(A free translation of the original in Portuguese)

Raia Drogasil S.A.

Parent company and consolidated financial statements at December 31, 2018 and independent auditor's report

São Paulo, February 26, 2019. **RD – People, Health and Well-being** (Raia Drogasil S.A. – B3: RADL3) announces today its results for the 4rd quarter of 2018 (4Q18) and for the year of 2018. The Company's parent company and consolidated financial statements for the years ended December 31, 2018 and 2017 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. Such information was prepared in Reais and all growth rates relate to the same period of 2017.

CONSOLIDATED HIGHLIGHTS:

- **DRUGSTORES:** 1,825 stores in operation (240 openings and 25 closures)
- **MARKET SHARE:** 12.9% in Brazil, a 0.9 percentage point increase
- **GROSS REVENUE:** R$ 15.5 billion, 12.0% growth (2.7% retail same-store sales growth)
- **GROSS MARGIN:** 28.6% of gross revenue, a 0.2 percentage point decrease
- **EBITDA:** R$ 1,195.2 million, a margin of 7.7% and an increase of 5.7%
- **NET INCOME:** R$ 548.6 million, 3.5% of net margin, an increase of 7.0%
- **CASH FLOW:** R$ 139.9 million negative free cash flow, R$ 341.4 million of cash consumption

RADL3
R$ 59.00/share

NUMBER OF SHARES
330.386.000

MARKET CAP
R$ 19,493 (million)

CLOSING
February 25, 2019

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Summary	2017	2018	4Q17	1Q18	2Q18	3Q18	4Q18
(R$ thousand)							
# of Stores - Retail + 4Bio	1,610	1,825	1,610	1,651	1,708	1,768	1,825
Store Openings	210	240	60	44	62	64	70
Store Closures	(20)	(25)	(4)	(3)	(5)	(4)	(13)
# of Stores (average)	1,510	1,713	1,588	1,629	1,680	1,744	1,801
Headcount (EoP)	32,265	36,510	32,265	32,633	33,880	34,708	36,510
Pharmacist Count (EoP)	6,044	6,959	6,044	6,323	6,582	6,806	6,959
# of Tickets (000)	206,286	223,423	53,957	52,291	55,148	56,560	59,425
Gross Revenue	13,852,469	15,519,133	3,662,178	3,603,969	3,791,578	3,944,677	4,178,909
Gross Profit	3,987,999	4,445,521	1,046,258	1,026,758	1,104,199	1,116,776	1,197,788
% of Gross Revenues	28.8%	28.6%	28.6%	28.5%	29.1%	28.3%	28.7%
Adjusted EBITDA	1,130,285	1,195,191	288,719	272,185	316,648	295,250	311,109
% of Gross Revenues	8.2%	7.7%	7.9%	7.6%	8.4%	7.5%	7.4%
Adjusted Net Income	512,513	548,614	132,623	121,288	141,775	131,148	154,404
% of Gross Revenues	3.7%	3.5%	3.6%	3.4%	3.7%	3.3%	3.7%
Net Income	512,653	509,313	134,188	121,288	137,656	128,837	121,531
% of Gross Revenues	3.7%	3.3%	3.7%	3.4%	3.6%	3.3%	2.9%
Free Cash Flow	(49,668)	(139,934)	68,432	(102,012)	(67,705)	681	29,103

LETTER TO OUR SHAREHOLDERS

Fiscal 2018 was a challenging year for **RD**, as our softer revenue growth due to increased competition led to a margin contraction. Notwithstanding, we opened a record of 240 new stores with strong marginal returns, entered two new states, gained significant market share, increased our scale advantage, invested boldly in pricing and initiated an ambitious digital transformation. As we strengthen our competitive position and execution in an industry under tremendous financial pressures, our belief is that we have never been better positioned than we are today.

We ended 2018 with R$ 15.5 billion in revenues, an increase of 12.0%. We opened 240 new stores and closed 25, ending the year with 1,825 stores. We posted a revenue increase of R$ 1.6 billion, extending our industry leadership. Consequently, our market share reached 12.9% in the 4Q18, a 0.9 percentage point annual increase, with stability in São Paulo and gains in every other region.

In a year with significant investments in generics pricing, the gains from smarter front-store pricing, better supplier negotiations and opportunity buys allowed us to defend our gross margin. However, the reduction in average prices led to a mature store sales loss of 1.3%, resulting in a reduction of operating leverage that pressured our expenses. Still, our adjusted EBITDA reached R$ 1.2 billion, an increase of 5.7%, and a margin of 7.7%, a loss of 0.5 percentage point. Our adjusted net income amounted to R$ 548.6 million, an increase of 7.0%. We consumed a free cash flow of R$ 139.9 million, as R$ 563.0 million in cash flows from operations funded most of our R$ 703.0 million in investments. Our ROIC totaled 16.2%, a reduction of 3.5 percentage points due to a lower margin and faster investment pace. We distributed R$ 209.5 million in interest on equity, a payout of 41.1%, while our share price fell by 36.4%.

We operate in a high-growth industry driven by the secular aging of the population, and our market remains very fragmented. This has attracted a significant store opening activity by both established competitors and new entrants which, however, have been eluded by its many entry barriers (brand awareness, scale, as well as location, working capital and people management). As the market became more competitive, the combination of increased capital allocation with margin pressures has led both to an industrywide leverage increase and to a quick reversal of the expansion cycle, which is strengthening our competitive positioning.

We ended the year with 1,825 stores in 22 Brazilian states. We are the only chain in Brazil enjoying both a national presence and a strong brand awareness, with consistent performance for mature stores and high expected returns for new and future stores in every single state. We also have nine distribution centers to support our operations, and will open another two DCs in 2019, one in Fortaleza (CE) and the other in Guarulhos (SP), which will be our largest and most automated DC, with an area of 28,000 m^2.

This unique growth platform has allowed us to open 240 new stores per year, with marginal real IRR slightly below 20% and very low execution risk. This is our most perennial competitive advantage, which was built brick by brick over the last 20 years as we started expanding outside of São Paulo, overcoming entry barriers in each state, which today are much more significant than before, and building our brand. Today, we have 52% of our stores outside of São Paulo, which generate 47% of our revenues. Of the openings undertaken in 2018, 70% happened in other states, a testament to the quality and extent of our existing growth platform.

In 2018, we concluded our new strategic planning with the support of Bain & Company and started a new cycle for the Company. Inspired by our Purpose of *"taking close care of people´s health and well-being during all times of their lives"*, our strategy aims at maximizing the customer experience and value through 5 core pillars: store expansion (traditional and low-income formats), organic customer acquisition (growing Univers and leveraging digital marketing), customer engagement (loyalty program, CRM and omnichannel), monetization (pricing and private label) and healthcare (health services and 4Bio). The implementation of this strategy will rely on 4 core enablers: customer centricity, digital transformation, leadership and talent, and sustainability.

We have a unique suite of assets to fuel this digital transformation: (i) a database with 30.6 million active customers, which account for 94% of our revenues, which provide us with full demand visibility; and (ii), 1,825 stores in 22 states, which cover 86% of the Brazilian A class population within a 1.5 km radius, a store network that will be further expanded by leveraging our national growth platform. This combination will allow us to acquire new customers through our stores, consolidate their loyalty through CRM and offer them a national, proximity-driven omnichannel solution, including store purchases, fast and efficient store-based neighborhood deliveries, as well as instant Click & Collect, positioning us to spearhead the transformation of our industry.

In 2018, we reached many milestones on all pillars. In addition to the organic growth, Univers proved to be a strong customer acquisition platform, as it expanded our client portfolio and increased revenues. We made relevant strides in customer engagement by introducing a chronic program aimed at increasing treatment adherence and loyalty, improved our apps, rolled Click & Collect to all our 1,825 stores, offered neighborhood deliveries in 16 cities and deployed three agile teams to improve our digital offering. We advanced in monetization through smarter pricing, by experimenting with machine learning and by increasing our private label penetration. Finally, we advanced in healthcare by piloting an immunization program which will be progressively expanded, and by strengthening 4Bio, which reached R$ 749.3 million in revenues, an increase of 37.3%, and with the adjusted EBITDA increasing by 53.7%.

CHALLENGES AND OPPORTUNITIES FOR 2019

Fast Organic Growth: We have 1,825 stores, of which 1,179 stores were opened in the last 7 years since the merger. We started opening 100 stores per year. Step by step, by reinforcing prospection, by leveraging on analytics, by strengthening the governance and the property screening, by smoothing the licensing, the engineering processes, the opening pace and by measuring and predicting cannibalization and marginal revenues per store, we opened 240 new stores in 2018. These stores have been opened in superb locations across 22 states, and have delivered consistent revenues per mature store and marginal returns slightly below 20%, allowing us to significantly boost value creation over this period. In 2019, we will open another 240 new stores by leveraging our unique national growth platform. We are also boosting our popular store format by increasing the store size, enhancing customer experience with a full front-store offering, introducing a loyalty program and CRM initiative and by leveraging the Raia and Drogasil brands while maintaining the same austerity and operating model of Farmasil (pedestrian locations, shorter store hours, leaner expenses, payment at the pharmacy counter, focus on generics, etc.). As we increase our market share and store density in existing markets, successfully opening stores for C-class consumers is paramount for us to be able to sustain an accelerated expansion in the years to come.

Deliver a Customer-Centric Digital Experience: The cornerstone of our strategy is improving the customer engagement by offering a seamless omnichannel experience and increasing loyalty through CRM. We have evidence that omnichannel customers have higher spending and loyalty than store-only customers, even though the bulk of spending remains in the stores. Therefore, the idea behind store-based neighborhood deliveries and Click & Collect are not to create value on their own, even though that could end up happening. Rather, it is to create a level of convenience and loyalty that increases customers lifetime value across every channel. A digital customer, who has our app downloaded, will engage with us in a much deeper way than just buying on-line. We set a goal of ending 2019 with 2 million omnichannel customers, up from 400 thousand in the end of 2018. But since delivery and Click &Collect are the entry door to omnichannel, in order to meet that goal, we will invest significantly to boost those services, as well as to enhance the in-store experience through digital. We will also leverage mobile technology and analytics to improve every element and eliminate every pain of the customer experience, be it in-store, fully-digital or through a combined physical and digital journey, the way of the future, and to do it, we will launch more agile teams to work on the digital transformation. We want to boost Click & Collect, increase the reach of our store-based neighborhood deliveries as well as to offer cheaper next-day delivery from every DC.

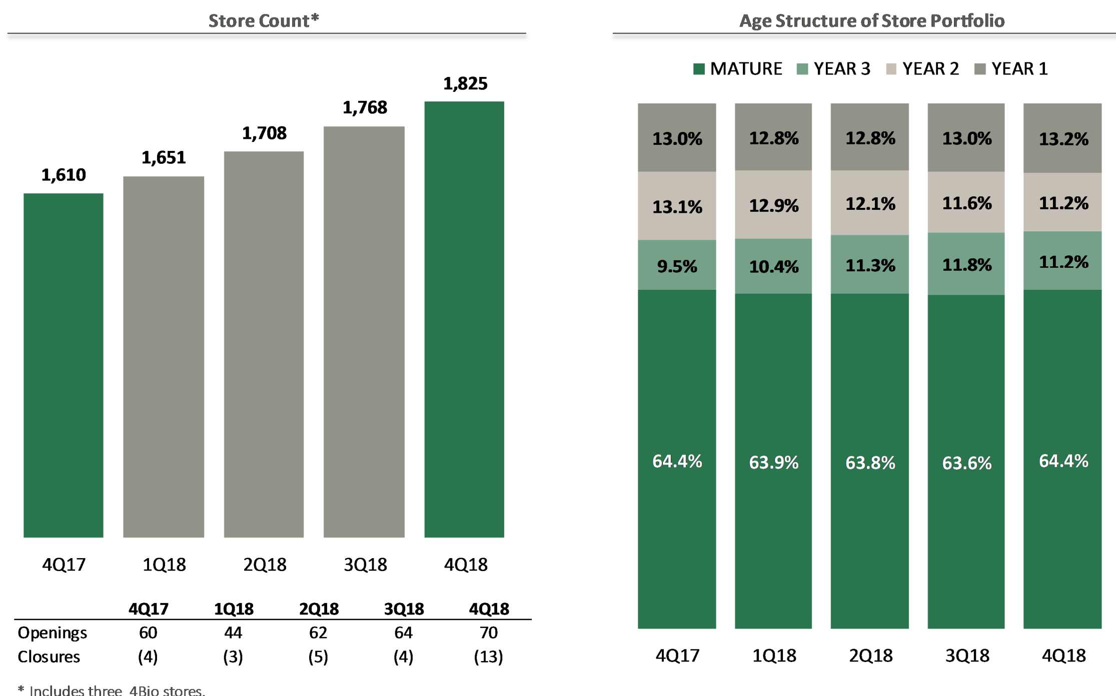
Normalize our mature-store sales growth: The main challenge we faced in 2018 was the deceleration of our mature store growth. Historically, we have seen comps around inflation, which have allowed us to sustain our operating leverage (we have the highest revenue per store and expense dilution among the top chains in Brazil). In 2018, as the market became more competitive, we decided to invest heavily in pricing, especially in generics. We believe the bulk of the investment is behind us, but if we see a need or an opportunity, we are willing to invest more with in order to accelerate our growth. While we have seen a tremendous boost in volumes, the lower average prices resulted in a mature store decline of 1.3% in 2018. As we start 2019, we will carry into the year the growth momentum of the 4Q18, which is slightly above zero. Our goal is to progressively accelerate our mature store comps, so as to end the year around inflation. We believe this can happen due to a sequential performance improvement resulting from our new price strategy and digital initiatives, and also because our comps will become easier as the year unfolds. By normalizing our growth by year-end, we will be able to enter 2020 with a good momentum and with the expectation of increasing our margins.

Reduce Expenses and Improve the Management Model: We may lose operating leverage in 2019 and face expense pressures due to the high IGP-M and the two new DCs, among others, which will likely result in margin pressures. Therefore, we want to tackle our inefficiencies and seek opportunities to reduce expenses to mitigate those pressures. We have made strong efforts on store efficiency since 2016, which has increased the productivity gap over the market. Now, with a leaner expense base, finding new efficiencies will require a novel approach. Thus, we hired *Heartman House*, a consulting company specialized in productivity to help us define expense reduction strategies for each line and align the established targets to management compensation. Also, we will search for expense anomalies using advanced analytics, which will also help us to be more accurate and to act faster on expense reduction.

Developing our leaders: Nurturing talent and forming leaders has always been a key challenge to accelerate growth. Since the merger, we have introduced several leadership development programs which have allowed us to accelerate our annual expansion to 240 new stores. As we embark on a customer-centric digital transformation, we have established a new Employee Value Proposition (EVP), aimed at transforming our culture and building new competences. Our goal is to become a more fluid organization, with better horizontal communication and with agile teams, which are multidisciplinary and interdependent in nature, fueling our innovation.

Finally, we would like to thank our shareholders for their continued support, our more than 36 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



	4Q17	1Q18	2Q18	3Q18	4Q18
Openings	60	44	62	64	70
Closures	(4)	(3)	(5)	(4)	(13)

* Includes three 4Bio stores.

We opened 240 new stores and closed 25 in 2018 (70 openings and 13 closures in the 4Q18), ending the year with 1,825 stores in operation, including three 4Bio units.

We have reached our guidance of 240 gross openings for 2018, reflecting the strength of our expansion, and reiterate our gross openings guidance of 240 stores for 2019. At the end of the period, a total of 35.6% of our stores were still maturing and had not yet achieved their full revenue and of profitability potential.

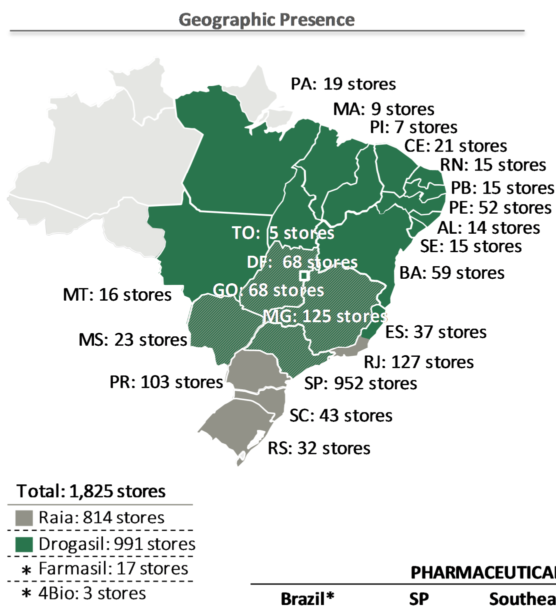
Of the 25 stores closed in 2018 (13 in the 4Q18), 9 stores (4 in the 4Q18) were still in the maturation process and represent corrections of expansion mistakes that are normal in such large-scale expansion. In addition, we recorded 4 mature store relocations (1 in the 4Q18) and another 6 closures driven by the optimization of our store portfolio (all 6 in the 4Q18), with positive return expectations associated to them.

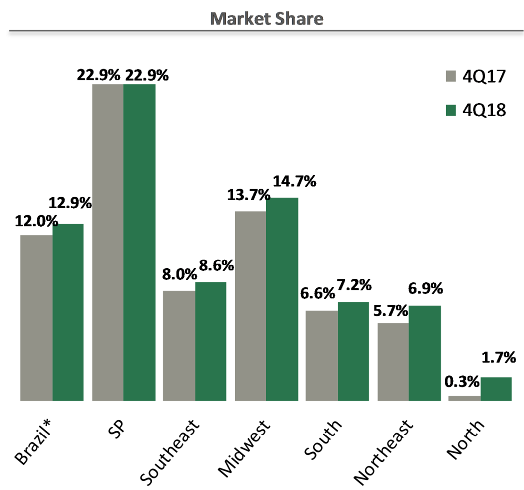
Also, we recorded 4 store closures in the 3Q18 under the Farmasil brand and 3 switches to Drogasil during the 4Q18, as a consequence of the enhancement of our popular store format, which will leverage the existing operating model of Farmasil at larger store areas (120 m² to 140 m²) by using the Raia and Drogasil brands, which may result in the closure of the stores in which the sales areas cannot be increased.

The remaining 2 closures in the 4Q18 were temporary and due to the rebranding of stores, which were already reopened in January.

Our national market share reached 12.9% in the quarter (including 4Bio), our all-time high, which represented a 0.9 percentage point increase when compared to the 4Q17. We have increased or maintained our market share in all six core regions where we operate. Our main highlights were the Midwest region, where we ended the year with 14.7% of market share, a 1.0 percentage point increase, and the Northeast, where we reached a market share of 6.9%, an increase of 1.2 percentage point. We recorded a market share of 22.9% in São Paulo, which remained flat when compared to the 4Q17, and of 8.6% in the remaining states of the Southeast, a 0.6 percentage point gain. Finally, we recorded a 7.2% market share in the South, an increase of 0.6 percentage point and a 1.7% market share in the North, an increase of 1.4 percentage point.

In 2018, we have consolidated our presence in 22 states which represent 97.7% of the Brazilian pharmaceutical market by entering the states of Maranhão and Pará with 9 and 19 stores, respectively, with very strong initial results.





