(A free translation of the original in Portuguese)

# *Raia Drogasil S.A.*

***Parent company and consolidated financial statements at December 31, 2016 and independent auditor's report***

# 2016 EARNINGS RELEASE

*São Paulo, February 16th, 2017. Raia Drogasil S.A. (BM&FBovespa: RADL3) announces today its results for the 4th quarter of 2016 (4Q16) and the year of 2016. The financial statements of Raia Drogasil S.A. were prepared in accordance with the accounting practices adopted in Brazil and with IFRS as well as the standards issued by the Brazilian Securities and Exchange Commission – CVM and was audited by our independent auditors in accordance with Brazilian standards of auditing. Such information was prepared in thousand Reais and all growth rates relate to the same period of 2015.*

*Specifically, in the 4Q16, our financial statements were adjusted to exclude non-recurring expenses related to the restructuring of company's career program, store portfolio adjustments, loyalty program transition allowance, as well as to other non-recurring net recoveries.*

*On October 1st, 2015 we concluded the acquisition of 55% of 4BIO. Since the 4Q15, our financials have been consolidated. In order to assure the historical comparability, 2015 figures were combined on a pro-forma basis.*

## CONSOLIDATED HIGHLIGHTS:

- **Drugstores: 1,420 stores in operation (212 openings and 27 closures)**
- **Gross Revenues: R$ 11.8 billion, an increase of 25.5% (14.3% for retail same-store sales)**
- **Gross Margin: 29.6% of gross revenues, a 0.6 percentage point margin increase**
- **EBITDA: R$ 987.6 million, a margin of 8.4% and an expansion of 0.5 percentage point**
- **Adjusted Net Income: R$ 499.1 million, a 4.2% margin and an increase of 27.6%**
- **Cash Flow: R$ 34.9 million free cash flow, R$ 107.0 million total cash consumption**

| Summary | 2015 | 2016 | 4Q15 | 1Q16 | 2Q16 | 3Q16 | 4Q16 |
|---|---|---|---|---|---|---|---|
| *(R$ thousand)* | | | | | | | |
| # of Stores Raia Drogasil + 4Bio | 1,235 | 1,420 | 1,235 | 1,274 | 1,330 | 1,370 | 1,420 |
| Store Openings | 156 | 212 | 62 | 39 | 58 | 53 | 62 |
| Store Closures | (15) | (27) | (7) | 0 | (2) | (13) | (12) |
| # of Stores (average) | 1,147 | 1,324 | 1,206 | 1,250 | 1,303 | 1,347 | 1,394 |
| Headcount | 26,520 | 28,878 | 26,520 | 26,720 | 27,767 | 28,661 | 28,878 |
| Pharmacist Count | 4,698 | 5,484 | 4,698 | 4,963 | 5,214 | 5,393 | 5,484 |
| # of Tickets (000) | 165,299 | 187,731 | 43,908 | 44,145 | 46,696 | 47,620 | 49,269 |
| Gross Revenue | 9,424,777 | 11,827,567 | 2,574,215 | 2,641,079 | 2,930,451 | 3,050,163 | 3,205,873 |
| Gross Profit | 2,735,741 | 3,504,143 | 740,084 | 756,940 | 924,825 | 900,034 | 922,344 |
| % of Gross Revenues | 29.0% | 29.6% | 28.7% | 28.7% | 31.6% | 29.5% | 28.8% |
| EBITDA | 743,516 | 987,649 | 188,120 | 192,839 | 304,811 | 254,004 | 235,996 |
| % of Gross Revenues | 7.9% | 8.4% | 7.3% | 7.3% | 10.4% | 8.3% | 7.4% |
| Adjusted Net Income | 391,131 | 499,111 | 94,865 | 100,829 | 167,766 | 127,582 | 102,934 |
| % of Gross Revenues | 4.2% | 4.2% | 3.7% | 3.8% | 5.7% | 4.2% | 3.2% |
| Net Income | 341,753 | 451,252 | 78,347 | 90,131 | 157,068 | 116,884 | 87,169 |
| % of Gross Revenues | 3.6% | 3.8% | 3.0% | 3.4% | 5.4% | 3.8% | 2.7% |
| Free Cash Flow | 73,817 | 34,933 | 23,517 | (169,549) | (9,578) | 158,507 | 55,553 |

## LETTER TO OUR SHAREHOLDERS

Fiscal 2016 was another strong year for Raia Drogasil, as we delivered record growth and profitability in a challenging scenario. Our results underscore the defensive nature of our industry, driven by the secular ageing of the population, the robustness of our capital structure, insulating us from a tight credit market with high interest rates, and the strength of our execution, spearheading sustainable market share growth and value creation in a very competitive environment.

From 2012 to 2014 our focus was in concluding the integration and in advancing both brands to the best existing standard of execution. The management agenda that started in 2014 has challenged the limits of our execution through innovation and capability building. We defined four Strategic Pillars that are allowing us to create new differentials and to deliver better service to our Customers: *Accelerating Organic Growth*, *Introducing New Formats*, *Enhancing Category Management and Shopping Experience*, as well as *Engaging, Analyzing and Potentializing Customers.* We have also worked on three core enablers for implementing those strategies: *People, Processes and Platforms.*

We are proud to report on the achievement of several strategic milestones. We accelerated growth to 212 new stores, a significant boost in opening pace while preserving historical standards and returns. More importantly, we opened the new stores in a balanced, sustainable way, with 46% of the openings in the 1H16 due to an improved execution and to a larger contract pool. We have also advanced in new formats by validating Farmasil, which was under development for four years and is now in the verge of expansion, by developing a Big Store format, allowing us to successfully operate larger stores (350 $m^2$) and to deploy our learnings to the next tier of stores (200 $m^2$), as well as by launching a new store identity for Drogasil, aligned with the brand´s positioning in order to enhance shopper experience. We have also achieved a leap in Category Management with Dunnhumby, our data science partner, and are finally making a stride in CRM, with a new loyalty program under pilot and increased personalization now supported by our platforms. Finally, we have also advanced toward our vision of providing unmatched, innovative and integrated services for patients, operators, manufacturers and physicians through a portfolio of integrated healthcare assets. *4Bio*, our Specialty Retailing platform, grew revenues by 92% and expanded margins to become the industry leader, while allowing us to cross-sell specialty products to our customers in all 1,420 stores. Finally, *Univers* was successfully launched as our proprietary PBM brand, with a new platform that allows millions of members to choose from any Raia or Drogasil store in Brazil.

In order to reinvent our execution, we have also worked relentlessly on the three core strategic enablers. On the people side, we significantly strengthened our processes to better support both existing stores and future growth. We also achieved another leap in employee turnover reduction. Finally, we upgraded our training initiatives, introduced e-learning and enhanced our career program, setting the stage to a huge cultural transformation to be engendered from 2017. By upgrading processes and enhancing platforms, two edges of the same sword, we revolutionized our supply chain management: over the last 3 years, by challenging the status quo, we reduced at the same time cash cycle, stock-outs and inventory losses, which are mutually offsetting metrics, to record low levels, an improbable feat and a huge leap in efficiency and customer service. As a consequence of our reinvention, we also excelled in 2016 in customer satisfaction, market share growth, revenue growth and margin expansion.

We ended 2016 with R$ 11.8 billion in consolidated gross revenues and a revenue growth of 25.5% versus 2015, a testament both to the defensive nature of our industry as well as to the improvements in our execution. We opened 212 new stores and closed 27 stores, ending the year with 1,420 stores throughout Brazil. Over the last five years, we opened a total of 731 stores, an unparalleled growth pace in the Brazilian drugstore industry. Our organic expansion, coupled with our same-store sales growth, generated a revenue increase of R$ 2.4 billion in 2016, more than the total revenues of the fourth largest drugstore chain in Brazil, further consolidating our leadership of the Brazilian drugstore market. Consequently, our market share reached 12.5% in the 4Q16, a 2.2 percentage point increase over the 4Q15.

In addition to the strong top-line growth, we also achieved a significant margin expansion, as we boosted the inflationary gains on inventories by increasing forward buying in lieu of a 12% price cap increase. This combination led to a year of record profitability, with an EBITDA of R$ 987.6 million, an increase of 32.8%, and a margin of 8.4%, a 0.5 percentage point expansion. Adjusted net income amounted to R$ 499.1 million, a net margin of 4.2%. Our free cash flow totaled R$ 34.9 million, the fourth consecutive year of positive cash generation. Cash flows from operations totaled R$ 524.0 million, of which R$ 489.1 million were reinvested with strong financial discipline by seeking marginal returns consistent with our track record. As a result, our ROIC reached 21.5%, an increase of 2.1 percentage points, and is expected to further increase in the long-term through productivity gains and the maturation of our stores. We distributed R$ 194.7 million in interest on equity, an 8.6% increase and a payout of 43.1%, posting a Total Shareholder Return of 74.1%.

## CHALLENGES AND OPPORTUNITIES FOR 2017

In spite of our strong performance, we have bigger ambitions for the future. We have several strategic initiatives in course that are reshaping the business, the service we provide to our customers and the value we create to shareholders. We also believe that our accelerated expansion, coupled with our high standard of our execution and with the robustness of our capital structure in a challenging environment will keep providing us with significant opportunities of market share gains.

However, we acknowledge that we may have set in 2016 too high a bar to surpass in 2017, as the inflationary gains on inventories, which have driven the 0.5 percentage point margin expansion of the year, will be much lower in 2017. Therefore, it is paramount that we dilute expenses and create optionalities to be able to defend or expand our margins.

In lieu of all these opportunities and challenges, we have established four main priorities for the year:

**Advance with the Implementation of our Strategic Plan:** In 2014, as previously mentioned, we developed a five-year strategy that aligns execution and innovation across four different pillars: Expansion, New Formats, Category Management and CRM. We opened 212 stores in 2016, an all-time record in Brazil. For 2017, we reiterate the guidance of 200 new stores. We will maintain the same historical standards and IRR expectations, and will enter three new states. Regarding new formats, we concluded the Farmasil pilot and will start expanding it at a progressive pace. On category management, we will advance the role of beauty in our stores and begin the implementation of a new pricing platform, which will allow us to fine-tune our prices across markets based on demand elasticity. Finally, on CRM, we will advance with Omnichannel, roll-out a new loyalty program that leverages the learnings from Dunnhumby and enhances service personalization through our proprietary platforms. These optionalities can have a significant impact in boosting our growth and expanding our margins in the years to come, and could help already in 2017.

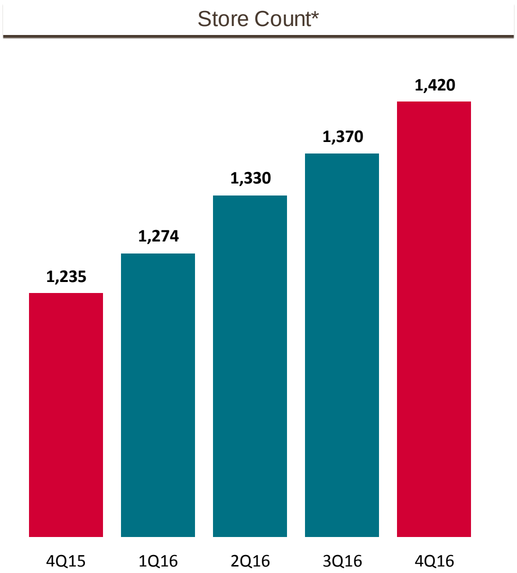
**Expand our Market Share:** Fiscal 2016 was a year of extraordinary share gains, which happened across all states where we compete. In spite of falling inflation and interest rates, we believe the economy in 2017 will remain very weak, with low GDP growth, persisting leverage and declining execution by several players. Additionally, financial institutions will remain very cautious, spreads still very high, and BNDES will cease to grant subsidized loans. We believe that market consolidation is a resilience game, and that our strong balance sheet and consistency of execution in such a challenging environment will allow us to make strides in market share gain whenever and wherever competitors flounder.

