% in the quarter), a 0.1 percentage point pressure over 2016 (0.7 percentage point expansion in the quarter).

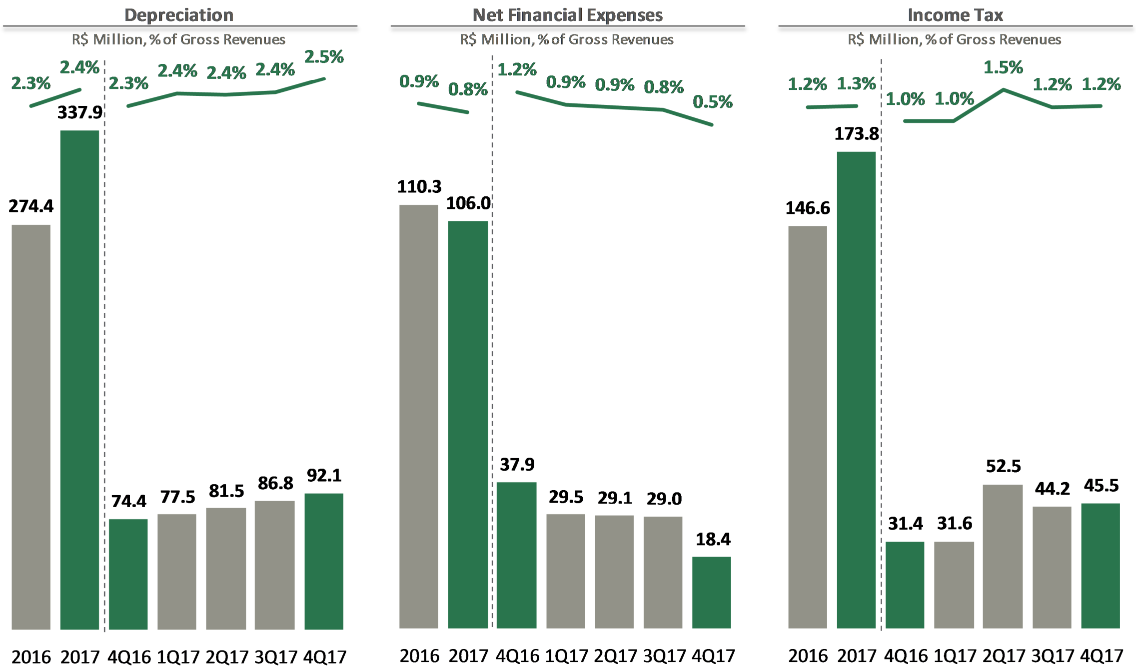
Finally, 4Bio reached an EBITDA of R$ 10.9 million (R$ 2.6 million in the quarter) and a margin of 2.0% (1.7% in the quarter), a 2.8 percentage point margin pressure due to structural gross margin pressures (1.7 percentage point pressure in the quarter).

NON-RECURRING REVENUES / EXPENSES

During the 4Q17, we recorded R$ 2.4 million in non-recurring gains arising from tax credits that relate to previous years. In 2017, total non-recurring gains amounted to R$ 0.2 million (R$ 2.4 million in the 4Q17).

Non-Recurring Revenues / Expenses	1Q17	4Q17	2017
(R$ million)			
Labor contingencies: change in loss estimates	(12.1)		(12.1)
Retirement compensation: C-level Executive	(3.2)		(3.2)
Trade allowances: elimination of recognition timing delay	13.1		13.1
INSS credit from previous years		2.4	2.4
Total	**(2.2)**	**2.4**	**0.2**

DEPRECIATION, NET FINANCIAL EXPENSES AND INCOME TAXES



Depreciation expenses amounted to R$ 337.9 million in 2017, equivalent to 2.4% of gross revenues, a 0.1 percentage point increase when compared to the previous year. In the 4Q17, depreciation amounted to R$ 92.1 million, or 2.5% of gross revenues, a 0.2 percentage point increase when compared to the same period of the previous year.

Net Financial expenses totaled R$ 106.0 million in 2017 (R$ 18.4 million in the quarter), representing 0.8% of gross revenues (0.5% in the quarter), a 0.1 percentage point decrease over the previous year. Net Present Value Adjustment penalized the financial result by R$ 59.2 million in 2017 (R$ 13.9 million in the quarter).

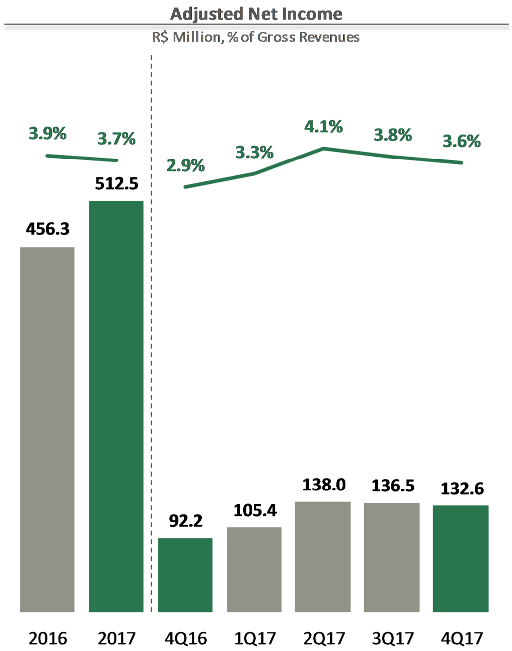
In addition, we recorded R$ 2.3 million in financial expenses from the option to acquire 4Bio during the year (R$ 5.0 million net financial income in the quarter), versus R$ 13.6 million in 2016 (R$ 9.0 million expenses in the 4Q16). It is important to mention that the R$ 5.0 million of net financial income registered in the 4Q17 was a result of a R$ 7.7 million in financial income related to a reduction in the expected value of the remaining 45% of 4Bio in 2021 due to lower projected margins between 2018 and 2020, less R$ 2.7 million of interests accrued on the option. This impairment analysis is undertaken once a year in the fourth quarter.

Excluding the NPV adjustments and expenses on the option to acquire 4Bio, the interest accrued on net debt amounted to R$ 44.6 million in 2017 (R$ 9.5 million in the quarter), or 0.3 of gross revenues (also 0.3% of gross revenues in the quarter).

Finally, we booked R$ 173.8 million in income taxes, equivalent to 1.3% of gross revenues. In the 4Q17, we booked R$ 45.5 million in taxes, equivalent to 1.2% of gross revenues.

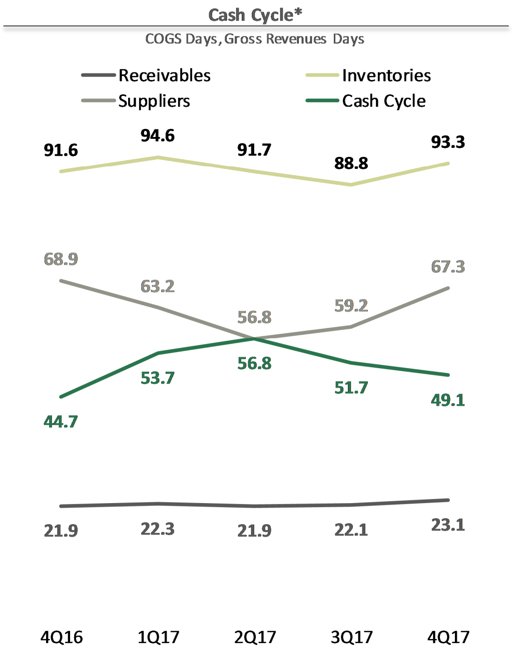
NET INCOME

Adjusted Net income totaled R$ 512.5 million in 2017, equivalent to a net margin of 3.7% (R$ 132.6 million in the quarter, a net margin of 3.6%). This represented a 12.3% increase in net income and a 0.2 percentage point pressure over the previous year (43.8% increase and a 0.7 percentage point expansion in the quarter).



CASH CYCLE

Our cash cycle in the 4Q17 was 4.4 days higher when compared to the same period of the previous year. Inventories increased by 1.7 day and accounts payable decreased 1.6 day. Lastly, receivables increased by 1.2 day reflecting an unfavorable calendar in the end of December when compared to the same period in 2016.



* Adjusted to discounted receivables.

CASH FLOW

We recorded a negative free cash flow of R$ 49.7 million in 2017, and a total cash consumption of R$ 211.0 million. Our operating cash flow totaled R$ 589.5 million, which was more than fully consumed by the R$ 639.2 million in investments undertaken in the period. Resources from operations totaled R$ 851.0 million, equivalent to 6.1% of gross revenues, while we recorded a working capital consumption of R$ 261.5 million.

Cash Flow	4Q17	4Q16	2017	2016
(R$ million)				
Adjusted EBIT	**196.6**	**161.6**	**792.4**	**713.2**
NPV Adjustment	(14.6)	(20.4)	(63.9)	(67.3)
Non-Recurring Expenses	2.4	(7.7)	0.2	(7.7)
Income Tax (34%)	(62.7)	(45.4)	(247.8)	(217.0)
Depreciation	92.1	74.4	337.9	274.4
Others	8.8	5.4	32.2	12.9
Resources from Operations	**222.6**	**167.9**	**851.0**	**708.6**
Cash Cycle*	28.2	34.0	(337.0)	(257.5)
Other Assets (Liabilities)**	(22.9)	(17.1)	75.5	56.1
Operating Cash Flow	**227.9**	**184.8**	**589.5**	**507.1**
Investments	**(159.5)**	**(134.7)**	**(639.2)**	**(489.1)**
Free Cash Flow	**68.4**	**50.1**	**(49.7)**	**18.1**
Interest on Equity	(85.6)	(81.9)	(170.8)	(153.3)
Income Tax Paid over Interest on Equity	(14.5)	(13.7)	(28.5)	(27.0)
Net Financial Expenses***	(4.5)	(15.2)	(46.8)	(42.1)
Income Tax (Tax benefit over financial expenses and interest on equity)	19.0	22.2	84.8	80.5
Total Cash Flow	**(17.2)**	**(38.5)**	**(211.0)**	**(123.9)**

*Includes adjustments to discounted receivables.

**Includes tax shield from goodwill amortization and NPV adjustments.

***Excludes NPV adjustments.

In the 4Q17, we recorded a positive free cash flow of R$ 68.4 million, and a total cash consumption of R$ 17.2 million. Our operating cash flow totaled R$ 227.9 million, which more than fully funded the R$ 159.5 million in investments undertaken in the period. Resources from operations totaled R$ 222.6 million, equivalent to 6.1% of gross revenues, while we recorded a working capital reduction of R$ 5.3 million.

Of the R$ 639.2 million invested in the year, R$ 360.7 million corresponded to new store openings, R$ 111.3 million to the renovation or expansion of existing stores and R$ 167.2 million to investments in infrastructure.

Net financial expenses totaled R$ 46.8 million in 2017 (R$ 4.5 million in the quarter), excluding the NPV adjustments. These were more than fully offset by the R$ 84.8 million tax shield related to the net financial expenses and to the interest on equity accrued in the period, which shall be paid in the following quarters (R$ 19.0 million in the quarter).

We accrued R$ 202.5 million in interest on equity in 2017 (R$ 51.5 million in the quarter) versus R$ 194.7 million in 2016 (R$ 50 million in the 4Q16), reflecting a payout of 39.5%, through the full usage of the legal interest on equity limit.

INDEBTEDNESS

At the end of the year, we recorded an adjusted net debt position of R$ 393.6 million, versus R$ 182.6 million recorded by the end of 2016. The Adjusted Net Debt to EBITDA totaled 0.3x, only 0.1x higher than the same period of last year in spite of the significant investment undertaken in the year.

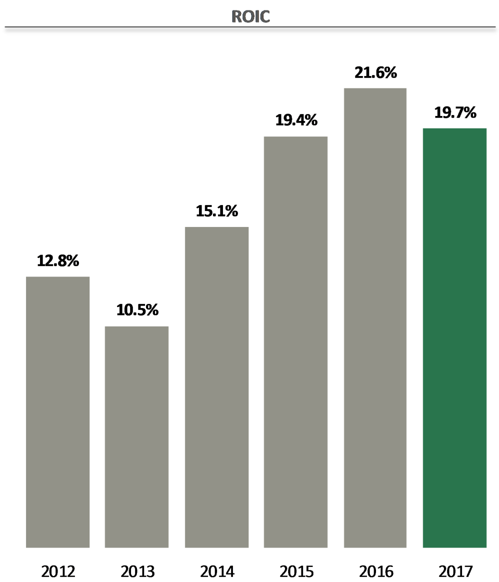
This net debt includes R$ 47.5 million in liability related to the exercise of the put option granted and/or call option obtained for the acquisition of the remaining 45% minority stake of 4Bio. This liability reflects the estimated valuation of 4Bio as of December 2017, assuming the pre-agreed multiple, the average forecasted annual EBITDA for 2018, 2019 and 2020 and the forecasted net debt for 2020 as stipulated in the acquisition contracts. This estimate will be revisited annually to reflect changes in the economic outlook of 4Bio. Further, we had no discounted receivables recorded in the quarter.

Net Debt	4Q16	4Q17
(R$ million)		
Short-term Debt	132.6	187.0
Long-term Debt	281.4	423.9
Total Gross Debt	**414.0**	**611.0**
(-) Cash and Equivalents	276.6	264.9
Net Debt	**137.3**	**346.1**
Discounted Receivables	-	-
Put/Call option to acquire 4Bio (estimated)	45.2	47.5
Adjusted Net Debt	**182.6**	**393.6**
Adjusted Net Debt / EBITDA	0.2x	0.3x

Our gross debt totaled R$ 611.0 million, of which 50.4% corresponds to BNDES (Brazilian Economic and Social Development Bank) lines, and 49.6% correspond to the debentures issued on April 2017. Of our total debt, 69.4% is long-term, while 30.6% relates to its short-term parcels. We ended the quarter with a total cash position (cash and marketable securities) of R$ 264.9 million.

RETURN ON INVESTED CAPITAL

We recorded in 2017 a return on invested capital of 19.7%, a 1.9 percentage point decrease when compared to 2017, reflecting a slightly lower operating margin, accelerated investments and an increase in our cash conversion cycle.

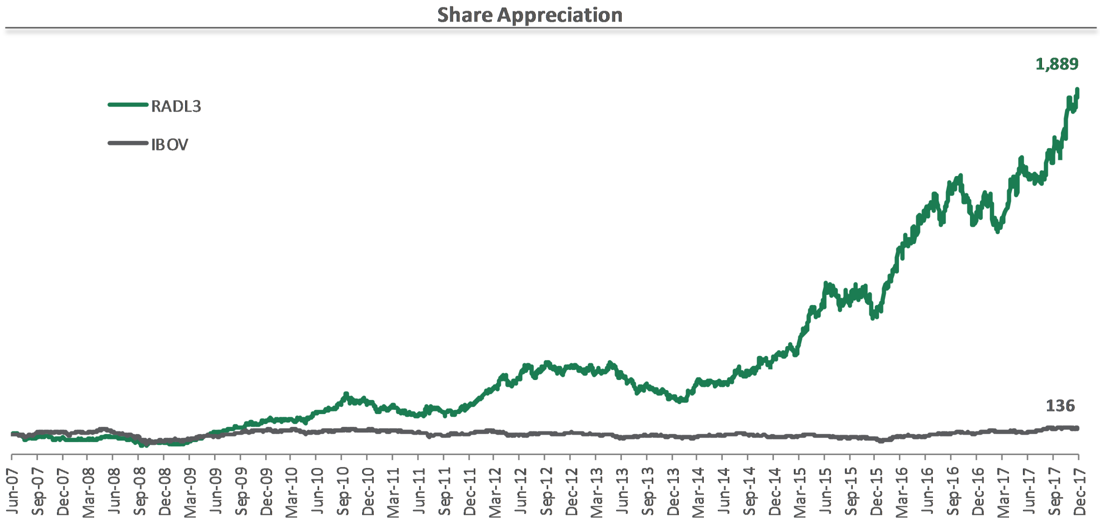


Our ROIC is heavily penalized by our accelerated organic growth, since 35.6% of our fully invested stores have not yet reached their maturation and their profitability potential. This effect is especially detrimental for the stores opened in 2017 or at the pre-operational stage for opening in 2018, which consumed a CAPEX of R$ 360.7 million as well as additional working capital investments, yet generated a negative EBITDA of R$ 17.0 million in the fiscal year, since in average, they have not yet reached break-even. Therefore, as the store portfolio matures, the ROIC is expected to escalate.