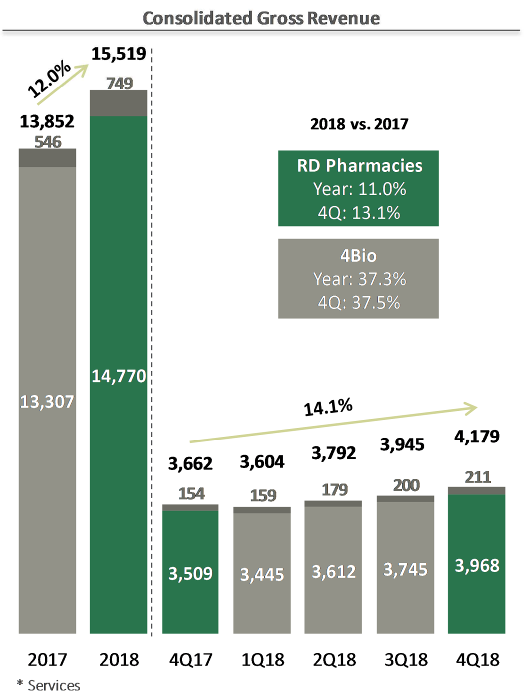
PHARMACEUTICAL MARKET BREAKDOWN BY REGION (%)

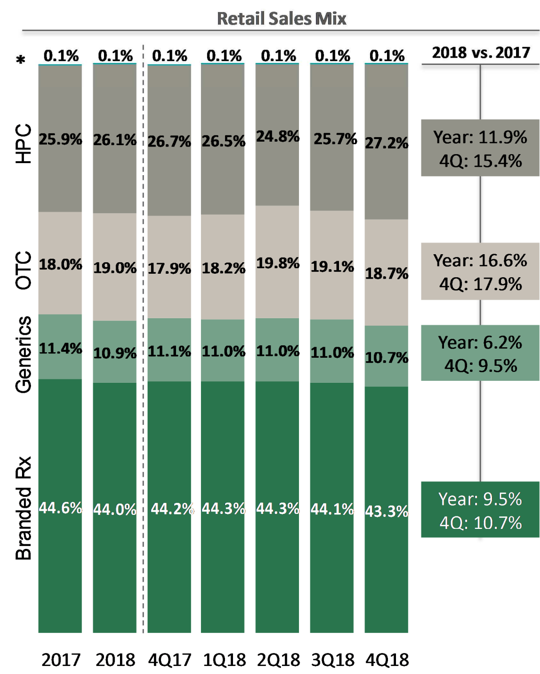
Brazil*	SP	Southeast	Midwest	South	Northeast	North
100.0%	27.0%	24.2%	9.1%	16.0%	18.7%	5.1%

Source: IQVIA.

* Includes 4Bio only for Brazil total.

GROSS REVENUE



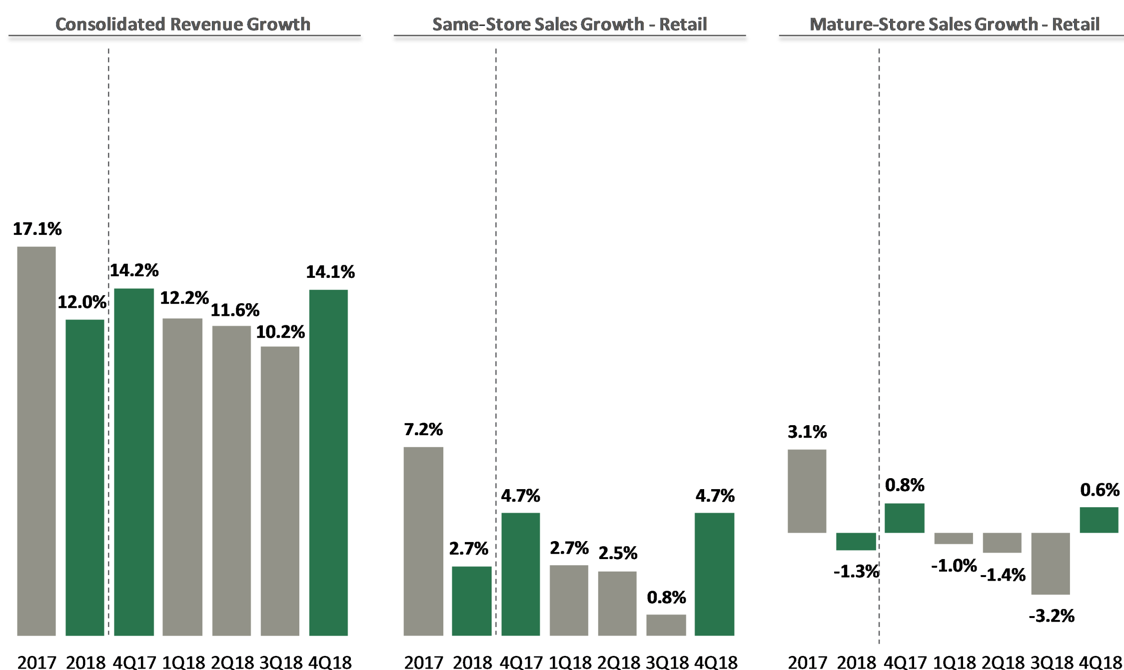


We ended 2018 with consolidated gross revenue of R$ 15,519.1 million (R$ 4,178.9 in the quarter), a 12.0% increase over the previous year (14.1% in the quarter). Our drugstore revenue increased 11.0% (13.1% in the quarter), while 4Bio grew 37.3% in the period (37.5% in the quarter).

Once again OTC was the highlight of the year, growing 16.6% (17.9% in the quarter) and gaining 1.0 percentage point of participation in the sales mix (0.8% in the quarter). HPC grew 11.9% (15.4% in the quarter), and gained 0.2 percentage point in the

sales mix (0.5% in the quarter). On the other hand, Branded Rx grew 9.5% in the year (10.7% in the quarter), and lost 0.6 percentage point of its participation in the sales mix (reduction of 0.9% in the quarter). The outperformance by OTC at the expense of Branded was helped by drug switches, which represented migration of 0.4 percentage point (0.4% in the quarter). Generics revenues grew 6.2% (9.5% in the quarter), with 16.4% of growth in units sold (22.5% in the quarter), reflecting our successful pricing and mix strategy.

It is important to highlight that the good performance of HPC is partially due to easy comps of the 4Q17, when 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.



We recorded in 2018 a same-store sales growth of 2.7% and of -1.3% in mature stores. In the 4Q18, same store sales increased by 4.7%, while mature stores recorded an increase of 0.6%. We recorded a positive calendar effect of 0.1% in the quarter.

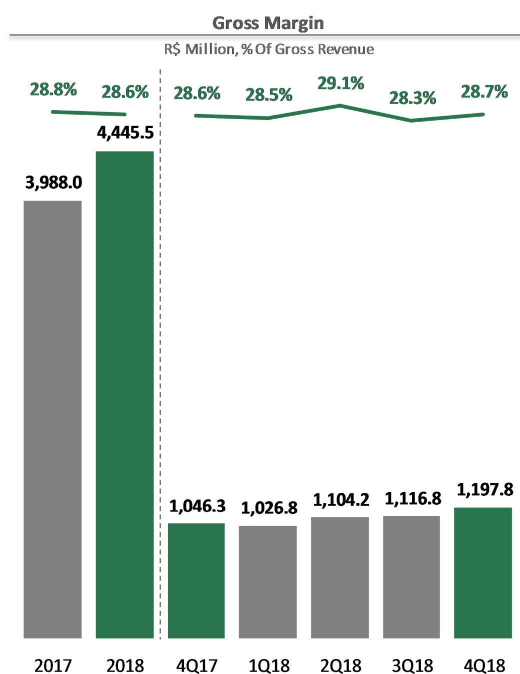
Finally, the Brazilian pharmaceutical market grew by 8.2% in 2018, according to IQVIA, supported by a 6.6% growth in units, which implies an average price growth of 1.5%, below inflation. This reflects mainly a migration of the costumer to cheaper generics brands.

GROSS PROFIT

Our gross margin reached 28.6%, a 0.2 percentage point pressure versus 2017. In the 4Q18, we recorded a gross margin of 28.7%, a 0.1 percentage point increase over the 4Q17.

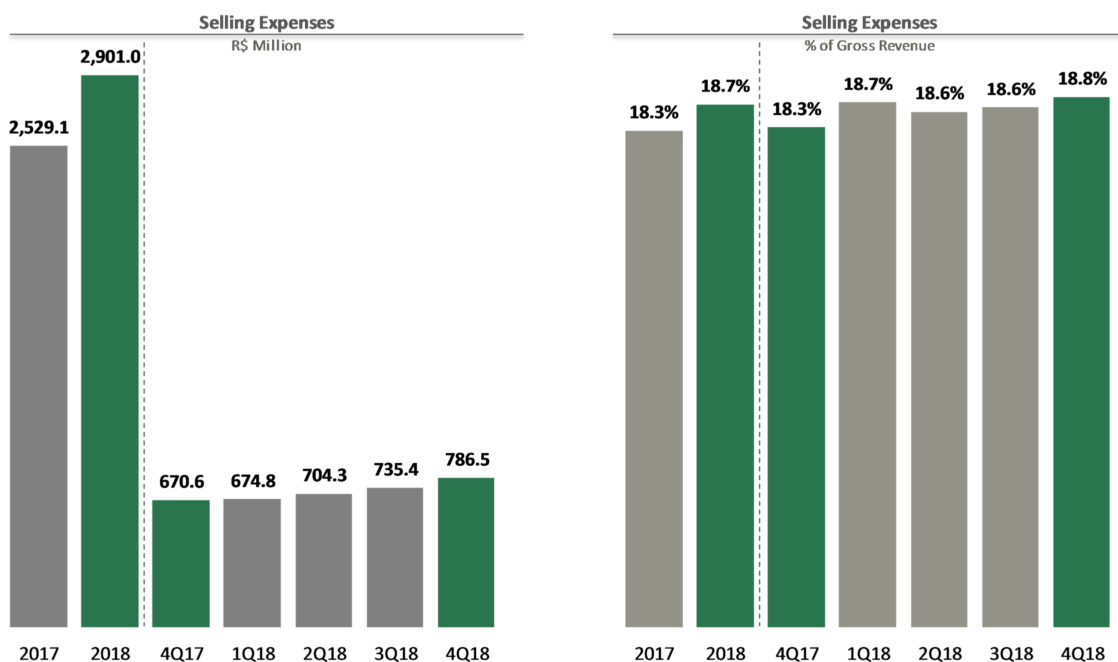
In 2018, we recorded a 0.1 percentage point margin pressure due to a lower Net Present Value (NPV) adjustment, which is a non-cash effect, since interest rates have declined in Brazil, and a 0.2 percentage point pressure from 4Bio, due to its negative mix effect. These pressures registered in the year were partially offset by commercial gains of 0.1 percentage point.

In the 4Q18, we recorded a 0.3 percentage point gain due to PIS and Cofins tax credits, which refer to the full year of 2018 but were fully undertaken in the quarter, as from now ICMS can be excluded from the tax calculation base. This gain was partially offset by a 0.2 percentage point pressure from 4Bio.



SELLING EXPENSES

In 2018, selling expenses totaled R$ 2,901.0 million, equivalent to 18.7% of gross revenue, a 0.4 percentage point increase over 2017.



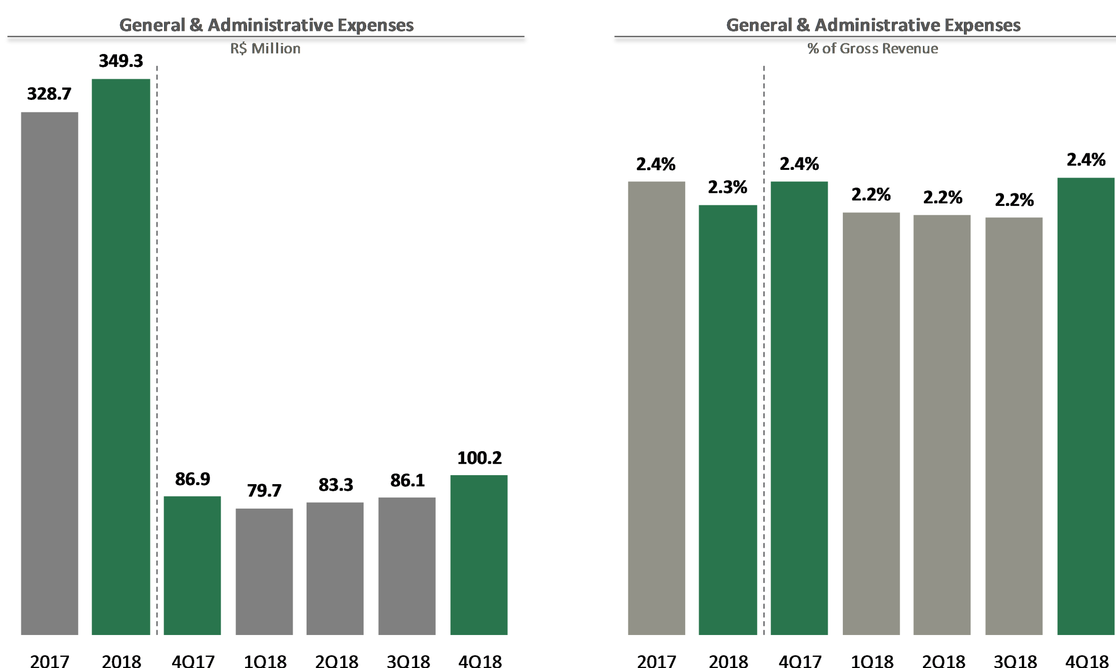
Personnel expenses and rentals pressured by 0.2 percentage point each, while logistics and new stores expenses pressured by 0.1 percentage point each. These pressures were mainly driven by the loss of operating leverage due to mature-store sales performance below inflation through the year, as well as to the acceleration of the IGP-M index, which increased rentals expenses. They were partially offset by a 0.2 percentage point dilution due to 4Bio, which has lower selling expenses and recorded significant expense dilution in 2018.

In the quarter, selling expenses totaled R$ 786.5 million, equivalent to 18.8% of gross revenue, a 0.5 percentage point pressure over 4Q17, also stemming from the loss of operating leverage and the acceleration of the IGP-M index. Rentals, logistics and the result of the stores opened in 2018, including pre-operating expenses, pressured by 0.2 percentage point each, while other selling expenses pressured by another 0.1 percentage point. These pressures were partially offset by a 0.2 percentage point dilution from 4Bio.

GENERAL & ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to R$ 349.3 million in 2018, equivalent to 2.3% of gross revenue, a 0.1 percentage point dilution over 2017, reflecting mainly lower variable compensation expenditures.

In the 4Q18, general and administrative expenses amounted to R$ 100.2 million, equivalent to 2.4% of gross revenue, stable versus the same period of last year. We recorded a 0.2 percentage point pressure in labor contingencies, offset by a 0.2 percentage point dilution due to lower variable compensation expenditures.

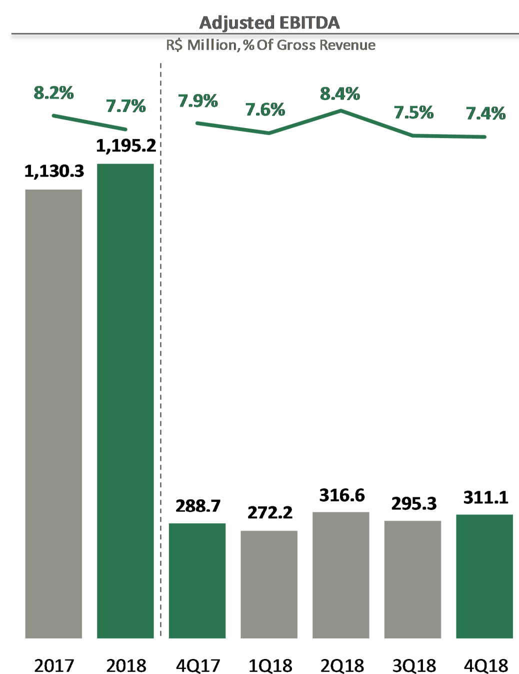


EBITDA

Our adjusted EBITDA reached R$ 1,195.2 million in 2018, an increase of 5.7% and an EBITDA margin of 7.7%, representing a 0.5 percentage point pressure compared to the previous year.

In 4Q18, we achieved an adjusted EBITDA of R$ 311.1 million, an increase of 7.8% and an EBITDA margin of 7.4%, a 0.5 percentage point pressure. It is important to mention that the 4Q18 gross margin was benefited by PIS and COFINS tax credits of 0.3 percentage point related to previous quarters of 2018. On the other hand, labor contingencies allowances from previous quarters of 2018 penalized the quarter by 0.1 percentage point. Without these effects, the EBITDA margin in the quarter would have been 7.2%.

New stores opened in the year, as well as those in the opening process, reduced the EBITDA by R$ 42.4 million in 2018 (a R$ 6.2 million reduction in the quarter). Considering only the 1,585 stores in operation since the end of 2017 and the full absorption of logistics, general and administrative expenses by such stores, our EBITDA would have totaled R$ 1,237.7 million (R$ 317.4 million in the quarter), equivalent to a margin of 8.3% (8.1% in the quarter).



RD Pharmacies reached an adjusted EBITDA of R$ 1,178.4 (R$ 306.3 million in the quarter) and a margin of 8.0% (7.7% in the quarter), a 0.4 percentage point pressure over 2017 (0.4 percentage point pressure in the quarter).

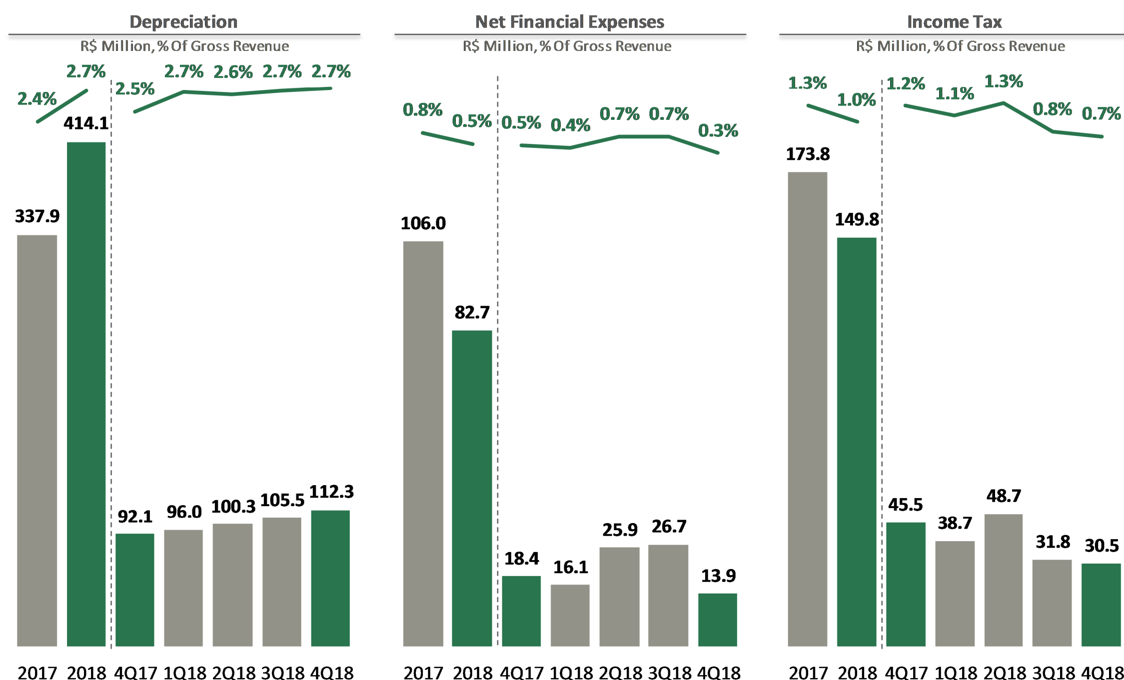
Finally, 4Bio reached an EBITDA of R$ 16.8 million (R$ 4.8 million in the quarter) and a margin of 2.2% (2.3% in the quarter), a 0.2 percentage point margin expansion (0.6 percentage point expansion in the quarter).