**Dilute Expenses:** We will focus relentlessly on gaining productivity in 2017. We envision a concrete possibility of diluting expenses mainly driven by the decline in inflation rates, especially toward the second semester. Electricity costs as a percentage of revenues, which skyrocketed over the last years, are starting to fall down as power generation is switching back from thermoelectric to hydroelectric. We have implemented several initiatives to contain labor costs, as we adapted our career program and salary grids, implemented a new staffing algorithm and enhanced our IT platform to increase store productivity. We also invested to increase the automation and productivity of our main DC in São Paulo, as well as in a process efficiency project for all DCs. In the context of gross margin pressures due to much lower inflationary gains on inventories, we rely on the success of these initiatives to defend our current margins.

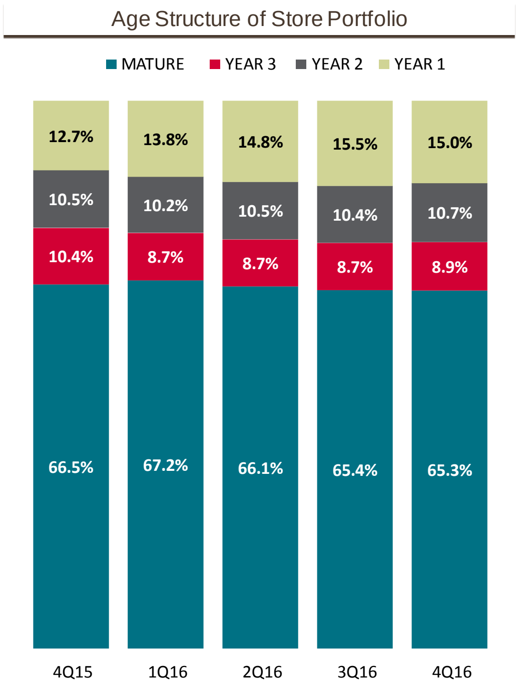
**Engender a Cultural Transformation:** In 2014, we fully restructured our HR department. Over this period, we changed our full leadership team, currently comprised of a vice-president and three directors that have joined us ever since. Also in 2014, we stabilized our processes, which had significant gaps, and decentralized the structure to better support our stores. In 2015, we revamped existing training programs and introduced several new leadership development initiatives to support growth. In 2016, we took its dissemination a step further with e-learning and started working on a cultural agenda. With the conclusion of the integration and the natural convergence to a single culture, we started an internal soul-searching initiative to understand and document our identity, including our purpose, values and aspirations at the corporate level and the positioning of our drugstore, product and service brands. In 2017, our goal is to engender a cultural transformation, disseminating this identity to all our employees as well as to other stakeholders. Our main goal is to boost the engagement of our team through an inspirational purpose that redefines how they perceive their jobs and relate to our customers, as well as how we are perceived by all our stakeholders and by Society at large.

*THE EXECUTIVE TEAM*

## STORE DEVELOPMENT




| | 4Q15 | 1Q16 | 2Q16 | 3Q16 | 4Q16 |
|---|---|---|---|---|---|
| Openings | 62 | 39 | 58 | 53 | 62 |
| Closures | (7) | 0 | (2) | (13) | (12) |




* Includes three 4Bio stores

We opened 212 new stores and closed 27 in 2016 (62 openings and 12 closures in the 4Q16), ending the year with 1,420 stores in operation, including three 4Bio stores. We surpassed our guidance of 200 gross openings in the year, reflecting a relevant acceleration in our store-opening pace. We reiterate our guidance of 200 gross openings in 2017.

Of the 27 stores closed in the year (12 in the 4Q16), 6 stores were part of the portfolio acquired in 2013 from Santa Marta in the state of Goiás, where we restructured our operations to reduce an excessive store density in some areas of the city created by the transaction. We also closed 4 Farmasil stores outside of São Paulo, as we are restructuring our operations to focus on expanding the format in our home market.

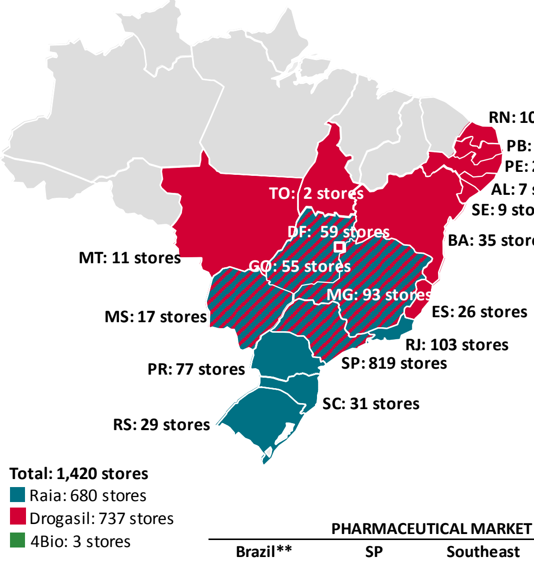
Of the 17 ordinary closures (7 in the 4Q16), which represent the normal course of business, 8 stores were still in the maturation process and represent the correction of opening mistakes that are normal in a large-scale expansion, while the remaining 9 stores relate to portfolio optimizations that have a positive return expectation associated to them.

At the end of 4Q16, 34.7% of our stores were still under maturation, and had not yet reached their full potential in terms of revenues and profitability. We ended the quarter with the highest percentage of non-mature stores since the 3Q13.

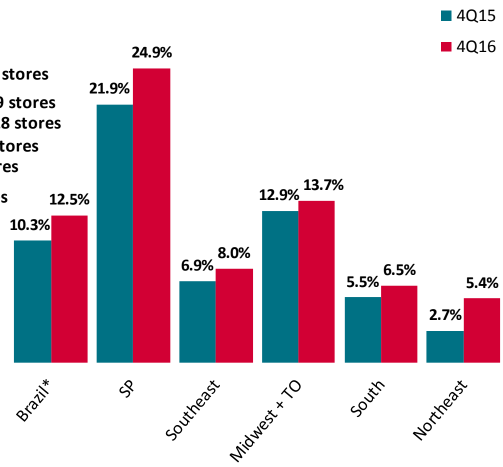
Our average comparable national market share reached 12.5% in the quarter, a 2.2 percentage point increase, including 4Bio. Our market share figures were adjusted by IMS Health to exclude new informants, so as to preserve historical comparability. Considering the inclusion of new informants, our national market share totaled 11.8% in the quarter.

We increased our comparable market share in all regions where we operate. São Paulo was our main highlight, where we reached a market share of 24.9%, a 3.0 percentage point increase driven by our organic expansion. In the remaining states of the Southeast, we gained 0.6 percentage point. We also recorded a strong performance in Northeast, where we reached a market share of 5.4%, a 2.7 percentage point increase driven by strong growth in all states in the region. Finally, we increased our share in the South by 1.0% and recorded a 0.8% market share gain in the Midwest region.

Geographic Presence




Market Share**




PHARMACEUTICAL MARKET BREAKDOWN BY REGION (%)

| Brazil** | SP | Southeast | Midwest | South | Northeast |
|---|---|---|---|---|---|
| 100.0% | 27.1% | 24.0% | 9.6% | 17.1% | 18.1% |

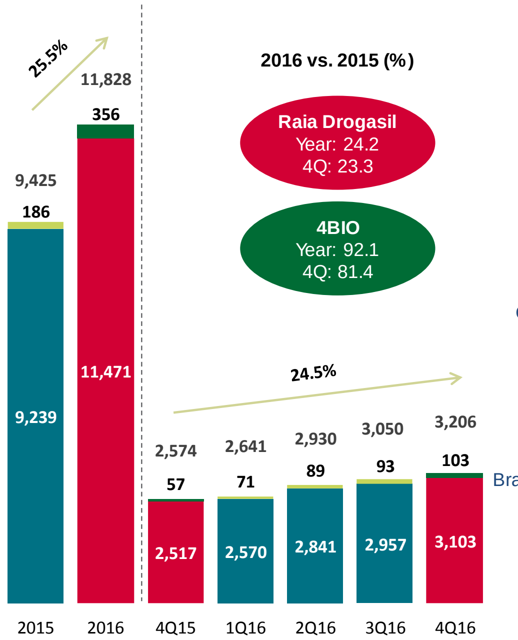
Source: IMS Health

* Includes 4Bio only for Brazil

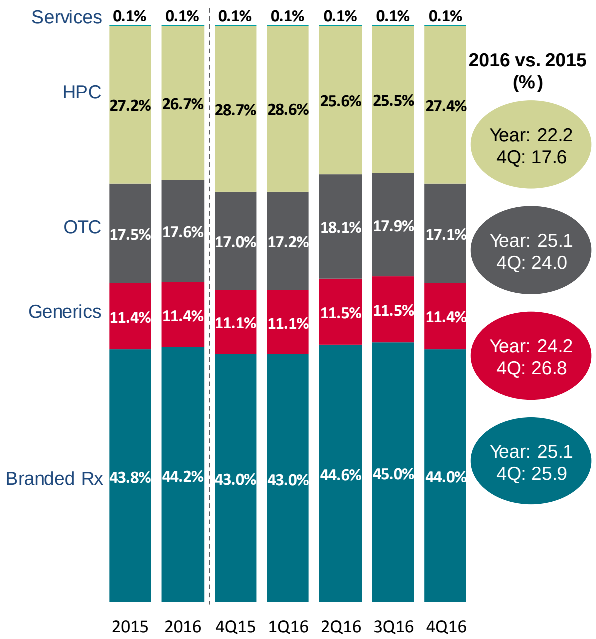
** Comparable Market Share, excluding new informants added to the panel during the last twelve months. Our national market share including the full panel was of 11.8%

## GROSS REVENUES

Consolidated Gross Revenues

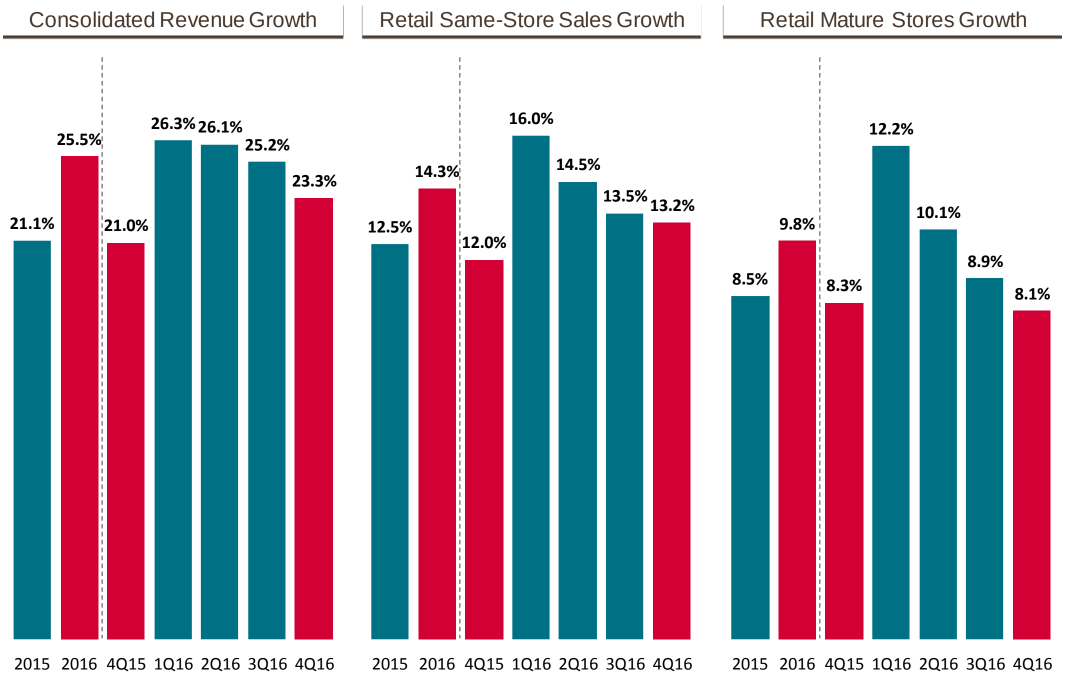



Retail Sales Mix




We ended 2016 with consolidated gross revenues of R$ 11,827.6 million (R$ 3,205.9 million in the quarter), a 25.5% increase over the previous year (24.5% in the quarter). Raia Drogasil grew 24.2% (23.3% in the quarter), while 4Bio grew 92.1% (81.4% in the quarter).