TOTAL SHAREHOLDER RETURN

Our share price appreciated by 51.3% in 2017, 28.2 percentage points above the the Ibovespa, which increased by 23.1%. Since the IPO of Drogasil, we achieved a cumulative share appreciation of 1,788.9% versus a return of only 36.3% for the Ibovespa. Including the payment of interest on equity, we generated an average annual total return to shareholders of 32.6%. Considering the IPO of Raia in December of 2010, the cumulative return amounted to 788.0% versus an increase of only 9.7% of the Ibovespa. Considering the payment of interest on equity, this resulted in an average annual total return to shareholders of 36.4%.

We recorded an average daily trading volume of R$ 93.0 million in the quarter.



SUSTAINABILITY

In 2017, we unveiled our new corporate brand, **RD - People, Health and Well-being**, which reflects our Identity as well as our Purpose of "***Taking Close Care of People´s Health and Well-being during all Times of their Lives***". We also reaffirmed our clear commitment towards Sustainability, based on an agenda that is fully aligned to our Purpose: **To Take Care of People's Health, To Take Care of the Planet's Health** and **To Take Care of the Business' Health**.

Each of these three main axes is divided into nine specific guidelines that ground our decision-making process. Guidelines are preceded by a work plan approved by the board with specific actions, targets and timetables, many of which influence the variable compensation of the involved executives. **RD** understand sustainability as a lens to look at the business, as a transversal concept that is part to our Essence. This sustainability agenda is therefore parallel to our strategic plan and regularly supervised by our Board.

In order to develop this agenda, we consulted with 73 people in three face-to-face workshops, including administrators, employees and customers, and conducted online surveys answered by other key stakeholders. We also benchmarked our main competitors, international peers and other companies we admire for reference purposes.

This process led to the identification of 23 potential issues and to the development of a materiality matrix that correlates what is important to the business with what is important to our main stakeholders, leading to the prioritization of these three axes and nine sustainability guidelines.

In 2017, for the first time since **RD** was established, we published the, disclosing our economic, social and environmental performance to our stakeholders, as well as informing the guidelines and metrics that will ensure our ongoing evolution, according to the G4 version of the Global Reporting Initiative (GRI).

The content reported provides not only disclosure to our stakeholders, but especially, substantial grounds for self-assessment purposes as well as to define new pathways for improvement. As this was the first such effort ever made, it includes some data and information that, even though cannot be compared to previous years, constitute our baseline to regularly track progress in future reports.

Adjusted Income Statement *(R$ thousand)*	**4Q16**	**4Q17**	**2016**	**2017**
Gross Revenue	**3,205,873**	**3,662,178**	**11,827,567**	**13,852,469**
Taxes, Discounts and Returns	(148,876)	(160,882)	(571,001)	(639,964)
Net Revenue	**3,056,997**	**3,501,296**	**11,256,565**	**13,212,505**
Cost of Goods Sold	(2,134,653)	(2,455,038)	(7,752,422)	(9,224,506)
Gross Profit	**922,344**	**1,046,258**	**3,504,143**	**3,987,999**
Operational (Expenses) Revenue				
Sales	(598,867)	(670,608)	(2,218,765)	(2,529,051)
General and Administrative	(87,480)	(86,931)	(297,728)	(328,663)
Operational Expenses	**(686,348)**	**(757,539)**	**(2,516,493)**	**(2,857,714)**
EBITDA	**235,996**	**288,719**	**987,649**	**1,130,285**
Depreciation and Amortization	(74,397)	(92,123)	(274,434)	(337,915)
Operational Earnings before Financial Results	**161,600**	**196,596**	**713,215**	**792,370**
Financial Expenses	(69,165)	(40,066)	(219,754)	(212,922)
Financial Revenue	31,229	21,626	109,432	106,883
Financial Expenses/Revenue	**(37,936)**	**(18,440)**	**(110,322)**	**(106,039)**
Earnings before Income Tax and Social Charges	**123,663**	**178,156**	**602,893**	**686,331**
Income Tax and Social Charges	(31,427)	(45,533)	(146,575)	(173,819)
Net Income	**92,236**	**132,623**	**456,318**	**512,513**

Consolidated Income Statement *(R$ thousand)*	**4Q16**	**4Q17**	**2016**	**2017**
Gross Revenue	**3,205,873**	**3,662,178**	**11,827,567**	**13,852,469**
Taxes, Discounts and Returns	(148,876)	(160,882)	(571,001)	(639,964)
Net Revenue	**3,056,997**	**3,501,296**	**11,256,565**	**13,212,505**
Cost of Goods Sold	(2,134,653)	(2,455,038)	(7,752,422)	(9,224,506)
Gross Profit	**922,344**	**1,046,258**	**3,504,143**	**3,987,999**
Operational (Expenses) Revenue				
Sales	(598,867)	(670,608)	(2,218,765)	(2,529,051)
General and Administrative	(87,480)	(86,931)	(297,728)	(328,663)
Other Operational Expenses, Net	(7,677)	2,372	(7,677)	212
Operational Expenses	**(694,024)**	**(755,167)**	**(2,524,170)**	**(2,857,502)**
EBITDA	**228,319**	**291,091**	**979,973**	**1,130,497**
Depreciation and Amortization	(74,397)	(92,123)	(274,434)	(337,915)
Operational Earnings before Financial Results	**153,923**	**198,968**	**705,538**	**792,583**
Financial Expenses	(69,165)	(40,066)	(219,754)	(212,922)
Financial Revenue	31,229	21,626	109,432	106,883
Financial Expenses/Revenue	**(37,936)**	**(18,440)**	**(110,322)**	**(106,039)**
Earnings before Income Tax and Social Charges	**115,987**	**180,528**	**595,216**	**686,544**
Income Tax and Social Charges	(28,817)	(46,339)	(143,965)	(173,891)
Net Income	**87,169**	**134,188**	**451,252**	**512,653**

Assets	**4Q16**	**4Q17**
(R$ thousand)		
Current Assets		
Cash and Cash Equivalents	276,632	264,873
Accounts Receivable	772,241	930,071
Inventories	2,149,468	2,517,594
Taxes Receivable	111,772	78,777
Other Accounts Receivable	105,111	119,004
Following Fiscal Year Expenses	12,558	17,885
	3,427,782	3,928,204
Non-Current Assets		
Deposit in Court	23,007	29,215
Taxes Receivable	22,963	34,293
Other Credits	4,887	5,246
Property, Plant and Equipment	1,006,606	1,276,276
Intangible	1,174,057	1,191,016
	2,231,521	2,536,045
ASSETS	5,659,303	6,464,249

Liabilities and Shareholder's Equity *(R$ thousand)*	**4Q16**	**4Q17**
Current Liabilities		
Suppliers	1,615,586	1,815,687
Loans and Financing	132,581	196,248
Salaries and Social Charges Payable	199,378	202,799
Taxes Payable	96,731	130,432
Dividend and Interest on Equity	25,933	37,474
Provision for Lawsuits	0	2,724
Other Accounts Payable	114,474	108,415
	2,184,683	2,493,779
Non-Current Liabilities		
Loans and Financing	281,387	414,711
Provision for Lawsuits	2,591	8,170
Income Tax and Social Charges deferred	193,188	228,714
Other Accounts Payable	61,499	68,503
	538,665	720,098
Shareholder's Equity		
Common Stock	1,808,639	1,808,639
Capital Reserves	138,553	151,156
Revaluation Reserve	12,383	12,197
Income Reserves	919,117	1,228,149
Equity Adjustments	(30,230)	(30,230)
Non Controller Interest	26,169	27,860
Additional Dividend Proposed	61,324	52,602
	2,935,955	3,250,372
LIABILITIES AND SHAREHOLDERS' EQUITY	5,659,303	6,464,249

Cash Flow	4Q16	4Q16	2016	2017
(R$ thousand)				
Earnings before Income Tax and Social Charges	**115,987**	**180,528**	**595,216**	**686,544**
Adjustments				
Depreciation and Amortization	74,396	92,122	274,434	337,914
Compensation plan with restricted shares, net	3,393	3,129	7,984	12,638
Interest over additional stock option	8,989	(5,000)	13,596	2,287
P,P&E and Intangible Assets residual value	5,830	1,953	12,189	6,609
Provisioned Lawsuits	2,583	(78)	6,667	7,788
Provisioned Inventory Loss	(7,362)	1,704	(14,147)	3,656
Provision for Doubtful Accounts	(691)	588	(504)	2,314
Provisioned Store Closures	1,675	1,529	737	(811)
Interest Expenses	12,126	13,653	42,023	64,234
Debênture Emission Costs Amortization	0	65	0	188
	216,926	**290,193**	**938,195**	**1,123,360**
Assets and Liabilities variation				
Clients and Other Accounts Receivable	(53,095)	(44,471)	(176,255)	(173,728)
Inventories	(197,741)	(180,604)	(484,868)	(371,782)
Other Short Term Assets	7,978	8,849	(55,081)	27,852
Long Term Assets	(5,685)	(2,672)	(6,360)	(17,895)
Suppliers	281,310	253,257	403,633	208,482
Salaries and Social Charges	(40,079)	(48,824)	33,971	3,421
Taxes Payable	(10,410)	(11,984)	753	(19,936)
Other Liabilities	2,744	(9,963)	15,171	(10,368)
Rent Payable	4,366	4,220	11,927	9,472
Cash from Operations	**206,314**	**258,001**	**681,086**	**778,878**
Interest Paid	(5,492)	(19,169)	(21,896)	(36,863)
Income Tax and Social Charges Paid	(10,737)	(21,352)	(103,661)	(113,175)
Net Cash from (invested) Operational Activities	**190,085**	**217,480**	**555,529**	**628,840**
Investment Activities Cash Flow				
P,P&E and Intangible Acquisitions	(135,355)	(160,001)	(490,169)	(640,330)
P,P&E Sale Payments	676	547	1,112	1,150
Net Cash from Investment Activities	**(134,679)**	**(159,454)**	**(489,057)**	**(639,180)**
Financing Activities Cash Flow				
Funding	80,478	(9)	222,468	400,448
Payments	(33,229)	(102,075)	(125,017)	(231,021)
Interest on Equity and Dividends Paid	(81,850)	(85,632)	(153,342)	(170,847)
Net Cash from Funding Activities	**(34,601)**	**(187,716)**	**(55,891)**	**(1,420)**
Cash and Cash Equivalents net increase	**20,805**	**(129,690)**	**10,581**	**(11,760)**
Cash and Cash Equivalents in the beggining of the period	**255,827**	**394,563**	**266,051**	**276,632**
Cash and Cash Equivalents in the end of the period	**276,632**	**264,873**	**276,632**	**264,872**

PROFIT ALLOCATION

Following legal and statutory provisions, we propose the following allocation for the retained earnings which amount to R$ 511,532 thousand:

- Legal Reserve R$ 25,558 thousand
- Statutory Reserve R$ 283,474 thousand
- Interest on capital (R$ 0.614172655 per share) R$ 202,500 thousand

We also propose that the interest on capital, net of Withholding Income Tax (IRRF), be ascribed to the mandatory dividend.

INDEPENDENT AUDITOR

In compliance with the CVM Instruction 381/2003 and Circular Letter 01/2007,of the Superintendence for Relationships with Companies (SNC)/Superintendence for Accounting and Audit Standards (SEP), the Company informs herein that, during 2017, in addition to the external audit services related to the financial statements for 2017, PricewaterhouseCoopers Auditores Independentes has provided the following services:

Consulting service for the issuances of debentures, amounting to R$ 39.0 (4.8% of the total paid for the external audit service), signed on April 10, 2017, with a ten-month period.

Consulting service for the improvement in the access of corporate systems Raia Drogasil, amounting to R$ 99.0 (12.2% of the total paid for the external audit service), signed on February 10, 2017, with a six-month period.

The aforementioned services totaled R$ 138.0, that is, 17.0% of the amount paid for the external audit service related to the financial statements.

The Company informs that its policy for hiring services not related to external audit takes into account the principles which preserve the auditor's independence. These principles are based on the fact that the independent auditor should not audit its own work, carry out management-related tasks, advocate for its client, or provide services which are not allowed by the standards in effect, thus maintaining the independence in the work carried out.

PricewaterhouseCoopers Auditores Independentes is not aware of any relationship between the parties that could be considered as conflicting as regards its independence.

(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Stockholders
Raia Drogasil S.A.

Opinion

We have audited the accompanying parent company financial statements of Raia Drogasil S.A. ("Company" or "Parent company"), which comprise the balance sheet as at December 31, 2017 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Raia Drogasil S.A. and its subsidiary ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2017 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Raia Drogasil S.A. and of Raia Drogasil S.A. and its subsidiary as at December 31, 2017, and the financial performance and cash flows for the year then ended, as well as the consolidated financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

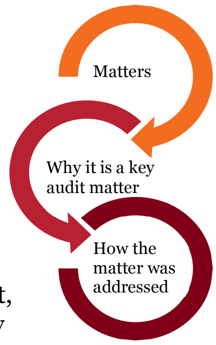
Basis for opinion

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

PricewaterhouseCoopers Auditores Independentes, Av. Francisco Matarazzo 1400, Torre Torino, São Paulo, SP, Brasil 05001-903, Caixa Postal 61005 T: (11) 3674-2000, F: (11) 3674-2000, www.pwc.com/br

Key audit matters

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



Our audit for the year ended December 31, 2017 was planned and performed considering that the Company's operations are not presented significant changes in relation to the previous year. In this context, the Key Audit Matters, as well as our audit approach, remained substantially in line with those of the previous year.

Why it is a key audit matter

Projections of results used
- **in assessment of the recoverable value of goodwill for future profitability and**
- **in determining the call option (obligation) to purchase the remaining ownership interest of 4Bio Medicamentos S.A.**
  (Notes 10 (b) e 9 (a), respectively)

The Company presents goodwill for future profitability in the total amount of R$ 825,535 thousand, recorded in intangible assets.

In 2015, the Company acquired 55% of ownership interest in 4Bio Medicamentos S.A., and remaining ownership interest of 45% will be acquired on January 1, 2021. The price will be calculated based on multiples of EBITDA of the subsidiary company generated in the financial years from 2018 to 2020. The Company's obligation is measured based on the projection of future results and changes in the value of the obligation are recognized in the Company's results.

The above matters remain as areas of audit focus as they are critical estimates and management judgment, both for projections of future cash flows and for the determination of discount rates. These determinations and measurements are based on assumptions that may be altered by future and

How the matter was addressed in the audit

Among other procedures, we discussed and tested the calculations and reasonableness of management's key assumptions with the support of our internal valuation experts. These experts considered, among other procedures, the following:

. analysis of contracted external appraisers and the general, logical and arithmetic coherence of projections of future cash flows, as well as analysis of the consistency of these projections with budgets approved by the Board of Directors, when applicable;

. analysis of discount and growth rates used in the perpetuity, when applicable, and the comparison with the market and industry expectations; and

. recalculation of the present value of cash flows and sensitivity analysis test performed by management upon modification of certain relevant and volatile assumptions in the projection of the future financial performance of the acquired businesses and the

Why it is a key audit matter	How the matter was addressed in the audit
unexpected conditions, whether by internal factors, whether by market or from macroeconomic conditions. Therefore, any changes in these assumptions could significantly affect the results projected by management.	corresponding impact on the results for the year 2017. Regarding the work related to the evaluation of the financial liability, we have obtained information from the management that the terms and contractual conditions remain unchanged. In the context of our audit, we consider that the valuation techniques and the assumptions adopted by management are reasonable and that the disclosures are consistent with the data and information obtained.
Commercial agreements Note 4.(t)	
As a retailer, the Company negotiates individual commercial agreements with its suppliers that may be complex in nature. Considering there are different conditions set out in the commercial agreements, estimates and judgments are required to determine the amounts to be recognized and the period over which the results of the agreements should be recognized within the cost of sales. Accordingly, we consider that the recognition of the results of the commercial agreements, specifically on completeness, total balance and correct accrual basis remains a focus area in our audit.	Our audit procedures considered, among other procedures, the following: . Updating of the understanding of the process and of the internal controls established by management for monitoring and accounting of commercial agreements; . Testing of the main existing controls on commercial agreements; . Understanding of the main individually relevant or particular contract terms, performance obligations and recalculation, based on tests, of the expected results with commercial agreements, and verification of their subsequent financial settlement; . Test of the recognition of effects on accrual basis. We consider that management´s conclusions and disclosures are consistent with the data and documents obtained in our audit.