EBITDA Reconciliation	1Q18	2Q18	3Q18	4Q18	2018
(R$ million)					
Net Income	**121.3**	**137.7**	**128.8**	**121.5**	**509.3**
(+) Income Tax	38.7	46.6	30.6	13.6	129.5
(+) Financial Result	16.1	25.9	26.7	13.9	82.7
EBIT	**176.1**	**210.1**	**186.2**	**149.0**	**721.5**
(+) Depreciation and Amortization	96.0	100.3	105.5	112.3	414.1
EBITDA	**272.2**	**310.4**	**291.7**	**261.3**	**1,135.6**
(+) Expenses related to the Strategic Planning		9.6	2.2	2.1	13.9
(+) Asset Write-off - Farmasil			1.3	0.3	1.5
(-) Non-recurring tax credits		(3.3)		(7.4)	(10.7)
(+) Labor Contigencies: claims filled in previous years				47.2	47.2
(+) Restructuring Charges				7.6	7.6
Total Non-Recurring Expenses	**0.0**	**6.2**	**3.5**	**49.8**	**59.6**
Adjusted EBITDA	**272.2**	**316.6**	**295.3**	**311.1**	**1,195.2**

In 2018, we recorded R$ 59.6 million in non-recurring expenses, of which R$ 49.8 million were incurred in the 4Q18.

In the 4Q18, we recorded R$ 47.2 million in labor contingencies relating to claims filed in previous years due to a change in estimation methodology. In addition, we recorded R$ 7.6 million of restructuring charges expected for 2020, R$ 2.1 million in consulting expenses related to the development of our Strategic Planning and R$ 0.3 million in asset write-off related to the closure of 4 Farmasil stores which could not be converted to our enhanced popular format. Finally, we recorded R$ 7.4 million in non-recurring gains arising from PIS and COFINS tax credits that also relate to previous years.

DEPRECIATION, NET FINANCIAL EXPENSES AND INCOME TAXES



Depreciation expenses amounted to R$ 414.1 million in 2018 (R$ 112.3 million in the quarter), equivalent to 2.7% of gross revenue (2.7% in the quarter) and a 0.3 percentage point increase when compared to the previous year (0.2 percentage point pressure in the quarter) reflecting the acceleration of our expansion program and a lower dilution due to a weaker sales performance in the year.

Net Financial expenses totaled R$ 82.7 million in 2018 (R$ 13.9 million in the quarter), representing 0.5% of gross revenue (0.3% in the quarter), a 0.3 percentage point decrease over the previous year (0.2 percentage point dilution in the quarter). Net Present Value Adjustment penalized the financial result by R$ 49.7 million in 2018 (R$ 15.4 million in the quarter).

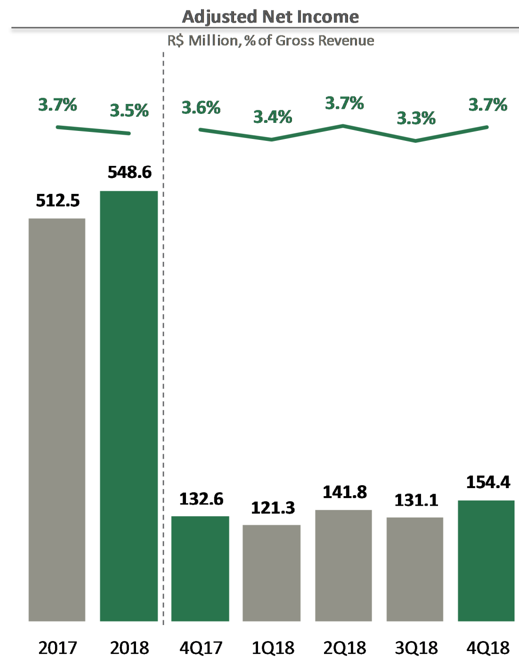
In addition, we recorded R$ 11.1 million in net financial income from the option to acquire 4Bio (R$ 15.3 million net financial income in the quarter), versus R$ 2.3 million expenses in 2017 (R$ 5.0 million net financial income in the 4Q17). It is important to mention that the R$ 15.3 million of net financial income registered in the 4Q18 was a result of a R$ 16.8 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$ 1.5 million of interests accrued on the option. This impairment analysis is done once a year in the fourth quarter.

Excluding the NPV adjustments, the financial income on the option to acquire 4Bio and R$ 5.1 million in a one-off income registered in 1Q18 as a result of a reversion of interests accrued on tax payables, the interest accrued on net debt amounted to R$ 49.2 million in 2018 (R$ 13.8 million in the quarter) or 0.3% of gross revenue (also 0.3% of gross revenue in the quarter), stable versus 2017.

Finally, we booked R$ 149.8 million in income taxes (R$ 30.5 million in the quarter), equivalent to 1.0% of gross revenue (0.7% in the quarter). It is worth mentioning that we have recorded a tax reduction of R$ 21.7 million (R$ 7.7 million in the 3Q18 and R$ 14.0 million in the 4Q18) related to a legal ruling that allowed state investment subvention to be deducted from the income tax base. The tax credits refer to the full year of 2018.

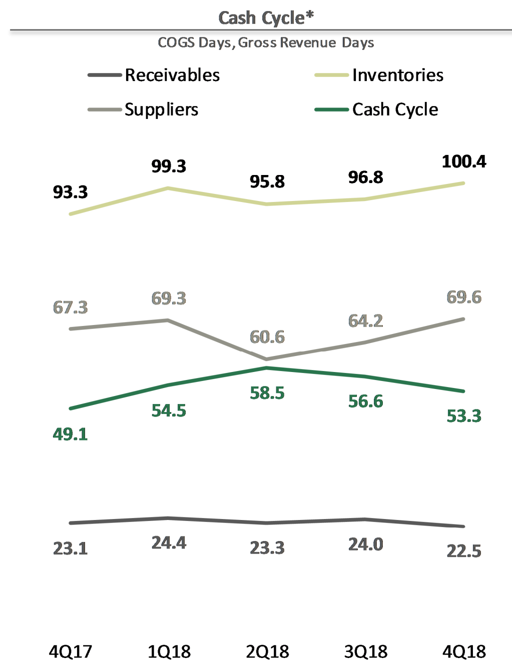
NET INCOME

Adjusted Net income totaled R$ 548.6 million in 2018, equivalent to a net margin of 3.5% (R$ 154.4 million in the quarter, a net margin of 3.7%). This represented a 7.0% increase in net income and a 0.2 percentage point net margin pressure over the previous year (16.4% increase and a 0.1 percentage point expansion in the quarter).



CASH CYCLE

Our cash cycle in the 4Q18 was 4.2 days higher when compared to the same period of the previous year. Inventories increased by 7.1 days reflecting our efforts towards defending gross margin through better commercial conditions with suppliers. In addition, accounts payable increased 2.3 days. Lastly, receivables decreased by 0.6 day reflecting a more favorable calendar in the end of December when compared to the same period of 2017.



* Adjusted to discounted receivables.

CASH FLOW

We recorded a negative free cash flow of R$ 139.9 million in 2018, and a total cash consumption of R$ 341.4 million. Our operating cash flow totaled R$ 563.0 million, which was more than fully consumed by the R$ 703.0 million in investments undertaken in the period. Resources from operations totaled R$ 925.1 million, equivalent to 6.0% of gross revenue, while we recorded a working capital consumption of R$ 362.0 million.

Cash Flow	**4Q18**	**4Q17**	**2018**	**2017**
(R$ million)				
Adjusted EBIT	**198.8**	**196.6**	**781.1**	**792.4**
NPV Adjustment	(16.6)	(14.6)	(50.4)	(63.9)
Non-Recurring Expenses	(49.8)	2.4	(59.5)	0.2
Income Tax (34%)	(45.0)	(62.7)	(228.2)	(247.8)
Depreciation	112.3	92.1	414.1	337.9
Others	61.4	8.8	68.0	32.2
Resources from Operations	**261.1**	**222.6**	**925.1**	**851.0**
Cash Cycle*	17.9	28.2	(344.4)	(337.0)
Other Assets (Liabilities)**	(29.0)	(22.9)	(17.6)	75.5
Operating Cash Flow	**250.0**	**227.9**	**563.0**	**589.5**
Investments	**(220.9)**	**(159.5)**	**(703.0)**	**(639.2)**
Free Cash Flow	**29.1**	**68.4**	**(139.9)**	**(49.7)**
Interest on Equity	(86.4)	(85.6)	(173.6)	(170.8)
Income Tax Paid over Interest on Equity	(15.2)	(14.5)	(29.5)	(28.5)
Net Financial Expenses***	1.5	(4.5)	(32.9)	(46.8)
Share Buyback	-	-	(46.9)	-
Income Tax (Tax benefit over financial expenses and interest on equity)	17.6	19.0	81.5	84.8
Total Cash Flow	**(53.5)**	**(17.2)**	**(341.4)**	**(211.0)**

*Includes adjustments to discounted receivables.

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

***Excludes NPV adjustments.

In the 4Q18, we recorded a positive free cash flow of R$ 29.1 million, and a total cash consumption of R$ 53.5 million. Our operating cash flow totaled R$ 250.0 million, which fully funded the R$ 220.9 million in investments undertaken in the period. Resources from operations totaled R$ 261.1 million, equivalent to 6.2% of gross revenue, while we recorded a working capital consumption of R$ 11.1 million.

Of the R$ 703.0 million invested in the year, R$ 441.3 million corresponded to new store openings, R$ 128.9 million to the renovation or expansion of existing stores and R$ 132.8 million to investments in infrastructure.

Net financial expenses totaled R$ 32.9 million in 2018 (R$ 1.5 million in revenue in the quarter), excluding the NPV adjustments. These were more than fully offset by the R$ 81.5 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$ 17.6 million in the quarter).

We accrued R$ 209.5 million in interest on equity in 2018 (R$ 56.0 million in the quarter) versus R$ 202.5 million in 2017 (R$ 51.5 million in the 4Q17), reflecting a payout of 41.1%, 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$ 735.0 million, versus R$ 393.6 million recorded at the end of 2017. The Adjusted Net Debt to EBITDA totaled 0.6x, 0.3x higher than the same period of last year in spite of the significant investment undertaken in the year.

This net debt includes R$ 36.4 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 2018, assuming the pre-agreed multiple, the average forecasted annual EBITDA for 2018, 2019 and 2020 and the forecasted net

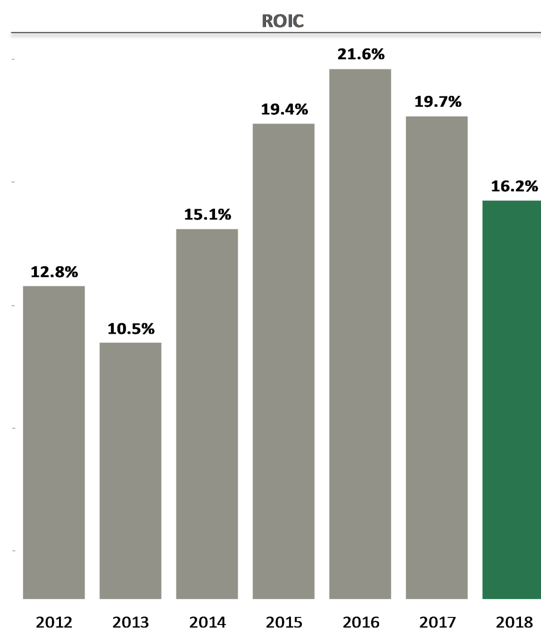
debt for 2020 as stipulated in the acquisition contracts. This estimate has been revisited annually to reflect changes in the economic outlook of 4Bio. In addition, we had R$ 97.0 million in discounted receivables recorded in the quarter.

Net Debt	4Q17	4Q18
(R$ million)		
Short-term Debt	196.2	272.9
Long-term Debt	414.7	570.2
Total Gross Debt	**611.0**	**843.1**
(-) Cash and Equivalents	264.9	241.6
Net Debt	**346.1**	**601.6**
Discounted Receivables	-	97.0
Put/Call option to acquire 4Bio (estimated)	47.5	36.4
Adjusted Net Debt	**393.6**	**735.0**
Adjusted Net Debt / EBITDA	0.3x	0.6x

Our gross debt totaled R$ 843.1 million, of which 22,1% corresponds to BNDES (Brazilian Economic and Social Development Bank) lines, 75.9% corresponds to the debentures issued on April 2017 and 2018 and 2.0% corresponds to other debts. Of our total debt, 67.6% is long-term, while 32.4% relates to its short-term parcels. We ended the quarter with a total cash position (cash and marketable securities) of R$ 241.6 million.

RETURN ON INVESTED CAPITAL

We recorded in 2018 a return on invested capital of 16.2%, a 3.5 percentage point decrease when compared to 2017, reflecting a lower operating margin, accelerated investments and an increase in our cash conversion cycle.

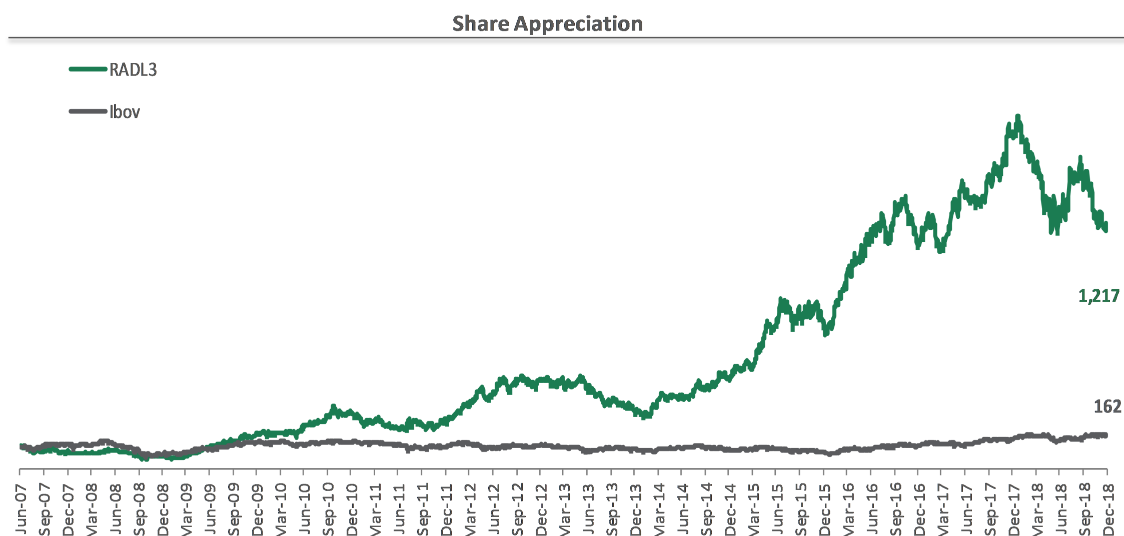


It is important to highlight that our ROIC is heavily penalized by our accelerated organic growth, since 35.6% of our fully invested stores have not yet reached their maturation and their profitability potential. This effect is especially detrimental for the stores opened in 2018 or at the pre-operational stage for opening in 2019, which consumed a CAPEX of R$ 441.3 million as well as additional working capital investments, yet generated a negative EBITDA of R$ 42.4 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 fell 36.4% in 2018, 51.9 percentage points below the Ibovespa, which increased by 15.5%. Since the IPO of Drogasil, we achieved a cumulative share appreciation of 1,055.2% versus a return of only 61.6% for the Ibovespa. Including the payment of interest on equity, we generated an average annual total return to shareholders of 22.4%. Considering the IPO of Raia in December of 2010, the cumulative return amounted to 325.6% versus an increase of only 29.3% of the Ibovespa. Considering the payment of interest on equity, this resulted in an average annual total return to shareholders of 19.8%.

We recorded an average daily trading volume of R$ 91.6 million in the quarter.



SUBSEQUENTIAL EVENTS

On February 26, 2018, the Company has firmed a Sale and Purchase Agreement with CCI Foreign, S.A.R.L. and Beauty Holdings, L.L.C., subsidiaries of CVS Health Corporation (CVS), regulating the acquisition of 100% of Onofre by RD.

Acquired by CVS in 2013, Onofre is one of the most traditional drugstore chains in Brazil. It combines a network of 50 stores (47 in São Paulo, 2 in Rio de Janeiro and 1 in Belo Horizonte) with one of the main pharmaceutical e-commerce operations in the country, being one of the leading brands in the channel.

The acquisition of Onofre will allow us to increase our scale and capillarity in the traditional retail, as well as to accelerate and enhance our digital strategy, increasing the density of deliveries and expanding the operation of the “Onofre em Casa”, with local delivery for every market where RD has structured logistics.

The closing and implementation of the transaction shall occur once certain conditions precedent have been verified, among which the prior approval of the Administrative Council of Economic Defense - CADE, in the form of art. 88, paragraph 3, of Law no. 12529, of November 30, 2011. Once the transaction is concluded, the ongoing arbitration process in the Brazil-Canada Arbitration Chamber, involving Onofre and CVS, will remain under the management of CVS Health, without any involvement of RD, with CVS being solely responsible for both gains and losses incurred as a result of the arbitral award.

Adjusted Income Statement *(R$ thousand)*	**4Q17**	**4Q18**	**2017**	**2018**
Gross Revenue	**3,662,178**	**4,178,909**	**13,852,469**	**15,519,133**
Taxes, Discounts and Returns	(160,882)	(181,845)	(639,964)	(717,688)
Net Revenue	**3,501,296**	**3,997,064**	**13,212,505**	**14,801,445**
Cost of Goods Sold	(2,455,038)	(2,799,277)	(9,224,506)	(10,355,924)
Gross Profit	**1,046,258**	**1,197,788**	**3,987,999**	**4,445,521**
Operational (Expenses) Revenue				
Sales	(670,608)	(786,502)	(2,529,051)	(2,901,011)
General and Administrative	(86,931)	(100,177)	(328,663)	(349,318)
Operational Expenses	**(757,539)**	**(886,679)**	**(2,857,714)**	**(3,250,330)**
EBITDA	**288,719**	**311,109**	**1,130,285**	**1,195,191**
Depreciation and Amortization	(92,123)	(112,310)	(337,915)	(414,134)
Operational Earnings before Financial Results	**196,596**	**198,799**	**792,370**	**781,058**
Financial Expenses	(40,066)	(31,415)	(212,922)	(154,437)
Financial Revenue	21,626	17,512	106,883	71,783
Financial Expenses/Revenue	**(18,440)**	**(13,903)**	**(106,039)**	**(82,654)**
Earnings before Income Tax and Social Charges	**178,156**	**184,896**	**686,331**	**698,404**
Income Tax and Social Charges	(45,533)	(30,492)	(173,819)	(149,790)
Net Income	**132,623**	**154,404**	**512,513**	**548,614**

Consolidated Income Statement *(R$ thousand)*	**4Q17**	**4Q18**	**2017**	**2018**
Gross Revenue	**3,662,178**	**4,178,909**	**13,852,469**	**15,519,133**
Taxes, Discounts and Returns	(160,882)	(181,845)	(639,964)	(717,688)
Net Revenue	**3,501,296**	**3,997,064**	**13,212,505**	**14,801,445**
Cost of Goods Sold	(2,455,038)	(2,799,277)	(9,224,506)	(10,355,924)
Gross Profit	**1,046,258**	**1,197,788**	**3,987,999**	**4,445,521**
Operational (Expenses) Revenue				
Sales	(670,608)	(786,502)	(2,529,051)	(2,901,011)
General and Administrative	(86,931)	(100,177)	**(328,663)**	**(349,318)**
Other Operational Expenses, Net	2,372	(49,807)	**212**	**(59,548)**
Operational Expenses	**(755,167)**	**(936,486)**	(2,857,502)	(3,309,878)
EBITDA	**291,091**	**261,302**	1,130,497	1,135,643
Depreciation and Amortization	(92,123)	(112,310)	**(337,915)**	**(414,134)**
Operational Earnings before Financial Results	**198,968**	**148,992**	**792,583**	**721,510**
Financial Expenses	(40,066)	(31,415)	(212,922)	(154,437)
Financial Revenue	21,626	17,512	**106,883**	**71,783**
Financial Expenses/Revenue	**(18,440)**	**(13,903)**	**(106,039)**	**(82,654)**
Earnings before Income Tax and Social Charges	**180,528**	**135,089**	686,544	638,856
Income Tax and Social Charges	(46,339)	(13,558)	**(173,891)**	**(129,544)**
Net Income	**134,188**	**121,531**	**512,653**	**509,313**