Pharmaceuticals were the highlight of 2016, helped by the high annual drug price increase that averaged 11.8%. Branded Rx revenues increased by 25.1% (25.9% in 4Q16). OTC also grew by 25.1% (24.0% in 4Q16), while Generics increased by 24.2% in 2016 while becoming the best performing category in the 4Q16, with a 26.8% revenue growth, gaining 0.3% share in our sales mix. Lastly, HPC revenues increased by 22.2% in 2016 and 17.6% in the 4Q16, mainly due to the strong comps of the 4Q15 when we experienced an outbreak of the Zika virus that boosted mosquito repellent sales in the quarter.



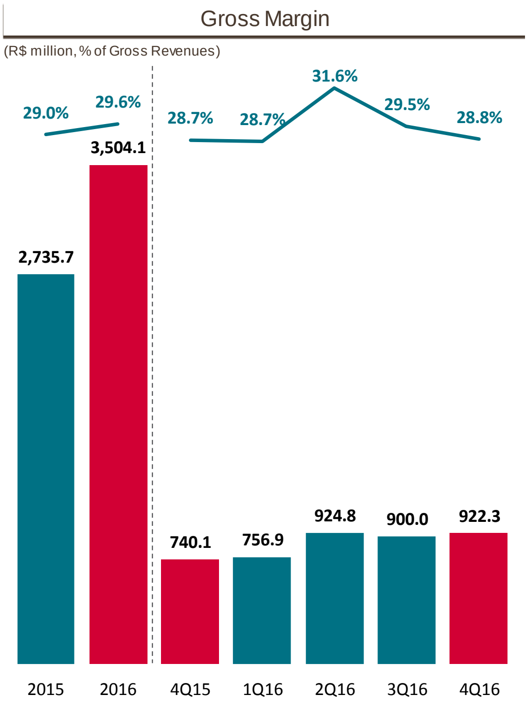

Same store sales at Raia Drogasil increased by 14.3% while our mature stores recorded an increase of 9.8%. In the 4Q16, same store sales increased by 13.2% and mature stores grew by 8.1%. It is important to mention that in the 4Q16 we recorded a positive calendar effect, which benefited our sales by 0.3%.

In 2016, the Brazilian pharmaceutical market grew by 13.1% (4.4% in units sold), according to the IMS Health, a testament to the defensive nature of our market.

## GROSS PROFIT

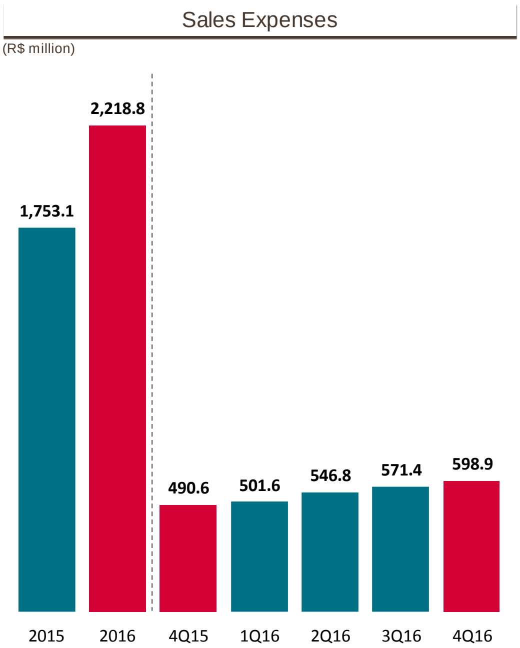
Our gross margin reached 29.6%, a 0.6 percentage point increase versus 2015. In the 4Q16, we recorded a gross margin of 28.8%, a 0.1 percentage point increase over the same period of the previous year.

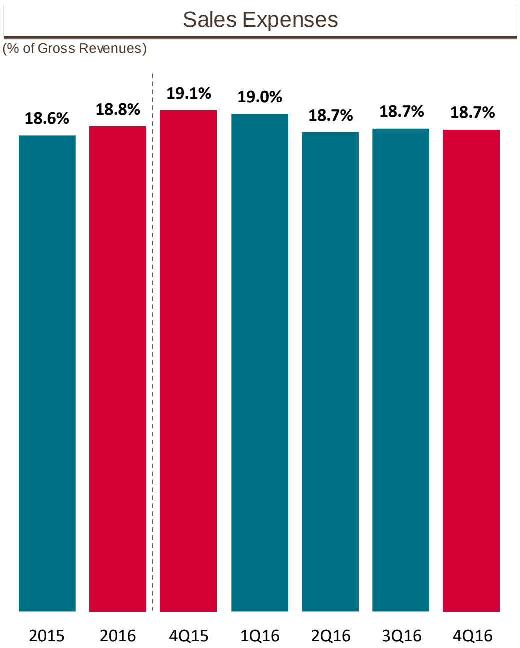
The gross margin expansion in 2016 was driven mainly by the inflationary gains in pharmaceuticals arising from the annual price cap increase, which averaged 11.8% versus the 6.0% recorded in 2015, boosting our margin by 0.5% in the year (no effect in the quarter). 4Bio´s growth had a negative margin mix effect of 0.2 percentage point both in the year and in the quarter, since Specialty Drugs have a lower gross margin than Retail.




## SALES EXPENSES

In 2016, sales expenses totaled R$ 2,218.8 million, equivalent to 18.8% of gross revenues, a 0.2 percentage point increase over 2015 (0.4 percentage point dilution in the 4Q16).



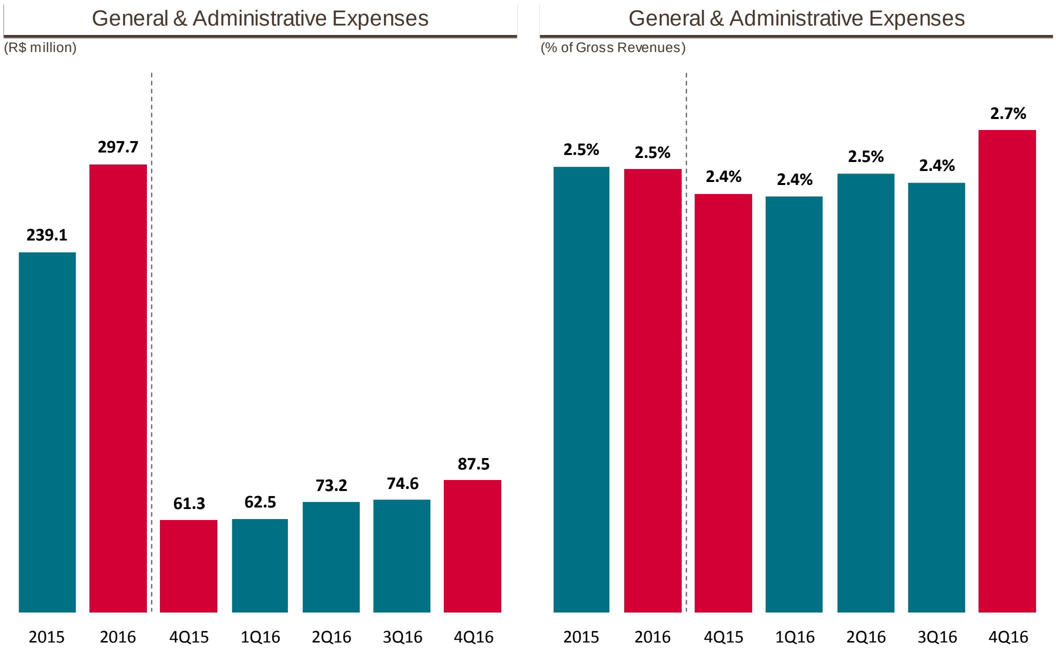

Personnel expenses, rentals, marketing and other expenses increased by 0.1 percentage point each. These increases were partially offset by a lower pressure arising from new store openings, which went down by 0.1 percentage point, and by a 0.1 percentage point dilution related to 4Bio.

Sales expenses totaled R$ 598.9 million in the quarter, 18.7% of gross revenues, a 0.4 percentage point dilution over the same period of the previous year. The more balanced expansion pace in 2016 resulted in a 0.6 percentage point gain versus 2015, when the bulk of our openings happened in the second semester. Additionally, expense dilution by 4Bio improved our results by 0.1 percentage point.

These decreases were partially offset by store closures write-offs and by pressures in rental and in marketing expenses, which penalized our sales expenses by 0.1 percentage point each.

## GENERAL AND ADMINISTRATIVE EXPENSES

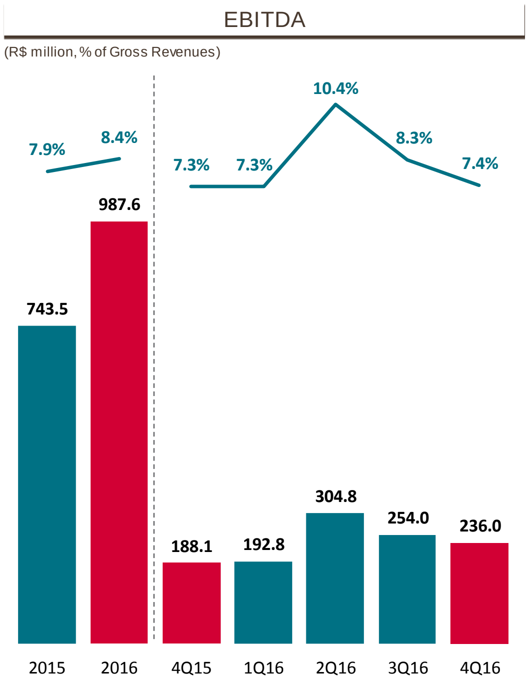
General and administrative expenses amounted to R$ 297.7 million in the year, equivalent to 2.5% of gross revenues, same level of the previous year, while we experienced a 0.3 percentage point pressure in the quarter.