Internal control and information technology environment

The Company operates its drugstore business through 9 distribution centers and over 1,600 branches located in 20 states in Brazil, and represented in the market by three different brands: Raia, Drogasil, and Farmasil.

The Company's operating structure requires a robust internal control and information technology system, which is capable of providing management with a full monitoring of the daily operations and a centralized decision-making process, as well as follow-up and compilation of quantitative, financial, and tax information related to the operations.

This area remains the focus in our audit because, in this process, we identified that there are a number of manual and automated controls in operation. These controls have different stages of maturity and documentation. The assessment regarding their effectiveness is crucial to the audit process and to the definition of the planned approach towards the obtaining of the necessary evidences, since controls or processes may occasionally lead to incorrect processing of information and, therefore, result in improper presentation of the financial statements.

We have updated our understanding of the main controls and information systems that are important for the financial reporting and tested their effectiveness.

In order to obtain the necessary and sufficient evidence in our audit of the systems and applications, we performed additional tests to assess the integrity and accuracy of system-generated information and of automated reports. In addition, computer-assisted procedures were performed when necessary to allow a broader scope of tests and evidence.

In addition, we performed unpredictability procedures and review of the journal entries that are specific to the exceptions of access identified, as an addition to the procedures already established regarding the risk of override of controls.

The results of these procedures provided us with appropriate and sufficient audit evidence in the context of the parent company and consolidated financial statements.

Other matters

Statements of Value Added

The parent company and consolidated Statements of Value Added for the year ended December 31, 2017, prepared under the responsibility of the Company's management, which presentation is required by the Brazilian corporate legislation for listed companies, and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the parent company and consolidated financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added". In our opinion, these Statements of Value Added have been properly prepared, in all material respects, in accordance with the criteria established in the Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

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

The Company's management is responsible for the other information that comprises the Earnings Release.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

São Paulo, February 22, 2018

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Renato Barbosa Postal
Contador CRC 1SP187382/O-0

Raia Drogasil S.A.

Balance sheets at December 31

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

	Parent company		Consolidated	
Assets	**2017**	**2016**	**2017**	**2016**
Current assets				
Cash and cash equivalents (Note 5)	255,911	273,095	264,873	276,632
Trade receivables (Note 6)	837,582	713,841	930,071	772,241
Inventories (Note 7)	2,478,939	2,118,428	2,517,594	2,149,468
Income taxes recoverable (Note 8)	654	11,950	654	12,049
Other taxes recoverable (Note 8)	77,434	99,563	78,124	99,723
Other receivables	156,977	120,711	119,003	105,112
Prepaid expenses	17,657	12,414	17,885	12,558
	3,825,154	3,350,002	3,928,204	3,427,783
Non-current assets				
Judicial deposits (Note 12)	29,215	23,007	29,215	23,007
Taxes recoverable (Note 8)	32,975	22,964	32,975	22,964
Other receivables	6,563	4,887	6,563	4,887
Investments (Note 9)	31,489	29,424		
Property and equipment (Note 10a)	1,273,913	1,004,891	1,276,276	1,006,606
Intangible assets (Note 10b)	1,155,458	1,137,279	1,191,016	1,174,056
	2,529,613	2,222,452	2,536,045	2,231,520
Total assets	6,354,767	5,572,454	6,464,249	5,659,303

	Parent company		Consolidated	
Liabilities and Equity	**2017**	**2016**	**2017**	**2016**
Current liabilities				
Trade payables	1,745,041	1,564,787	1,815,687	1,615,587
Borrowings (Note 11)	196,248	131,804	196,248	132,581
Salaries and social charges	198,835	196,600	202,799	199,378
Taxes and contributions	124,058	95,088	127,033	96,650
Income tax and social contribution payable	3,189		3,399	81
Dividends and interest on capital (Note 15d)	37,288	25,546	37,474	25,934
Provision for legal proceedings (Note 12)	2,724		2,724	
Other payables	107,618	114,087	108,415	114,473
	2,415,001	2,127,912	2,493,779	2,184,684
Non-current liabilities				
Borrowings (Note 11)	414,711	281,387	414,711	281,387
Provision for legal proceedings (Note 12)	8,169	2,591	8,169	2,591
Income tax and social contribution contribution (Nota 13b)	226,217	189,818	228,715	193,187
Call option for additional shares (Note 9)	47,515	45,228	47,515	45,228
Other obligations	20,641	15,731	20,988	16,271
	717,253	534,755	720,098	538,664
Total liabilities	3,132,254	2,662,667	3,213,877	2,723,348
Equity (Note 15)				
Attributable to owners of the parent				
Share capital	1,808,639	1,808,639	1,808,639	1,808,639
Capital reserves	151,156	138,553	151,156	138,553
Revenue reserves	1,228,149	919,118	1,228,149	919,118
Additional proposed dividends	52,602	61,324	52,602	61,324
Carrying value adjustments	(18.033)	(17.847)	(18.033)	(17.847)
	3,222,513	2,909,787	3,222,513	2,909,787
Non-controlling interest			27,859	26,168
Total equity	3,222,513	2,909,787	3,250,372	2,935,955
Total liabilities and equity	6,354,767	5,572,454	6,464,249	5,659,303

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

Raia Drogasil S.A.

Statements of income
Years ended December 31
All amounts in thousands of reais, except earnings per capital share (A free translation of the original in Portuguese)

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Net sales revenue (Note 16)	12,707,808	10,924,689	13,212,505	11,256,565
Cost of sales	(8,775,884)	(7,469,484)	(9,224,505)	(7,752,422)
Gross profit	3,931,924	3,455,205	3,988,000	3,504,143
Operating income (expenses)				
Selling (Note 17)	(2,493,519)	(2,195,830)	(2,529,050)	(2,218,765)
General and administrative (Note 17)	(319,060)	(288,983)	(328,664)	(297,729)
Depreciation and amortization	(335,768)	(272,436)	(337,914)	(274,434)
Other operating income/(expenses) (Note 18)	212	(7,677)	212	(7,677)
Equity in the results of subsidiary (Note 9)	1,821	4,360		
	(3,146,314)	(2,760,566)	(3,195,416)	(2,798,605)
Operating profit before finance result	785,610	694,639	792,584	705,538
Finance results				
Finance income (Note 19a)	102,821	105,531	106,883	109,433
Finance costs (Note 19b)	(205,308)	(212,627)	(212,923)	(219,755)
	(102,487)	(107,096)	(106,040)	(110,322)
Profit before income tax and social contribution	683,123	587,543	686,544	595,216
Income tax and social contribution (Note 13a)				
Current	(135,465)	(111,771)	(138,269)	(116,662)
Deferred	(36,495)	(28,087)	(35,622)	(27,302)
	(171,960)	(139,858)	(173,891)	(143,964)
Profit for the year	511,163	447,685	512,653	451,252
Attributable to:				
Owners of the parent			511,163	447,685
Non-controlling interest			1,490	3,567
			512,653	451,252
Earnings per share - basic (Note 14)	1.55047	1.35764	1.55047	1.35764
Earnings per share - diluted (Note 14)	1.54855	1.35764	1.54855	1.35764

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

Raia Drogasil S.A.

Statements of comprehensive income
Years ended December 31
All amounts in thousands of reais, except earnings per capital share (A free translation of the original in Portuguese)

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Profit for the year	511,163	447,685	512,653	451,252
Components of other comprehensive income				
Other comprehensive income				
Total comprehensive income for the year	511,163	447,685	512,653	451,252
Attributable to:				
Owners of the parent			511,163	447,685
Non-controlling interest			1,490	3,567
			512,653	451,252

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

Raia Drogasil S.A.

Statements of changes in equity

All amounts in thousands of reais, except amounts per capital share (A free translation of the original in Portuguese)

	Attributable to controlling owners													
		Capital reserves				Revenue reserves				Carrying value adjustments				
	Share capital	Special monetary restatement	Premium on issue/sale of shares	Treasury shares	Restricted shares and other	Legal	Statutory	Retained earnings	Additional proposed dividends	Revaluation reserve	Transaction with non-controlling owners	Total	Non-controlling interest	Total equity
At January 1, 2016	1,808,639	10,191	129,418	(20,898)	10,056	42,454	623,367		48,243	12,569	(30.230)	2,633,809	22,989	2,656,798
Dividend for 2015 approved at the Annual General Meeting (AGM) of March 31, 2016									(48,243)			(48,243)		(48,243)
Realization of revaluation reserve, net of Income tax and social contribution								186		(186)				
Interest on capital expired								127				127		127
Restricted share plan - granted (Note 15c)					7,984							7,984		7,984
Restricted share plan - delivered (Note 15c)			1	1,085	(1,086)									
Restricted shares - acquisition of 4Bio (Note 9)					2,040							2,040		2,040
Restricted shares - payment in cash 4Bio (Note 9)					(238)							(238)		(238)
Restricted shares - delivery of shares of 4Bio (Note 9)			3,783	3,524	(7,307)									
Profit for the year								447,685				447,685	3,567	451,252
Allocation of profit														
Legal reserve						22,385		(22,385)						
Statutory reserve							230,912	(230,912)						
Interest on capital proposed - R$ 0.591187905 per share (Note 15d)								(133,377)				(133,377)		(133,377)
Additional interest on capital proposed								(61,324)	61,324					
Dividend proposed by subsidiary													(388)	(388)
At December 31, 2016	1,808,639	10,191	133,202	(16,289)	11,449	64,839	854,279		61,324	12,383	(30.230)	2,909,787	26,168	2,935,955
Dividend for 2016 approved at the Annual General Meeting (AGM) of March 29, 2017									(61,324)			(61,324)		(61,324)
Realization of revaluation reserve, net of Income tax and social contribution								186		(186)				
Interest on capital expired								183				183		183
Restricted share plan - granted (Note 15c)					12,603							12,603		12,603
Restricted share plan - delivered (Note 15c)			1,382	3,481	(4,863)									
Profit for the year								511,163				511,163	1,490	512,653
Allocation of profit														
Legal reserve						25,558		(25,558)						
Statutory reserve							283,473	(283,473)						
Interest on capital proposed - R$ 0.614172655 per share (Note 15d)								(149,899)				(149,899)		(149,899)
Additional interest on capital proposed								(52,602)	52,602					
Dividend proposed by subsidiary													201	201
At December 31, 2017	1,808,639	10,191	134,584	(12,808)	19,189	90,397	1,137,752		52,602	12,197	(30,230)	3,222,513	27,859	3,250,372

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

Raia Drogasil S.A.

Statements of cash flows
Years ended December 31, 2017 and 2016
All amounts in thousands of reais (A free translation of the original in Portuguese)

	Parent Company		Consolidated	
	2017	2016	2017	2016
Cash flows from operating activities				
Profit before income tax and social contribution	683,123	587,543	686,544	595,216
Adjustments				
Depreciation and amortization	335,768	272,436	337,914	274,434
Compensation plan with restricted shares, net	12,603	7,984	12,638	7,984
Interest on additional stock option	2,287	13,596	2,287	13,596
Loss (profit) on sale/write-off of property and equipment and intangible assets	6,589	12,153	6,609	12,189
Provision (reversal) for legal proceedings	7,788	6,699	7,788	6,667
(Reversal) provision for losses on inventories	3,656	(14,147)	3,656	(14,147)
(Reversal) provision for impairment of trade receivables	1,683	(631)	2,314	(504)
Provision (reversal) for closing of stores	(811)	737	(811)	737
Interest expenses	63,781	41,034	64,234	42,023
Amortization of transaction costs of debentures	188		188	
Equity in the results of subsidiary	(1,821)	(4,360)		
	1,114,834	923,044	1,123,361	938,195
Changes in assets and liabilities				
Trade and other receivables	(138,649)	(147,199)	(173,728)	(176,255)
Inventories	(364,167)	(470,677)	(371,782)	(484,868)
Other current assets	28,367	(55,187)	27,852	(55,081)
Non-current assets	(17,895)	(6,598)	(17,895)	(6,360)
Trade payables	188,637	378,287	208,482	403,633
Salaries and social charges	2,236	33,171	3,421	33,971
Taxes and contributions	(20,663)	483	(19,937)	753
Other obligations	(10,514)	15,205	(10,368)	15,171
Rents payable	9,479	11,920	9,472	11,927
Cash provided by operations	791,665	682,449	778,878	681,086
Interest paid	(36,230)	(20,679)	(36,863)	(21,896)
Income tax and social contribution paid	(111,186)	(99,665)	(113,175)	(103,661)
Net cash provided by operating activities	644,249	562,105	628,840	555,529
Cash flows from investing activities				
Purchases of property and equipment and intangible assets	(638,790)	(488,855)	(640,330)	(490,169)
Proceeds from sale of property and equipment	1,150	1,112	1,150	1,112
Loans granted to subsidiaries	(22,971)	(15,624)		
Net cash used in investing activities	(660,611)	(503,367)	(639,180)	(489,057)
Cash flows from financing activities				
Borrowings taken	373,362	212,227	393,951	222,468
Payment of borrowings	(203,337)	(109,077)	(224,523)	(125,017)
Interest on capital and dividends paid	(170,847)	(153,342)	(170,847)	(153,342)
Net cash used in financing activities	(822)	(50,192)	(1,419)	(55,891)
Increase (decrease) in cash and cash equivalents	(17,184)	8,546	(11,759)	10,581
Cash and cash equivalents at the beginning of the year	273,095	264,549	276,632	266,051
Cash and cash equivalents at the end of the year	255,911	273,095	264,873	276,632

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

Raia Drogasil S.A.
Statements of value added
Years ended December 31, 2017 and 2016
All amounts in thousands of reais (A free translation of the original in Portuguese)

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Revenue				
Gross sales and services	13,179,514	11,334,914	13,712,793	11,681,950
Other income	2,197	785	2,197	785
(Constitution) Reversal of provision for impairment of trade receivables	(1,683)	631	(2,314)	504
	13,180,028	11,336,330	13,712,676	11,683,239
Inputs acquired from third parties				
Cost of sales and services	(7,876,545)	(6,747,984)	(8,324,844)	(7,030,922)
Materials, electricity, outsourced services and others	(707,978)	(629,393)	(727,776)	(642,840)
Impairment of assets	(6,786)	(9,813)	(6,786)	(9,813)
	(8,591,309)	(7,387,190)	(9,059,406)	(7,683,575)
Gross value added	4,588,719	3,949,140	4,653,270	3,999,664
Depreciation and amortization	(335,768)	(272,436)	(337,914)	(274,434)
Net value added generated by the entity	4,252,951	3,676,704	4,315,356	3,725,230
Value added received through transfer				
Equity in the results of subsidiary	1,821	4,360		
Finance income	92,204	105,531	96,267	109,433
Other	3,277		3,277	
	97,302	109,891	99,544	109,433
Total value added to distribute	4,350,253	3,786,595	4,414,900	3,834,663
Distribution of value added				
Personnel	1,338,600	1,209,830	1,357,859	1,224,607
Direct compensation	1,053,140	962,849	1,064,057	971,714
Benefits	191,019	177,732	198,456	183,106
Government Severance Indemnity Fund for Employees (FGTS)	94,441	69,249	95,346	69,787
Taxes and contributions	1,777,054	1,523,676	1,812,447	1,545,321
Federal	528,807	437,087	535,381	443,505
State	1,229,520	1,070,780	1,258,164	1,085,952
Municipal	18,727	15,809	18,902	15,864
Providers of capital	723,436	605,404	731,941	613,483
Interest	203,638	211,660	210,559	218,385
Rentals	519,798	393,744	521,382	395,098
Remuneration of own capital	511,163	447,685	512,653	451,252
Interest on capital	149,899	133,377	150,085	133,765
Dividends and interest on capital proposed	52,602	61,324	52,602	61,324
Profits reinvested for the year	308,662	252,984	312,602	252,984
Non-controlling interests in profits reinvested			(2,636)	3,179
Value added distributed and retained	4,350,253	3,786,595	4,414,900	3,834,663

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

All amounts in thousands of reais unless otherwise stated

1. Operations

Raia Drogasil S.A. (the "Company") is a publicly-held company listed on the Novo Mercado ("New Market") listing segment of B3 S.A. - Brasil, Bolsa, Balcão, with its headquarters in the capital of the state of São Paulo.