Assets	**4Q17**	**4Q18**
(R$ thousand)		
Current Assets		
Cash and Cash Equivalents	264,873	241,568
Accounts Receivable	930,071	937,389
Inventories	2,517,594	3,087,275
Taxes Receivable	78,777	84,852
Other Accounts Receivable	119,004	156,848
Anticipated Expenses	17,885	21,893
	3,928,204	4,529,826
Non-Current Assets		
Deposit in Court	29,215	25,770
Taxes Receivable	34,293	44,578
Other Credits	5,246	2,484
Property, Plant and Equipment	1,276,276	1,546,960
Intangible	1,191,016	1,202,388
	2,536,045	2,822,180
ASSETS	6,464,249	7,352,005

Liabilities and Shareholder's Equity	**4Q17**	**4Q18**
(R$ thousand)		
Current Liabilities		
Suppliers	1,815,687	2,141,274
Loans and Financing	196,248	272,939
Salaries and Social Charges Payable	202,799	237,542
Taxes Payable	130,432	92,964
Dividend and Interest on Equity	37,474	24,843
Provision for Lawsuits	2,724	2,512
Other Accounts Payable	108,415	141,370
	2,493,779	2,913,443
Non-Current Liabilities		
Loans and Financing	414,711	570,211
Provision for Lawsuits	8,170	48,877
Income Tax and Social Charges deferred	228,714	237,757
Other Accounts Payable	68,503	46,949
	720,098	903,794
Shareholder's Equity		
Common Stock	1,808,639	1,808,639
Capital Reserves	151,156	116,363
Revaluation Reserve	12,197	12,022
Income Reserves	1,228,149	1,522,073
Accrued Income	0	0
Equity Adjustments	(30,230)	(30,230)
Non Controller Interest	27,860	34,911
Additional Dividend Proposed	52,602	70,990
	3,250,372	3,534,769
LIABILITIES AND SHAREHOLDERS' EQUITY	6,464,249	7,352,005

Cash Flow	**4Q17**	**4Q18**	**2017**	**2018**
(R$ thousand)				
Earnings before Income Tax and Social Charges	**180,528**	**135,089**	**686,544**	**638,856**
Adjustments				
Depreciation and Amortization	92,122	112,310	337,914	414,134
Compensation plan with restricted shares, net	3,129	3,186	12,638	12,515
Interest over additional stock option	(5,000)	(15,294)	2,287	(11,135)
P,P&E and Intangible Assets residual value	1,953	4,894	6,609	12,166
Provisioned Lawsuits	(78)	52,844	7,788	49,167
Provisioned Inventory Loss	1,704	(1,644)	3,656	(2,680)
Provision for Doubtful Accounts	588	(635)	2,314	(4,739)
Provisioned Store Closures	1,529	2,784	(811)	1,556
Interest Expenses	13,653	14,082	64,234	56,699
Debt Issuance Costs Amortization	65	495	188	(2,388)
	290,193	**308,111**	**1,123,360**	**1,164,151**
Assets and Liabilities variation				
Clients and Other Accounts Receivable	(44,471)	117,695	(173,728)	1,133
Inventories	(180,604)	(278,729)	(371,782)	(567,001)
Other Short Term Assets	8,849	(2,153)	27,852	(10,091)
Long Term Assets	(2,672)	1,326	(17,895)	(45,438)
Suppliers	253,257	275,702	208,482	318,449
Salaries and Social Charges	(48,824)	(51,094)	3,421	34,743
Taxes Payable	(11,984)	(15,209)	(19,936)	(69,041)
Other Liabilities	(9,963)	3,242	(10,368)	922
Rent Payable	4,220	5,960	9,472	12,885
Cash from Operations	**258,001**	**364,851**	**778,878**	**840,712**
Interest Paid	(19,169)	(23,770)	(36,863)	(43,478)
Income Tax and Social Charges Paid	(21,352)	(14,937)	(113,175)	(118,381)
Net Cash from (invested) Operational Activities	**217,480**	**326,144**	**628,840**	**678,853**
Investment Activities Cash Flow				
P,P&E and Intangible Acquisitions	(160,001)	(220,912)	(640,330)	(702,985)
P,P&E Sale Payments	547	7	1,150	17
Net Cash from Investment Activities	**(159,454)**	**(220,905)**	**(639,180)**	**(702,968)**
Financing Activities Cash Flow				
Funding	(9)	16,994	400,448	423,954
Payments	(102,075)	(67,777)	(231,021)	(202,597)
Share Buyback	0	0	0	(46,925)
Interest on Equity and Dividends Paid	(85,632)	(86,444)	(170,847)	(173,622)
Net Cash from Funding Activities	**(187,716)**	**(137,227)**	**(1,420)**	**810**
Cash and Cash Equivalents net increase	**(129,690)**	**(31,988)**	**(11,760)**	**(23,305)**
Cash and Cash Equivalents in the beggining of the period	**394,563**	**273,556**	**276,632**	**264,873**
Cash and Cash Equivalents in the end of the period	**264,873**	**241,568**	**264,873**	**241,568**

PROFIT ALLOCATION

Following legal and statutory provisions, we propose the following allocation for the retained earnings which amount to R$ 503,098 thousand:

- Legal Reserve	R$ 25,122 thousand
- Statutory Reserve	R$ 227,179 thousand
- Interest on Capital (R$ 0.636121831per share)	R$ 209,500 thousand
- Tax Incentive Reserve	R$ 41,297 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 Auditing Standards (SEP), the Company informs herein that, during 2018, in addition to the external audit services related to the financial statements for 2018, PricewaterhouseCoopers Auditores Independentes has provided the following services:

Consulting service for the issuances of debentures, amounting to R$ 233 thousand (26.2% of the total paid for the external audit service), signed on September 25, 2018, with term until the settlement of the process.

Consulting service for human capital survey, amounting to R$ 30 thousand (3.3% of the total paid for the external audit service), signed on April, 2018 with a three-month period.

Consulting service related to the SAP and Java access review project, amounting to R$ 45 thousand (5.1% of the total paid for the external audit service), signed on January 17, 2018, with a period of 2.5 weeks.

Consulting service for the Mastersaf access review project, amounting to R$ 50 thousand (5.6% of the total paid for the external audit service), with a three-week period.

Consulting service for risk management project, amounting to R$ 195 thousand (21.9% of the total paid for the external audit service), signed on December 1, 2018, with a sixteen-month period.

Consulting service for environmental control, amounting to R$ 80 thousand (9.0% of the total paid for the external audit service), signed on August 7, 2018, with a six-month period.

Consulting service, amounting to R$ 82 thousand (9.2% of the total paid for the external audit service), realized on October, 2018.

The aforementioned services totaled R$ 715 thousand, that is, 80.2% of the total 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"), which comprise the balance sheet as at December 31, 2018 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, 2018 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.

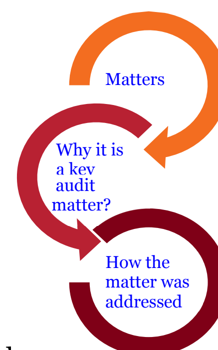
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Raia Drogasil S.A. and its subsidiary as at December 31, 2018, and the financial performance and the cash flows for the year then ended, as well as the consolidated financial performance and the cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Parent Company and Consolidated Financial Statements” section of our report. We are independent of the Company and its 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.

Key audit matters

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



In relation to the audit report issued for the prior year, the matter related to the projections of results used in the assessment of the recoverable value of goodwill, mainly the goodwill of Raia S.A., and in the definition of the obligation to purchase the residual interest in 4Bio Medicamentos S.A. was excluded from this section. We noted that the integration of the former business Raia S.A. to the Company’s operations demonstrate the recurring cash generation, and the analyses

made by management regarding the projections of future profitability demonstrate that there is an important surplus in relation to the carrying amount. As regards the purchase obligation, we noted that, at December 31, 2018, and as from that date, the EBITDA amounts became the effective amounts, and no longer the estimated amounts. Considering the circumstances, this matter is not among the key audit matters for 2018.

On the other hand, we included a new matter related to the assessment of lease agreements at December 31, 2018, for disclosure purposes, and as a preparation for the initial adoption of the new accounting standard regarding leases (IFRS 16 / CPC 6 (R2)), to be effective as from January 1st, 2019.

With regard to other matters, no significant changes occurred in relation to the prior year and, in this context, both the matters and our corresponding audit approach remained substantially aligned with those for the prior year.

Why it is a key audit matter	How the matter was addressed in the audit
Commercial agreements Note 4(t)	
As a retail organization, the Company enters into individual commercial agreements with its suppliers, which may be of a special or complex 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, especially ones related to integrity, completeness and the correct accrual basis, remains a focus area in our audit.	Our audit procedures considered, among other procedures, the following: . Updating of the understanding the business processes and of the internal controls established by management for identifying, monitoring and accounting for the commercial agreements. . Testing over the operating effectiveness of the main existing controls over the commercial agreements. . Understanding of the main terms of the agreements, which are individually relevant or have particular contractual terms, and their corresponding performance obligations and recalculation, on a sampling basis, of the expected results with the commercial agreements, besides the verification of their subsequent financial settlement. . Test of the recognition of effects on the correct 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 1,800 branches, located in 22 states in Brazil, and represented in the market by its two main brands:	We have updated our understanding and have tested the effectiveness of the main controls and information systems that are important for the financial reporting.

Why it is a key audit matter	How the matter was addressed in the audit
Droga Raia and Drogasil.	
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 on a centralized decision making process, as well as follow up and compilation of quantitative, financial, and tax information related to its operations.	In order to obtain the necessary and sufficient evidence in our audit of the systems and applications, we performed specific tests for the purpose of assessing the integrity and accuracy of the system generated information processed by the systems, by automated reports and, computer-assisted procedures were performed, when necessary, to allow a broader scope of tests and evidences.
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, in 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, occasionaly, lead to incorrect processing of information and, therefore, result in improper presentation of the financial statements.	In addition, we performed elements of unpredictability to certain procedures executed, and performed a review of the journal entries that are specific related to the exceptions of access identified, as in 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.
Lease agreements Note 3(e)	
In conducting its businesses, the Company uses third-party assets, which the rights to use were obtained through lease agreements that, according to the new accounting standard regarding leases (IFRS 16/ CPC 6 (R2)), they will be recorded (lease liability and corresponding right to use assets) as from January 1st, 2019.	In our audit, we considered the following main procedures: . Evaluation of the methodology and criteria adopted by Management in preparing the inventory of lease agreements, with the purpose of segregating the agreements with lease elements from those that only represent as service providers.
Although this new accounting standard becomes effective in the year following the current financial statements, during 2018 the Company's management made significant efforts to prepare the inventory of the lease agreements, define the assumptions to be adopted (period of lease agreements, discount rates, short term leases, leases for which the underlying asset is of low value, among other aspects), establish the most appropriate method to be adopted, and implement internal controls that are appropriate to determine the amount of the lease liability and the corresponding right to use assets, at the initial adoption and for the subsequent periods.	. Understanding and testing of the procedures applied by Management to categorize the lease agreements and segregate the lease agreements that are in the scope of the exemptions established in IFRS 16 / CPC 6 (R2). . For each category of lease agreements, we obtained: .. Understanding of the criteria adopted by the Management to define the contract periods considered, which reference cancellation and renewal options.
This was a focus area in our audit due to critical judgment made by the Company's management,	.. Understanding of the criteria adopted by

Why it is a key audit matter	How the matter was addressed in the audit
with a significant impact on the information presented in the note to the financial statements related to this new accounting standard.	Management to determine the discount rate (incremental borrowing rate) used to measure the lease liability. . Review of the lease disclosures made by Management to comply with the requirements of the new accounting standard, that present the amounts calculated to determine the lease liability and the right to use the asset. We consider that the criteria and disclosures by Management are consistent with the data and documents obtained in our audit.

Other matters

Statements of Value Added

The parent company and consolidated Statements of Value Added for the year ended December 31, 2018, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements 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 the Brazilian Technical Pronouncement Committee CPC 09 - "Statement of Value Added". In our opinion, these Statements of Value Added have been properly prepared in all material respects, in accordance with the criteria established in the Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting

Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company 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 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 to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiary to express an opinion on the consolidated

financial statements. We are responsible for the direction, supervision and performance of the Company and its subsidiary's audit. We remain solely responsible for our audit opinion.

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

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

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

São Paulo, February , 2019

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Renato Barbosa Postal
Contador CRC 1SP187382/O-0

Raia Drogasil S.A.

Balance sheet at December 31, 2018 and 2017

All amounts in thousands of reais

(A free translation of the original in Portuguese)

Assets	Parent Company 2018	Parent Company 2017	Consolidated 2018	Consolidated 2017
Current assets				
Cash and cash equivalents (Note 5)	238,153	255,911	241,568	264,873
Trade receivables (Note 6)	805,649	837,582	937,389	930,071
Inventories (Note 7)	3,019,527	2,478,939	3,087,275	2,517,594
Income taxes recoverable (Note 8)	327	654	4,868	654
Other taxes recoverable (Note 8)	76,193	77,434	79,984	78,124
Other receivables	154,791	156,977	156,847	119,003
Prepaid expenses	21,657	17,657	21,894	17,885
	4,316,297	3,825,154	4,529,825	3,928,204
Non-current assets				
Judicial deposits (Note 14)	25,770	29,215	25,770	29,215
Taxes recoverable (Note 8)	44,345	32,975	44,345	32,975
Receivable from subsidiary (Note 26)	41,357			
Other receivables	2,198	6,563	2,717	6,563
Investments (Note 9)	40,108	31,489		
Property and equipment (Note 10a)	1,543,685	1,273,913	1,546,960	1,276,276
Intangible assets (Note 10b)	1,167,942	1,155,458	1,202,388	1,191,016
	2,865,405	2,529,613	2,822,180	2,536,045
Total assets	**7,181,702**	**6,354,767**	**7,352,005**	**6,464,249**

Liabilities and Equity	Parent Company 2018	Parent Company 2017	Consolidated 2018	Consolidated 2017
Current liabilities				
Trade payables (Note 12)	2,033,620	1,745,041	2,141,274	1,815,687
Borrowings (Note 13)	256,033	196,248	272,939	196,248
Salaries and social charges	232,300	198,835	237,541	202,799
Taxes and contributions	84,679	124,058	89,471	127,033
Income tax and social contribution payable (Note 15)	3,147	3,189	3,493	3,399
Dividends and interest on capital (Note 17e)	24,843	37,288	24,843	37,474
Provision for legal proceedings (Note 14)	2,512	2,724	2,512	2,724
Other payables	139,752	107,618	141,372	108,415
	2,776,886	2,415,001	2,913,445	2,493,779
Non-current liabilities				
Borrowings (Note 13)	570,211	414,711	570,211	414,711
Provision for legal proceedings (Note 14)	48,877	8,169	48,877	8,169
Deferred income tax and social contribution (Note 15b)	239,102	226,217	237,757	228,715
Payables to subsidiary's shareholder (Note 9)	36,380	47,515	36,380	47,515
Other obligations	10,389	20,641	10,568	20,988
	904,959	717,253	903,793	720,098
Total liabilities	3,681,845	3,132,254	3,817,238	3,213,877
Equity (Note 17)				
Attributable to owners of the parent				
Share capital	1,808,639	1,808,639	1,808,639	1,808,639
Capital reserves	116,363	151,156	116,363	151,156
Revenue reserves	1,522,073	1,228,149	1,522,073	1,228,149
Additional proposed dividends	70,990	52,602	70,990	52,602
Carrying value adjustments	(18,208)	(18,033)	(18,208)	(18,033)
	3,499,857	3,222,513	3,499,857	3,222,513
Non-controlling interest			34,910	27,859
Total equity	3,499,857	3,222,513	3,534,767	3,250,372
Total liabilities and equity	**7,181,702**	**6,354,767**	**7,352,005**	**6,464,249**

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

Raia Drogasil S.A.

Statement of income
Years ended December 31, 2018 and 2017
All amounts in thousands of reais, except earnings per capital share (A free translation of the original in Portuguese)

	Parent Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Net sales revenue (Note 18)	14,119,368	12,707,808	14,801,445	13,212,505
Cost of sales	(9,742,023)	(8,775,884)	(10,355,923)	(9,224,505)
Gross profit	4,377,345	3,931,924	4,445,522	3,988,000
Operating income (expenses)				
Selling (Note 19)	(3,219,908)	(2,790,215)	(3,261,896)	(2,825,959)
General and administrative (Note 19)	(390,767)	(358,132)	(402,568)	(369,669)
Other operating income/(expenses) (Note 20)	(59,392)	212	(59,548)	212
Equity in the results of subsidiary (Note 9)	8,391	1,821		
	(3,661,676)	(3,146,314)	(3,724,012)	(3,195,416)
Operating profit before finance result	715,669	785,610	721,510	792,584
Finance results				
Finance income (Note 21a)	68,163	102,821	71,783	106,883
Finance costs (Note 21b)	(148,009)	(205,308)	(154,437)	(212,923)
	(79,846)	(102,487)	(82,654)	(106,040)
Profit before income tax and social contribution	635,823	683,123	638,856	686,544
Income tax and social contribution (Note 15a)				
Current	(120,401)	(135,465)	(120,410)	(138,269)
Deferred	(12,975)	(36,495)	(9,133)	(35,622)
	(133,376)	(171,960)	(129,543)	(173,891)
Profit for the year	**502,447**	**511,163**	**509,313**	**512,653**
Attributable to:				
Owners of the parent			502,447	511,163
Non-controlling interest			6,866	1,490
			509,313	**512,653**
Earnings per share - basic (Note 16)	1.52531	1.55047	1.52531	1.55047
Earnings per share - diluted (Note 16)	1.52473	1.54855	1.52473	1.54855

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

Raia Drogasil S.A.

Statement of comprehensive income
Years ended December 31, 2018 and 2017
All amounts in thousands of reais, except earnings per capital share (A free translation of the original in Portuguese)

	Parent Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Profit for the year	502,447	511,163	509,313	512,653
Components of other comprehensive income				
Other comprehensive income				
Total comprehensive income for the year	502,447	511,163	509,313	512,653
Attributable to:				
Owners of the parent			502,447	511,163
Non-controlling interest			6,866	1,490
Total			**509,313**	**512,653**

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

Raia Drogasil S.A.

Statement of changes in equity 31, 2018 and 2017

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

		Capital reserves				Revenue reserves					Carrying value adjustments				
	Share capital	Special monetary restatement	Premium on issue/sale of shares	Treasury sharesy	Restricted shares and other	Legal	Statutory	Tax incentives	Retained earnings	Additional dividends proposed	Revaluation reserve	Transactions with non-controlling interest	Total	Non-controlling interest	Total equity
At January 1, 2017	**1,808,639**	**10,191**	**133,202**	**(16,289)**	**11,123**	**64,839**	**854,279**	**326**		**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 17d)					12,603								12,603		12,603
Restricted share plan - delivered (Note 17d)			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 17e)									(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)**	**18,863**	**90,397**	**1,137,752**	**326**		**52,602**	**12,197**	**(30,230)**	**3,222,513**	**27,859**	**3,250,372**
Dividend for 2017 approved at the Annual General Meeting (AGM) of March 28, 2018										(52,602)			(52,602)		(52,602)
Realization of revaluation reserve, net of income tax and social contribution									175		(175)				
Interest on capital expired									476				476		476
Treasury shares – repurchase (Note 17c)				(46,925)									(46,925)		(46,925)
Restricted share plan - granted (Note 17d)					12,459								12,459		12,459
Restricted share plan - delivered (Note 17d)			3,115	4,267	(7,382)										
Profit for the year									502,447				502,447	6,866	509,313
Allocation of profit															
Legal reserve						25,122			(25,122)						
Statutory reserve							227,179		(227,179)						
Interest on capital proposed - R$ 0.636121831 per share (Note 17e)									(138,510)				(138,510)		(138.510)
Tax incentive reserve								41,297	(41,297)						
Additional interest on capital proposed									(70,990)	70,990					
Dividend proposed by subsidiary														185	185
At December 31, 2018	**1,808,639**	**10,191**	**137,699**	**(55,466)**	**23,940**	**115,519**	**1,364,931**	**41,623**		**70,990**	**12,022**	**(30,230)**	**3,499,858**	**34,910**	**3,534,768**

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

Raia Drogasil S.A.