We recorded a compensation allowance increase of 0.2 percentage point in the quarter to reflect the annual appreciation of our share price over the outstanding shares granted under our restricted shares incentive program, and a labor contingency pressure of 0.1 percentage point. This pressure resulted in a 0.1 percentage point increase in the year. We believe those quarterly pressures to be transitory and expect the normalization to happen already in the 1Q17.

## EBITDA

Our consolidated EBITDA reached R$ 987.6 million in 2016, an EBITDA margin of 8.4%, representing an expansion of 0.5 percentage point and an increase of 32.8% over 2015. In the 4Q16, the EBITDA totaled R$ 236.0 million, corresponding to a margin of 7.4% and to a 0.1 percentage point expansion versus the same period of 2015.




New stores opened in the year, as well as those that were already in the opening process, reduced the EBITDA by R$ 29.2 million in 2016, but for the first time ever they generated a positive quarterly contribution in the amount of R$ 3.2 million. This was only possible because we managed to open 97 stores of the 212 already in the 1H16, which have had time to generate a positive contribution margin that has more than offset the opening pressures of the 2H16.

Considering only the 1,208 stores in operation since the end of 2015 and the full absorption of logistics as well as of general and administrative expenses by such stores, our adjusted EBITDA would have totaled R$ 1,016.8 million (R$ 232.8 million in the quarter), equivalent to an EBITDA margin of 8.9% over gross revenues (7.9% in the quarter).

Raia Drogasil achieved a retail EBITDA of R$ 970.4 million (R$ 232.5 million in the quarter), an EBITDA margin of 8.5% in the year (7.5% in the quarter), an annual margin expansion of 0.5 percentage point (margin expansion of 0.1 percentage point in the quarter).

4Bio reached an EBITDA of R$ 17.3 million (R$ 3.5 million in the quarter), an EBITDA margin of 4.8% in the year (3.4% in the quarter), an annual margin expansion of 1.3 percentage point (flat in the quarter). It is important to highlight that 4Bio recorded a revenue growth of 81.4% in the quarter and of 92.1% in the year.

When comparing the EBIT, 4Bio recorded a margin of 4.8% in 2016 (3.3% in the 4Q16), versus 6.1% for Raia Drogasil (4.9% in the 4Q16). It is important to highlight that in spite of its lower margin, 4Bio has an even higher capital-efficiency than Raia Drogasil, with much lower cash cycle and Capex.

## NON-RECURRING EXPENSES

We incurred in R$ 7.7 million in non-recurring expenses in the 4Q16, as shown below:

| Non-Recurring Expenses | 4Q16 |
|---|---|
| *(R$ million)* | |
| Restructuring of the Career Program | (7.7) |
| Restructuring of the Store Portfolio: Santa Marta and Farmasil | (3.9) |
| Loyalty Program Transition Allowance | (3.8) |
| Net Recoveries from Previous Years | 7.8 |
| **Total** | **(7.7)** |

We have restructured the Company's career program in order to rationalize our expenses and to reduce labor contingencies over the next years. This resulted in a non-recurring severance provision of R$ 7.7 million in order to accelerate the transition to the new structure.

As previously mentioned, we restructured our store portfolio in Goiás by closing 6 stores that had been acquired from Santa Marta in 2013, which allowed us to balance our presence in regions where we had excessive density. We have also closed 4 Farmasil stores scattered around different regions in Brazil in order to focus on expanding in São Paulo. These closings resulted in non-recurring asset write-offs of R$ 3.9 million.

We have also constituted a R$ 3.8 million non-recurring allowance to support the transition of the Droga Raia loyalty program from an earn and redeem points scheme to a new mechanic to be implemented in 2017.

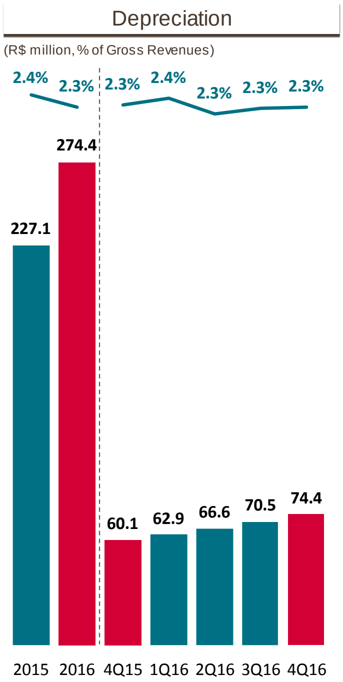
Finally, we recorded R$ 7.8 million in net non-recurring gains from tax as well as from other recoveries related to previous fiscal years.

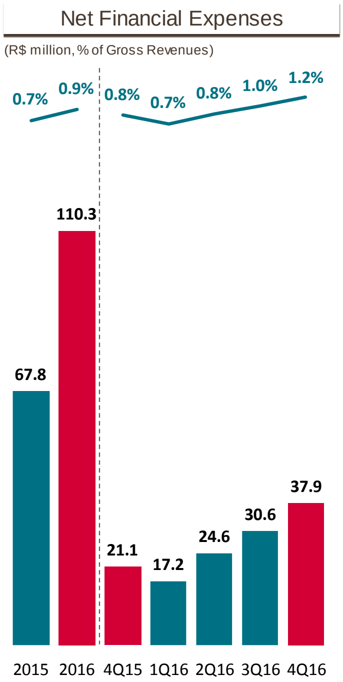
## DEPRECIATION, NET FINANCIAL EXPENSES AND INCOME TAXES

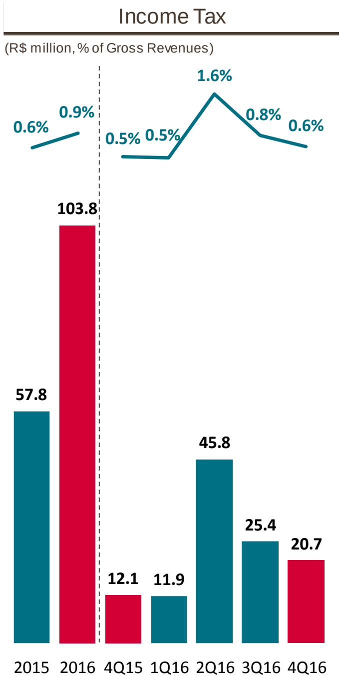
Depreciation expenses totaled R$ 274.4 million in 2016, equivalent to 2.3% of gross revenues, a 0.1 percentage point dilution when compared to the previous year. In the 4Q16, depreciation expenses amounted to R$ 74.4 million, or 2.3% of gross revenues, in line with the same period of the previous year.

Net financial expenses totaled R$ 110.3 million in 2016 (R$ 37.9 million in the quarter), representing 0.9% of gross revenues (1.2% in the quarter), a 0.2 percentage point increase in the year (0.4% in the quarter). Net Present Value Adjustment represented R$ 68.2 million (R$ 22.7 million in the quarter), accounting for 0.6% of revenues (0.7% in the quarter). In addition, we had R$ 13.6 million in financial expenses from interests accrued on the option to acquire 4Bio in 2021, versus R$ 1.4 million in 2015. This was mainly due to the better-than-expected performance of 4Bio during the year, which affected materially the expected value of the remaining 45% of the company. Excluding the NPV adjustments and the financial expenses on the option to acquire 4Bio, the interest accrued on debt amounted to R$ 28.5 million or 0.2% of revenues.

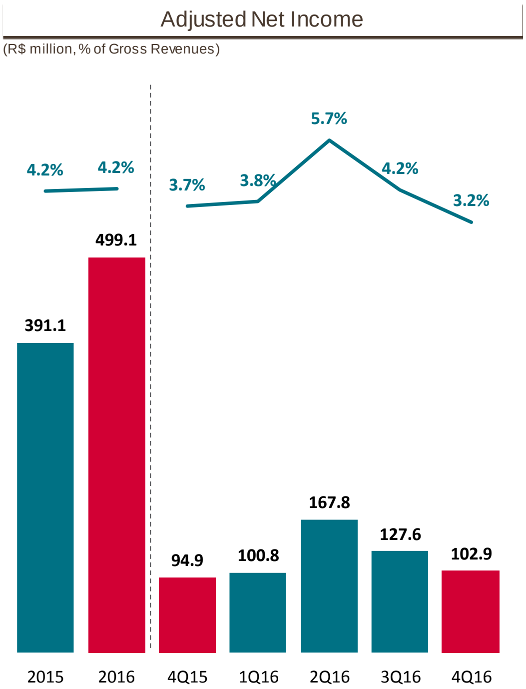
Finally, we booked R$ 103.8 million in annual taxes, equivalent to 0.9% of gross revenues, a 0.3 percentage point increase due to the increase in our profitability. In the 4Q16, we booked R$ 20.7 million in taxes, 0.6% of gross revenues, which represented an increase of 0.1 percentage point.



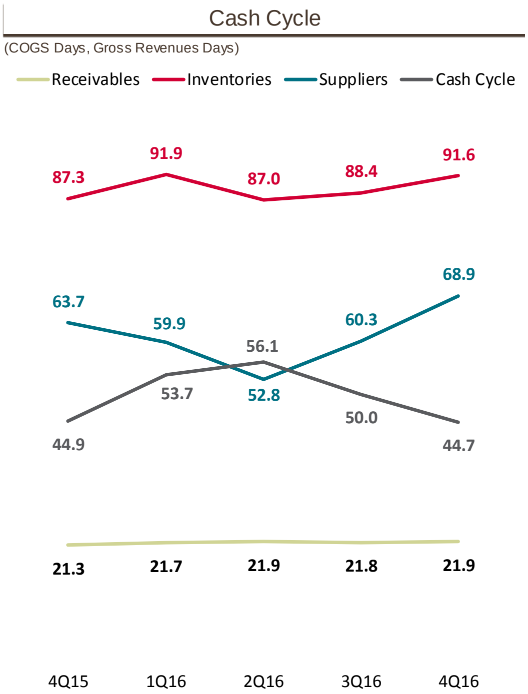

## ADJUSTED NET INCOME



Adjusted net income totaled R$ 499.1 million in 2016 (R$ 102.9 million in the quarter), a 27.6% increase over the previous year (8.5% in the 4Q16). We achieved an adjusted net margin of 4.2% (3.2% in the quarter). Excluding the benefit from the goodwill amortization and the non-recurring expenses, we recorded a reported net income of R$ 451.3 million in the year, a net margin of 3.8% (R$ 87.2 million, a net margin of 2.7% in the 4Q16).

## CASH CYCLE

We achieved a cash cycle reduction of 0.2 days when compared to 2015. Inventories increased by 4.3 days, reflecting opportunistic purchases undertaken in the period, which led to an increase in our accounts payable of 5.2 days, driven by improvements in purchasing terms from suppliers related to their funding. Finally, days of receivables increased by 0.6 day versus the previous year.




## CASH FLOW

We recorded a free cash flow of R$ 34.9 million in 2016, our fourth consecutive year of positive free cash flow generation. Total cash flow was a negative R$ 107.0 million. Our operating cash flow totaled R$ 524.0 million, which more than fully funded R$ 489.1 million in investments undertaken in the period. Resources from operations amounted to R$ 751.4 million, equivalent to 6.4% of our gross revenues, while we recorded a working capital consumption of R$ 227.4 million.

In the 4Q16, we generated a free cash flow of R$ 55.6 million, and a negative total cash flow of R$ 33.1 million. Our operating cash flow totaled R$ 190.2 million, which more than fully funded R$ 134.7 million in investments undertaken in the period. Resources from operations amounted to R$ 178.6 million, equivalent to 5.6% of our gross revenues, while we recorded a working capital reduction of R$ 11.6 million.