Raia Drogasil S.A. and its subsidiary 4Bio S.A. (together "Consolidated" or "Group") are mainly engaged in the retail sale of medicines, perfumery, personal care and beauty products, cosmetics and dermocosmetics and specialty medicines.

The Group performs its sales through 1,610 stores (1,420 stores - 2016), distributed in 20 Brazilian states, as follows:

	Consolidated
	2017
São Paulo	894
Rio de Janeiro	118
Minas Gerais	103
Paraná	87
Distrito Federal	64
Goiás	64
Bahia	42
Santa Catarina	38
Pernambuco	36
Rio Grande do Sul	32
Espírito Santo	32
Mato Grosso do Sul	21
Rio Grande do Norte	14
Mato Grosso	14
Paraíba	13
Sergipe	13
Alagoas	11
Ceará	7
Tocantins	4
Piauí	3
	1,610

Raia Drogasil's stores are supplied by nine distribution centers located in seven States: São Paulo, Rio de Janeiro, Minas Gerais, Paraná, Goiás, Pernambuco and Bahia.

The subsidiary 4Bio markets its products through telesales and the delivery is made directly to the customer's location or through its three call centers in the states of São Paulo and Tocantins.

2. Presentation of financial statements

In conformity with Rule 505/2006 issued by the CVM, authorization to issue these financial statements was granted by the Company's Board of Directors on February 22, 2018.

The financial statements are presented in thousands of Brazilian reais (R$), which is the Group's functional and presentation currency.

The Company's parent company and consolidated financial statements for the years ended December 31, 2017 and 2016 have been prepared in accordance with the accounting practices adopted in Brazil, including the rules issued by the CVM and the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC). These financial statements are in conformity with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and provide all the significant information related solely to the financial statements, which is consistent with the information used by management. These financial statements are disclosed together with the consolidated financial statements.

The consolidated financial statements include the Company's financial statements and the financial statements of its subsidiary 4Bio. The consolidated financial statements have been prepared in accordance with consolidation practices and applicable legal provisions. Therefore, the consolidated statements of cash flows and value added include 12 months of operations of the Company and its Subsidiary.

The accounting practices adopted by the Company were applied uniformly and consistently with those adopted by the Subsidiary. Where applicable, all transactions, balances, income and expenses between the Subsidiary and the Company are eliminated in the consolidated financial statements.

The financial statements include accounting estimates and require management to exercise its judgment in the process of applying the Company's accounting policies regarding provision for inventory losses, provision for the impairment of trade receivables, appreciation of financial instruments, the amortization and depreciation periods for property and equipment and intangible assets, provision for legal proceedings, and the determination of provision for taxes, among others. The estimates and judgments are disclosed in Note 4(w).

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

The Group adopted all standards, revised standards and interpretations issued by the CPC that were effective as at December 31, 2017.

3. New standards, amendments to and interpretations of existing standards

a) New and revised accounting standards

New or revised standards issued but not yet effective, i.e., that will become effective for annual periods beginning on or after January 1st, 2018:

(i) IFRS 9 - Financial Instruments / CPC 48 - Financial Instruments (effective from January 1 st , 2018): this standard's aim is to replace IAS 39. The main changes include: (i) all financial assets should be initially recognized at fair value; (ii) the standard divides all financial assets into two classifications: those measured at amortized cost and those measured at fair value; (iii) the concept of embedded derivatives is eliminated; and (iv) relaxation of the requirements for adoption of the hedge accounting. The Company's transactions subject to assessment in accordance with IFRS 9 / CPC 48 are basically investments in debentures held under repurchase agreements which are restated based on the variations of the Interbank Deposit Certificate - CDI rates (Note 11), trade receivables, comprising mostly receivables from credit and debit management charges (Note 6), and borrowing obtained from BNDES (Brazilian Economic and Social Development Bank) and the Company's issue of debentures (Note 11). Management completed its analyses and noted that for the changes introduced by CPC 48 when compared to CPC 38, 39 and 40 (standards in effect) and considering its current transactions, it did not identify changes that could have significant impact on the Company's financial statements.

(ii) IFRS 15 - Revenue from Contracts with Customers (effective from January 1 st , 2018): the main objective of IFRS 15 is to provide clear principles for revenue recognition and simplify the preparation of financial statements. Management assessed this new standard and, in its opinion, it will not have material effects on its financial statements, considering the nature of its retail sale transactions and considering that the transfer of risks and rewards of goods and services occurs on their delivery directly to the end consumer at points of sale and, therefore, there is no complexity in the definition of performance obligations and transfer of control. Even so, other Company's transactions subject to assessment in accordance with IFRS 15 / CPC 47 are basically represented by commercial agreements. The Company's management also completed its analyses and concluded that for the changes introduced in CPC 47 in comparison with CPC 30 - Revenue (accounting standard in effect), there were no changes that would require modification in the revenue recognition method.

(iii) IFRS 16 - Leases / CPC 6 (R2) - Leases (effective from January 1 st , 2019): the new standard requires lessees to recognize the liability of future payments and the right of use of the leased assets for virtually all lease contracts, including operating leases. Certain short-term and low-value contracts may be out of the scope of this new standard. The Company's management hired an independent specialized company to assist in the identification of contracts (inventory of contracts), assessing whether it has or not lease agreements in accordance with IFRS 16 / CPC 06 (R1). The analysis is in process of evaluation of impacts, mainly in respect of lease of properties from third parties (context of payment with variable component), the future minimum payments of leases of stores (cancelable leases) are disclosed in Note 21. This aspect of the standard contains a signiciant component of judgment and requires a strict evaluation and appropriate controls to measure the liabilities that qualify as leases. Given the complexity of the application of the standard, and until it is applied, the conclusions may be changed.

(iv) Amendments to IFRS 2 - Share-Based Payments (effective from January 1 st , 2018): The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change a grant from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require a grant to be treated as if it was wholly equity-settled, where the employer is obligated to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authorities. Management completed its assessment and noted that considering its current transactions, the Company already meets the requirements set out in the amendments to IFRS 2.

(v) IFRIC 23 - Uncertainty over Income Tax Treatments (effective from January 1 st, 2019): the interpretation clarifies how the recognition and measurement requirements of IAS 12 are applied when there is uncertainty over income tax treatments (IRPJ and CSLL). Management is assessing the impacts of these amendments.

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

4. Significant accounting practices

The significant accounting practices adopted in the preparation of these financial statements are described below:

(a) Consolidation

Subsidiaries are all entities that the Company controls. They are fully consolidated from the date on which control is transferred to the Company and deconsolidated from the date that control ceases.

Identifiable assets acquired and liabilities assumed for the acquisition of subsidiaries in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. Non-controlling interests are determined on each acquisition. Acquisition-related costs are expensed as incurred.

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

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the proportion acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded directly in equity, in "carrying value adjustments".

(i) Call option for additional shares

On the acquisition of 55% of the shares of 4Bio Medicamentos Ltda. (currently named 4Bio Medicamentos S.A. or 4Bio), the Company and the founder shareholder signed an agreement with call option and put option for the total remaining shares held by the founder shareholder whose strike price will be calculated based on adjusted multiples of EBITDA of 4Bio, to be determined in 2018 to 2020.

The financial liability (non-current liability) represented by the share purchase obligation arising from the option granted is recognized at present value (in line item Call option for additional shares) and separately from the consideration transferred, through the adoption of the present access method, in which the non-controlling interest is already recognized, since the non-controlling stockholder is exposed to risks and has access to the returns associated with its interest, against "carrying value adjustments" in equity.

Over time, the re-establishment of the value of the call option for additional shares arising from the present value adjustment is recognized in the statement of income, in line item finance costs.

In the last quarter of the year, or on the occurrence of a significant change of an assumption during the year, the assumptions comprising the fair value of the option are revised/adjusted to reflect the fair value of the financial liability at the end of the year. The adjustments are recognized in financial liability against finance income (Note 9).

(c) Cash and cash equivalents

These include cash on hand, bank deposits and highly liquid short-term investments, readily convertible into a known cash amount and posing low risk of any change in value. Short-term investments included in cash equivalents are classified as "financial assets measured at fair value through profit and loss".

(d) Financial instruments

(i) Financial assets

Classification and measurement

Manages determines the classification of is financial assets on initial recognition, depending on the purpose for which the financial assets were acquired. Financial assets are initially recognized at fair value plus, in the case of investments not designated at fair value through profit or loss, transaction costs directly attributable to the financial asset acquisition.

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

Financial assets measured at fair value through profit or loss are those held for active and frequent trading. These are classified as current assets. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the finance result in the period in which they arise.

(2) Assets held to maturity

These are basically financial assets that cannot be classified as loans and receivables, because they are quoted in an active market. In this case, the Company has the positive intent and ability to hold the financial assets acquired to maturity. They are stated at acquisition cost, plus income earned, against net income for the year, using the effective interest rate method.

(3) Loans and receivables

Loans and receivables include receivables that are non-derivative financial assets with fixed or determinable receipts, not quoted in an active market. They are recorded in current assets, except those maturing after 12 months from the balance sheet date, which are classified in non-current assets. Group loans and receivables comprise trade accounts receivable and other receivables.

(ii) Impairment of financial assets

(1) Assets carried at amortized cost

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

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recorded loss is recognized in the statement of income.

(iii) Financial liabilities

Classification and measurement

The classification depends on the purpose for which the financial liabilities are acquired. When recognized, they are initially measured at fair value plus, in the case of borrowings not designated at fair value through profit or loss, transaction costs directly attributable to the financial liability acquisition.

(1) Financial liabilities at fair value through profit or loss

Financial liabilities are stated at fair value through profit or loss when they are held for trading or designated on this basis. The liabilities of this category are classified as non-current liabilities when they are to be settled after 12 months from the balance sheet date. Gains or losses arising from changes in the fair value of the "financial liabilities at fair value through profit or loss" category are presented in finance income in the period in which they arise.

(2) Other financial liabilities

After initial recognition, interest-bearing loans are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of income when the liabilities are derecognized, as well as through the amortization process by the effective interest rate method.

(iv) Fair value

The fair values of quoted investments are based on current bid prices. For financial assets with no active market or public quotation, the Company establishes the fair value by means of valuation techniques, which take into consideration the use of recently contracted operations with third parties. At balance sheet date, the Company assesses whether there is any objective evidence that a financial asset or group of financial assets is recorded at a value above its recoverable amount (impairment).

Fair value hierarchy

The Group classifies and discloses the fair value of financial instruments based on measurement techniques.

Level 1: prices (unadjusted) quoted in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques that use data that have a significant effect on the recorded fair value that are not based on observable market data.

(e) Trade receivables

Trade receivables are recorded at the original sales amount, less credit card charges, when applicable, and provision for the impairment of trade receivables. Provision for the impairment of trade receivables is set up when there is strong evidence that the Group will not be able to collect all the amounts due. The provision is determined as the difference between the carrying amount and the recoverable amount.

(f) Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined using the weighted moving average method. Net realizable value is the estimated selling price in the normal course of business, less selling expenses and provision for losses on products.

(g) Income tax and social contribution

Current and deferred income and social contribution taxes are calculated according to the criteria set forth by tax legislation currently in effect, at the statutory rates of 25% for income tax and 9% for social contribution.

The provision for income tax and social contribution is based on the taxable profit for the year. Taxable profit differs from profit as reported in the statement of income because it does not include income or expenses that are taxable or deductible in other periods and items that are never taxable or deductible.

Deferred taxes, assets and liabilities are calculated on the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recognized to the extent that future taxable profit is likely to be available against which temporary differences can be offset, based on profit (loss) history and projections of future results prepared and based on the Group's assumptions and future economic scenarios, which may, therefore, be subject to changes.

The book value of deferred tax assets is reviewed at each reporting date and written off to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be used.

Deferred taxes related to items recognized directly in equity are also recognized in equity and not in the statement of income. Deferred tax items are recognized based on the transaction that triggered the deferred tax, in the statement of income or directly in equity.

(h) Judicial deposits

Judicial deposits are presented as a deduction from the corresponding liability when they cannot be redeemed, unless there is a favorable outcome for the Group in the dispute. Judicial deposits are monetarily restated.

(i) Property and equipment

Property and equipment are stated at acquisition cost, net of accumulated depreciation and/or impairment losses, if any. Depreciation is calculated using the straight-line method, over the useful life of the assets, according to the rates shown in Note 10a. Net book value and the useful life of the assets, as well as depreciation methods, are reviewed at year-end and adjusted prospectively, when applicable.

Land and buildings include the head office, the Butantã distribution center and certain owned stores, and are stated at historical acquisition cost plus revaluation conducted in October 1987, based on valuation reports prepared by independent experts, and incorporated into the deemed cost upon the adoption of IFRS. The increase in book value arising from the revaluation of land and buildings was credited to a specific reserve in equity, net of deferred income and social contribution taxes.

A property and equipment item is written off when sold or when no future economic benefit is expected to arise from its use or sale. Gains and losses on asset disposals are determined by comparing the disposal proceeds with the asset's carrying amount, and are recognized in the statement of income of the year in which the asset is written off. When revalued assets are intended for sale, the amounts included in the revaluation reserve are recorded in retained earnings upon disposal.

Repair and maintenance service costs are recorded in the statement of income when incurred.

(j) Intangible assets

(1) Goodwill on company acquisition

Goodwill arises on the acquisition of subsidiaries and represents the excess of (i) the consideration transferred; (ii) the amount of any non-controlling interest in the acquiree; and (iii) the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognized directly in the statement of income.

Goodwill on the acquisition of investments prior to 2009 (Drogaria Vison) was calculated as the difference between the acquisition amount and the book value of the acquired entity's net assets. The goodwill is based on expected future profitability. Up to December 2008, goodwill was amortized based on the term, extent and proportion of projected results, not exceeding ten years. As from January 2009, goodwill is no longer amortized and is now tested for impairment on an annual basis, at the cash-generating unit (CGU) level.

(2) Points of sale

These include points of sale acquired from store lease agreements, stated at acquisition cost and amortized using the straight-line method at the annual rates mentioned in Note 10b, which take into consideration the lease agreement terms, not exceeding twenty years.

(3) Software use licenses and IT system development

Software use licenses are stated at acquisition cost and amortized over their estimated useful lives, at the rates shown in Note 10b.

The ongoing costs of software development or maintenance are expensed as incurred. Costs directly attributable to identifiable and exclusive software programs, controlled by the Group and likely to generate economic benefits greater than the related costs for more than one year, are stated as intangible assets and amortized on a straight-line basis over their useful lives, at the rates shown in Note 10b.

Direct costs include the salaries of the software development team members and a fair share of related general expenses.

For intangible assets with finite useful lives, the amortization period and method are reviewed at least at each financial year end.

(k) Impairment of assets

Property and equipment and other non-current assets, including intangible assets, are reviewed annually to identify evidence of impairment, and also whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets with indefinite useful lives, such as goodwill, are tested for impairment at least on an annual basis, or whenever there is indication of loss in value.

If that is the case, the recoverable amount is calculated so as to determine whether an impairment loss should be recognized. When such a loss is found, it is recognized in the amount at which the net book value of the asset exceeds its recoverable amount, which is the higher of the net sale price or value in use of the asset. The impairment of present and future transactions is recognized in the statement of income as expenses, reflecting the purpose of the asset item affected.

For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (CGU's).

(l) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made in connection with operating leases are recognized as expenses over the lease term, on an accrual basis. The Group has no material lease agreements classified as financial leases.

(m) Provisions

Provision is being recognized when the Group has a present (legal or constructive) obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits. Provision for legal proceedings are recorded reflecting the best estimates of the risk involved, in amounts deemed sufficient to cover probable losses. The proceedings rated as involving possible losses are disclosed in explanatory notes and those rated as remote losses are not provisioned or disclosed.

(n) Employee and management benefits

The employee benefit amounts resulting from profit-sharing and bonus payments are recognized under payroll and related charges, in liabilities. Both programs have a formal plan and the amounts payable may be reasonably estimated before the information preparation period, and settled in the short term. The Group does not have the following benefit plans: Income Tax Deductible Private Pension Plan (PGBL), Non-Income Tax Deductible Private Pension Plan (VGBL), a defined benefit private pension plan and/or any retirement or post-employment assistance plan.

Part of the benefits granted to the officers include a restricted share plan, classified as an equity instrument. The fair value of share-based payments is recognized in income in accordance with the concession period, against equity (Note 15c).