Statement of cash flows
Years ended December 31, 2018 and 2017
All amounts in thousands of reais (A free translation of the original in Portuguese)

	Parent Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Cash flows from operating activities				
Profit before income tax and social contribution	635,823	683,123	638,856	686,544
Adjustments				
Depreciation and amortization	411,710	335,768	414,134	337,914
Compensation plan with restricted shares, net	12,459	12,603	12,515	12,638
Restatement of payables to Subsidiary's shareholder	(11,135)	2,287	(11,135)	2,287
Loss (profit) on sale/write-off of property and equipment and intangible assets	12,166	6,589	12,166	6,609
(Reversal) provision for legal proceedings	49,167	7,788	49,167	7,788
(Reversal) provision for losses on inventories	(2,680)	3,656	(2,680)	3,656
(Reversal) provision for impairment of trade receivables	(4,427)	1,683	(4,739)	2,314
(Reversal) provision for closing of stores	1,556	(811)	1,556	(811)
Interest expenses	57,227	63,781	56,700	64,234
Amortization of transaction costs of debentures	1,625	188	1,625	188
Equity in the results of subsidiary	(8,391)	(1,821)		
	1,155,100	1,114,834	1,168,165	1,123,361
Changes in assets and liabilities				
Trade and other receivables	41,303	(138,649)	1,133	(173,728)
Inventories	(537,908)	(364,167)	(567,001)	(371,782)
Other current assets	(2,440)	28,367	(10,091)	27,852
Non-current assets	(44,919)	(17,895)	(45,438)	(17,895)
Trade payables	281,441	188,637	318,449	208,482
Salaries and social charges	33,466	2,236	34,743	3,421
Taxes and contributions	(74,837)	(20,663)	(69,041)	(19,937)
Other obligations	361	(10,514)	921	(10,368)
Rents payable	12,850	9,479	12,885	9,472
Cash provided by operations	864,417	791,665	844,725	778,878
Interest paid	(43,410)	(36,230)	(43,478)	(36,863)
Income tax and social contribution paid	(114,532)	(111,186)	(118,381)	(113,175)
Net cash provided by operating activities	706,475	644,249	682,866	628,840
Cash flows from investing activities				
Purchases of property and equipment and intangible assets	(700,762)	(638,790)	(702,985)	(640,330)
Proceeds from sale of property and equipment	17	1,150	17	1,150
Loans granted to subsidiary	(2,784)	(22,971)		
Net cash used in investing activities	(703,529)	(660,611)	(702,968)	(639,180)
Cash flows from financing activities				
Borrowings taken	394,985	373,362	419,223	393,951
Payment of borrowings	(195,142)	(203,337)	(201,879)	(224,523)
Repurchase of shares	(46,925)		(46,925)	
Interest on capital and dividends paid	(173,622)	(170,847)	(173,622)	(170,847)
Net cash used in financing activities	(20,704)	(822)	(3,203)	(1,419)
Net decrease in cash and cash equivalents	(17,758)	(17,184)	(23,305)	(11,759)
Cash and cash equivalents at the beginning of the year	255,911	273,095	264,873	276,632
Cash and cash equivalents at the end of the year	**238,153**	**255,911**	**241,568**	**264,873**

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

Raia Drogasil S.A.

Statement of value added
Years ended December 31, 2018 and 2017

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

	Parent Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Revenue				
Gross sales and services	14,653,024	13,179,514	15,387,120	13,712,793
Other income	840	2,197	840	2,197
(Constitution) Reversal of provision for impairment of trade receivables	4,427	(1,683)	4,739	(2,314)
	14,658,291	13,180,028	15,392,699	13,712,676
Inputs acquired from third parties				
Cost of sales and services	(8,852,571)	(7,876,545)	(9,465,921)	(8,324,844)
Materials, electricity, outsourced services and others	(825,111)	(707,978)	(847,753)	(727,776)
Impairment of assets	(13,706)	(6,786)	(13,706)	(6,786)
	(9,691,388)	(8,591,309)	(10,327,380)	(9,059,406)
Gross value added	4,966,903	4,588,719	5,065,319	4,653,270
Depreciation and amortization	(411,710)	(335,768)	(414,134)	(337,914)
Net value added generated by the entity	4,555,193	4,252,951	4,651,185	4,315,356
Value added received through transfer				
Equity in the results of subsidiary	8,391	1,821		
Finance income	68,878	92,204	72,499	96,267
Other	3,851	3,277	3,851	3,277
	81,120	97,302	76,350	99,544
Total value added to distribute	**4,636,313**	**4,350,253**	**4,727,535**	**4,414,900**
Distribution of value added				
Personnel	1,571,197	1,338,600	1,593,983	1,357,859
Direct compensation	1,241,768	1,053,140	1,254,227	1,064,057
Benefits	220,149	191,019	229,421	198,456
Government Severance Indemnity Fund for Employees (FGTS)	109,280	94,441	110,335	95,346
Taxes and contributions	1,817,920	1,777,054	1,871,384	1,812,447
Federal	491,858	528,807	493,019	535,381
State	1,303,630	1,229,520	1,355,729	1,258,164
Municipal	22,432	18,727	22,636	18,902
Providers of capital	744,749	723,436	752,855	731,941
Interest	146,255	203,638	152,234	210,559
Rentals	598,494	519,798	600,621	521,382
Remuneration of own capital	502,447	511,163	509,313	512,653
Interest on capital	138,510	149,899	138,510	149,899
Dividends and interest on capital proposed	70,990	52,602	70,990	52,602
Profits reinvested for the year	292,947	308,662	292,947	308,662
Non-controlling interests in profits reinvested			6,866	1,490
Value added distributed and retained	**4,636,313**	**4,350,253**	**4,727,535**	**4,414,900**

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

1. Operations

Raia Drogasil S.A. ("Company" or "Raia Drogasil") is a publicly-held company listed on the Novo Mercado ("New Market") listing segment of B3 S.A. - Brasil, Bolsa, Balcão, under ticker RDL3, 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 1,825 stores (1,610 stores - 2017), distributed in 22 Brazilian states (20 states - 2017), as follows:

	Consolidated	
State	**2018**	**2017**
São Paulo	952	894
Rio de Janeiro	127	118
Minas Gerais	125	103
Paraná	103	87
Distrito Federal	68	64
Goiás	68	64
Bahia	59	42
Pernambuco	52	36
Santa Catarina	43	38
Espírito Santo	37	32
Rio Grande do Sul	32	32
Mato Grosso do Sul	23	21
Ceará	21	7
Pará	19	
Mato Grosso	16	14
Rio Grande do Norte	15	14
Paraíba	15	13
Sergipe	15	13
Alagoas	14	11
Maranhão	9	
Piauí	7	3
Tocantins	5	4
Total	**1,825**	**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 Medicamentos S.A. ("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 26, 2019.

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, 2018 and 2017 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.

The parent company 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.

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 fully 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(u).

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 IFRS and CPC that were effective as at December 31, 2018.

3. New accounting procedures, amendments to and interpretations of standards - initial effective dates

The following accounting pronouncements apply for the first time to financial reporting periods beginning on or after January 1, 2018:

(a) CPC 48 / IFRS 9 – Financial instruments

CPC 48 / IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities and replaces the guidance included in IAS 39 / CPC 38 related to the classification and measurement of financial instruments. The main amendments brought by IFRS 9 are: (i) new criteria for the classification of financial assets; (ii) new impairment model for financial assets, which is a hybrid of expected and incurred losses (hereinafter referred to as expected losses model), replacing the current model of incurred losses; and (iii) relaxation of the requirements for adoption of the hedge accounting.

(i) Classification and measurement of financial assets and liabilities

CPC 48 / IFRS 9 retains most of the existing requirements in CPC 38 / IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the former categories of CPC 38 / IAS 39 for financial assets: held to maturity, loans and receivables and available for sale.

The adoption of CPC 48 / IFRS 9 did not have effect on the Company's accounting policies related to financial assets and derivative financial instruments (for derivatives that are used as hedging instruments) since the Company does not operate with hedging instruments.

Under CPC 48 / IFRS 9, on initial recognition, a financial asset is classified into three categories: at amortized cost; at fair value through other comprehensive income (FVOCI); or at fair value through profit or loss (FVTPL). The classification of financial assets under CPC 48 / IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The significant accounting policies are described below:

Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL - Fair Value through Profit or Loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows: and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at FVOCI - Fair Value through Other Comprehensive Income

A debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; and

- its terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at FVOCI - Fair Value through Comprehensive Income

These assets are subsequently measured at fair value. The net gain or loss, including interest or dividend income, is recognized in profit or loss.

Debt instruments at FVOCI - Fair Value through Other Comprehensive Income

These assets are subsequently measured at fair value. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains or losses are recognized in Other comprehensive income - OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.°

All financial assets not classified as measured at amortized cost or FVOCI, as described above, are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Unless it is a trade receivable without a significant financing component that is initially measured at the transaction price, a financial asset is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The Group's management concluded in its analyses that the adoption of CPC 48 / IFRS 9 did not result in significant changes other than the names of the new categories of financial assets and liabilities and their related effects on the Company's accounting policies. As at December 31, 2018, the Group's financial assets are substantially represented by automatic investments and debentures held under repurchase agreements, with yield linked to the variation of the Interbank Deposit Certificate - CDI (Note 5), trade receivables, represented in almost their entirety by receivables from credit and debit card (Note 6) and receivables from subsidiary These financial assets previously classified in the category of loans and receivables are, since January 1, 2018, classified as subsequently measured at amortized cost.

(ii) Impairment

Expected credit losses (ECLs) are a probability-weighted estimate of credit losses based on historical losses and projections of related assumptions. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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 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.

Under CPC 48 / IFRS 9, expected credit losses are measured in one of the following bases:

- 12-month ECLs: these are credit losses that result from possible default events that are possible within the 12 months after the reporting date; and

- Lifetime ECLs: these are credit losses that result from all possible default events over the expected life of a financial instrument.

In conformity with the replacement of the ‘incurred loss’ model by the ‘expected loss’ (ECL) model, Management concluded that the methodology already adopted is compliant with the expected loss model and, therefore, the first-time adoption of CPC 48 / IFRS 9 as from January 1, 2018 did not have impacts on the measurement of the provision for impairment of receivables since a significant part of the trade receivables balance is represented by receivables from credit card companies and special plans with companies, managers of health plans and the government.

(iii) Hedge Accounting

CPC 48 / IFRS 9 requires the Company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. CPC 48 / IFRS 9 also introduces new requirements to reset hedging relationships and prohibits the voluntary discontinuance of hedge accounting. Under the new model, it is probable that more risk management strategies, particularly those of a hedge of a risk component (different from the foreign currency risk) of a non-financial item may qualify for hedge accounting.

The Group does not operate with derivative financial instruments, except in specific situations of equipment imports, which are hedged by firm commitments, the change in the fair value of the compensation between the item and the instrument is recognized directly in profit or loss.

(iv) Transition

The changes in accounting policies resulting from the adoption of CPC 48 / IFRS 9 were applied retrospectively, however, without any alteration in the monetary amounts at the transition date.

(b) CPC 47 / IFRS 15 – Revenue from Contracts with Customers

CPC 47/ IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized from the identification of the performance obligations, the transfer of control of the product or service to the customer, and the determination of the sale price. It replaced CPC 30 / IAS 18 - Revenue, CPC 17 / IAS 11 - Construction Contracts and IFRIC 13 - Customer Loyalty Programmes. The new standard applies to contracts with customers, except lease agreement (rental income), financial instruments (interest) and insurance contracts to which specific standards apply.

This standard establishes a model that aims to identify whether the criteria for revenue recognition have been satisfied and comprise the following aspects:

(i) Identification of a contract with a customer;

(ii) Determination of the performance obligations;

(iii) Determination of the transaction price;

(iv) Allocation of the transaction price; and

(v) Recognition of revenue at a point in time or over time, in accordance with the transfer of the performance obligations.

Sales of goods (medicines, perfumery and self-service products)

The Group's revenues derive mainly from sale of medicines, perfumery and a series of self-service products (medicines without the need for medical prescriptions, food products, etc.) to the final consumers. Being a Group that operates in the retail industry of medicines, where the consumer self-service the products at our stores where prices and discounts are informed by consulting the Company's employees or obtained in places where the products are exposed and considering that the transfer of control processes take place when delivering directly to the final consumer at the points of sales, it was concluded that there is a single performance obligation and, therefore, there is no complexity involved in defining performance obligations and transferring control of products and services to consumers.

Additionally, the other transactions of the Company subject to the assessment under CPC 47 / IFRS 15 are represented by variable considerations associated to commercial agreements where products can be sold together with other products or with discounts, which are substantially negotiations promoted by suppliers at the Group's points of sale. The sales revenue recognized in the financial statements comprises the fair value of the transactions carried out that, according to the nature of the negotiations, consider amounts of sales and receipts from consumers supplemented by receipts from suppliers.

Revenues are recognized net of trade discounts and returns.

The changes in accounting policies introduced by CPC 47 / IFRS 15 did not result in modifications of the criteria for recognition of revenue from sales of goods and services.

Returns and cancellations

For contracts that permit a customer to return an item, in accordance with CPC 47 / IFRS 15, revenue is recognized to the extent that it is probable that a significant reversal will not occur. The amount of revenue recognized is accounted for net of expected returns and cancellations.

CPC 47 / IFRS 15 did not have impact on the Group's accounting policies for returns and cancellations.

Trade discounts and commercial negotiations on the purchase of goods

The Group's variable consideration refers mainly to commercial agreements where products can be sold together with other products or with discounts that are substantially negotiations promoted by suppliers at the Group's points of sale in different ways. These negotiations are individual and distinct between 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 – this refers to benefits granted by the Group's supplier to the Group's final consumer aimed at establishing a process of loyalty of the consumer to the product or medicine. In most cases, from the moment a final consumer is registered in the supplier system, the final consumer benefits from a discount granted by the Group's supplier, paying for the product a price different from the price for the same product if it was not associated to a benefits program. Such discount offered by the supplier to the Group's customer is calculated in real time and recognizes, at the moment of sale of the product to the consumer, an amount receivable from the supplier equivalent to the amount of the discount granted.

For transactions of this nature, the Group recognizes as revenue from contract with customer against a balance receivable from special plans or reduction of contract liabilities.

(ii) marketing and advertising funds, such as display in stores and publicizing of offers at catalogues - these refer to Group's sales programs planned jointly with its suppliers. The supplier has interest in promoting its products at the Group's stores chain and sales points. For this, it negotiates forms of payment different from the Group in order that the final price of the product to the consumer be advantageous without any loss to the gross sales margins for these same products in other conditions than promotional ones. These negotiations normally occur with the Group's purchasing area together with the sales area for alignment with the Group's sales strategies.

From the moment the performance obligation is satisfied (sale of the product associated to the promotion), the Group recognizes the result of these commercial agreements as a credit to cost of sales, against a balance receivable from agreements or reduction of contract liabilities.

(iii) rebates for volume targets, measured both upon purchases and sales – refer to bonus program granted to the Group associated to targets of purchase and sale of products from a certain supplier. The Group considers the benefit obtained as a reduction of the amounts payable to suppliers, with a corresponding entry in the inventories account, from the moment in which it concludes that it is highly probable that the benefit obtained will not be subject to reversal.

In the cases (ii) and (iii) above, these refer to different forms of negotiation that have as main purpose the purchase of products at the lowest cost offered by the independent supplier as proposed in the product purchase transaction.

Management analyzed these variable considerations and concluded that the process for recognizing the reduction of the product cost associated with these programs did not have financial impacts on the equity or profit or loss accounts, considering the accounting recognition that had been adopted until December 31, 2017.

Significant financing component

In accordance with CPC 47 / IFRS 15, in determining the transaction price, the Company shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the Company with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

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. There were no changes in relation to the accounting policy adopted until December 31, 2017.

Transition

The Group adopted CPC 47 / IFRS 15 using the simplified retrospective method, that is, with first-time adoption of the standard on January 1, 2018, with any change in the monetary amounts at the transition date. In addition, Management has performed an analysis of the balances at December 31, 2017 and did not identify impacts with the adoption of this new standard.

(c) ICPC 21 Interpretation / IFRIC 22– Foreign currency transactions

This standard entered into force on January 1, 2018 and provides clarifications on the transaction date to be used for conversion of the advances made or received in foreign currency transactions. There were no impacts of the adoption of this interpretation for the Group.

New or revised standards issued but not yet effective, i.e., that will become effective for annual periods beginning on or after January 1, 2019:

(d) CPC 06 (R2) / IFRS 16 – Leases

In January 2016, IASB issued IFRS 16 - *Leases* and in December CPC 06 (R2) – Lease Transactions was issued; however, such standard is not yet effective for the year ended December 31, 2018. The early adoption of standards, although encouraged by the IASB, is not permitted in Brazil by the Accounting Pronouncements Committee (CPC).

The new standard introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Exemptions are available for leases with term of less than one year and low-value items.

Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and replaces IAS 17 / CPC 06 - "Leases" and related interpretations.

Inventory of contracts

During 2018, the Group's management hired an independent specialized company to assist in the identification of contracts (inventory of contracts), substantially those lease agreements that were within the scope of operating lease (IAS 17 / CPC 06), assessing whether it contains or not lease agreements or service agreements in accordance with CPC 06 (R2) / IFRS 16.

With the result of such analysis, the Group assessed the potential impacts that the first-time adoption of CPC 06 (R2) / IFRS 16 will have on the individual and consolidated financial statements as from January 1, 2019. The impacts of the adoption of the standard, until its full implementation, may change as a result of the factors below:

- The Group is in final phase of the control assessment tests on the new IT systems; and

- The new accounting policies are subject to changes until the presentation of the financial statements that include the initial application date.

Leases in which the Group is a lessee

After the assessment and inventory of the contracts, the Group will recognize new assets related to the following contracts: (i) operating property lease agreement (2,122 contracts), (ii) residential rent, where the Group's professionals are outside their original workplace (483 contracts), (iii) distribution/administrative centers (15 contracts), and (iv) vehicles fleet (1 contract).

The nature of the expenses related to these lease agreements will change since the Group will start recording the right-of-use asset as depreciation expense and the remeasurement of the present value of the lease obligations as interest expense. Previously, the Group recognized the operating lease agreements as an operating lease and on a straight-line basis over the lease agreement term.

Exemptions

During the preliminary studies, lease agreements that are outside the exemption scope of the standard were identified, as follows:
i) Term of less than one year;
ii) Low-value agreements;
iii) Agreements in which the rent has as base variable amounts;
iv) Lease agreements in which the Group does not hold the control of the asset; and
v) Do not have a determinate term.

The lease agreements identified and that are within the exemption scope refer substantially to agreements of printers, forklifts, cardiotech scales, energy generators, electron aligner and photovoltaic plates.

Results

Although the new pronouncement does not introduce any change in the total amount that shall be recognized in profit or loss over the life of the agreement, it is correct to state that there will be a timing effect on the profit for the year mainly due to the method for recognition of interest and monetary restatement associated with the leases, although without material effect, according to the analyses performed.

The Group expects that the adoption of the standard CPC 06 (R2)/IFRS16 will have the following initial impacts:

- Increase in right-of-use asset and lease liability;
- Increase in EBITDA (Operating result); and
- Decrease in Profit for the Year (timing effect).