Of the R$ 489.1 million invested in the year, R$ 315.1 million corresponded to new store openings, R$ 73.3 million to the renovation of existing stores, and R$ 100.7 million to investments in infrastructure.

Net financial expenses totaled R$ 42.1 million in the year (R$ 15.2 million in the 4Q16), excluding NPV adjustments. These expenses were partially offset by the R$ 80.5 million tax shield related to the net financial expenses and to the interest on equity accrued in the period, which shall be paid at a later date (R$ 22.2 million in the quarter).

| Cash Flow | 2016 | 2015 | 4Q16 | 4Q15 |
|---|---|---|---|---|
| *(R$ million)* | | | | |
| **Adjusted EBIT** | **713.2** | **516.5** | **161.6** | **128.0** |
| NPV Adjustment | (67.3) | (53.2) | (20.4) | (18.2) |
| Non-Recurring Expenses | (7.7) | (10.0) | (7.7) | (8.8) |
| Income Tax (34%) | (217.0) | (154.1) | (45.4) | (34.4) |
| Tax Shield from Goodwill Amortization | 42.8 | 42.8 | 10.7 | 10.7 |
| Depreciation | 274.4 | 227.1 | 74.4 | 60.1 |
| Others | 12.9 | (3.5) | 5.4 | (5.1) |
| **Resources from Operations** | **751.4** | **565.5** | **178.6** | **132.4** |
| Cash Cycle* | (258.4) | (92.8) | 28.2 | 54.1 |
| Other Assets (Liabilities) | 31.0 | (10.2) | (16.6) | (18.6) |
| **Operating Cash Flow** | **524.0** | **462.5** | **190.2** | **167.9** |
| **Investments** | **(489.1)** | **(388.7)** | **(134.7)** | **(144.3)** |
| **Free Cash Flow** | **34.9** | **73.8** | **55.6** | **23.5** |
| Interest on Equity | (153.3) | (121.3) | (81.9) | (57.3) |
| Income Tax Paid over Interest on Equity | (27.0) | (25.3) | (13.7) | (11.5) |
| Net Financial Expenses | (42.1) | (12.2) | (15.2) | (2.6) |
| Income Tax (Tax benefit over financial expenses and interest on equity) | 80.5 | 65.1 | 22.2 | 15.4 |
| **Total Cash Flow** | **(107.0)** | **(19.9)** | **(33.1)** | **(32.5)** |

* Includes variation in accounts receivables, inventories and suppliers. Excludes NPV effects.

We accrued R$ 194.7 million in interest on equity in 2016 (R$ 50.0 million in the 4Q16) versus R$ 179.2 million in 2015 (R$ 43.0 million in the 4Q15) reflecting the increase in our equity base.

## INDEBTEDNESS

At the end of the year, we recorded a net debt position of R$ 137.3 million, versus a net debt of R$ 30.3 million recorded in the same period of 2015.

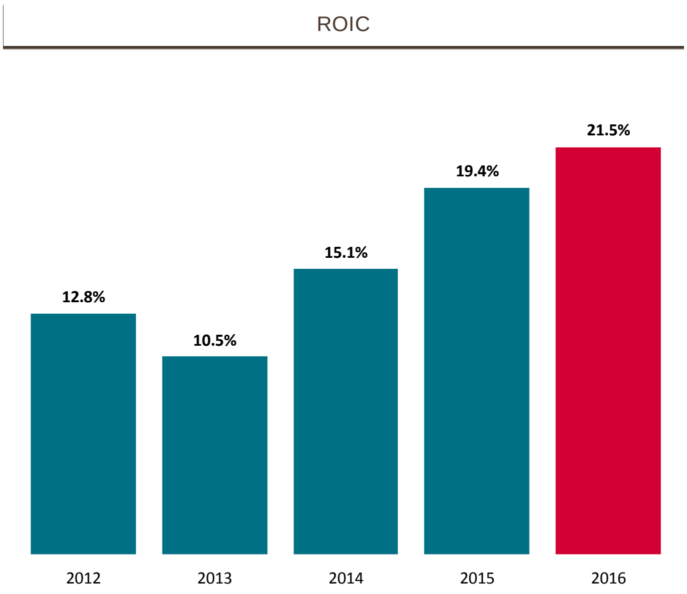
Our gross debt totaled R$ 414.0 million, of which 99.8% corresponds to BNDES (Brazilian Economic and Social Development Bank) lines and 0.2% corresponds to funding from private banks. Of our total debt, 68.0% is long-term, while 32.0% relates to the short-term parcels of our long-term debt. We ended the quarter with a total cash position (cash and marketable securities) of R$ 276.6 million.

## RETURN ON INVESTED CAPITAL

We recorded in 2016 a return on invested capital of 21.5%, a 2.1 percentage point increase over 2015, reflecting improvements in our profitability and in our cash conversion cycle.

Our ROIC is heavily penalized by our accelerated organic growth, since 34.7% 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 2016 or at the pre-operational stage for opening in 2017, which consumed a CAPEX of R$ 315.1 million as well as additional working capital investments, yet generated a negative EBITDA of R$ 29.5 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.

Raia Drogasil recorded a ROIC of 21.3%, an increase of 2.0 percentage points versus 2015, while 4Bio recorded a ROIC of 37.3%, an increase of 8.7 percentage points versus the previous year.




## TOTAL SHAREHOLDER RETURN

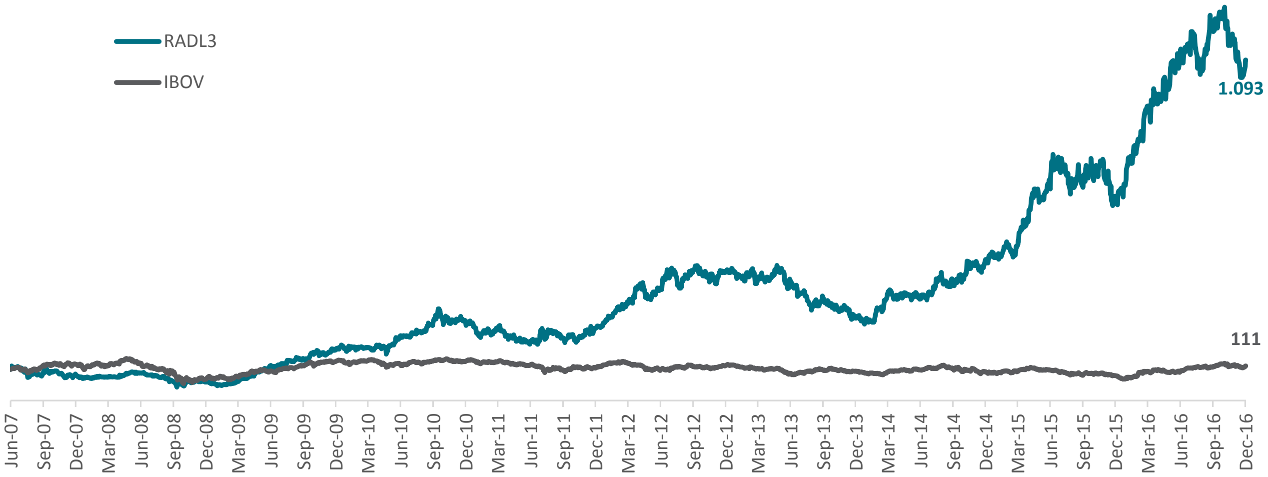
Our share price appreciated by 72.5% in 2016, 33.5 percentage points above the IBOVESPA, which increased 38.9% in the period.

Since the IPO of Drogasil, we achieved a cumulative share appreciation of 992.7% when compared to a positive return of 10.7% of the IBOVESPA over the same period. Including the payment of interest on equity, we generated an average annual total return to shareholders of 29.0%.

Considering the IPO of Raia in December of 2010, the cumulative return in the period amounted to 484.1% when compared to a decrease of 11.4% by the IBOVESPA. Considering the payment of interest on equity, this resulted in an average annual total return to shareholders of 34.4%.

We recorded an average daily trading volume of R$ 70.6 million in the quarter.

## Share Appreciation



| **Adjusted Income Statement** | **4Q15** | **4Q16** | **2015** | **2016** |
|---|---|---|---|---|
| *(R$ thousand)* | | | | |
| **Gross Revenue** | **2,574,215** | **3,205,873** | **9,424,777** | **11,827,567** |
| Taxes, Discounts and Returns | (114,277) | (148,876) | (402,822) | (571,001) |
| **Net Revenue** | **2,459,938** | **3,056,997** | **9,021,955** | **11,256,565** |
| Cost of Goods Sold | (1,719,854) | (2,134,653) | (6,286,213) | (7,752,422) |
| **Gross Profit** | **740,084** | **922,344** | **2,735,741** | **3,504,143** |
| Operational (Expenses) Revenue | | | | |
| Sales | (490,616) | (598,867) | (1,753,100) | (2,218,765) |
| General and Administrative | (61,348) | (87,480) | (239,125) | (297,729) |
| Other Operational Expenses, Net | | | | |
| **Operational Expenses** | **(551,964)** | **(686,348)** | **(1,992,225)** | **(2,516,493)** |
| **EBITDA** | **188,120** | **235,996** | **743,516** | **987,649** |
| Depreciation and Amortization | (60,086) | (74,397) | (227,059) | (274,434) |
| **Operational Earnings before Financial Results** | **128,034** | **161,600** | **516,458** | **713,215** |
| Financial Expenses | (47,855) | (69,165) | (156,892) | (219,754) |
| Financial Revenue | 26,799 | 31,229 | 89,316 | 109,432 |
| **Financial Expenses/Revenue** | **(21,056)** | **(37,936)** | **(67,576)** | **(110,322)** |
| **Earnings before Income Tax and Social Charges** | **106,978** | **123,663** | **448,881** | **602,893** |
| Income Tax and Social Charges | (12,113) | (20,729) | (57,750) | (103,783) |
| **Net Income** | **94,865** | **102,934** | **391,131** | **499,111** |

| **Consolidated Income Statement** | **4Q15** | **4Q16** | **2015** | **2016** |
|---|---|---|---|---|
| *(R$ thousand)* | | | | |
| **Gross Revenue** | **2,574,215** | **3,205,873** | **9,424,777** | **11,827,567** |
| Taxes, Discounts and Returns | (115,961) | (148,876) | (402,822) | (571,001) |
| **Net Revenue** | **2,458,254** | **3,056,997** | **9,021,955** | **11,256,565** |
| Cost of Goods Sold | (1,718,350) | (2,134,653) | (6,286,214) | (7,752,422) |
| **Gross Profit** | **739,904** | **922,344** | **2,735,741** | **3,504,143** |
| Operational (Expenses) Revenue | | | | |
| Sales | (490,616) | (598,867) | (1,753,100) | (2,218,765) |
| General and Administrative | (61,348) | (87,480) | (239,125) | (297,729) |
| Other Operational Expenses, Net | (8,818) | (7,677) | (9,978) | (7,677) |
| **Operational Expenses** | **(560,782)** | **(694,024)** | **(2,002,203)** | **(2,524,170)** |
| **EBITDA** | **179,122** | **228,319** | **733,538** | **979,973** |
| Depreciation and Amortization | (60,086) | (74,397) | (227,059) | (274,434) |
| **Operational Earnings before Financial Results** | **119,036** | **153,923** | **506,479** | **705,538** |
| Financial Expenses | (49,359) | (69,165) | (156,892) | (219,754) |
| Financial Revenue | 28,483 | 31,229 | 89,316 | 109,432 |
| **Financial Expenses/Revenue** | **(20,876)** | **(37,936)** | **(67,576)** | **(110,322)** |
| **Earnings before Income Tax and Social Charges** | **98,160** | **115,987** | **438,903** | **595,216** |
| Income Tax and Social Charges | (19,813) | (28,817) | (97,150) | (143,965) |
| **Net Income** | **78,347** | **87,169** | **341,753** | **451,252** |