(o) Loyalty program

The parent company discontinued in 2017 the loyalty program named "Muito Mais Raia", whereby participants could accumulate credits to be used in future purchases.

(p) Capital and income reserves

The legal reserve is set up at 5% of profit for the year, pursuant to Law 6,404/76.

The statutory reserve is established in the Company's bylaws, limited to 65% of the profit for the year, for the purpose of improving working capital.

(q) Dividend

According to the Company's bylaws, stockholders are entitled to minimum mandatory dividend corresponding to 25% of adjusted net income each year, calculated under the terms of the Brazilian Corporation Law.

Dividends above that limit are recorded in a specific equity account named "additional dividend proposed" and remain in this account until a decision is reached at the General Stockholders' Meeting.

Amounts arising from the realization of the revaluation reserve provide a basis for determining the minimum mandatory dividend.

(r) Interest on capital

Based on the Company's bylaws, distributions of dividends and interest on capital to the Company's stockholders are recognized as a liability in the financial statements at year end. Any amount that exceeds the minimum required is only provided for on the date it is approved at a general meeting.

The tax benefit of interest on capital is recognized in the statement of income.

(s) Revenue recognition

Revenue is recognized to the extent that future economic benefits are likely to flow to the Group in an amount that can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding unconditional discounts, rebates and taxes or charges on sales and services.

Revenue from product sales is recognized when the significant risks and rewards of ownership of the products are transferred to the buyer, which generally occurs upon their delivery. Revenue from services rendered is recognized upon the effective provision of services by the Company.

(t) Commercial agreements

Besides the regular purchases of goods, the Group negotiates with its suppliers opportunities for differentiated sales of its products at the Company's stores chain. These negotiations are individual and distinct among suppliers and may present characteristics of complex nature.

The main categories of commercial agreements are: (i) financial discounts granted by laboratories upon the sale to consumer and associates to the Benefits Program; (ii) marketing and advertising funds, such as display in stores and publicizing of offers at catalogues; and (iii) rebates for volume targets, measured both upon purchases and sales.

When the product from the negotiation completes the operating execution (product display, arrangement, sale of promoted product, right to receive the financial amount agreed, etc.), the Group recognizes the gain earned from the negotiation in Gross Profit reducing the Cost of sales, against other receivables or advances to suppliers as appropriate.

(u) Adjustment to present value

Non-current assets and liabilities are discounted to present value and so are current assets and liabilities whenever the effects are considered significant on the overall financial statements, at rates which more adequately reflect current market assessment.

(v) Segment reporting

The Group conducts its business activities considering a single operating segment, which is used as the basis for managing the entity and decision-making.

(w) Significant accounting judgments, estimates and assumptions

When applying Group accounting practices, management must make judgments and prepare estimates related to the carrying amounts of assets and liabilities not easily obtained from other sources. The estimates and respective assumptions are based on historical experience and other factors considered significant. Estimates and assumptions are continuously revised and the related effects are recognized in the period in which these are reviewed and in any future periods affected.

Key assumptions concerning sources of uncertainty in future estimates and other important sources of estimation uncertainty at the balance sheet are discussed below.

(1) Taxes recoverable

Tax credit recovery estimates are based on taxable profit forecasts, taking into consideration various financial and business assumptions and considering the possibility that special conditions could be granted, such as special regimes, enabling the realization of such credits. These estimates may not materialize in the future, given the uncertainties inherent in these forecasts.

(2) Fair value of financial instruments

When the fair value of financial assets and liabilities stated in the balance sheet cannot be obtained from active markets, it is determined using valuation techniques, including the discounted cash flow method. The data for this method are based on market practice, whenever possible. However, when this is not possible, a certain level of judgment is required to establish the fair value. Judgment includes the consideration of the data used, concerning areas such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

All amounts in thousands of reais unless otherwise stated

(3) Impairment

There are specific rules to assess the recoverability of assets, particularly property and equipment, goodwill and other intangible assets. At the year-end date, the Group performs an analysis to determine whether there is evidence that the long-lived asset amounts may not be recoverable in accordance with the CGUs. To determine whether goodwill is impaired, it is necessary to estimate the value in use of the CGUs to which goodwill has been allocated. The calculation of value in use requires that management estimate expected future cash flows from the CGUs and an adequate discount rate to calculate present value. Significant assumptions used for determining the value in use of the different CGUs are detailed in Note 10-II(ii).

(4) Provision for tax, civil and labor risks

The Group is party to various legal and administrative proceedings, as mentioned in Note 12. Provision is recorded for all litigation contingencies the likelihood of loss of which is estimated as probable, in an amount that can be reliably estimated. The assessments of the likelihood of loss include the evaluation of available evidence, the hierarchy of laws, available case law, recent court decisions and their importance in the legal system, as well as the opinion of outside legal advisors.

5. Cash and cash equivalents

	Parent company		Consolidated	
	2017	**2016**	**2017**	**2016**
Cash and banks	81,738	67,518	82,118	68,062
Investment fund	90,769	2,936	90,769	2,936
Debentures held under repurchase agreements	83,404	202,641	91,986	205,634
	255,911	273,095	264,873	276,632

Investments in investment funds and debentures held under repurchase agreements have high liquidity and are restated based on the variations of the CDI rate, and reflect the realizable value, without risk of change in value or loss of remuneration.

For investment funds and repurchase debentures, the financial institutions which negotiated these securities guarantee credit risk and immediate liquidity without loss of income. The financial investments are distributed at the banks Caixa Econômica Federal, Bradesco, Itaú and Santander.

The Company's exposure to interest rate risks on financial investments is disclosed in Note 22b.

All amounts in thousands of reais unless otherwise stated

6. Trade receivables

	Parent company		Consolidated	
	2017	2016	2017	2016
Trade receivables	841,471	716,453	934,735	774,997
(-) Provision for impairment of trade receivables	(3,889)	(2,612)	(4,664)	(2,756)
	837,582	713,841	930,071	772,241

The ageing of trade receivables is as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
Not yet due	831,006	684,445	919,711	738,319
Overdue				
Between 1 and 30 days	4,497	20,284	5,895	24,008
Between 31 and 60 days	1,949	7,510	2,364	7,956
Between 61 and 90 days	505	1,704	988	2,204
Between 91 and 180 days	3,514	2,508	4,306	2,508
Between 181 and 360 days		2	1,471	2
Provision for impairment of trade receivables	(3,889)	(2,612)	(4,664)	(2,756)
	837,582	713,841	930,071	772,241

Days sales outstanding are approximately 38 days, which is considered part of the normal conditions inherent in the Company's operations.

The changes in the Company's provision for the impairment of trade receivables are as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
Opening balance	(2,612)	(6,893)	(2,756)	(6,910)
Additions	(9,967)	(10,168)	(13,629)	(11,278)
Reversals	8,690	14,449	11,721	15,432
Closing balance	(3,889)	(2,612)	(4,664)	(2,756)

Trade receivables are classified as receivables and are therefore measured as described in Note 4d-i-3.

All amounts in thousands of reais unless otherwise stated

7. Inventories

	Parent company		Consolidated	
	2017	**2016**	**2017**	**2016**
Goods for resale	2,490,941	2,100,621	2,529,596	2,131,661
Goods held by third parties		25,929		25,929
Materials	1,819	2,043	1,819	2,043
Provision for inventory losses	(13,821)	(10,165)	(13,821)	(10,165)
Total inventory	2,478,939	2,118,428	2,517,594	2,149,468

Changes in the provision for goods losses are as follows:

	Parent company		Consolidated	
	2017	**2016**	**2017**	**2016**
Opening balance	(10,165)	(24,312)	(10,165)	(24,312)
Additions	(8,954)	(6,015)	(8,954)	(6,015)
Write-offs	5,298	20,162	5,298	20,162
Closing balance	(13,821)	(10,165)	(13,821)	(10,165)

For the year ended December 31, 2017, cost of goods sold recognized in the statement of income was R$ 8,775,884 (R$ 7,469,484 - 2016) for the parent company and R$ 9,224,505 (R$ 7,752,422 - 2016) for the consolidated accounts, including the amount of the write-offs of goods inventories recognized as losses for the year amounting to R$ 84,505 (R$ 68,822 - 2016) for the parent company and R$ 84,770 (R$ 68,867 - 2016) for the consolidated accounts.

The effect of the recognition, reversal or write-off of the provision for inventory losses is included in cost of sales in the statement of income.

All amounts in thousands of reais unless otherwise stated

8. Taxes recoverable

	Parent company		Consolidated	
	2017	**2016**	**2017**	**2016**
Income taxes recoverable				
Withholding Income Tax (IRRF)	440	537	440	537
Corporate Income Tax (IRPJ)	214	9,587	214	9,650
Social Contribution on Net Profit (CSLL)		1,826		1,862
	654	11,950	654	12,049
Other taxes recoverable				
Value Added Tax on Sales and Services (ICMS) - credit balance	57,661	75,261	58,350	75,362
ICMS - Refund of ICMS withheld in advance (CAT Ruling 17/99)	320	14,027	320	14,027
ICMS on acquisitions of fixed assets	43,250	29,871	43,250	29,871
Social Integration Program (PIS)	892		892	10
Social Contribution on Revenue (COFINS)	4,108	2,807	4,109	2,856
Social Investment Fund - 1982 - securities issued to cover court-ordered debts	561	561	561	561
National Institute of Social Security (INSS)	3,617		3,617	
	110,409	122,527	111,099	122,687
	111,063	134,477	111,753	134,736
Current assets	(78,088)	(111,513)	(78,778)	(111,772)
Non-current assets	32,975	22,964	32,975	22,964

The ICMS credits amounting to R$ 57,661 and R$ 320 (R$ 75,261 and R$ 14.027 - Dec-2016) for the parent company are the result of applying different ICMS rates and of refunds of ICMS-ST (the substitute taxpayer regime) on goods receiving and shipping operations carried out by the Company's distribution centers in the states of São Paulo, Paraná and Pernambuco, in order to supply its branches located in other Brazilian states. The respective credits have been progressively utilized in the last months, mainly because of products that are no longer in the substitute taxpayer regime.

The Group analyzed the use of ICMS credits on purchases of goods and concluded that the tax credit balances will be used within 12 months. Regarding the ICMS credits on purchases of property and equipment, these will be used within 48 months pursuant to the prevailing legislation.

All amounts in thousands of reais unless otherwise stated

9. Investments

(a) Business combinations

In 2015, the Company acquired a 55% equity interest in 4Bio Medicamentos S.A. ("4Bio") and obtained its control on October 1, 2015.

The Agreement establishes the granting of call and put options for all the remaining shares held by the founding stockholder after January 2021, and the exercise price will be calculated based on the average of the adjusted EBITDA of 4Bio for the years ending December 31, 2018, 2019 and 2020 the fair value of which at December 31, 2017 corresponds to R$ 47,515 (R$ 45,228 - Dec-2016).

The fair value of the call option for additional shares recorded in Parent Company and Consolidated, of R$ 47,515 (R$ 45,228 - Dec-2016) is classified as Level 3 in the fair value hierarchy. The main fair value measurements have as reference: (i) a discount rate of 11.84% in Dec-2017 (22.04% - Dec-2016), (ii) an average growth rate of EBITDA of 50.46% in Dec-2017 (27.4% in Dec-2016), considering the average of the EBITDAs projected for 2018 to 2020 and the multiple provided for in contract.

The goodwill of R$ 25,563 arising from the acquisition represents the future economic benefits expected from the business combination.

(b) Changes in investments

At December 31, 2017 and 2016, the Company's investment balance is as follows:

Company name	Main activity	Equity interest (%)	12/31/2017	12/31/2016
4Bio Medicamentos S.A.	Retail of special medicines	55%	31,489	29,424

Changes in the investment balance in the subsidiary, presented in the parent company financial statements, are as follows:

	Parent company	
	2017	2016
Opening balance	29,424	23,497
Increase in equity interest in subsidiary	471	
Equity in the results of subsidiary	1,821	4,360
Adjustment to purchase price		2,040
Share of dividends proposed	(227)	(473)
Closing balance	31,489	29,424

All amounts in thousands of reais unless otherwise stated

For the purposes of calculating the equity of 4Bio Medicamentos S.A., the Company has adjusted the assets, liabilities and related changes in the statement of income of 4Bio based on the allocation of purchase price at the acquisition date. The table below shows the effects on the profit for the year of 4Bio for the purposes of determining the equity in the results of the subsidiary for 2017:

	Parent company	
	2017	**2016**
Result of 4Bio	2,395	4,982
Amortization of surplus arising from the business combination	(574)	(622)
Adjusted profit of 4Bio	1,821	4,360
Adjusted equity	**2017**	**2016**
Investment at book value (55%)	15,383	12,988
Allocation of the purchase price (surplus of assets)	5,192	6,063
Deferred income tax liability on allocation adjustments	(1,766)	(2,061)
Share of dividends proposed	(227)	(473)
	18,582	16,517
Goodwill based on expected future profitability	12,907	12,907
	31,489	29,424

(c) Subsidiary's dividend

In conformity with Art. 202 of Law 6,404/76 and the Company's bylaws, a mandatory minimum dividend of 10% of the adjusted profit for the year was calculated and recorded.

All amounts in thousands of reais unless otherwise stated

10. Property and equipment and intangible assets

a) Property and equipment

Changes in the parent company's property and equipment are as follows:

	Land	Buildings	Furniture, fittings and facilities	Machinery and equipment	Vehicles	Leasehold improvements	Store renovation and modernization	Total
Cost								
At January 1, 2016	27,440	41,917	383,876	226,323	21,327	608,375	10,939	1,320,197
Additions			131,819	77,503	4,274	214,165		427,761
Disposals and write-offs			(13,259)	(1,578)	(2,377)	(56,453)	(7,076)	(80,743)
Provision for store closures			(1,394)	(1,329)		400		(2,323)
At December 31, 2016	27,440	41,917	501,042	300,919	23,224	766,487	3,863	1,664,892
Additions			147,388	68,031	38,542	291,154		545,115
Disposals and write-offs			(8,408)	(3,011)	(2,583)	(78,148)		(92,150)
Provision for store closures			2,036	1,814		(2,066)		1,784
At December 31, 2017	27,440	41,917	642,058	367,753	59,183	977,427	3,863	2,119,641
Accumulated depreciation								
Average annual depreciation rates (%)		2.5 - 2.7	7.4 - 10	7.1 – 15.8	20.0 - 23.7	17.0 - 21.6	20.0	
At January 1, 2016		(18,759)	(144,347)	(95,927)	(12,777)	(237,571)	(9,533)	(518,914)
Additions		(1,113)	(40,061)	(34,607)	(3,579)	(132,862)	(809)	(213,031)
Disposals and write-offs			10,164	1,316	1,978	50,349	7,076	70,883
Provision for store closures			589	574		(102)		1,061
At December 31, 2016		(19,872)	(173,655)	(128,644)	(14,378)	(320,186)	(3,266)	(660,001)
Additions		(1,113)	(52,762)	(43,420)	(10,440)	(162,239)	(455)	(270,429)
Disposals and write-offs			5,913	2,736	8,107	68,320		85,076
Provision for store closures			(870)	(809)		1,305		(374)
At December 31, 2017		(20,985)	(221,374)	(170,137)	(16,711)	(412,800)	(3,721)	(845,728)
Net balance								
At December 31, 2016	27,440	22,045	327,387	172,275	8,846	446,301	597	1,004,891
At December 31, 2017	27,440	20,932	420,684	197,616	42,472	564,627	142	1,273,913

All amounts in thousands of reais unless otherwise stated

Changes in the consolidated property and equipment are as follows:

	Land	Buildings	Furniture, fittings and facilities	Machinery and equipment	Vehicles	Leasehold improvements	Store renovation and modernization	Total
Cost								
At January 1, 2016	27,440	41,917	384,289	226,815	21,536	608,721	10,939	1,321,657
Additions			132,293	77,817	4,352	214,561		429,023
Disposals and write-offs			(13,259)	(1,578)	(2,377)	(56,453)	(7,076)	(80,743)
Provision for store closures			(1,394)	(1,329)		400		(2,323)
At December 31, 2016	27,440	41,917	501,929	301,725	23,511	767,229	3,863	1,667,614
Additions			147,630	68,416	38,508	291,634		546,188
Disposals and write-offs			(8,408)	(3,011)	(2,583)	(78,148)		(92,150)
Provision for store closures			2,036	1,814		(2,066)		1,784
At December 31, 2017	27,440	41,917	643,187	368,944	59,436	978,649	3,863	2,123,436
Accumulated depreciation								
Average annual depreciation rates (%)		2.5 - 2.7	7.4 - 10	7.1 - 15.8	20 - 23.7	17 - 21.6	20	
At January 1, 2016		(18,759)	(144,551)	(96,174)	(12,942)	(237,713)	(9,533)	(519,672)
Additions		(1,113)	(40,118)	(34,686)	(3,632)	(132,923)	(809)	(213,281)
Disposals and write-offs			10,164	1,316	1,978	50,350	7,076	70,884
Provision for store closures			589	574		(102)		1,061
At December 31, 2016		(19,872)	(173,916)	(128,970)	(14,596)	(320,388)	(3,266)	(661,008)
Additions		(1,113)	(52,858)	(43,568)	(10,424)	(162,436)	(455)	(270,854)
Disposals and write-offs			5,913	2,736	8,107	68,320		85,076
Provision for store closures			(870)	(809)		1,305		(374)
At December 31, 2017		(20,985)	(221,731)	(170,611)	(16,913)	(413,199)	(3,721)	(847,160)
Net balance								
At December 31, 2016	27,440	22,045	328,013	172,755	8,915	446,841	597	1,006,606
At December 31, 2017	27,440	20,932	421,456	198,333	42,523	565,450	142	1,276,276

All amounts in thousands of reais unless otherwise stated

b) Intangible assets

Changes in the Company's intangible assets are as follows:

	Points of sale	Software license and systems implementation	Goodwill on business acquisition (Vison Ltda)	Goodwill on business acquisition (Raia S.A.)	Trademarks	Customers portfolio	Other intangible assets	Total
Cost								
At January 1, 2016	229,210	100,813	22,275	780,084	151,700	41,700	5,479	1,331,261
Additions	46,902	22,015					751	69,668
Disposals and write-offs	(31,457)	(42,524)					(101)	(74,082)
Provision for store closures	1,158	1						1,159
At December 31, 2016	245,813	80,305	22,275	780,084	151,700	41,700	6,129	1,328,006
Additions	50,480	34,118					693	85,291
Disposals and write-offs	(28,643)	(4,872)					(168)	(33,683)
Provision for store closures	(1,271)	(9)						(1,280)
At December 31, 2017	266,379	109,542	22,275	780,084	151,700	41,700	6,654	1,378,334
Accumulated amortization								
Average annual amortization rates (%)	17.0 - 23.4	20	Indefinite useful life	Indefinite useful life	Indefinite useful life	6.7 - 25	20	
At January 1, 2016	(102,951)	(58,706)	(2,387)			(36,717)	(97)	(200,858)
Additions	(44,963)	(13,982)				(460)		(59,405)
Disposals and write-offs	27,564	42,507					97	70,168
Provision for store closures	(632)							(632)
At December 31, 2016	(120,982)	(30,181)	(2,387)			(37,177)		(190,727)
Additions	(45,757)	(19,142)				(460)		(65,359)
Disposals and write-offs	27,705	4,825						32,530
Provision for store closures	675	5						680
At December 31, 2017	(138,359)	(44,493)	(2,387)			(37,637)		(222,876)
Net balance								
At December 31, 2016	124,831	50,124	19,888	780,084	151,700	4,523	6,129	1,137,279
At December 31, 2017	128,020	65,049	19,888	780,084	151,700	4,063	6,654	1,155,458

All amounts in thousands of reais unless otherwise stated

Changes in the consolidated intangible assets are as follows:

	Points of sale	Software license and systems implementation	Goodwill on business acquisition (Vison Ltda)	Goodwill on business acquisition (Raia S.A.)	Goodwill on business acquisition (4BIO)	Raia S.A. brands	4BIO brands	Raia S.A. customers portfolio	4BIO customers relationship	4BIO distribution channel	Other intangible assets	Total
Cost												
At January 1, 2016	229,210	101,175	22,275	780,084	23,523	151,700	5,069	41,700	7,928	535	5,547	1,368,746
Additions	46,902	22,068			2,040						751	71,761
Disposals and write-offs	(31,457)	(42,524)									(101)	(74,082)
Provision for store closures	1,158	1										1,159
At December 31, 2016	245,813	80,720	22,275	780,084	25,563	151,700	5,069	41,700	7,928	535	6,197	1,367,584
Additions	50,480	34,586									693	85,759
Disposals and write-offs	(28,643)	(4,871)									(168)	(33,682)
Provision for store closures	(1,271)	(9)										(1,280)
At December 31, 2017	266,379	110,426	22,275	780,084	25,563	151,700	5,069	41,700	7,928	535	6,722	1,418,381
Accumulated amortization												
Average annual amortization rates (%)	17 - 23.4	20	Indefinite useful life	Indefinite useful life	Indefinite useful life	Indefinite useful life	20	6.7 - 25	7	0.3	20	
At January 1, 2016	(102,951)	(58,870)	(2,387)				(253)	(36,717)	(142)	(401)	(153)	(201,874)
Additions	(44,963)	(14,041)					(1,014)	(460)	(566)	(134)	(12)	(61,190)
Disposals and write-offs	27,564	42,507									97	70,168
Provision for store closures	(632)											(632)
At December 31, 2016	(120,982)	(30,404)	(2,387)				(1,267)	(37,177)	(708)	(535)	(68)	(193,528)
Additions	(45,757)	(19,250)					(1,014)	(460)	(566)			(67,047)
Disposals and write-offs	27,705	4,825										32,530
Provision for store closures	675	5										680
At December 31, 2017	(138,359)	(44,824)	(2,387)				(2,281)	(37,637)	(1,274)	(535)	(68)	(227,365)
Net balance												
At December 31, 2016	124,831	50,316	19,888	780,084	25,563	151,700	3,802	4,523	7,220		6,129	1,174,056
At December 31, 2017	128,020	65,602	19,888	780,084	25,563	151,700	2,788	4,063	6,654		6,654	1,191,016

(i) Goodwill on acquisition of companies

The goodwill arising on acquisition of companies is tested annually for impairment.

Goodwill on acquisition of Drogaria Vison Ltda.

Goodwill of R$ 19,888 relates to the acquisition of Drogaria Vison Ltda. on February 13, 2008, which was merged into the Company from June 30, 2008.

The goodwill is based on the expected future profitability, as assessed by an independent expert, and was amortized from April to December 2008. As provided for in CPC Guidance (OCPC) 02, beginning in 2009, goodwill is no longer amortized, but is tested annually for impairment.

Goodwill on acquisition of Raia S.A.

The Company recorded goodwill of R$ 780,084 arising from the business combination with Raia S.A., which occurred on November 10, 2011, based on the expected future profitability arising from the difference between the amounts of assets assigned and received.

Goodwill on acquisition of 4Bio Medicamentos S.A.

The Company recorded goodwill of R$ 25,563 arising from the business combination with 4Bio Medicamentos S.A., which occurred on October 1, 2015, whose amount was supplemented by the final adjustment of price at March 31, 2016 of R$ 2,040, which is based on expected future profitability arising from the difference between the amounts of assets assigned and received.

(ii) Impairment testing of goodwill and intangible assets with an indefinite useful life

At December 31, 2017, the Company assessed the recovery of the net book value of the goodwill on the acquisitions of Drogaria Vison Ltda., Raia S.A. and 4Bio S.A., through business combinations based on value in use, using the discounted cash flow model allocated to the related CGUs that gave rise to such goodwill.

The recoverable amount of the sales made by the CGUs that gave rise to goodwill was calculated based on value in use, considering cash projections from financial budgets approved by management over a five-year period. The projected cash flow was restated to reflect the changes in product and service demand. The discount rate, applied to cash flow projections is 15.6% before taxes and 11.3% after taxes (12.5% - Dec-2016) for Drogaria Vison Ltda. and Raia S.A. and 23.0% before taxes and 16.1% after taxes (22.04% - Dec-2016) for 4Bio S.A.. The impairment testing of Company intangible assets did not require the recognition of impairment losses.

Significant assumptions used in calculations based on value in use

The calculation of value in use for the CGUs referred to projected for the following five years is most sensitive to the following assumptions:

Sales revenue and expenses

Drug price adjustment and inflation for other products sold and selling expenses are adjusted pursuant to projected general inflation or contractual rates. The average growth percentages were estimated at: (i) average for the next three years of 8.68% (9.66% - Dec-2016) with perpetuity of 4.1% (4.5% - Dec-2016) for Raia S.A., (ii) average for the next three years of 7.98% (6.81% - Dec-2016) with perpetuity of 4.1% (4.5% - Dec-2016) for Drogaria Vison Ltda., and (iii) average for the next three years of 33.14% (23.1% - Dec-2016) with perpetuity of 4.1% (7.5% - Dec-2016 for 4Bio S.A.).

Gross margins

Gross margins are based on amounts for the most recent month, to avoid seasonal variations or changes in market conditions. These margins are increased in the periods in which they are affected by drug price adjustments due to pre-existing inventories.

Discount rates

The aforementioned discount rates reflect the current market assessment of risks relating to the management of funds generated by the related CGUs.

Drug price adjustment

Estimates are based on historical adjustments and expectations of the pharmaceutical market.

Growth rate adjustments

These are determined based on market rates, the historical performance of CGUs and expected future performance assessed by Group management.

All amounts in thousands of reais unless otherwise stated

11. Borrowings

		Parent company		Consolidated	
	Average annual long term interest rate	**2017**	**2016**	**2017**	**2016**
BNDES - Sub-loan					
Businesses	TJLP + 2.23% (+ 2.75% - Dec/2016) p.a.	109,387	163,895	109,387	163,895
Businesses	SELIC + 2.34% (+ 2.50% - Dec/2016) p.a.	115,633	128,350	115,633	128,350
Machinery, equipment and vehicles	Fixed + 3.52% (3.10% - Dec/2016) p.a.	914	4,658	914	4,658
Machinery, equipment and vehicles	TJLP + 2.02% (+2.02% - Dec/2016) p.a.	16,690	12,456	16,690	12,456
Machinery, equipment and vehicles	PSI + 9.54% (+8.62% - Dec/2016) p.a.	4,301	8,087	4,301	8,087
Machinery, equipment and vehicles	SELIC + 2.42%	71		71	
Working capital	SELIC + 2.37% (+ 2.70% - Dec/2016) p.a.	58,359	92,135	58,359	92,135
Other		2,448	3,610	2,448	3,610
Debentures					
1st issue of debentures	104.75% of CDI	303,156		303,156	
Borrowings					
Other					777
		610,959	413,191	610,959	413,968
Current liabilities		196,248	131,804	196,248	132,581
Non-current liabilities		414,711	281,387	414,711	281,387

Borrowings from the BNDES are used for the expansion of stores, acquisition of machinery/equipment, vehicles and also to finance the Company's working capital.

The subloans for the Social Project, Development of Own Brands and Purchase of Domestic Software are grouped in the line of other. The Company has part of the borrowings from BNDES substantially contracted as subbloans, totaling R$ 307,803 (R$ 413,191 - Dec/2016) contingent upon two covenants:

(i) EBITA Margin (EBITDA/Net operating revenue): equal to or higher than 3.6% and

(ii) Total net debt/Total assets: equal to or less than 20%.

Covenants are measured annually and, at December 31, 2017 and 2016, the Company was in compliance with these covenants.

If these requirements were not met, the Company would have to provide BNDES with bank guarantees to ensure the performance of its obligations under the agreement.

The Group is not a party to any agreements containing non-financial covenants.

All amounts in thousands of reais unless otherwise stated

Non-current amounts mature as follows:

	Parent company	Consolidated
	2017	2017
2018	51,922	51,922
2019	138,389	138,389
2020	117,387	117,387
2021 and thereafter	107,013	107,013
	414,711	414,711

Characteristics of the Debentures

Type of issue	Issue amount	Quantity outstanding	Issue	Maturity	Annual charges	Unit price
1st issue - single series	R$ 300,000	30,000	4/19/2017	2017 - 2022	104.75%	10

On April 19, 2017, the 1st issue of 30,000 simple, nonconvertible, unregistered, single series, debentures was carried out, in the total amount of R$ 300,000, yielding 104.75% of the CDI. The debentures were used by the Company as an instrument to strengthen its working capital.

The debentures have maturity of 60 months, counted from their issue date, therefore April 19, 2022, except for the hypotheses of Early Redemption according to clauses contained in the debenture issue identure.

The costs incurred on the issue of the Company's debentures, including fees, commissions and other costs, totaled R$ 1,345 and are classified in the line item of the respective debentures and are recognized over the total period of the debt. At December 31, 2017, the amount to be recognized was R$ 1,098, and is presented net in the debentures balance.

The amortization of the principal will occur in 9 semiannual consecutive installments, the first of which as from the 12th month after the issue. The remuneration will be paid on a semiannual basis, and the first payment is due on October 19, 2017 and the other payments always on April 19 and October 19 of each year, until the maturity date.

The Company's debentures are conditioned to the compliance with the following covenants:

(i) Net Debt / EBITDA: cannot exceed 3.0 times.

Covenants are measured quarterly and, at December 31, 2017, the Company was in compliance with these covenants.

The non-compliance with the covenants for two consecutive quarters can be considered as a default event and consequently result in early maturity.

All amounts in thousands of reais unless otherwise stated

12. Provision for contingencies and judicial deposits

The Company and its subsidiary are subject to legal claims (tax, civil and labor) arising in the normal course of business. Management, supported by the opinion of its legal advisors and, where applicable, by specific opinions issued by experts, assesses the probable final outcomes of ongoing litigation and determines whether or not setting up provision for contingencies is necessary.

At December 31, 2017 and 2016, the Group had the following provision and corresponding judicial deposits relating to legal proceedings:

	Parent company		Consolidated	
	2017	2016	2017	2016
Labor and social security	24,105	16,449	24,105	16,449
Tax	586	655	586	655
Civil	627	426	627	426
	25,318	17,530	25,318	17,530
(-)Corresponding judicial deposits	(14,425)	(14,939)	(14,425)	(14,939)
Total	10,893	2,591	10,893	2,591
Current liabilities	2,724		2,724	
Non-current liabilities	8,169	2,591	8,169	2,591

Changes in the provision were as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
Opening balance	2,591	6,666	2,591	6,698
Additions	14,814	12,773	14,814	12,773
Write-offs	(25,687)	(10,656)	(25,687)	(10,688)
Favorable outcome	(1,178)	(1,177)	(1,178)	(1,177)
Unfavorable outcome	5,323	5,013	5,323	5,013
Change in criterion	(594)	(263)	(594)	(263)
Revaluation of amounts [(i)]	12,132	(1,528)	12,132	(1,528)
Monetary restatement	2,978	2,536	2,978	2,536
Defense and appeal related deposits	514	(10,773)	514	(10,773)
Closing balance	10,893	2,591	10,893	2,591

All amounts in thousands of reais unless otherwise stated

The provision for legal proceedings took into consideration the best estimate of the amounts involved, for the cases in which the likelihood of loss is estimated as probable by external and internal legal advisors, and a portion of these proceedings is guaranteed by pledged assets (Note 20).

(i) In the first quarter of 2017, there was a revaluation of the amounts related to labor claims with risks of loss classified as probable.

Possible losses

At December 31, 2017 and 2016 the Group was party to legal proceedings of a tax, civil and labor nature, the likelihood of loss in which is estimated as possible by management and its legal advisors, amounting to R$ 218,811 (R$ 88,642 Dec-2016) for the parent company and consolidated accounts.

Judicial deposits

At December 31, 2017 and 2016, the Group had the following judicial deposit amounts for which no corresponding provision had been set up:

	Parent company		**Consolidated**	
	2017	**2016**	**2017**	**2016**
Labor and social security	12,053	10,584	12,053	10,584
Tax	12,121	8,969	12,121	8,969
Civil	5,041	3,454	5,041	3,454
Total	29,215	23,007	29,215	23,007

Labor contingencies

Labor claims in general relate to lawsuits filed by former employees questioning the payment of unpaid overtime and severance pay. The Group is also involved in proceedings assumed upon the acquisition of Raia S.A., which were filed by former employees of service providers claiming to have employment relationships directly with the Group, or in which the Group received a joint enforcement order for the payment of the labor rights claimed. There are also proceedings filed by professional unions for the payment of union dues, under the dispute regarding the legitimacy of the territorial base.