After preliminary studies and based on the information currently available, the Company estimates that it will recognize the following amounts at the transition date on January 1, 2019:

Accounts impacted / new accounts	**Consolidated Amount**
Noncurrent assets	
Right-of-use asset	3,663,270
Amounts related to the balance of contractual incentives (i)	(28,370)
Total right-of-use asset, net	**3,634,900**
Current liabilities	
Lease liability	482,094
Non-current liabilities	
Lease liability	3,634,900

(i) Refer substantially to the rent grace period amounts (for agreements provided for in contract) recorded prior to the transition date of this accounting pronouncement, net of amounts advanced to lessors .

These payment flows are adjusted to present value, considering the real discount rate. After preliminary studies the real discount rate was 2.94% and corresponds to the debenture funding rate of April 2, 2018, as described in Note 13 (reference in % CDI accumulated at December 31, 2018, net of inflation for 2018). The Group opted for the practical expedient of using a single real discount rate with the respective terms for the agreements that have similar characteristics.

Transition

The Group will apply CPC 06 (R2) / IFRS 16 using the modified retrospective approach. Such approach does not require the restatement of the corresponding amounts, does not impact the equity or the dividend calculation, and allows the use of the practical expedient, detailed below.

On transition, lease liabilities will be measured at the present value of the remaining payments, discounted at the incremental financing rate. Initially, the right-of-use asset will be measured at an amount equal to the lease liability, except for amounts related to contractual incentives, amounts paid in advance and property return cost, which will be part of the balance of the right-of-use asset through reclassification.

The Group plans to apply the practical expedient in respect of the definition of lease agreement on transition. This means that it will apply CPC 06(R2) / IFRS 16 to all agreements entered into before January 1, 2019 that were identified as leases in accordance with CPC 06(R1) / IAS 17 and ICPC 03 / IFRIC 4.

(e) IFRIC 23 – Uncertainty over income tax treatments

The interpretation clarifies how the recognition and measurement requirements of IAS 12 are applied when there are uncertainties about the treatment of income taxes (Corporate Income Tax - IRPJ and Social Contribution on Net Profit - 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) Payables to Subsidiary's shareholder

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 Payables to Subsidiary's shareholder) 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 in assumption during the year, assumptions that comprise the fair value of the option are revised/updated in order to reflect the fair value of the financial liability at year end. Any adjustments are recorded in the line item of Payables to Subsidiary's shareholder (Note 9) against finance costs.

(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. The financial investments included in cash equivalents are classified in the category of "amortized cost".

(d) Financial instruments

Since January 1, 2018, the Group has classified its financial assets into the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets at fair value through other comprehensive income include:

- Equity investments that are not held for trading on initial recognition and that the Group irrevocably elected to recognize in this category. These investments are strategic and the Group considers this classification as being the most relevant;

- Debt investments, in which the contractual cash flows consist basically in principal and interest and the Group's business model objective is achieved by collecting contractual cash flows and selling financial assets.

The Group classifies the following assets at fair value through profit or loss:

- Debt investments that do not qualify for measurement at amortized cost or at FVOCI;

- Equity investments held for trading; and

- Equity investments for which the entity did not elect to recognize gains and losses through other comprehensive income.

For financial assets measured at fair value, gains and losses will be recognized in profit or loss or in other comprehensive income. For debt investments, this will depend on the business model in which the investment in held. For equity investments that are not held for trading, this will depend on whether the Group has or not an irrevocable option, on initial recognition, of accounting for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments only when the business model for managing such assets is changed.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows;

- Where those cash flows represent solely payments of principal and interest are measured at amortized cost;

- Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss;

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss; and

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From January 1, 2018, the Group assesses, according to the transition date, the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the retrospective approach, without monetary effect, as permitted by IFRS 9/CPC 48, and therefore recognizes expected lifetime losses from initial recognition of the receivables.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where currently there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right should not be contingent on future events and should be applicable in the normal course of business and in the case of default, insolvency or bankruptcy of the counterpart.

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.

Accounting policy effective until December 31, 2017

As permitted by the transition rules of IFRS 9 / CPC 48, changes in the accounting policies were applied retrospectively without any change in monetary amounts at the transition date. For this reason, the accounting practices adopted in the preparation of the comparative information are the same as those disclosed in the financial statements for the prior year ended December 31, 2017, as presented below:

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.

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

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.

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.

Impairment of financial assets

(i) 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 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.

(ii) 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.

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.

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.

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 (Note 3 (a)(ii)).

Until December 31, 2017, the provision for 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 in non-current assets when there is no expectation of loss or 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 10(a). 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 10(b).

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 10(b).

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). The Company's CGUs are the stores.

(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 finance leases.

(m) Provisions

Provision is 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 is 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 17d).

(o) Capital and income reserves

The legal reserve is set up at 5% of profit for the year, pursuant to Law 6,404/76, until it reaches 20% of the capital. In the year in which the legal reserve balance, plus the capital reserve amount, exceeds 30% of the capital, the allocation of part of the profit for the year to the legal reserve is not required.

The statutory reserve is established in the Company’s bylaws, limited to 65% of the profit for the year, to set up the “Statutory Income Reserve”, which has the purpose and objective of improving the Company’s working capital, observing that its balance, except the Contingency Reserve and the Unrealized Income Reserve, cannot exceed 100% of the capital. Once this limit is reached, the General Meeting will decide on the excess amount, in accordance with Article 199 of the Corporation Law, and shall apply it in the capital contribution or capital increase or in the payment of dividends.

(p) 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.

(q) Tax incentive reserve

The Company and its subsidiary enjoy ICMS tax incentives that, pursuant to supplementary Law 160/17, are classified as investment grant. In light of such law, the Company's management is allocating the amounts described in Note 17(d) to the tax incentive reserve, in the line item of income reserve, subject to approval at the Annual General Meeting. The tax incentive amounts are not part of the calculation base of the minimum mandatory dividend, and can only be incorporated into capital in conformity with Law 6,406/76.

(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

The accounting policies adopted by the Group for revenue recognition as from January 1, 2018 are detailed in Note 3(b) above.

Accounting policy effective until December 31, 2017

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) 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.

(u) Significant accounting judgments, estimates and assumptions

When applying Group accounting policies, 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 estimates and 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 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.

(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(b)(ii).

(4) Provision for tax, civil and labor risks

The Group is party to various legal and administrative proceedings, as mentioned in Note 14. 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 and the Group's compensation history.

5. Cash and cash equivalents

	Parent Company		Consolidated	
Cash and cash equivalents items	**2018**	**2017**	**2018**	**2017**
Cash and banks	113,417	81,738	115,002	82,118
Investment fund	2,381	90,769	2,381	90,769
Automatic investments (a)	59,860		59,860	
Bank Deposit Certificates - CDB (b)	25,344		25,344	
Debentures held under repurchase agreements (c)	37,151	83,404	38,981	91,986
Total	**238,153**	**255,911**	**241,568**	**264,873**

(a) Refers to a short-term fixed-income fund with automatic redemptions where the financial assets of the portfolio have an average term of 10 days.

(b) Investments in bank deposit certificate have daily liquidity and grace period of 30 days.

(c) Refers to a fixed-income investment with income linked to the variation of the Interbank Deposit Certificate - CDI, backed by publicly offered debentures issued by companies, with commitment of repurchase by the Bank and resale by the Group, according to the conditions previously established where 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 Bradesco, Santander, Itaú and Banco do Brasil.

The Group's exposure to interest rate risks on financial investments is disclosed in Note 24 (b).

6. Trade receivables

	Parent Company		Consolidated	
Trade receivables items	**2018**	**2017**	**2018**	**2017**
Trade receivables	806,541	841,471	938,744	934,735
(-) Provision for impairment of trade receivables [i]	(892)	(3,889)	(1,355)	(4,664)
Total	**805,649**	**837,582**	**937,389**	**930,071**

(i) The balance decrease in 2018 refers to the reversal due to credit loss related to the popular drugstore program in the amount of R$ 3,132.

The ageing of trade receivables is as follows:

	Parent Company		Consolidated	
Maturities	**2018**	**2017**	**2018**	**2017**
Not yet due	799,003	831,006	923,872	919,711
Overdue				
Between 1 and 30 days	2,784	4,497	7,679	5,895
Between 31 and 60 days	2,982	1,949	3,678	2,364
Between 61 and 90 days	610	505	1,147	988
Between 91 and 180 days	1,128	3,514	1,937	4,306
Between 181 and 360 days	34		431	1,471
Provision for impairment of trade receivables	(892)	(3,889)	(1,355)	(4,664)
Total	**805,649**	**837,582**	**937,389**	**930,071**

Days sales outstanding, represented by credit and debit cards and partnerships with companies and the government, are approximately 40 days, term that is considered part of the normal conditions inherent in the Group's operations. A substantial part of the amounts overdue for more than 31 days are represented by collection through special plans and PBMs.

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

	Parent Company		Consolidated	
Changes in expected losses	**2018**	**2017**	**2018**	**2017**
Opening balance	(3,889)	(2,612)	(4,664)	(2,756)
Additions	(5,684)	(9,967)	(8,354)	(13,629)
Reversals / Losses	8,681	8,690	11,663	11,721
Closing balance	**(892)**	**(3,889)**	**(1,355)**	**(4,664)**

Trade receivables are classified as financial assets at amortized cost and are therefore measured as described in Note 4(d)(i) above.

The reversals/losses at December 31, 2018 are comprised of R$ 6,959 (losses) and R$ 1,722 (reversals) for the parent Company and R$ 7,422 (losses) and R$ 4,241 (reversals) for the consolidated accounts.

7. Inventory

	Parent Company		Consolidated	
Inventory items	**2018**	**2017**	**2018**	**2017**
Goods for resale	2,984,574	2,490,941	3,052,322	2,529,596
Goods held by third parties [(i)]	44,825		44,825	
Consumables	1,268	1,819	1,268	1,819
Provision for inventory losses	(11,140)	(13,821)	(11,140)	(13,821)
Total inventory	**3,019,527**	**2,478,939**	**3,087,275**	**2,517,594**

(i) Company's goods located in third party warehouses.

Changes in the provision for goods losses are as follows:

	Parent Company		Consolidated	
Changes in expected losses	**2018**	**2017**	**2018**	**2017**
Opening balance	(13,821)	(10,165)	(13,821)	(10,165)
Additions	(2,857)	(8,954)	(2,857)	(8,954)
Write-offs	5,538	5,298	5,538	5,298
Closing balance	**(11,140)**	**(13,821)**	**(11,140)**	**(13,821)**

For the year ended December 31, 2018, cost of goods sold recognized in the statement of income was R$ 9,742,023 (R$ 8,775,884 – 2017) for the parent company and R$ 10,355,923 (R$ 9,224,505 - 2017) for the consolidated accounts, including the amount of the write-offs of goods inventories recognized as losses for the year amounting to R$ 89,277 (R$ 84,505 - 2017) for the parent company and R$ 89,557 (R$ 84,770 - 2017) 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.

8. Taxes recoverable

	Parent Company		Consolidated	
Taxes recoverable items	**2018**	**2017**	**2018**	**2017**
Taxes on profit recoverable				
Withholding Income Tax (IRRF)	113	440	113	440
Corporate Income Tax (IRPJ)	214	214	3,518	214
Social Contribution on Net Profit (CSLL)			1,237	
Subtotal	327	654	4,868	654
Other taxes recoverable				
Value Added Tax on Sales and Services (ICMS) – credit balance	37,679	57,661	41,470	58,350
ICMS– Refund of ICMS withheld in advance	186	320	186	320
ICMS on acquisitions of fixed assets	58,410	43,250	58,410	43,250
Social Integration Program (PIS)	4,228	892	4,228	892
Social Contribution on Revenue (COFINS)	19,474	4,108	19,474	4,109
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
Subtotal	120,538	110,409	124,329	111,099
Total	**120,865**	**111,063**	**129,197**	**111,753**
Current assets	76,520	78,088	84,852	78,778
Noncurrent assets	44,345	32,975	44,345	32,975

The ICMS credits amounting to R$ 37,679 and R$ 186 (R$ 57,661 and R$ 320 - Dec/2017) for the parent company and R$ 41,470 and R$ 186 (R$ 58,350 and R$ 320 - Dec/2017) for the consolidated accounts 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 state of Pernambuco, in order to supply its branches located in other Brazilian states. The respective tax credits have been progressively consumed in the last months, mainly due to goods that are not under the substitute taxpayer regime.

The Group analyzed the use of ICMS credits and concluded that the tax credit balances will be utilized within 12 months. As regards ICMS credits on purchases of property, plant and equipment, these credits will be utilized in up to 48 months according to the legislation in force.

During the first quarter of 2017, upon the judgment with general repercussion, RE 574,706, the Federal Supreme Court (STF) accepted the exclusion of the ICMS in the calculation base of PIS and COFINS. In this context, the Company filed actions to suspend the requirement for inclusion of the ICMS in the calculation base of such contributions. The Company recalculated and recorded credits from contributions in the amount of R$ 23,702 (R$ 4,228 - PIS and R$ 19,474 - COFINS).

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 prior year after January 2021, and the exercise price will be calculated based on the average of the adjusted EBITDA of 4Bio for the years ended December 31, 2018 and ending December 31, 2019 and 2020 the fair value of which at December 31, 2018 corresponds to R$ 36,380 (R$ 47,515 - Dec/ 2017).

The fair value of the additional stock options recorded in Parent Company and Consolidated, of R$ 36,380 (R$ 47,515 - Dec/2017) is classified as Level 3 in the fair value hierarchy. The main fair value measurements have as reference: (i) a discount rate of 10.07% in December 2018 (11.84% - Dec/2017), (ii) an average growth rate of EBITDA of 38.38% in December 2018 (50.58% - Dec/2017), considering the average of the EBITDAs projected for 2018 to 2020 and the multiple provided for in contract.

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

(b) Changes in investments

At December 31, 2018 and 2017, the Company's investment balance is as follows:

Company name	Main activity	Interest (%)	12/31/2018	12/31/2017
4Bio Medicamentos S.A.	Retail of special medicines	55%	40,108	31,489

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

	Parent Company	
Changes in investments	**2018**	**2017**
Opening balance	31,489	29,424
Capital increase in subsidiary [(i)]	228	471
Equity in the results of subsidiary	8,391	1,821
Share of dividends proposed		(227)
Closing balance	**40,108**	**31,489**

(i) This is the capitalization of the dividends proposed in 2017, without modification in the equity interest in Subsidiary.

For the purposes of calculating the equity of 4Bio, 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 subsidiaries for December 31, 2018 and 2017:

	Parent Company	
Equity in the results of subsidiary	**2018**	**2017**
Profit for the year	8,965	2,395
Amortization of surplus arising from the business combination	(574)	(574)
Adjusted profit of 4Bio	**8,391**	**1,821**

Adjusted equity	**2018**	**2017**
Investment at book value (55%)	24,348	15,383
Allocation of the purchase price (surplus of assets)	4,324	5,192
Deferred income tax liability on allocation adjustments	(1,471)	(1,766)
Share of dividends proposed		(227)
Total adjusted equity	27,201	18,582
Goodwill based on expected future profitability	12,907	12,907
Investment balance	**40,108**	**31,489**

(c) Subsidiary's dividend

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

10. Property and equipment and intangible assets

a) Property and equipment

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

Changes	Land	Buildings	Furniture, fittings and facilities	Machinery and equipment	Vehicles	Leasehold improvements	Store renovation and modernization	Total
Cost								
At January 1, 2017	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**
Additions			185,815	78,529	4,622	350,268		619,234
Disposals and write-offs			(10,057)	(5,044)	(149)	(126,442)		(141,692)
Provision for store closures			(1,342)			(1,492)		(2,834)
At December 31, 2018	**27,440**	**41,917**	**816,474**	**441,238**	**63,656**	**1,199,761**	**3,863**	**2,594,349**
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, 2017		(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)**
Additions		(1,083)	(66,979)	(50,494)	(7,120)	(211,434)	(142)	(337,252)
Disposals and write-offs			7,133	4,465	82	119,608		131,288
Provision for store closures			536			492		1,028
At December 31, 2018		**(22,068)**	**(280,684)**	**(216,166)**	**(23,749)**	**(504,134)**	**(3,863)**	**(1,050,664)**
Net balance								
At December 31, 2017	27,440	20,932	420,684	197,616	42,472	564,627	142	1,273,913
At December 31, 2018	27,440	19,849	535,790	225,072	39,907	695,627		1,543,685

Changes in the consolidated property and equipment are as follows:

Changes	Land	Buildings	Furniture, fittings and facilities	Machinery and equipment	Vehicles	Leasehold improvements	Store renovation and modernization	Total
Cost								
At January 1, 2017	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**
Additions			186,175	78,975	4,622	350,969		620,741
Disposals and write-offs			(10,057)	(5,044)	(149)	(126,442)		(141,692)
Provision for store closures			(1,342)			(1,492)		(2,834)
At December 31, 2018	**27,440**	**41,917**	**817,963**	**442,875**	**63,909**	**1,201,684**	**3,863**	**2,599,651**
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, 2017		(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)**
Additions		(1,083)	(67,093)	(50,690)	(7,135)	(211,704)	(142)	(337,847)
Disposals and write-offs			7,133	4,465	82	119,608		131,288
Provision for store closures			536			492		1,028
At December 31, 2018		**(22,068)**	**(281,155)**	**(216,836)**	**(23,966)**	**(504,803)**	**(3,863)**	**(1,052,691)**
Net balance								
At December 31, 2017	27,440	20,932	421,456	198,333	42,523	565,450	142	1,276,276
At December 31, 2018	27,440	19,849	536,808	226,039	39,943	696,881		1,546,960

b) Intangible assets

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

nges	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, 2017	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**
Additions	47,328	39,942					1,397	88,667
Disposals and write-offs	(35,128)	(9,394)						(44,522)
Provision for store closures	362	(12)						350
At December 31, 2018	**278,941**	**140,078**	**22,275**	**780,084**	**151,700**	**41,700**	**8,051**	**1,422,829**
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, 2017	(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)**
Additions	(49,194)	(24,804)				(460)		(74,458)
Disposals and write-offs	33,162	9,384						42,546
Provision for store closures	(107)	8						(99)
At December 31, 2018	**(154,498)**	**(59,905)**	**(2,387)**			**(38,097)**		**(254,887)**
Net balance								
At December 31, 2017	128,020	65,049	19,888	780,084	151,700	4,063	6,654	1,155,458
At December 31, 2018	124,443	80,173	19,888	780,084	151,700	3,603	8,051	1,167,942

Changes in the consolidated intangible assets are as follows:

ges	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 customer relationship	4BIO distribution channel	Other intangible assets	Total
Cost												
At January 1, 2017	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**
Additions	47,328	40,257									1,798	89,383
Disposals and write-offs	(35,128)	(9,395)										(44,523)
Provision for store closures	362	(12)										350
At December 31, 2018	**278,941**	**141,276**	**22,275**	**780,084**	**25,563**	**151,700**	**5,069**	**41,700**	**7,928**	**535**	**8,520**	**1,463,591**
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, 2017	(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)**
Additions	(49,195)	(24,972)					(1,014)	(460)	(566)		(80)	(76,287)
Disposals and write-offs	33,163	9,385										42,548
Provision for store closures	(107)	8										(99)
At December 31, 2018	**(154,498)**	**(60,403)**	**(2,387)**				**(3,295)**	**(38,097)**	**(1,840)**	**(535)**	**(148)**	**(261,203)**
Net balance												
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
At December 31, 2018	124,443	80,873	19,888	780,084	25,563	151,700	1,774	3,603	6,088		8,372	1,202,388

(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 refers 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 the 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, 2018, 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 Medicamentos 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 16.1% (15.6% - Dec/2017) before taxes and 11.6% (11.3% - Dec/2017) after taxes for Drogaria Vison Ltda. and Raia S.A. and 22.6% (23.0% - Dec/2017) before taxes and 16.1% (16.1% - Dec/2017) after taxes for 4Bio Medicamentos 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 6.39% (8.68% - Dec/2017) with perpetuity of 3.9% (4.1% - Dec/2017) for Raia S.A., (ii) average for the next three years of 3.62% (7.98% - Dec/2017) with perpetuity of 3.9% (4.1% - Dec/2017) for Drogaria Vison Ltda., and (iii) average for the next three years of 24.19% (33.14% - Dec/2017) with perpetuity of 3.9%(4.1% - Dec/2017) for 4Bio.