| 2015 Income Statement Reconciliation | Consolidated[(1)] | + | 4Bio 9M15[(2)] | + | Adjustments[(3)] | = | Combined | + | Adjustments[(4)] | = | Combined Adjusted |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *(R$ thousand)* | | | | | | | | | | | |
| **Gross Revenues** | **9,295,978** | | **128,799** | | **0** | | **9,424,777** | | **0** | | **9,424,777** |
| Deductions | (398,129) | | (4,693) | | 0 | | (402,822) | | 0 | | (402,822) |
| **Net Revenues** | **8,897,849** | | **124,106** | | **0** | | **9,021,955** | | **0** | | **9,021,955** |
| Cost of Goods Sold | (6,183,289) | | (104,278) | | 1,353 | | (6,286,214) | | 0 | | (6,286,214) |
| **Gross Profit** | **2,714,560** | | **19,828** | | **1,353** | | **2,735,741** | | **0** | | **2,735,741** |
| Operational (Expenses) Revenues | | | | | | | | | | | |
| Sales | (1,742,093) | | (11,007) | | 0 | | (1,753,100) | | 0 | | (1,753,100) |
| General and Administrative | (235,089) | | (4,036) | | 0 | | (239,125) | | 0 | | (239,125) |
| Other Operational Expenses, Net | (8,818) | | | | | | | | | | |
| **Operational Expenses** | **(1,986,000)** | | **(16,203)** | | **0** | | **(2,002,203)** | | **9,978** | | **(1,992,225)** |
| **EBITDA** | **728,560** | | **3,625** | | **1,353** | | **733,538** | | **9,978** | | **743,516** |
| Depreciation and Amortization | (227,698) | | (157) | | 796 | | (227,059) | | 0 | | (227,059) |
| **Operational Earnings before Financial Results** | **500,862** | | **3,468** | | **2,149** | | **506,479** | | **9,978** | | **516,457** |
| Financial Expenses | (153,748) | | (3,144) | | 0 | | (156,892) | | 0 | | (156,892) |
| Financial Revenues | 88,787 | | 529 | | 0 | | 89,316 | | 0 | | 89,316 |
| **Financial Expenses/Revenues** | **(64,961)** | | **(2,615)** | | **0** | | **(67,576)** | | **0** | | **(67,576)** |
| **Earnings before Income Tax and Social Charges** | **435,901** | | **853** | | **2,149** | | **438,903** | | **9,978** | | **448,881** |
| Income Tax and Social Charges | (96,116) | | (303) | | (731) | | (97,150) | | 39,400 | | (57,750) |
| **Net Income** | **339,785** | | **550** | | **1,418** | | **341,753** | | **49,378** | | **391,131** |

(1) **Consolidated:** refers to the consolidated financial statements ended on December 31st, 2015, audited by our independent auditors, which considers nine months of Raia Drogasil results and three months of 4Bio consolidated results.
(2) **4Bio 9M15:** refers to nine months of 4Bio intermediate statements.
(3) **Adjustments:** refers to PPA (purchase price allocation) adjustments on COGS (R$ 1,353 thousand), Depreciation and Amortization (R$ 796 thousand) and Income Tax and Social Charges (-R$ 731 thousand).
(4) **Adjustments:** refers to non-recurring expenses with bad debtors' provision from a third party PBM, 4Bio transaction and integration and a change in PBM receivables provisioning (R$ 9,978 thousand) and to tax shield from the goodwill amortization (R$ 42,792 thousand) and from the non-recurring expenses (-R$ 3,392 thousand).

| **Assets** | **4Q15** | **4Q16** |
|---|---|---|
| *(R$ thousand)* | | |
| | | |
| Current Assets | | |
| Cash and Cash Equivalents | 266,051 | 276,632 |
| Accounts Receivable | 601,831 | 772,241 |
| Inventories | 1,650,453 | 2,149,468 |
| Taxes Receivable | 59,530 | 111,772 |
| Other Accounts Receivable | 98,261 | 105,111 |
| Following Fiscal Year Expenses | 9,718 | 12,558 |
| | 2,685,844 | 3,427,782 |
| Non-Current Assets | | |
| Deposit in Court | 18,730 | 23,007 |
| Taxes Receivable | 23,156 | 22,963 |
| Other Credits | 2,613 | 4,887 |
| Investments | 23,496 | - |
| Property, Plant and Equipment | 801,985 | 1,006,606 |
| Intangible | 1,130,613 | 1,174,057 |
| | 2,000,593 | 2,231,521 |
| | | |
| ASSETS | 4,686,437 | 5,659,303 |

| **Liabilities and Shareholder's Equity** *(R$ thousand)* | **4Q15** | **4Q16** |
|---|---|---|
| Current | | |
| Suppliers | 1,203,382 | 1,615,586 |
| Loans and Financing | 108,191 | 132,581 |
| Salaries and Social Charges Payable | 165,409 | 199,378 |
| Taxes Payable | 55,877 | 96,731 |
| Dividend and Interest on Equity | 24,402 | 25,933 |
| Provision for Lawsuits | 3,346 | - |
| Other Accounts Payable | 88,159 | 114,474 |
| | 1,648,766 | 2,184,683 |
| Non-Current Assets | | |
| Loans and Financing | 188,196 | 281,387 |
| Provision for Lawsuits | 3,352 | 2,591 |
| Income Tax and Social Charges deferred | 161,652 | 193,188 |
| Other Accounts Payable | 36,107 | 61,499 |
| | 389,307 | 538,665 |
| Shareholder's Equity | | |
| Common Stock | 1,822,407 | 1,808,639 |
| Capital Reserves | 128,767 | 138,553 |
| Revaluation Reserve | 12,569 | 12,383 |
| Income Reserves | 666,608 | 919,117 |
| Equity Adjustments | (30,230) | (30,230) |
| Non Controller Interest | - | 26,169 |
| Additional Dividend Proposed | 48,243 | 61,324 |
| | 2,648,364 | 2,935,955 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | 4,686,437 | 5,659,303 |

| Cash Flow | 4Q15 | 4Q16 | 2015 | 2016 |
|---|---|---|---|---|
| **Earnings before Income Tax and Social Charges** | **96,011** | **115,987** | **436,756** | **595,216** |
| **Adjustments** | | | | |
| Depreciation and Amortization | 60,882 | 74,396 | 227,855 | 274,434 |
| Compensation plan with restricted shares, net | 996 | 3,393 | 3,471 | 7,984 |
| Interest over additional stock option | 1,402 | 8,989 | - | 13,596 |
| P,P&E and Intangible Assets residual value | 1,719 | 5,830 | 4,728 | 12,189 |
| Provisioned Lawsuits | (1,726) | 2,583 | (3,624) | 6,667 |
| Provisioned Inventories Loss | (9,361) | (7,362) | (12,106) | (14,147) |
| Allowance for Doubtful Accounts | 4,813 | (691) | 5,444 | (504) |
| Provisioned Store Closures | (1,559) | 1,675 | (1,415) | 737 |
| Interest Expenses | 8,909 | 12,126 | 32,085 | 42,023 |
| | **162,086** | **216,926** | **694,596** | **938,195** |
| **Assets and Liabilities variation** | | | | |
| Accounts Receivable | (20,599) | (53,095) | (114,819) | (176,255) |
| Inventories | (166,205) | (197,741) | (286,022) | (484,868) |
| Other Short Term Assets | 5,610 | 7,978 | (25,133) | (55,081) |
| Long Term Assets | (3,942) | (5,685) | (11,128) | (6,360) |
| Suppliers | 241,191 | 281,310 | 310,204 | 403,633 |
| Salaries and Social Charges | (31,472) | (40,079) | 22,772 | 33,971 |
| Taxes Payable | (5,778) | (10,410) | (8,395) | 753 |
| Other Liabilities | (7,307) | 2,744 | (8,832) | 15,171 |
| Rent Payable | 4,479 | 4,366 | 10,597 | 11,927 |
| **Cash from Operations** | **178,063** | **206,314** | **583,840** | **681,086** |
| Interest Paid | (4,890) | (5,492) | (21,513) | (21,896) |
| Income Tax and Social Charges Paid | - | (10,737) | (61,672) | (103,661) |
| **Net Cash from (invested) Operational Activities** | **173,173** | **190,085** | **500,655** | **555,529** |
| **Investment Activities Cash Flow** | | | | |
| Controlled Acquisition | (5,505) | - | (5,505) | - |
| P,P&E and Intangible Acquisitions | (139,730) | (135,355) | (385,022) | (490,169) |
| P,P&E Sale Payments | 895 | 676 | 1,806 | 1,112 |
| **Net Cash from Investment Activities** | **(144,340)** | **(134,679)** | **(388,721)** | **(489,057)** |
| **Financing Activities Cash Flow** | | | | |
| Funding | 55,928 | 80,478 | 120,791 | 222,468 |
| Payments | (31,268) | (33,229) | (126,862) | (125,017) |
| Interest on Equity and Dividends Paid | (57,302) | (81,850) | (121,280) | (153,342) |
| **Net Cash from Funding Activities** | **(32,642)** | **(34,601)** | **(127,351)** | **(55,891)** |
| **Cash and Cash Equivalents net increase** | **(3,809)** | **20,805** | **(15,417)** | **10,581** |
| **Cash and Cash Equivalents in the beggining of the period** | **269,860** | **106,770** | **281,468** | **266,051** |
| **Cash and Cash Equivalents in the end of the period** | **266,051** | **127,575** | **266,051** | **276,632** |

## PROFIT ALLOCATION

Following legal and statutory provisions, we propose the following allocation for the retained earnings which amount to R$ 447,998 thousand:

| | |
|---|---|
| - Legal Reserve | R$ 22,384 thousand |
| - Statutory Reserve | R$ 230,913 thousand |
| - Interest on capital (R$ 0.591187905 per share) | R$ 194,701 thousand |

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

## INDEPENDENT AUDITOR

In compliance with the CVM Instruction 381/2003 and Circular Letter 01/2007,of the Superintendence for Relationships with Companies (SNC)/Superintendence for Accounting and Audit Standards (SEP), the Company informs herein that, during 2016, in addition to the external audit services related to the financial statements for 2016, PricewaterhouseCoopers Auditores Independentes has provided the following services:

Consulting service for the market survey of human resource indicators, amounting to R$ 39.5 (5.4% of the total paid for the external audit service), signed on November 29, 2016, with a eleven-month period.

Consulting service for the diagnosis of compliance with Instruction ICVM/552, amounting to R$ 244.0 (33.5% of the total paid for the external audit service), signed on December 21, 2016, with a twelve-month period.

The aforementioned services totaled R$ 283.5, that is, 38.9% of the amount paid for the external audit service related to the financial statements.