Tax contingencies

These represent administrative fines, tax rate differences on interstate transfers and tax collection proceedings.

All amounts in thousands of reais unless otherwise stated

Civil contingencies

The Group is a defendant in lawsuits regarding usual and unique matters arising in the course of its business, most of which seek indemnification for property damage and pain and suffering from consumption relations.

13. Income tax and social contribution

(a) Income tax and social contribution paid

At December 31, 2017 and 2016, effective income and social contribution taxes were as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
Profit before income tax and social contribution	683,123	587,543	686,544	595,216
Interest on capital	(202,500)	(194,701)	(202,500)	(194,701)
Taxable profit	480,623	392,842	484,044	400,515
Combined tax rate (25% for income tax and 9% for social contribution)	34	34	34	34
Theoretical tax expense	(163,412)	(133,566)	(164,575)	(136,175)
Permanent additions	(11,589)	(9,901)	(11,805)	(9,940)
Equity in the results of investees	619	1,482		
Reduction of taxes due to incentives	6,603	5,525	6,669	5,525
Other	(11)	117	15	141
Tax incentives - donations	(4,170)	(3,515)	(4,195)	(3,515)
Effective income tax and social contribution expense	(171,960)	(139,858)	(173,891)	(143,964)
Effective tax rate	25.2%	23.8%	25.3%	24.2%

(b) Deferred income tax and social contribution

Deferred income tax and social contribution assets amounting to R$ 64,732 at December 31, 2017 (R$ 61,087 - Dec-2016) for the parent company and R$ 65,445 at December 31, 2017 (R$ 61,464 - Dec/2016) in consolidated accounts arose from temporarily non-deductible expenses that may be carried forward indefinitely, with estimated realization as disclosed in item (c) below.

Deferred income tax and social contribution liabilities amounting to R$ 290,949 at December 31, 2017 (R$ 250,905 - Dec-2016) for the parent company and R$ 294,160 at December 31, 2017 (R$ 254,651 - Dec-2016) in consolidated relate to tax charges on the remaining balances of: (i) the revaluation reserve; and (ii) goodwill from future profitability.

All amounts in thousands of reais unless otherwise stated

At December 31, 2017 and 2016, deferred income and social contribution taxes were as follows:

	Balance sheet				Statement of income			
	Parent company		Consolidated		Parent company		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
Revaluation at fair value of land and buildings	(7,066)	(7,162)	(7,066)	(7,162)				
Amortization of the goodwill on future profitability	(226,401)	(183,737)	(226,401)	(183,737)	42,664	42,868	42,664	42,868
Non-deductible intangible assets - merger of Raia S.A.	(57,482)	(60,006)	(57,482)	(60,006)	(2,524)	(2,524)	(2,524)	(2,524)
Non-deductible intangible assets - acquisition of 4Bio			(3,211)	(3,746)			(537)	(583)
Goodwill from future profitability of Drogaria Vison Ltda.	365	365	365	365				
Adjustment to fair value	5,877		5,877		(5,877)		(5,877)	
Provision for inventory obsolescence	29,495	27,500	29,495	27,500	(1,995)	(5,661)	(1,995)	(5,661)
Provision for sundry obligations	3,663	6,144	3,724	6,205	2,481	(3,455)	2,480	(3,502)
Provision for employee profit sharing	9,792	11,111	10,098	11,262	1,319	(1,579)	1,164	(1,642)
Provision for contingencies	8,609	5,960	8,609	5,960	(2,648)	(2,277)	(2,648)	(2,266)
Provision for impairment of trade receivables	2,316	1,810	2,580	1,859	(506)	1,689	(720)	1,646
Provision for commercial leases (renewal lawsuit)	1,514	1,806	1,514	1,806	293	(140)	293	(140)
Provision for customer loyalty programs		2,553		2,553	2,553	(682)	2,553	(682)
Provision for store closures	735	1,011	735	1,011	275	(250)	275	(250)
Provision for stock option plan	1,680	1,227	1,680	1,227	(453)	210	(453)	210
Provision for internal campaigns	296	162	296	162	(134)	(46)	(134)	(46)
Sundry provision	390	1.438	472	1.554	1.047	(66)	1.081	(126)
Deferred income tax and social contribution expense (benefit)					36,495	28,087	35,622	27,302
Deferred tax assets (liabilities), net	(226,217)	(189,818)	(228,715)	(193,187)				

Reflected in the balance sheet as follows:				
Deferred tax assets	64,732	61,087	65.445	61.464
Deferred tax liabilities	(290,949)	(250,905)	(294.160)	(254.651)
Deferred tax assets (liabilities), net	(226,217)	(189,818)	(228,715)	(193,187)

Reconciliation of deferred tax assets (liabilities), net	**2017**	**2016**	**2017**	**2016**
Balance at the beginning of the year	(189,818)	(161,826)	(193,187)	(165,982)
Additions through business combinations				(4,622)
Taxable revenue recognized in the income statement	(36,496)	(28,087)	(35,625)	(22,678)
Realization of deferred tax recognized in	97	95	97	95
Balance at the end of the year	(226,217)	(189,818)	(228,715)	(193,187)

All amounts in thousands of reais unless otherwise stated

(c) Estimated recovery of income tax and social contribution credits

The projections of future taxable profits are based on estimates relating to the Group's performance, the behavior of the market in which the Group operates and certain economic aspects, among other factors. Actual amounts may differ from these estimates. According to projections, the tax credit amounting to R$ 64,732 in the parent company and R$ 65,445 in the consolidated accounts will be substantially realized by the end of December 2018.

14. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potential common diluted shares. At December 31, 2017 and 2016, the Group's shares did not have any dilutive effect, and the profits of basic and diluted shares were equal.

The following table presents profit and stock information used for calculating basic and diluted earnings per share:

	Parent company/Consolidated	
	2017	**2016**
Basic		
Profit for the year	511,163	447,685
Weighted average number of common shares	329,683	329,752
Basic earnings per share - R$	1.55047	1.35764
Diluted		
Profit for the year	511,163	447,685
Weighted average number of common shares	330,090	329,752
Weighted average number of common shares adjusted for dilution effect	330,090	329,752
Diluted earnings per share - R$	1.54855	1.35764

15. Equity

(a) Capital

At December 31, 2017, the fully paid-up capital amounted to R$ 1,808,639 (R$ 1,808,639 - Dec-2016), represented by 330,386,000 common registered book-entry shares with no par value, of which 211,804,492 (205,570,433 common shares - Dec-2016) shares were outstanding.

Pursuant to the Company's bylaws, it is authorized to increase its capital up to the limit of 400,000,000 common shares, subject to the approval of the Board of Directors.

All amounts in thousands of reais unless otherwise stated

At December 31, 2017, the Company's ownership interest was as follows:

	Number of shares		Equity interest (%)	
	Dec-2017	**Dec-2016**	**Dec-2017**	**Dec-2016**
Controlling stockholders	117,907,354	123,958,183	35.69	37.52
Outstanding shares	211,804,492	205,570,433	64.11	62.22
Treasury shares	674,154	857,384	0.20	0.26
	330,386,000	330,386,000	100.00	100.00

The ownership interest of the controlling stockholders is represented by the families Pipponzi, Pires Oliveira Dias and Galvão and by the Holding Pragma.

The change in the number of shares outstanding was as follows:

	Shares outstanding
At December 31, 2016	205,570,433
(Purchase)/sale of restricted shares, net	6,234,059
At December 31, 2017	**211,804,492**

At December 31, 2017, the Company's common shares were quoted at R$ 91.80 (closing quote) (R$ 61.19 at December 31, 2016).

(b) Treasury shares

On April 24, 2014, the Board of Directors authorized the Company to repurchase, over a period of 365 days, its own registered common shares with no par value to be held in treasury and subsequently sold. The change in treasury shares in the year ended December 31, 2017 was as follows:

	Parent company	
	Number of shares	**Amount shares**
At December 31, 2016	857,384	16,289
Shares delivered to executives related to the 2nd tranche of the 2014 grant and the 1st tranche of the 2015 grant	(136,391)	(2,591)
Shares delivered to executives relating to employee contract termination	(46,839)	(890)
At December 31, 2017	674,154	12,808

All amounts in thousands of reais unless otherwise stated

At December 31, 2017, the market value of the treasury shares, having as reference the quotation of R$ 91.80 per share at that date, corresponds to R$ 61,887.

(c) Restricted share plan

Since March 2014, the Company offers its officers the Long-Term Incentive Program with Restricted Shares (the "Restricted Share Plan"), which aims to offer an opportunity to receive variable remuneration provided that the officer remains for a predetermined period in the Company.

As stated in the Restricted Share Plan, a portion of their annual variable remuneration (profit-sharing), will be paid to the officer in cash and the remaining balance shall be paid only in Company shares ("incentive stock").

If the officer decides to use a portion of the total amount of the variable remuneration paid in cash to buy Company shares ("own shares") on the stock exchange, the Company will offer the officer an equal number of shares purchased on the stock exchange.

At its discretion, the Company may grant to this officer more Company shares, using as reference the number of own shares acquired by the officer on the stock exchange.

The shares offered to the officer through the Restricted Share Plan may not be sold, assigned or transferred to third parties for a period of four years from the date of the grant, provided that, every year, from the second, third and fourth anniversary of the grant date, the officers will acquire the right to receive a third of their restricted stock.

The changes in the restricted shares are summarized below:

	Dec-2017		Dec- 2016	
	Shares	**Amount**	**Shares**	**Amount**
Opening balance	375,212	11,123	193,640	4,225
Granted shares for the year	293,260	12,603	238,742	7,984
Delivery of shares in the year	(183,230)	(4,863)	(57,170)	(1,086)
Closing balance	485,242	18,863	375,212	11,123

All amounts in thousands of reais unless otherwise stated

(d) Stockholders' remuneration

Under the Company's bylaws, stockholders are entitled to minimum dividend corresponding to 25% of adjusted annual profit. The dividend proposed, including interest on capital, is calculated as follows:

	Parent company	
	2017	2016
Profit for the year	511,163	447,685
Legal reserve	(25,558)	(22,384)
Realization of the revaluation reserve in the year	186	186
Dividend calculation basis (a)	485,791	425,487
Minimum mandatory dividends, according to statutory provision (25%)	121,448	106,372
Interest on capital proposed	202,501	194,701
Income Tax Withheld at source (or) on interest on capital.	(28,451)	(27,005)
Remuneration net of income tax withheld at source (b)	174,050	167,696
% distributed on the dividend calculation basis (b ÷ a)	35.83	39.41
Amount in excess of the mandatory minimum dividend	52,602	61,324

The Company recognized interest on capital of R$ 202,501 (R$ 194,701 - 2016), observing both the limit of the TJLP variation in 2017 and 2016 and the expense deductibility limits for income and social contribution tax calculation, pursuant to Law 9,249/95.

At December 31, 2017 the amount of R$ 52,602 (R$ 61,324 - 2016) in excess of the minimum mandatory dividend established in the Company's bylaws was recorded in equity as proposed additional dividend.

Changes in the dividend and interest on capital obligations were as follows:

	Parent Company	
	2017	2016
Opening balance	25,546	24,402
Additions	182,772	154,615
Payments	(170,847)	(153,344)
Write-offs	(183)	(127)
Closing balance	37,288	25,546

All amounts in thousands of reais unless otherwise stated

16. Net sales revenue

	Parent company		Consolidated	
	2017	2016	2017	2016
Gross sales revenue				
Sales revenue	13,293,249	11,457,909	13,838,774	11,814,193
Service revenue	13,589	13,232	13,695	13,373
	13,306,838	11,471,141	13,852,469	11,827,566
Taxes on sales	(471,706)	(410,225)	(500,288)	(425,384)
Returns, rebates and other	(127,324)	(136,227)	(139,676)	(145,617)
Net sales revenue	12,707,808	10,924,689	13,212,505	11,256,565

Taxes on sales primarily comprise ICMS at rates predominantly between 17% and 18%, for goods not subject to the tax substitute (ST) regime, service tax at 5%, and PIS (1.65%) and COFINS (7.60%) for goods not subject to the one-time taxation regime (Law 10,147/00).

17. Information on the nature of expenses recognized in the statement of income

The Group presented its statement of income using a classification based on the function of expenses. Information on the nature of these expenses is recorded in the statement of income as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
Cost of sales	(8,775,884)	(7,469,484)	(9,224,505)	(7,752,422)
Personnel expenses	(1,603,801)	(1,439,237)	(1,626,658)	(1,455,915)
Service provider expenses	(149,727)	(124,115)	(150,449)	(124,857)
Depreciation and amortization (i)	(335,768)	(272,436)	(337,914)	(274,434)
Other (ii)	(1,059,051)	(921,461)	(1,080,607)	(935,722)
	(11,924,231)	(10,226,733)	(12,420,133)	(10,543,350)

Classified in the statement of income as:

	2017	2016	2017	2016
Cost of sales	(8,775,884)	(7,469,484)	(9,224,505)	(7,752,422)
Selling expenses	(2,790,215)	(2,435,743)	(2,825,960)	(2,460,199)
General and administrative expenses	(358,132)	(321,506)	(369,668)	(330,729)
	(11,924,231)	(10,226,733)	(12,420,133)	(10,543,350)

All amounts in thousands of reais unless otherwise stated

(i) Depreciation and amortization totaled R$ 335,768 (R$ 272,436 - 2016) for the parent company in 2017, of which R$ 296,696 (R$ 239,914 - 2016) corresponding to the sales area and R$ 39,072 (R$ 32,523 - 2016) to the administrative area and R$ 336,928 (R$ 272,797 - 2016) in consolidated, of which R$ 297,503 (R$ 240,002 - 2016) corresponding to the sales area and R$ 39,425 (R$ 32,794 - 2016) to the administrative area.

(i) These refer mostly to property rental expenses, credit and debit card management charges, transportation expenses, the maintenance of assets, utilities bills, consumables and condominium fees.

18. Other operating (income)/expenses

In 2017, other operating (income)/expenses totaled R$ (212) (R$ 7,677 - 2016) for the parent company and consolidated. These amounts consisted of non-recurring expenses/income, relating to: (i) revaluation of provision for labor contingencies amounting to R$ 12,066; (ii) bonuses and expenses incurred on the granting of restricted shares due to termination of a Statutory Director amounting to R$ 3,207; (iii) net recognition of commercial agreements of prior years amounting to R$ (13,113); and (iv) credit right on INSS overpaid in the period from Jan-2009 to May-2014, relating to the contribution on severance pay amounting to R$ (2,372).

19. Finance income and costs

(a) Finance income

	Parent company		Consolidated	
	2017	2016	2017	2016
Discounts obtained	1,026	1,472	1,107	1,611
Short term investment yields	24,174	19,863	24,174	19,863
Interest received	2,743	1,625		
Monetary gains	3,246	2,590	3,308	2,642
Other finance income	3	3	306	142
Taxes thereon (PIS/COFINS)	(1,449)	(1,188)	(1,449)	(1,188)
Present Value Adjustment (PVA) - finance income	73,078	81,166	79,437	86,363
Total finance income	102,821	105,531	106,883	109,433

All amounts in thousands of reais unless otherwise stated

(b) Finance costs

	Parent company		Consolidated	
	2017	2016	2017	2016
Discounts granted to customers		(1,678)	(187)	(2,129)
Interest, charges and bank fees	(746)	(1,515)	(1,185)	(1,798)
Charges on debentures	(19,128)		(19,128)	
Amortization of transaction costs	(247)		(247)	
Charges on borrowings	(44,654)	(41,035)	(45,106)	(42,304)
Monetary losses	(5,003)	(4,928)	(6,152)	(5,335)
Interest on additional stock option	(2,286)	(13,596)	(2,286)	(13,596)
PVA - finance costs	(133,244)	(149,875)	(138,632)	(154,593)
Total finance costs	(205,308)	(212,627)	(212,923)	(219,755)
Finance results	(102,487)	(107,096)	(106,040)	(110,322)

20. Guarantees for lawsuits

The following items of property and equipment were given as security for tax, social security and labor proceedings:

	Parent company		Consolidated	
	2017	2016	2017	2016
Furniture and facilities	27	32	27	32
Machinery and equipment	85	85	85	85
	112	117	112	117

21. Lease agreement commitments

The Company and its subsidiary have lease agreements with terms ranging from one to 20 years. Annual lease expenses vary depending on the number of agreements entered into or terminated. Total monthly expenses on these lease agreements (including rental, condominium fees and real estate tax amounted to R$ 43,609 (R$ 38,710 - Dec-2016) for the parent company and R$ 43,715 (R$ 38,810 - Dec-2016) for the consolidated accounts.