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 the drug price adjustments authorized by the body controlled by the Brazilian Health Regulatory Agency (ANVISA) (March 31 of each year) affect them due to pre-existing inventories.

Discount rates

The discount rate reflects 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.

Sensitivity analysis

If the gross margin used in the calculation were 1 p.p. lower than management's estimates at December 31, 2018, and likewise if the discount rate applied to discounted cash flows was 1 p.p. higher than management's estimates, even so no impairment amounts in the goodwill impairment analysis would be recorded.

The determination of impairment of goodwill depends on certain key assumptions as previously described, which are influenced by the market conditions prevailing at the timing in which such impairment is tested and, thus, it is

not possible to determine whether impairment losses will occur in the future and, if they occur, if they would be material.

11. Employees benefits

(a) Profit sharing program

The Group has a profit sharing program intended mainly to measure the performance of employees during the year. On a monthly basis, a liability and an expense for profit sharing are recognized in income statement based on estimates of achievement of operating targets and specific objectives established and approved by Management. The recognition as liabilities is made in the account of salaries and social charges and in the statement of income the recognition is made in the account of selling expenses and general and administrative expenses (Note 19).

(b) Other benefits

Other short-term benefits are also granted to employees, such as life insurance, health and dental care, housing allowance, maternity leave and scholarship, which are recognized on an accrual basis and whose right is extinguished at the end of the employment relationship with the Group.

The Group does not grant post-employment benefits, severance pay benefits or other long-term benefits.

12. Trade payables

	Parent Company		Consolidated	
Trade payables items	**2018**	**2017**	**2018**	**2017**
Goods suppliers	1,962,589	1,686,612	2,069,087	1,756,539
Materials suppliers	9,429	10,441	9,610	10,612
Assets suppliers	18,932	11,794	19,224	11,906
Service providers	57,687	49,677	58,846	50,468
Adjustment to present value	(15,017)	(13,483)	(15,493)	(13,838)
Total	**2,033,620**	**1,745,041**	**2,141,274**	**1,815,687**

Certain suppliers have the option to assign Company notes, totaling R$ 504,028 (R$ 66,488 – 2017), without right of subrogation, to financial institutions. In this operation, the supplier can have a reduction of its finance costs since the financial institution takes into consideration the credit risk of the buyer. In these operations, there is no change in the average payment period when compared to the amounts payable to other suppliers.

13. Borrowing

Borrowing items	Average annual long-term interest rate	Parent Company 2018	Parent Company 2017	Consolidated 2018	Consolidated 2017
BNDES - Sub-loan					
Businesses	TJLP + 2.12% (+2.23% - Dec/2017) p.a.	69,459	109,387	69,459	109,387
Businesses	SELIC + 2.35% (+ 2.34% - Dec/2017) p.a.	82,348	115,633	82,348	115,633
Machinery, equipment and vehicles	Fixed rate (3.52% - Dec/2017) p.a.		914		914
Machinery, equipment and vehicles	TJLP + 2.02% (+2.02% - Dec/2017) p.a.	11,821	16,690	11,821	16,690
Machinery, equipment and vehicles	PSI + 9.54% (+ 9.54% - Dec/2017) p.a.	2,596	4,301	2,596	4,301
Machinery, equipment and vehicles	SELIC + 2.42% (2.42% - Dec/2017) p.a.	53	71	53	71
Working capital	SELIC + 2.42% (+ 2.37% - Dec/2017) p.a.	17,703	58,359	17,703	58,359
Other		2,053	2,448	2,053	2,448
Debentures					
1st issue of debentures	104.75% of CDI	235,424	303,156	235,424	303,156
2nd issue of debentures	104.50% of CDI	404,787		404,787	
Borrowing					
Other				16,906	
Total		**826,244**	**610,959**	**843,150**	**610,959**
Current liabilities		256,033	196,248	272,939	196,248
Non-current liabilities		570,211	414,711	570,211	414,711

Characteristics of borrowing

Borrowing from the BNDES is 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 Brand and Acquisition of National Software are grouped in the Others line. Part of the Company's borrowing from BNDES has been taken out in the form of sub-loans, totaling R$ 186,033 (R$ 307,803 - Dec/2017), subject to the following restrictive covenants:

(i) Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) margin (EBITDA/Net operating revenue): equal to or higher than 3.6% and

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

Covenants are measured annually and, at December 31, 2018 and 2017, 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.

Non-current amounts mature as follows:

	Parent Company Consolidated
Payment forecast	**2018**
2020	220,119
2021	183,556
2022 and thereafter	166,536
Total	**570,211**

Characteristics of the Debentures

The 2nd issue of debentures was carried out on April 2, 2018 and have maturity of 60 months (April/2023), except for the assumptions of early maturity, as per the clauses of the indenture.

Type of issue	Issue amount	Quantity outstanding	Issue	Maturity	Annual charges	Unit price
2nd Issue - 9 Series	R$ 400,000	40,000	4/2/2018	2018-2023	104.5%(*)	R$ 10

(*) Weighted average rate of series.

The costs incurred on the issues of the Company's two debentures (2017 - 1st issue and 2018 - 2nd issue), including fees, commissions and other costs, totaled R$ 2,089 and are classified in the line item of the respective debentures and are being recognized over the total period of the debt. At December 31, 2018, the amount to be recognized was R$ 1,260 (R$ 1,098– Dec/2017), and is presented net in the debentures balance.

The amortization of the principal related to the 2nd issue of debentures will occur in 9 semiannual consecutive installments, the first being from the 12th month after the issue. The payment of the remuneration will occur on a semiannual basis, and the first payment is due in April 2019, and other payments always in April and October of each year, until the due date.

The characteristics of the debentures issued in 2017 were not changed, as shown in the table below:

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%	R$ 10

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, 2018, 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.

Reconciliation of net debt

Changes in the net debt are as follows:

	Parent Company		Consolidated	
Analsyis of and changes in net debt	**2018**	**2017**	**2018**	**2017**
Short-term borrowings	256,033	196,248	272,939	196,248
Long-term borrowings	570,211	414,711	570,211	414,711
Total debt	826,244	610,959	843,150	610,959
(-) Cash and cash equivalents	(238,153)	(255,911)	(241,568)	(264,873)
Net debt	**588,091**	**355,048**	**601,582**	**346,086**

			Parent Company
Changes in net debt	Borrowing	Cash and equivalents	Net Debt
Net debt at January 1 2018	610,959	(255,911)	355,048
Capital contribution	394,985		394,985
Accrued interest	57,227		57,227
Payment of interest	(43,410)		(43,410)
Amortization of principal	(195,142)		(195,142)
Transaction cost	1,625		1,625
Increase in cash and cash equivalents		17,758	17,758
Net debt at December 31, 2018	**826,244**	**(238,153)**	**588,091**

			Consolidated
Changes in net debt	Borrowing	Cash and equivalents	Net debt
Net debt at January 1, 2018	610,959	(264,873)	346,086
Capital contribution	419,223		419,223
Accrued interest	56,700		56,700
Payment of interest	(43,478)		(43,478)
Amortization of principal	(201,879)		(201,879)
Transaction cost	1,625		1,625
Increase in cash and cash equivalents		23,305	23,305
Net debt at December 31, 2018	**843,150**	**(241,568)**	**601,582**

14. 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 of provision for contingencies is necessary. In the case of labor contingencies, the evolution of the lawsuits and the history of losses are determining factors to reflect the best estimate.

At December 31, 2018 and 2017, the Group had the following provision and corresponding judicial deposits relating to legal proceedings:

	Parent Company		Consolidated	
Judicial deposits items	**2018**	**2017**	**2018**	**2017**
Labor and social security	73,146	24,105	73,146	24,105
Tax	642	586	642	586
Civil	700	627	700	627
Subtotal	74,488	25,318	74,488	25,318
(-)Corresponding judicial deposits	(23,099)	(14,425)	(23,099)	(14,425)
Total	**51,389**	**10,893**	**51,389**	**10,893**
Current liabilities	2,512	2,724	2,512	2,724
Non-current liabilities	48,877	8,169	48,877	8,169

Changes in the provision were as follows:

	Parent Company		Consolidated	
Changes in the provision	**2018**	**2017**	**2018**	**2017**
At January 1	25,318	17,530	25,318	17,530
Additions of new lawsuits and review of estimate (i)	66,433	14,814	66,433	14,814
Write-offs	(28,589)	(21,542)	(28,589)	(21,542)
Reversals due to changes in lawsuits	(889)	(594)	(889)	(594)
Revaluation of amounts (ii)	9,656	12,132	9,656	12,132
Monetary restatement	2,559	2,978	2,559	2,978
Closing balance	**74,488**	**25,318**	**74,488**	**25,318**

The provision for legal claims 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 22).

(i) For labor contingencies, management adopts a provisioning methodology based on the history of indemnities by groups of positions and the index of origin for conversion to actual loss, applied to lawsuits in progress, in their various stages, in order to better evaluate the elements of each claim that are likely to be lost. As a result of an increase observed in the volume and speed of judgment of the Company's labor lawsuits at the courts during 2018, in connection with the revision of the provision assumptions, they started considering also labor lawsuits that were still pending judgment before the courts, until them excluded from the analysis due to their initial stage and absence of sufficient parameters to evaluate the estimate of financial loss. As a result of these changes, the labor provision was complemented by R$ 40,415 at December 31, 2018.

(ii) Refers to the revaluation of amounts to be disbursed related to labor lawsuits in phase of judgment or decision.

Possible losses

At December 31, 2018 and 2017, 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$ 54,063 (R$ 35,475 - Dec/2017) for the parent company and consolidated accounts, of which R$ 9,998 (R$ 11 - Dec/2017) corresponds to civil proceedings, and R$ 44,065 (R$ 35,464 - Dec/2017) to tax proceedings.

Judicial deposits

At December 31, 2018 and 2017, the Group had the following judicial deposit amounts for which no corresponding provision had been set up:

	Parent Company		Consolidated	
Analysis of judicial deposits	**2018**	**2017**	**2018**	**2017**
Labor and social security	10,461	12,053	10,461	12,053
Tax	11,409	12,121	11,409	12,121
Civil	3,900	5,041	3,900	5,041
Total	**25,770**	**29,215**	**25,770**	**29,215**

Labor contingencies

Labor claims in general , relate to lawsuits filed by former employees questioning the payment of unpaid overtime and health hazard premium. 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.

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.

15. Income tax and social contribution

(a) Income tax and social contribution paid

At December 31, 2018 and 2017, effective income and social contribution taxes were as follows:

	Parent Company		Consolidated	
Income tax and social contribution paid items	**2018**	**2017**	**2018**	**2017**
Profit before income tax and social contribution	635,823	683,123	638,856	686,544
Interest on capital	(209,500)	(202,500)	(209,500)	(202,500)
Taxable profit	426,323	480,623	429,356	484,044
Combined tax rate (25% for income tax and 9% for social contribution)	34	34	34	34
Theoretical tax expense	(144,950)	(163,412)	(145,981)	(164,575)
Permanent additions	(7,329)	(11,589)	(7,479)	(11,805)
Equity in the results of investees	2,853	619		
Reduction of taxes due to incentives (P.A.T.)	5,487	6,603	5,487	6,669
Investment grant (i)	14,041		21,877	
Other (revaluation reserve + additional income tax exemption ceiling)	(158)	(11)	(127)	15
Tax incentives – donations	(3,320)	(4,170)	(3,320)	(4,195)
Effective income tax and social contribution expense	**(133,376)**	**(171,960)**	**(129,543)**	**(173,891)**
Effective tax rate	21.0%	25.2%	20.3%	25.3%

(i) Beginning the third quarter of 2018, the Group considers as deductible for income tax purposes the gains arising from the ICMS tax benefits in the States of Bahia, Goiás and Pernambuco, established by supplementary law 160/17, agreement ICMS CONFAZ 190/17, and the amendment to Law 12,973/2014. The effect of the adjusted amount on the calculation of IRPJ/CSLL amounted to R$ 14,041 for the parent company and R$ 21,877 for the consolidated accounts.

(b) Deferred income tax and social contribution

Deferred income tax and social contribution assets amounting to R$ 66,826 at December 31, 2018 (R$ 64,732 – Dec/2017) for the parent company and R$ 70,844 at December 31, 2018 (R$ 65,445 – Dec/2017) for the 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$ 305,928 at December 31, 2018 (R$ 290,949 – Dec/2017) for the parent company and R$ 308,601 at December 31, 2016 (294,160 – Dec/2017) for the consolidated accounts relate to tax charges on the remaining balances of: (i) the revaluation reserve; and (ii) goodwill from future profitability.

At December 31, 2018 and 2017, deferred income and social contribution taxes were as follows:

	Balance sheet				Statement of income			
	Parent Company		Consolidated		Parent Company		Consolidated	
Temporary difference	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Revaluation at fair value of land and buildings	(6,976)	(7,066)	(6,976)	(7,066)				
Amortization of the goodwill on future profitability	(243,995)	(226,401)	(243,995)	(226,401)	17,594	42,664	17,594	42,664
Non-deductible intangible assets - merger of Raia S.A.	(54,957)	(57,482)	(54,957)	(57,482)	(2,525)	(2,524)	(2,525)	(2,524)
Non-deductible intangible assets - acquisition of 4Bio			(2,673)	(3,211)			(537)	(537)
Tax losses to be offset against future taxable profits			3,163				(3,163)	
Adjustment to fair value	2,091	5,877	2,091	5,877	3,786	(5,877)	3,786	(5,877)
Provision for inventory losses	13,560	29,495	13,560	29,495	15,934	(1,995)	15,934	(1,995)
Provision for sundry obligations	10,713	6,963	10,935	7,106	(4,896)	6,062	(4,974)	6,095
Provision for employee profit sharing	14,254	11,472	14,730	11,778	(1,659)	1,319	(1,829)	1,164
Provision for contingencies	25,326	8,609	25,326	8,609	(16,693)	(2,648)	(16,693)	(2,648)
Provision for impairment of trade receivables	882	2,316	1,039	2,580	1,434	(506)	1,540	(720)
Deferred income tax and social contribution expense (benefit)					**12,975**	**36,495**	**9,133**	**35,622**
Deferred tax liabilities, net	**(239,102)**	**(226,217)**	**(237,757)**	**(228,715)**				
Reflected in the balance sheet as follows:								
Deferred tax assets	66,826	64,732	70,844	65,445				
Deferred tax liabilities	(305,928)	(290,949)	(308,601)	(294,160)				
Deferred tax liabilities, net	**(239,102)**	**(226,217)**	**(237,757)**	**(228,715)**				
Reconciliation of deferred tax assets (liabilities), net								
At the beginning of the year	(226,217)	(189,818)	(228,715)	(193,187)				
Expense recognized in the statement of income	(12,975)	(36,496)	(9,132)	(35,625)				
Realization of deferred tax recognized in equity	90	97	90	97				
Balance at the end of the year	**(239,102)**	**(226,217)**	**(237,757)**	**(228,715)**				

(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 will be recovered according to the following schedule:

	Parent Company	Consolidated
Payment forecast	**2018**	**2018**
2019	38,931	38,931
2020	10,354	10,354
2021	15,833	15,833
2022 and thereafter	1,708	5,726
Total	**66,826**	**70,844**

16. 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.

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

	Parent Company/ Consolidated	
Earnings per share items	**2018**	**2017**
Basic		
Profit for the year	502,447	511,163
Weighted average number of common shares	329,406	329,683
Basic earnings per share - R$	1.52531	1.55047
Diluted		
Profit for the year	502,447	511,163
Weighted average number of common shares adjusted for dilution effect	329,533	330,090
Diluted earnings per share - R$	**1.52473**	**1.54855**

17. Equity

(a) Capital

At December 31, 2018, the fully paid-up capital amounted to R$ 1,808,639 (R$ 1,808,639 - Dec/ 2017), represented by 330,386,000 common registered book-entry shares with no par value, of which 214,459,215 shares were outstanding (211,804,492 common shares - Dec/2017).

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.

The Company's ownership interest was as follows:

	Number of shares		Interest (%)	
Ownership interest	**Dec/2018**	**Dec/2017**	**Dec/2018**	**Dec/2017**
Controlling stockholders	114,880,213	117,907,354	34.77	35.69
Shares outstanding	214,459,215	211,804,492	64.91	64.11
Treasury shares	1,046,572	674,154	0.32	0.20
Total	**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 of the Company was as follows:

Changes	**Shares outstanding**
At December 31, 2017	211,804,492
(Purchase)/sale of restricted shares, net	2,654,723
At December 31, 2018	**214,459,215**

At December 31, 2018, the Company's common shares were quoted at R$ 57.15 (closing quote) (R$ 91.80 at December 31, 2017).

(b) Tax incentive reserve

These refer to ICM tax benefits obtained in the States of Bahia, Goiás and Pernambuco, as regulated by complementary law 160/17, ICMS CONFAZ 190/17 agreement and amendment to Law 12,973 / 2014. Set up in accordance with the provisions of article 195-A of the Brazilian Corporation Law (as amended by Law 11,638, of 2007), this reserve receives the portion of government subsidy recognized in profit for the year, as a deduction

from sales taxes and allocated to it from the retained earnings account, accordingly, they are not included in the calculation basis of the minimum mandatory dividend.

(c) Treasury shares

On August 3, 2017, 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 changes in treasury shares in the year ended December 31, 2018 are summarized below:

	Parent Company	
Changes in treasury shares	**Number of shares**	**Amount of shares**
At December 31, 2017	674,154	12,808
Shares delivered to executives related to the 3rd tranche of the 2014 grant, 2nd grand of the 2015 grant and 1st tranche of the 2016 grant	(224,582)	(4,267)
Repurchase of shares	597,000	46,925
At December 31, 2018	**1,046,572**	**55,466**

At December 31, 2018, the market value of the treasury shares, having as reference the quotation of R$ 57.15 per share at that date, corresponds to R$ 59,812.

(d) 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:

	2018		2017	
Changes in restricted shares	**Shares**	**Amount**	**Shares**	**Amount**
Opening balance	485,242	18,863	375,212	11,123
Granted shares for the year	239,137	12,459	293,260	12,603
Value of the shares at the delivery date	(224,582)	(7,382)	(183,230)	(4,863)
Closing balance	**499,797**	**23,940**	**485,242**	**18,863**

(e) 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	
Changes in stockholders' remuneration	**2018**	**2017**
Profit for the year	502,447	511,163
Legal reserve	(25,122)	(25,558)
Realization of the revaluation reserve in the year	175	186
Investment grant reserve (Note 15a)	(41,297)	
Dividend calculation basis (a)	436,203	485,791
Minimum mandatory dividends, according to statutory provision (25%)	109,051	121,448
Interest on capital proposed	209,500	202,500
Income Tax Withheld at source (iRR) on interest on capital.	(29,459)	(28,450)
Compensation net of income tax withheld at source (b)	180,041	174,050
% distributed on the dividend calculation basis (b ÷ a)	41.27	35.83
Amount in excess of the minimum mandatory dividend	**70,990**	**52,602**

The Company's management allocated R$ 41,297 from its profit for 2018 to tax incentive reserves, described in the accounting policy Note 4(q).

The Company recognized interest on capital of R$ 209,500 (R$ 202,500 - 2017), observing both the limit of the TJLP variation in 2018 and 2017 and the expense deductibility limits for income tax and social contribution calculation, pursuant to Law 9,249/95.

At December 31, 2018 the amount of R$ 70,990 (R$ 52,602 – Dec-2017) in excess of the minimum mandatory dividend established in the Company's bylaws was recorded in equity as proposed additional dividend.