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

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

(A free translation of the original in Portuguese)

# *Independent auditor's report*

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

## Opinion

We have audited the accompanying parent company financial statements of Raia Drogasil S.A. ("Company" or "Parent company"), which comprise the balance sheet as at December 31, 2016 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, 2016 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Raia Drogasil S.A. and of Raia Drogasil S.A. and its subsidiary as at December 31, 2016, and the financial performance and cash flows for the year then ended, as well as the consolidated financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## Basis for opinion

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

Raia Drogasil S.A.

## Key audit matters

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

| Why it is a key audit matter | How the matter was addressed in the audit |
| --- | --- |
| **Projections of results used in the assessment of the impairment of intangible assets and in the determination of the financial liability**<br><br>**Goodwill from future profitability**<br>Note 11.(f)<br><br>**Call option regarding the remaining ownership interest in 4Bio Medicamentos S.A.**<br>Note 10 | |
| The Company discloses intangible assets with indefinite useful life totaling R$ 825,535 thousand, as recorded in Intangible assets within Goodwill from future profitability.<br><br>In addition, in 2015, the Company acquired 55% of the ownership interest in 4Bio Medicamentos S.A. The remaining ownership interest of 45% will be acquired on January 1, 2021. The obligation payable will be calculated upon the determination of the amount of the Company's call option. Therefore, it is a matter of measurement of a financial liability at fair value.<br><br>We focused on both these matters in our audit because they are critical estimates and require management to use judgment to estimate future cash flows and to determine the discount rates. These determinations and measurements are based on assumptions that are liable to change | Among other procedures, we discussed and tested the calculations and the reasonableness of management's main assumptions.<br><br>With the support of our internal specialists on assessment, we carried out:<br><br>. the analysis of (i) the contracted external appraisers, (ii) the general coherence, logic, and arithmetic of the cash flow projections, and (iii) the consistency of these projections in relation to the budgets approved by the Board of Directors, when applicable;<br><br>. the analysis of the discount and growth rates used in the perpetuity, when applicable, and the comparison with the expectations from the market and from the line of business; and<br><br>. the recalculation of the present value of cash |

(A free translation of the original in Portuguese)

| Why it is a key audit matter | How the matter was addressed in the audit |
|---|---|
| due to future, unexpected conditions, whether from inside the Company, from the market, or from economic matters. Therefore, assumptions that are individually significant could lead to fair value adjustments and to an immediate impact on profit or loss for the year. | flows and the sensitivity analysis test made by management upon modification of certain relevant, volatile assumptions in the projection of the future financial performance of the acquired businesses.<br><br>Regarding the work related to the financial liability assessment, we analyzed the contract's terms and conditions and the accounting for financial liability resulting from the call option related to the remaining ownership interest.<br><br>In the context of our audit, we consider that the assessment techniques and the assumptions adopted by management are reasonable. |
| **Commercial agreements**<br>Note 4.(t)<br><br>As a retailer, together with the regular purchasing of merchandise for resale, the Company and its subsidiary negotiate a number of individual commercial agreements with their suppliers for offering purchase advantages to customers and to improve Company's sales profitability.<br><br>Commercial agreements have individual features and may be of a complex nature.<br><br>Considering there are different conditions provided in the commercial agreements, estimates and judgments are necessary to calculate the amounts to be recognized as well as the period in which the results from agreements should be recognized within the cost of sales.<br><br>Accordingly, we decided to focus on the recognition of results from commercial agreements in our audit, especially regarding the completeness and the correct accrual basis. | <br><br><br>Our audit procedures included, among other testing procedures:<br><br>. Understanding of the process and the testing of the main existing controls related to commercial agreements;<br><br>. Understanding of the main individually relevant or uncommon contract terms, testing of recalculation of the results expected from commercial agreements, and analysis of their subsequent financial settlement;<br><br>. Testing the accrual basis for the recognition of the results from commercial agreements as well as the associated performance conditions, as well as the sequential control of these agreements.<br><br>We consider that the conclusions and disclosures by management are consistent with the data and documents obtained in our audit. |

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### Internal control and information technology environment

The Company operates its drugstore business through 8 distribution centers and over 1,400 branches located in 18 states in Brazil, and represented in the market by three different brands: Raia, Drogasil, and Farmasil.

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

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

We obtained an understanding of the main controls and information systems that are important for the financial reporting and tested their effectiveness.

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

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

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

## Other matters

### Statements of Value Added

The parent company and consolidated Statements of Value Added for the year ended December 31, 2016, prepared under the responsibility of the Company's management, which presentation is required by the Brazilian corporate legislation for listed companies, and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the parent company and consolidated financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added". In our opinion, these Statements of Value Added have been properly prepared, in all material respects, in accordance with the criteria established in the Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

São Paulo, February 16, 2017

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Renato Barbosa Postal
Contador CRC 1SP187382/O-0

## Raia Drogasil S.A.

**Balance sheet at December 31**
**All amounts in thousands of reais** (A free translation of the original in Portuguese)

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| **Assets** | **2016** | **2015** | **2016** | **2015** |
| Current assets | | | | |
| Cash and cash equivalents (Note 6) | 273,095 | 264,549 | 276,632 | 266,051 |
| Trade receivables (Note 7) | 713,841 | 572,083 | 772,241 | 601,831 |
| Inventories (Note 8) | 2,118,428 | 1,633,604 | 2,149,468 | 1,650,453 |
| Income taxes recoverable (Note 9) | 11,950 | 9,806 | 12,049 | 10,182 |
| Other taxes recoverable (Note 9) | 99,563 | 49,262 | 99,723 | 49,348 |
| Other receivables | 120,711 | 98,040 | 105,112 | 98,261 |
| Prepaid expenses | 12,414 | 9,672 | 12,558 | 9,718 |
| | 3,350,002 | 2,637,016 | 3,427,783 | 2,685,844 |
| Non-current assets | | | | |
| Judicial deposits (Note 13) | 23,007 | 18,730 | 23,007 | 18,730 |
| Taxes recoverable (Note 9) | 22,964 | 23,156 | 22,964 | 23,156 |
| Other receivables | 4,887 | 2,375 | 4,887 | 2,613 |
| Investments (Note 10) | 29,424 | 23,497 | | |
| Property and equipment (Note 11a) | 1,004,891 | 801,283 | 1,006,606 | 801,985 |
| Intangible assets (Note 11b) | 1,137,279 | 1,130,403 | 1,174,056 | 1,166,873 |
| | 2,222,452 | 1,999,444 | 2,231,520 | 2,013,357 |
| Total assets | 5,572,454 | 4,636,460 | 5,659,303 | 4,699,201 |

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| **Liabilities and equity** | **2016** | **2015** | **2016** | **2015** |
| Current liabilities | | | | |
| Trade payables | 1,564,787 | 1,177,928 | 1,615,587 | 1,203,382 |
| Borrowings (Note 12) | 131,804 | 102,266 | 132,581 | 108,192 |
| Salaries and social charges | 196,600 | 163,430 | 199,378 | 165,409 |
| Taxes and contributions | 95,088 | 55,398 | 96,731 | 55,878 |
| Dividends and interest on capital (Note 16d) | 25,546 | 24,402 | 25,934 | 24,402 |
| Provision for legal proceedings (Note 13) | | 3,346 | | 3,346 |
| Other payables | 114,087 | 87,984 | 114,473 | 88,157 |
| | 2,127,912 | 1,614,754 | 2,184,684 | 1,648,766 |
| Non-current liabilities | | | | |
| Borrowings (Note 12) | 281,387 | 187,419 | 281,387 | 188,196 |
| Provision for legal proceedings (Note 13) | 2,591 | 3,320 | 2,591 | 3,352 |
| Deferred income tax and social contribution (Nota 14b) | 189,818 | 161,826 | 193,187 | 165,981 |
| Call option for additional shares (Note 10) | 45,228 | 31,632 | 45,228 | 31,632 |
| Other obligations | 15,731 | 3,700 | 16,271 | 4,476 |
| | 534,755 | 387,897 | 538,664 | 393,637 |
| Total liabilities | 2,662,667 | 2,002,651 | 2,723,348 | 2,042,403 |
| Equity (Note 16) | | | | |
| Attributable to owners of the parent | | | | |
| Share capital | 1,808,639 | 1,808,639 | 1,808,639 | 1,808,639 |
| Capital reserves | 138,553 | 128,767 | 138,553 | 128,767 |
| Revaluation reserve | 12,383 | 12,569 | 12,383 | 12,569 |
| Revenue reserves | 919,118 | 665,821 | 919,118 | 665,821 |
| Additional proposed dividends | 61,324 | 48,243 | 61,324 | 48,243 |
| Carrying value adjustments | (30,230) | (30,230) | (30,230) | (30,230) |
| | 2,909,787 | 2,633,809 | 2,909,787 | 2,633,809 |
| Non-controlling interest | | | 26,168 | 22,989 |
| Total equity | 2,909,787 | 2,633,809 | 2,935,955 | 2,656,798 |
| Total liabilities and equity | 5,572,454 | 4,636,460 | 5,659,303 | 4,699,201 |

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

## Raia Drogasil S.A.

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

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Net sales revenue (Note 17)** | 10,924,689 | 8,845,582 | 11,256,565 | 8,897,849 |
| Cost of sales | (7,469,484) | (6,137,644) | (7,752,422) | (6,183,289) |
| **Gross profit** | 3,455,205 | 2,707,938 | 3,504,143 | 2,714,560 |
| **Operating income (expenses)** | | | | |
| Selling (Note 18) | (2,195,830) | (1,737,740) | (2,218,765) | (1,742,093) |
| General and administrative (Note 18) | (288,983) | (233,240) | (297,729) | (235,088) |
| Depreciation and amortization | (272,436) | (226,846) | (274,434) | (227,698) |
| Other operating expenses (Note 19) | (7,677) | (8,390) | (7,677) | (8,818) |
| Equity in the results of subsidiary (Note 10) | 4,360 | (513) | | |
| | (2,760,566) | (2,206,729) | (2,798,605) | (2,213,697) |
| **Operating profit before finance result** | 694,639 | 501,209 | 705,538 | 500,863 |
| **Finance results** | | | | |
| Finance income (Note 20a) | 105,531 | 86,527 | 109,433 | 88,786 |
| Finance costs (Note 20b) | (212,627) | (150,929) | (219,755) | (153,747) |
| | (107,096) | (64,402) | (110,322) | (64,961) |
| **Profit before income tax and social contribution** | 587,543 | 436,807 | 595,216 | 435,902 |
| Income tax and social contribution (Note 14a) | | | | |
| Current | (111,771) | (60,625) | (116,662) | (60,608) |
| Deferred | (28,087) | (35,976) | (27,302) | (35,509) |
| | (139,858) | (96,601) | (143,964) | (96,117) |
| **Profit for the year** | 447,685 | 340,206 | 451,252 | 339,785 |
| **Attributable to:** | | | | |
| Owners of the parent | | | 447,685 | 340,206 |
| Non-controlling interest | | | 3,567 | (421) |
| | | | 451,252 | 339,785 |
| Earnings per share - basic (Note 15) | 1.35764 | 1.03272 | 1.36846 | 1.03144 |
| Earnings per share - diluted (Note 15) | 1.35764 | 1.03272 | 1.36846 | 1.03144 |

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

## Raia Drogasil S.A.

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

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Profit for the year** | 447,685 | 340,206 | 451,252 | 339,785 |
| **Components of other comprehensive income** | | | | |
| Other comprehensive income | | | | |
| **Total comprehensive income for the year** | 447,685 | 340,206 | 451,252 | 339,785 |
| **Attributable to:** | | | | |
| Owners of the parent | | | 447,685 | 340,206 |
| Non-controlling interest | | | 3,567 | (421) |
| | | | 451,252 | 339,785 |