All amounts in thousands of reais unless otherwise stated

At December 31, 2017 and 2016, the future minimum payments relating to leases of stores (under cancelable lease agreements) were as follows:

	Parent company		Consolidated	
	2017	2016	2017	2016
First 12 months	447,595	385,361	448,404	386,110
From 13 to 60 months	1,185,782	971,035	1,186,841	972,702
Over 60 months	352,801	291,003	352,801	291,003
	1,986,178	1,647,399	1,988,046	1,649,815

22. Financial instruments and risk management policy

Financial instruments by category

	Parent company		Consolidated	
	2017	2016	2017	2016
Assets				
Loans and receivables				
Cash and cash equivalents (Note 5)	255,911	273,095	264,873	276,632
Trade receivables (Note 6)	837,582	713,841	930,071	772,241
Other receivables	156,977	120,711	119,003	105,112
Judicial deposits (Note 12)	29,215	23,007	29,215	23,007
	1,279,685	1,130,654	1,343,162	1,176,992
Total assets	1,279,685	1,130,654	1,343,162	1,176,992
Liabilities				
Liabilities at fair value through profit or loss				
Additional stock option (Note 9)	47,515	45,228	47,515	45,228
	47,515	45,228	47,515	45,228
Other financial liabilities				
Trade payables	1,745,041	1,564,787	1,815,687	1,615,587
Borrowings (Note 11)	610,959	413,191	610,959	413,968
Other payables	175,774	175,046	176,918	175,972
	2,531,774	2,153,024	2,603,564	2,205,527
Total liabilities	2,579,289	2,198,252	2,651,079	2,250,755

All amounts in thousands of reais unless otherwise stated

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's risk management program focuses on the unpredictability of financial and operational markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Board provides principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of non-derivative financial instruments, and investment of surplus liquidity.

(a) Market risk

Foreign exchange risk

All of the asset and liability operations of the Group are denominated in Brazilian reais; therefore, the Company is not exposed to foreign exchange risk.

Most of the BNDES transactions are entered into based on the TJLP + interest and on the SELIC rate. Short-term investments are entered into based on the CDI variations, which does not result in higher interest rate risk since these variations are not significant. Management understands that there is a low risk of significant changes in profit or loss or in cash flows.

(b) Credit risk

Credit risk arises from financial assets, i.e. cash and cash equivalents, short-term investments and trade receivables.

Cash and cash equivalents and short-term investments are maintained with sound financial institutions.

The risk ratings of the cash equivalents are in accordance with the main risk rating agencies, according to the table below:

	Parent company		Consolidated	
	2017	**2016**	**2017**	**2016**
Rating - National Scale				
brAA	17,745	38,036	26,327	41,030
BrA+	65,659	167,541	65,659	167,541
(*) n/a - Investment Funds	90,769		90,769	
Total - National Scale	174,173	205,577	182,755	208,571

(*) Not applicable, since there is no risk rating for the funds Itaú Corp DI Dicfi, Bradesco FI RF Ref. DI Premium and Santander Bancos Rf Cp Fi with the major risk rating agencies. The assets comprising this portfolio are divided into, on average, 29% of public assets and 71% private assets.

All amounts in thousands of reais unless otherwise stated

The granting of credit on sales of goods follows a policy that aims at minimizing defaults. For the year ended December 31, 2017, credit sales represented 51% (50% - Dec-2016) for Parent Company and 53% (51% - Dec-2016) for the consolidated accounts of which 92% (91% - Dec-2016) for Parent Company and 86% (86% - Dec-2016) in the consolidated accounts related to credit card sales which, in the opinion of the Group and based on the history of losses, pose an extremely low risk. The remaining 8% (9% - Dec-2016) and 14% (14% - Dec-2016) for the consolidated accounts are credits from PBMs, special plans with companies and post-dated checks and bills for payment that pose a low risk, due to customer selectivity and the adoption of individual limits.

(c) Liquidity risk

The Group's management continuously monitors forecasts of the Company's liquidity requirements, in order to ensure that it has sufficient cash to meet operational needs. The Group invests its surplus cash in financial assets with appropriate maturities to provide the liquidity necessary to honor its obligations.

(d) Sensitivity analysis

The table below presents a sensitivity analysis of financial instruments to which the Company is exposed.

The most probable scenario (scenario I), according to the assessment made by management, is based on a three-month horizon. Two further scenarios are presented, pursuant to CVM Instruction 475/08, in order to show a 25% and 50% deterioration in the risk variables considered (scenarios II and III).

Parent company

Operation	Risk	Scenario I (probable)	Scenario II	Scenario III
Short term investments - CDI	0.5% increase	871	1,089	1,306
Revenue		871	1,089	1,306
REFIS (SELIC)	0.5% increase	7	8	10
Expense		7	8	10

Consolidated

Operation	Risk	Scenario I (probable)	Scenario II	Scenario III
Short term investments - CDI	0.5% increase	914	1,143	1,370
Revenue		914	1,143	1,370
REFIS (SELIC)	0.5% increase	7	8	10
Expense		7	8	10

The risk of variations in the TJLP on BNDES operations which could result in material losses for the Group is not considered as probable by management.

All amounts in thousands of reais unless otherwise stated

(e) Capital management

The Group's objective relating to capital management is to maintain the Group's investment capacity, thus allowing it to grow its business and provide proper returns for stockholders.

The Group has adopted a policy of not leveraging its capital structure with borrowing, except for long-term credit facilities from BNDES (FINEM) and debentures at interest rates that are commensurate with the Group's profit levels.

Accordingly, the gearing ratio is calculated by dividing net debt by equity. Net debt is calculated as total borrowings less total cash and cash equivalents. The total capital is calculated through the sum of the equity, as shown in the individual and consolidated balance sheet, and the net debt, as presented below:

	Parent company		Consolidated	
	2017	**2016**	**2017**	**2016**
Short - and long-term borrowings	610,959	413,191	610,959	413,968
(-) Cash and cash equivalents	(255,911)	(273,095)	(264,873)	(276,632)
Net debt	355,048	140,096	346,086	137,336
Equity attributable to the stockholders of the parent company	3,222,513	2,909,787	3,222,513	2,909,787
Non-controlling interest			27,859	26,168
Total equity	3,222,513	2,909,787	3,250,372	2,935,955
Total capital	3,577,561	3,049,883	3,596,458	3,073,291
Gearing ratio	9.92	4.59	9.62	4.47

The increase in the gearing ratio at December 31, 2017 was mainly due to the issue of debentures (Note 11) and consequent use of the proceeds obtained from the Company's investments and operation.

(f) Fair value estimation

The carrying values of financial investments in the balance sheet approximate their fair values since the remuneration rates are based on the CDI variation. The carrying values of trade receivables and payables are measured at amortized cost and are recorded at their original amount, less the provision for impairment and adjustment to present value, when applicable. The carrying value is assumed to approximate the fair value, taking into consideration the realization of these balances, and settlement terms not exceeding 60 days.

Borrowings are classified as financial liabilities not measured at fair value and are carried at amortized cost and according to contractual conditions. The fair values of the borrowings approximate their carrying values since they refer to financial instruments with rate that approximate market rates.

All amounts in thousands of reais unless otherwise stated

For disclosure purposes, the fair value of financial liabilities is estimated by discounting future contractual cash flow at the interest rates available in the market that are available to the Group for similar financial instruments. The effective interest rates at the balance sheet dates are usual market rates and their fair value does not significantly differ from the balances in the accounting records.

At December 31, 2017, the Group had no material assets and liabilities measured at fair value at Level 1 and Level 2 in the fair value hierarchy. The following table presents the changes in Level 3 instruments for the year ended December 31, 2017:

	Parent company and Consolidated	
	Additional stock option	
	2017	**2016**
Opening balance	45,228	31,632
Expenses recognized in the statement of income:	2,287	13,596
Closing balance	47,515	45,228
Total expenses for the year recognized in the statement of income	2,287	13,596
Changes in unrealized expenses for the year included in the statement of income	2,287	13,596

23. Derivative financial instruments

The Group has a policy of not entering into derivative financial instruments, except in specific situations. At December 31, 2017 and 2016, the Group did not have any operations involving derivative instruments.

All amounts in thousands of reais unless otherwise stated

24. Transactions with related parties

(a) Transactions with related parties consist of transactions with the Company's stockholders and persons connected to them:

	Relationship	Parent company		Consolidated		Parent company		Consolidated	
		Current assets				Revenue			
		2017	2016	2017	2016	2017	2016	2017	2016
Receivables									
Special plans (i)									
Regimar Comercial S.A.	Stockholder/Family		15		15	42	105	42	105
Heliomar Ltda.	Stockholder/Board Member		1		1	11	16	11	16
Rodrigo Wright Pipponzi (Editora Mol Ltda.)	Stockholder/Family		1		1	3	5	3	5
			17		17	56	126	56	126
Other receivables									
Commercial agreements									
Natura Cosméticos S.A. (iv)	Stockholder / Related party	123	22	123	22	653	216	653	216
Advances to suppliers									
Cfly Consultoria e Gestão Empresarial Ltda. (vi)	Family	440		440					
Zurcher, Ribeiro Filho, Pires Oliveira Dias e Freire - Advogados (ii)	Stockholder/Family	50		50					
Loan and other receivables									
4Bio Medicamentos S.A. (v)	Subsidiary	38,831	15,624			2,811	1,624		
		39,444	15,646	613	22	3,463	1,840	653	216
		39,444	15,663	613	39	3,519	1,966	709	342

All amounts in thousands of reais unless otherwise stated

	Relationship	Parent company		Consolidated		Parent company		Consolidated	
		Current liabilities				Expense			
		2017	2016	2017	2016	2017	2016	2017	2016
Payables									
Rentals (ii)									
Heliomar Ltda.	Stockholder/Board Member	19	19	19	19	219	209	219	209
Antonio Carlos Pipponzi	Stockholder/Board Member	7	7	7	7	89	84	89	84
Rosalia Pipponzi Raia	Stockholder/Board Member	7	7	7	7	89	84	89	84
Estate of Franco Maria David Pietro Pipponzi	Stockholder/Board Member	7	7	7	7	89	84	89	84
		40	40	40	40	486	461	486	461
Service providers									
Zurcher, Ribeiro Filho, Pires Oliveira Dias e Freire Advogados (ii)	Stockholder/Family	49		49		6,213	6,103	6,213	6,103
Rodrigo Wright Pipponzi (Editora Mol Ltda.) (iii)	Stockholder/Family	869	790	869	790	9,690	7,878	9,690	7,878
Cfly Consultoria e Gestão Empresarial Ltda. (vi)	Family					734		734	
		918	790	918	790	16,637	13,981	16,637	13,981
Suppliers									
Natura Cosméticos S.A. (iv)	Stockholder / Related party	1,098	1,433	1,098	1,433	5,766	8,585	5,766	8,585
		1,098	1,433	1,098	1,433	5,766	8,585	5,766	8,585
		2,056	2,263	2,056	2,263	22,889	23,027	22,889	23,027

(i) Sales carried out through special plans. These transactions have been entered into under commercial conditions equivalent to those adopted with other companies.

(ii) Store rental and rendering of legal advisory services. These transactions are carried out under normal market conditions.

(iii) These balances and transactions relate to service agreements for the development, creation and production of marketing materials for the institutional sales area, and the design of the Company's internal monthly magazine. The agreements are valid for an indefinite period of time and may be terminated by either party at any time without cost or penalties.

(iv) On September 1st, 2015, Raia Drogasil S.A. and Natura Cosméticos S.A. entered into a purchase and sale agreement and other covenants to permit the sale of products of line "SOU" in 29 stores of Raia and Drogasil in Campinas and region. Some members of the control block of Natura Cosméticos S.A. indirectly hold equity interests in Raia Drogasil S.A.

The parties decided to expand the project scope for sale in the entire State of São Paulo as from February 20, 2016 and for the entire national territory as from July 1st, 2016, by signing an Amendment to the agreement.

Raia Drogasil will receive five percent (5%) of the products sold, considering the amount indicated on the sale invoice of Natura Cosméticos S.A. to Raia Drogasil, and it is not possible to define a total value for the contract.

(v) During 2016 and 2017, loan transactions were entered into between Raia Drogasil S.A. (Lender) and 4Bio Medicamentos S.A. (Borrower) in the amounts of R$14,000 and R$20,100, respectively. In August 2017, these amounts started being monetarily restated by 110% of the CDI, except for the agreement signed on 2/13/2017 amounting to R$ 6,000, which remains with the previous rate of 101.5% of the CDI in relation to the rate currently used. All loan agreements fall due in February 2018, except for the agreement signed on 6/12/2017 amounting to R$ 14,100 with maturity in March 2018.

Other receivables comprise 55% on the minimum mandatory dividend of 4Bio related to 2017 (R$ 227) and commissions on sales referrals (R$ 32).

(vi) On August 9, 2017, Raia Drogasil S.A. and Cfly entered into a service agreement for operation of the Aircraft for the Owner RD, which will pay to the Operator a monthly remuneration for Operational, Compliance, Financial, Maintenance Coordination and Maintenance Technical Control (CTM).

Moreover, we inform that there are no additional transactions other than the amounts presented above and that the category of the related parties corresponds to the entity's key management personnel.

All amounts in thousands of reais unless otherwise stated

(b) Key management compensation

Key management includes the Officers, Directors and members of the Supervisory Board. The compensation paid or payable for services rendered is as follows:

	Parent company		Consolidated	
	2017	**2016**	**2017**	**2016**
Fees and social charges	15,415	15,510	17,226	17,195
Bonuses and social charges	28,764	24,263	29,144	24,462
Fringe benefits	2,116	462	2,116	462
	46,295	40,235	48,486	42,119

25. Insurance coverage

The Group has adopted a policy of taking out insurance coverage at amounts deemed sufficient to cover any losses on assets or civil liability attributed to it taking into consideration the nature of its activities and the guidance of its insurance consultants.

The Group had the following insurance coverage at December 31, 2017:

	Parent company		Consolidated	
	2017	**2016**	**2017**	**2016**
Inventory loss risks	150,197	145,248	170,825	161,304
Permanent assets	232,862	193,964	238,682	199,062
Loss of profits	237,873	171,500	262,052	195,679
Civil liability risks	33,602	27,150	34,500	27,150
	654,534	537,862	706,059	583,195

26. Non-cash transactions

At December 31, 2017, the main non-cash transactions were:

(i) the restatement of the financial liability arising from the additional stock option of 4Bio (Note 9);
(ii) part of the compensation of key management personnel associated with the restricted share plan (Note 24); and
(iii) the installment purchase of property and equipment items in the amount of R$ 11,793 (R$ 20,177 - Dec-2016).

Raia Drogasil S.A.

EXECUTIVE BOARD'S STATEMENT ON THE FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

In accordance with article 25, paragraph 1, items V and VI, of CVM Instruction 480/09, the Company's officers represent that they have reviewed, discussed and agree with the conclusions expressed in the Independent Auditor's Report related to the parent company and consolidated financial statements of 2017.

São Paulo, February 22, 2018.

Marcilio D'Amico Pousada CEO	Eugênio De Zagottis Director
Antonio Carlos Coelho Director	Marcello De Zagottis Director
Fernando Kozel Varela Director	Renato Cepollina Raduan Director
Maria Susana de Souza Director	Antonio Carlos Marques de Oliveira Accountant Reponsible CRC-1SP215445/O-0

Raia Drogasil S.A.

SUPERVISORY BOARD'S OPINION

The Company's Supervisory Board, in exercising its duties and legal responsibilities, has examined the financial statements, management report and management's proposal for income allocation for the year ended December 31, 2017 and, based on the examinations performed and on clarifications provided by management, and also considering the favorable unqualified report issued by independent auditor PricewaterhouseCoopers Auditores Independentes, the Supervisory Board members concluded that the documents above mentioned were fairly presented, in all material respects, and unanimously decided to submit them to the General Stockholders' Meeting to be convened pursuant to Law 6,404/76.

São Paulo, February 22, 2018.

Gilberto Lério
Supervisory Board Member

Fernando Carvalho Braga
Supervisory Board Member

Mário Antonio Luiz Corrêa
Supervisory Board Member