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

	Parent Company	
Changes in dividend and interest on capital obligations	**2018**	**2017**
Opening balance	37,288	25,546
Additions	161,653	182,772
Payments	(173,622)	(170,847)
Write-offs	(476)	(183)
Closing balance	**24,843**	**37,288**

18. Net sales revenue

	Parent Company		Consolidated	
Net revenue items	**2018**	**2017**	**2018**	**2017**
Gross sales revenue				
Sales revenue	14,757,177	13,293,249	15,506,262	13,838,774
Service revenue	12,797	13,589	12,871	13,695
Total gross sales revenue	**14,769,974**	**13,306,838**	**15,519,133**	**13,852,469**
Taxes on sales	(533,656)	(471,706)	(585,676)	(500,288)
Returns, rebates and other	(116,950)	(127,324)	(132,012)	(139,676)
Net sales revenue	**14,119,368**	**12,707,808**	**14,801,445**	**13,212,505**

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).

The Group assessed the impacts of CPC 47 / IFRS 15 and, considering that the entity operates in the pharmaceutical retail segment and has only one performance obligation and, therefore there is no complexity in this definition, and in the transfer of control of goods and services to the consumers when passing cash, as described in Note 4 - Significant accounting policies and concluded that there are no material impacts on the accounting recognition of this standard.

19. 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	
Nature of expenses	**2018**	**2017**	**2018**	**2017**
Personnel expenses	(1,813,139)	(1,603,801)	(1,839,906)	(1,626,658)
Occupancy expenses (i)	(697,370)	(600,390)	(699,902)	(602,508)
Service provider expenses	(160,960)	(149,727)	(162,044)	(150,449)
Depreciation and amortization (ii)	(411,710)	(335,768)	(414,133)	(337,914)
Other (iii)	(527,496)	(458,661)	(548,479)	(478,099)
Total	**(3,610,675)**	**(3,148,347)**	**(3,664,464)**	**(3,195,628)**

Classified in the statement of income as:

Function of expenses	**2018**	**2017**	**2018**	**2017**
Selling expenses	(3,219,908)	(2,790,215)	(3,261,896)	(2,825,959)
General and administrative	(390,767)	(358,132)	(402,568)	(369,669)
Total	**(3,610,675)**	**(3,148,347)**	**(3,664,464)**	**(3,195,628)**

(i) These refer to expenses on property rental, condominium fees, electricity, water, communication and Municipal real estate tax (IPTU).

(ii) Depreciation and amortization in 2018 totaled R$ 411,710 (R$ 335,768 - 2017) for the parent company, of which R$ 360,428 (R$ 296,696 - 2017) correspond to the sales area and R$ 51,282 (R$ 39,072 - 2017) to the administrative area, and R$ 414,133 (R$ 337,914 - 2017) for the consolidated accounts, of which R$ 360,884 (R$ 296,909 - 2017) refers to the sales area and R$ 53,249 (R$ 41,005 - 2017) to the administrative area.

(iii) These refer mostly to expenses on cards/cash/checks, transportation, materials, other administrative expenses, maintenance of assets, advertising and publicity.

20. Other operating (income)/expenses

In 2018, other operating income (expenses) totaled R$59,548 (R$ 212 – 2017) for the consolidated accounts. These amounts comprise non-recurring expenses/ revenues, related to: (i) consultancy expenses for preparation of a strategic planning for the next 5 years of R$ 13,913; (ii) credits from prior years, mainly related to PIS and COFINS, in the amount of R$ (10,698); (iii) write-off of property and equipment and intangible assets, provision for expenses on fines due to the closure of 4 Farmasil stores, in the amount of R$ 1,530; (iv) change in estimate for the setting up of a provision for labor contingencies of R$ 47.207; and (v) career plan restructuring in the amount of R$ 7,596.

21. Finance income and costs

(a) Finance income

	Parent Company		Consolidated	
Finance income items	**2018**	**2017**	**2018**	**2017**
Discounts obtained	1,880	1,026	1,997	1,107
Short term investment yields	10,104	24,174	10,104	24,174
Interest on intercompany loans	2,730	2,743		
Monetary gains	748	3,246	1,061	3,308
Other finance income	2	3	192	306
Taxes thereon (PIS/COFINS)	(716)	(1,449)	(716)	(1,449)
Present value adjustment (PVA) - finance income	53,415	73,078	59,145	79,437
Total finance income	**68,163**	**102,821**	**71,783**	**106,883**

(b) Finance costs

	Parent Company		Consolidated	
Finance cost items	**2018**	**2017**	**2018**	**2017**
Discounts granted to customers	(16)		(281)	(187)
Interest, charges and bank fees	(685)	(746)	(1,246)	(1,185)
Charges on debentures	(36,495)	(19,128)	(36,495)	(19,128)
Amortization of transaction costs	(582)	(247)	(582)	(247)
Charges on borrowings	(20,731)	(44,654)	(20,731)	(45,106)
Monetary gains	3,155	(5,003)	2,635	(6,152)
Interest on payables to Subsidiary's shareholder	11,135	(2,286)	11,135	(2,286)
PVA - finance costs	(103,790)	(133,244)	(108,872)	(138,632)
Total finance costs	(148,009)	(205,308)	(154,437)	(212,923)
Finance income (costs), net	**(79,846)**	**(102,487)**	**(82,654)**	**(106,040)**

22. Guarantees for lawsuits

Items of property and equipment were given as guarantees for tax, social security and labor proceedings, in the total amount of R$ 111 (R$ 112 – Dec/2017) for the parent company and consolidated accounts.

23. 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$ 54,253 (R$ 43,609 - Dec/ 2017) for the parent company and R$ 54,402 (R$ 43,715 - Dec-2017) for the consolidated accounts.

At December 31, 2018 and 2017, the future minimum payments relating to leases of stores (under cancel able lease agreements) were as follows:

	Parent Company		Consolidated	
Future minimum lease payments	**2018**	**2017**	**2018**	**2017**
From one to 12 months	553,246	447,595	554,160	448,404
From 13 to 60 months	1,424,544	1,185,782	1,426,304	1,186,841
Over 60 months	434,215	352,801	434,215	352,801
Total	**2,412,005**	**1,986,178**	**2,414,679**	**1,988,046**

24. Financial instruments and risk management policy

Financial instruments by category

	Parent Company		Consolidated	
Financial instruments items	**2018**	**2017**	**2018**	**2017**
Assets				
At amortized cost (2017 – loans and receivables)				
Cash and cash equivalents (Note 5)	238,153	255,911	241,568	264,873
Trade receivables (Note 6)	805,649	837,582	937,389	930,071
Other receivables	196,148	158,295	156,847	120,321
Judicial deposits (Note 14)	25,770	29,215	25,770	29,215
Subtotal	1,265,720	1,281,003	1,361,574	1,344,480
Total assets	1,265,720	1,281,003	1,361,574	1,344,480
Liabilities				
Liabilities at fair value through profit or loss				
Payables to subsidiary's shareholder (Note 9)	36,380	47,515	36,380	47,515
Subtotal	36,380	47,515	36,380	47,515
At amortized cost (2017 other financial liabilities)				
Trade payables	2,033,620	1,745,041	2,141,274	1,815,687
Borrowings (Note 13)	826,244	610,959	843,150	610,959
Other payables	150,141	128,259	151,940	129,403
Subtotal	3,010,005	2,484,259	3,136,364	2,556,049
Total liabilities	**3,046,385**	**2,531,774**	**3,172,744**	**2,603,564**

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 of Directors 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 cash.

(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.

Interest rate 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	
Risk rating	**2018**	**2017**	**2018**	**2017**
Rating - National Scale				
brAAA	62,622	17,858	65,251	26,809
brAA+	14,680	71,226	15,464	71,229
brA	729	265	729	265
(*) n/a - Automatic investments	59,860		59,860	
(*) n/a - Investment Funds	2,381	90,769	2,381	90,769
Total - National Scale	**140,272**	**180,118**	**143,685**	**189,072**

(*) Not applicable since it does not include risk rating for Automatic Investments and Funds.

The granting of credit on sales of goods follows a policy that aims at minimizing defaults. For the year ended December 31, 2018, credit sales represented 52% (51% - Dec/2017) for the parent company and 54% (53% - Dec/2017) for the consolidated accounts of which 92% (92% - Dec/2017) for the parent company and 86% (86% - Dec/2017) for the consolidated accounts related to credit card sales which, in the opinion of the Group and based on the history of losses, posed an extremely low risk. The remaining 8% (8% - Dec/2017) and 14% (14% - Dec/2017) 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 that are exposed to losses.

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	Notional amount	Scenario I (probable)	Scenario II	Scenario III
Short term investments - CDI	0.5% increase	124,736	624	780	936
Revenue			**624**	**780**	**936**
REFIS (SELIC)	0.5% increase	1,156	6	7	9
Expense			6	7	9

Consolidated

Operation	Risk	Notional amount	Scenario I (probable)	Scenario II	Scenario III
Short term investments - CDI	0.5% increase	126,566	633	791	950
Revenue			**633**	**791**	**950**
REFIS (SELIC)	0.5% increase	1,156	6	7	9
Expense			**6**	**7**	**9**

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.

(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, this ratio corresponds to the net debt expresses as a percentage of total capital. The net debt, in turn, corresponds to total borrowings less 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	
Capital management items	**2018**	**2017**	**2018**	**2017**
Short - and long-term borrowings	826,244	610,959	843,150	610,959
(-) Cash and cash equivalents	(238,153)	(255,911)	(241,568)	(264,873)
Net debt	**588,091**	**355,048**	**601,582**	**346,086**
Equity attributable to the stockholders of the parent company	3,499,857	3,222,513	3,499,857	3,222,513
Non-controlling interest			34,910	27,859
Total equity	3,499,857	3,222,513	3,534,767	3,250,372
Total capital	**4,087,948**	**3,577,561**	**4,136,349**	**3,596,458**
Gearing ratio	**14.39**	**9.92**	**14.54**	**9.62**

The increase in the gearing ratio at December 31, 2018 was mainly due to the issue of debentures (Note 13) and consequent use of the resources obtained in 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 values are assumed to approximate their fair values, 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. The estimated fair values are:

	Parent Company				Consolidated			
Fair value estimation	**Carrying amount**		**Fair value**		**Carrying amount**		**Fair value**	
	Dec-2018	**Dec-2017**	**Dec-2018**	**Dec-2017**	**Dec-2018**	**Dec-2017**	**Dec-2018**	**Dec-2017**
BNDES	186,033	307,803	185,996	307,811	186,033	307,803	185,996	307,811
Debentures	640,211	303,156	640,256	303,145	640,211	303,156	640,256	303,145
Other					16,906		16,906	
Total	**826,244**	**610,959**	**826,252**	**610,956**	**843,150**	**610,959**	**843,158**	**610,956**

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, 2018, 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 period ended December 31, 2018:

	Parent company and consolidated	
	Payables to Subsidiary's shareholder	
Changes in payables to Subsidiary's shareholder	**2018**	**2017**
Opening balance	47,515	45,228
Expenses /(Revenue) recognized in the statement of income:	(11,135)	2,287
Closing balance	36,380	47,515
Total expenses for /(revenues) the year recognized in the statement of income	**(11,135)**	**2,287**
Changes in unrealized expenses (revenues) for the year included in the statement of income	**(11,135)**	**2,287**

25. Derivative financial instruments

The Group does not operate with derivative instruments, except in specific situations. At December 31, 2018 and 2017, the Group did not have any derivative transactions.

26. Transactions with related parties

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

		Parent Company		Consolidated		Parent Company		Consolidated	
		Current assets				Transacted amount			
Related parties	**Relationship**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Receivables									
Special plans (i)									
Regimar Comercial S.A.	Stockholder/Family	8	12	8	12	99	103	99	103
Heliomar Ltda.	Stockholder/Board Member	1		1		13	16	13	16
Rodrigo Wright Pipponzi (Editora Mol Ltda.)	Stockholder/Family	1		1		4	3	4	3
Subtotal		10	12	10	12	116	122	116	122
Other receivables									
Commercial agreements									
Natura Cosméticos S.A. (ii)	Stockholder / Related party	102	123	102	123	719	745	719	745
Advances to suppliers									
Cfly Consultoria e Gestão Empresarial Ltda. (iii)	Family	414	440	414	440				
Zurcher, Ribeiro Filho, Pires Oliveira Dias e Freire – Advogados (iv)	Stockholder/Family	3	50	3	50				
Loan and other receivables									
4Bio Medicamentos S.A. (v)	Subsidiary	41,395	38,603			3,194	23,018		
Subtotal		41,914	39,216	519	613	3,913	23,763	719	745
Total payables to related parties		**41,924**	**39,228**	**529**	**625**	**4,029**	**23,885**	**835**	**867**

		Parent Company		Consolidated		Parent Company		Consolidated	
		Current liabilities				Transacted amount			
Related parties	**Relationship**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Payables									
Rentals (vi)									
Heliomar Ltda.	Stockholder/Board Member	21	19	21	19	219	219	219	219
Antonio Carlos Pipponzi	Stockholder/Board Member	7	7	7	7	92	90	92	90
Rosalia Pipponzi Raia	Stockholder/Board Member	7	7	7	7	92	90	92	90
Estate of Franco Maria David Pietro Pipponzi	Stockholder/Board Member	7	7	7	7	92	90	92	90
Subtotal		42	40	42	40	495	489	495	489
Service providers									
Zurcher, Ribeiro Filho, Pires Oliveira Dias e Freire Advogados (iv)	Stockholder/Family		49		49	6,209	7,172	6,209	7,172
Rodrigo Wright Pipponzi (Editora Mol Ltda.) (vii)	Stockholder/Family	924	869	924	869	10,952	9,690	10,952	9,690
Cfly Consultoria e Gestão Empresarial Ltda. (iii)	Family	34		34		2,573	734	2,573	734
FMA Assessoria e Consultoria (viii)	Stockholder/Board Member					110		110	
Subtotal		958	918	958	918	19,844	17,596	19,844	17,596
Goods suppliers									
Natura Cosméticos S.A. (ii)	Stockholder / Related party	632	1,221	632	1,221	5,289	5,535	5,289	5,535
Subtotal		632	1,221	632	1,221	5,289	5,535	5,289	5,535
Total payables to related parties		**1,632**	**2,179**	**1,632**	**2,179**	**25,628**	**23,620**	**25,628**	**23,620**

(i) Refer to sales made by agreements whose transactions are executed into under commercial conditions equivalent to those practiced with other companies.

(ii) Purchase and sale of Natura Cosméticos S.A.'s products, which will be sold across the national territory and Raia Drogasil will receive a percentage on the products sold. Some members of the controlling block of Natura Cosméticos S.A. indirectly own shares of Raia Drogasil S.A.

(iii) Provision of services of aircraft operation to the owner Raia Drogasil S.A., which will pay the operator a monthly remuneration for the services of Operational Advisory, Compliance, Finance, Maintenance Coordination and Maintenance Technical Control.

(iv) Transactions related to Legal Advisory.

(v) During 2016 and 2017 loan transactions between Raia Drogasil S.A. (Lender) and 4Bio Medicamentos S.A. (Borrower) were carried out in the amounts of R$ 14,000 and R$ 20,100, respectively. All loan agreements are monetarily restated by 110% of the CDI, and mature in December 2019.

Other receivables comprise commissions on Raia Drogasil referrals (R$ 39).

(vi) Transactions related to rental of commercial properties for the implementation of stores.

(vii) 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 magazine.

(viii) Transactions related to sales representation services with trade associations.

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.

(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	
Compensation items	**2018**	**2017**	**2018**	**2017**
Fees and social charges	17,460	15,415	19,318	17,227
Bonuses and social charges	14,876	28,764	15,115	29,145
Fringe benefits	713	2,117	713	2,117
Total	**33,049**	**46,296**	**35,146**	**48,489**

27. 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, 2018:

	Parent Company		Consolidated	
Insurance items	**2018**	**2017**	**2018**	**2017**
Inventory loss risks	182,449	150,197	217,837	170,825
Permanent assets	289,479	232,862	296,619	238,682
Loss of profits	242,556	237,873	293,670	262,052
Civil liability risks	38,424	33,602	40,000	34,500

28. Non-cash transactions

At December 31, 2018, the main transactions that did not involve the Group's cash were:

(i) the restatement of the financial liability arising from payables to Subsidiary's shareholder (Note 9);
(ii) part of the compensation of key management personnel associated with the restricted share plan (Note 26); and
(iii) the installment purchase of property and equipment items in the amount of R$ 18,932 (R$ 11,793 - Dec/ 2017).

29. Events after the reporting period

(a) On February 1, 2019, the Company approved, through an Extraordinary Meeting of the Board of Directors, the 3rd issue of simple Debentures, not convertible into shares, unsecured, with no collateral and no preference, in a single series, in the total amount of R$ 250,000, with yield equivalent to 98.5% of the CDI and payment term of 7 years. Interest will be paid on a semiannual basis and the principal will be paid in two equal annual and consecutive installments, the last installment to be paid on March 13, 2026. The proceeds will be used in the construction, expansion, development and renovation of certain properties indicated by the Company. This operation is linked to certificates of real estate receivables of Vert Companhia Securitizadora, which will be issued backed by Debentures "CRI", object of public distribution offering in accordance with instruction CVM400.

(b) On February 26, 2019, the Company entered into with the companies CCI Foreign, S.A.R.L. and Beauty Holdings, L.L.C. ("Sellers") an agreement for purchase of share units ("CVQ") comprising 100% of the share units of Drogaria Onofre S.A., with CVS Pharmacy, Inc. as the guarantor ("Guarantor").

The CVQ establishes (i) the responsibilities of the Sellers and of the Guarantor for the arbitration proceeding that is being conducted by the Guarantor with the former seller (rights and obligations) without any burden to the Company, and (ii) the compliance with the conditions precedent, especially the approval of the negotiation by the Administrative Council for Economic Defense - CADE.

Except for the implications arising from the arbitration, mentioned above, the Company will take over the assets and liabilities of Drogaria Onofre S.A. after the compliance with the conditions precedent.

With gross revenue of R$ 479.4 million in 2018 and a total of 50 stores, of which forty-seven in the state of São Paulo, two in Rio de Janeiro and one in Minas Gerais, Onofre, currently controlled by CVS Health Corporation, is one of the most recognized companies of the Brazilian pharmaceutical retail segment and one of the national leaders in e-commerce.

Raia Drogasil S.A.

COMMENTS ON THE BUSINESS PROJECTION PERFORMANCE

In this section, pursuant to CVM Instruction 480/09, we compare the store opening projections for the Company with the data on store openings actually conducted every year, until the end of the current year. The projections for 2016 and 2017 were disclosed to the market on July 28, 2016, while the projections for 2018 and 2019 were disclosed on November 9, 2017

YEAR	PRIOR PROJECTION	CURRENT PROJECTION	ACTUAL ACCUMULATED
2016	165 openings	200 openings	212 openings
2017	195 openings	200 openings	210 openings
2018		240 openings	240 openings
2019		240 openings	

On July 28, 2016, we revised the prior projection of 165 openings in 2016 and 195 openings in 2017 to 200 store openings for both years. The Company has ended 2018 with 240 store openings, and reiterate the projection of 240 openings for 2019.

Raia Drogasil S.A.

OFFICERS' REPRESENTATION ON 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 individual and consolidated financial statement for 2018.

São Paulo, February 26, 2019.

Marcilio D'Amico Pousada
Chief Executive Officer

Eugênio De Zagottis
Officer

Antonio Carlos Coelho
Officer

Marcello De Zagottis
Officer

Fernando Kozel Varela
Officer

Renato Cepollina Raduan
Officer

Maria Susana de Souza
Officer

Antonio Carlos Marques de Oliveira
Controller and Accountant in charge
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 profit allocation for the year ended December 31, 2018 and, based on the examinations performed and on clarifications provided by management, and also considering the favorable unqualified independent auditor's report issued by the independent auditor PricewaterhouseCoopers Auditores Independentes, the Supervisory Board members concluded that the documents above are 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 26, 2019.

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Gilberto Lério
Supervisory Board Member

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Fernando Carvalho Braga
Supervisory Board Member

____
Mário Antonio Luiz Corrêa
Supervisory Board Member