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

# Raia Drogasil S.A.

## Statement of changes in equity

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

| | Attributable to controlling owners | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital reserves | | | | | Revenue reserves | | | | Carrying value adjustments | | | |
| | Share capital | Special monetary restatement | Premium on issue/sale of shares | Treasury shares | Restricted shares and other | Revaluation reserve | Legal | Statutory | Retained earnings | Additional proposed dividends | Transaction with non-controlling owners | Total | Non-controlling interest | Total equity |
| **At January 1, 2015** | 908,639 | 10,191 | 1,029,418 | (20,898 ) | 1,080 | 12,755 | 25,444 | 449,977 | | 40,331 | | 2,456,937 | | 2,456,937 |
| Capital increase through the capitalization of part of the Company's capital reserve (Note 16a) | 900,000 | | (900,000 ) | | | | | | | | | | | |
| Dividend for 2014 approved at the Annual General Meeting (AGM) of April 9, 2015 | | | | | | | | | | (40,331 ) | | (40,331 ) | | (40,331) |
| Realization of revaluation reserve, net of income tax and social contribution | | | | | | (186 ) | | | 186 | | | | | |
| Interest on capital expired | | | | | | | | | 258 | | | 258 | | 258 |
| Restricted share plan (Note 16c) | | | | | 3,471 | | | | | | | 3,471 | | 3,471 |
| Restricted shares – acquisition of 4Bio (Note 10) | | | | | 5,505 | | | | | | | 5,505 | | 5,505 |
| Profit for the year | | | | | | | | | 340,206 | | | 340,206 | (421) | 339,785 |
| Allocation of profit | | | | | | | | | | | | | | |
| Legal reserve | | | | | | | 17,010 | | (17,010 ) | | | | | |
| Statutory reserve | | | | | | | | 173,390 | (173,390 ) | | | | | |
| Interest on capital proposed - R$ 0,456290277 per share (Note 16d) | | | | | | | | | (102,007 ) | | | (102,007 ) | | (102,007) |
| Additional interest on capital proposed | | | | | | | | | (48,243 ) | 48,243 | | | | |
| Non-controlling interest in the investment acquired (Note 10) | | | | | | | | | | | | | 23,410 | 23,410 |
| Put option held by non-controlling entity (Note 10) | | | | | | | | | | | (30,230) | (30,230 ) | | (30,230) |
| **At December 31, 2015** | 1,808,639 | 10,191 | 129,418 | (20,898 ) | 10,056 | 12,569 | 42,454 | 623,367 | | 48,243 | (30,230) | 2,633,809 | 22,989 | 2,656,798 |
| Dividend for 2015 approved at the Annual General Meeting (AGM) of March 31, 2016 | | | | | | | | | | (48,243 ) | | (48,243 ) | | (48,243) |
| Realization of revaluation reserve, net of income tax and social contribution | | | | | | (186 ) | | | 186 | | | | | |
| Interest on capital expired | | | | | | | | | 127 | | | 127 | | 127 |
| Restricted share plan – granted (Note 16c) | | | | | 7,984 | | | | | | | 7,984 | | 7,984 |
| Restricted share plan - delivered (Note 16c) | | | 1 | 1,085 | (1,086 ) | | | | | | | | | |
| Restricted shares – acquisition of 4Bio (Note 10) | | | | | 2,040 | | | | | | | 2,040 | | 2,040 |
| Restricted shares – payment in cash 4Bio (Note 10) | | | | | (238 ) | | | | | | | (238 ) | | (238) |
| Restricted shares- delivery of shares of 4Bio (Note 10) | | | 3,783 | 3,524 | (7,307 ) | | | | | | | | | |
| Profit for the year | | | | | | | | | 447,685 | | | 447,685 | 3,567 | 451,252 |
| Allocation of profit | | | | | | | | | | | | | | |
| Legal reserve | | | | | | | 22,385 | | (22,385 ) | | | | | |
| Statutory reserve | | | | | | | | 230,912 | (230,912 ) | | | | | |
| Interest on capital proposed - R$ 0,591187905 per share (Note 16d) | | | | | | | | | (133,377 ) | | | (133,377 ) | | (133,377) |
| Additional interest on capital proposed | | | | | | | | | (61,324 ) | 61,324 | | | | |
| Dividend proposed by subsidiary | | | | | | | | | | | | | (388) | (388) |
| **At December 31, 2016** | 1,808,639 | 10,191 | 133,202 | (16,289 ) | 11,449 | 12,383 | 64,839 | 854,279 | | 61,324 | (30,230) | 2,909,787 | 26,168 | 2,935,955 |

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

## Raia Drogasil S.A.

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

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Cash flows from operating activities** | | | | |
| Profit before income tax and social contribution | 587,543 | 436,807 | 595,216 | 435,902 |
| **Adjustments** | | | | |
| Depreciation and amortization | 272,436 | 226,846 | 274,434 | 227,698 |
| Compensation plan with restricted shares, net | 7,984 | 3,471 | 7,984 | 3,471 |
| Interest on additional stock option | 13,596 | 1,402 | 13,596 | 1,402 |
| Loss (profit) on sale/write-off of property and equipment and intangible assets | 12,153 | 4,727 | 12,189 | 4,728 |
| Provision (reversal) for legal proceedings | 6,699 | (3,646) | 6,667 | (3,614) |
| (Reversal) provision for losses on inventories | (14,147) | (12,106) | (14,147) | (12,106) |
| (Reversal) provision for impairment of trade receivables | (631) | 5,514 | (504) | 5,403 |
| Provision (reversal) for closing of stores | 737 | (1,415) | 737 | (1,415) |
| Interest expenses | 41,034 | 31,046 | 42,023 | 31,450 |
| Equity in the results of subsidiary | (4,360) | 513 | | |
| | 923,044 | 693,159 | 938,195 | 692,919 |
| **Changes in assets and liabilities** | | | | |
| Trade and other receivables | (147,199) | (101,818) | (176,255) | (105,873) |
| Inventories | (470,677) | (281,299) | (484,868) | (286,992) |
| Other current assets | (55,187) | (23,933) | (55,081) | (23,430) |
| Non-current assets | (6,598) | (11,596) | (6,360) | (11,340) |
| Trade payables | 378,287 | 299,806 | 403,633 | 305,549 |
| Salaries and social charges | 33,171 | 21,881 | 33,971 | 21,839 |
| Taxes and contributions | 483 | (7,619) | 753 | (8,662) |
| Other obligations | 15,205 | (9,558) | 15,171 | (11,009) |
| Rents payable | 11,920 | 10,597 | 11,927 | 10,597 |
| **Cash provided by operations** | 682,449 | 589,620 | 681,086 | 583,598 |
| Interest paid | (20,679) | (20,515) | (21,896) | (20,807) |
| Income tax and social contribution paid | (99,665) | (61,096) | (103,661) | (61,096) |
| **Net cash provided by operating activities** | 562,105 | 508,009 | 555,529 | 501,695 |
| **Cash flows from investing activities** | | | | |
| Acquisition of subsidiary | | (18,505) | | (5,505) |
| Cash acquired in business combination | | | | 1,071 |
| Purchases of property and equipment and intangible assets | (488,855) | (384,841) | (490,169) | (384,847) |
| Proceeds from sale of property and equipment | 1,112 | 1,806 | 1,112 | 1,806 |
| Loans granted to subsidiaries | (15,624) | | | |
| **Net cash used in investing activities** | (503,367) | (401,540) | (489,057) | (387,475) |
| **Cash flows from financing activities** | | | | |
| Borrowings taken | 212,227 | 95,778 | 222,468 | 97,761 |
| Payment of borrowings | (109,077) | (97,863) | (125,017) | (105,839) |
| Interest on capital and dividends paid | (153,342) | (121,024) | (153,342) | (121,280) |
| **Net cash used in financing activities** | (50,192) | (123,109) | (55,891) | (129,358) |
| **Increase (decrease) in cash and cash equivalents** | 8,546 | (16,640) | 10,581 | (15,138) |
| **Cash and cash equivalents at the beginning of the year** | 264,549 | 281,189 | 266,051 | 281,189 |
| **Cash and cash equivalents at the end of the year** | 273,095 | 264,549 | 276,632 | 266,051 |

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

## Raia Drogasil S.A.

### Statement of value added
### Years ended December 31
**All amounts in thousands of reais** (A free translation of the original in Portuguese)

| | Parent company 2016 | Parent company 2015 (Reclassified Note 5) | Consolidated 2016 | Consolidated 2015 (Reclassified Note 5) |
|---|---|---|---|---|
| **Revenue** | | | | |
| Gross sales and services | 11,334,914 | 9,123,122 | 11,681,950 | 9,176,455 |
| Other income | 785 | 1,485 | 785 | 1,485 |
| (Constitution) Reversal of provision for impairment of trade receivables | 631 | (5,514) | 504 | (5,403) |
| | 11,336,330 | 9,119,093 | 11,683,239 | 9,172,537 |
| **Inputs acquired from third parties** | | | | |
| Cost of sales and services | (6,747,984) | (5,525,403) | (7,030,922) | (5,571,048) |
| Materials, electricity, outsourced services and others | (629,393) | (506,074) | (642,840) | (509,023) |
| Impairment of assets | (9,813) | (4,781) | (9,813) | (4,781) |
| | (7,387,190) | (6,036,258) | (7,683,575) | (6,084,852) |
| **Gross value added** | 3,949,140 | 3,082,835 | 3,999,664 | 3,087,685 |
| Depreciation and amortization | (272,436) | (226,846) | (274,434) | (227,698) |
| **Net value added generated by the entity** | 3,676,704 | 2,855,989 | 3,725,230 | 2,859,987 |
| **Value added received through transfer** | | | | |
| Equity in the results of subsidiaries | 4,360 | (513) | | |
| Finance income | 105,531 | 86,527 | 109,433 | 88,786 |
| | 109,891 | 86,014 | 109,433 | 88,786 |
| **Total value added to distribute** | 3,786,595 | 2,942,003 | 3,834,663 | 2,948,773 |
| **Distribution of value added** | | | | |
| Personnel | 1,209,830 | 954,773 | 1,224,607 | 957,812 |
| Direct compensation | 962,849 | 753,861 | 971,714 | 755,019 |
| Benefits | 177,732 | 145,625 | 183,106 | 147,383 |
| Government Severance Indemnity Fund for Employees (FGTS) | 69,249 | 55,287 | 69,787 | 55,410 |
| Taxes and contributions | 1,523,676 | 1,188,481 | 1,545,321 | 1,189,579 |
| Federal | 437,087 | 328,794 | 443,505 | 328,815 |
| State | 1,070,780 | 847,741 | 1,085,952 | 848,814 |
| Municipal | 15,809 | 11,946 | 15,864 | 11,950 |
| Providers of capital | 605,404 | 458,543 | 613,483 | 461,597 |
| Interest | 211,660 | 150,462 | 218,385 | 153,261 |
| Rentals | 393,744 | 308,081 | 395,098 | 308,336 |
| Remuneration of own capital | 447,685 | 340,206 | 451,252 | 339,785 |
| Interest on capital | 133,377 | 102,007 | 133,765 | 102,007 |
| Dividends and interest on capital proposed | 61,324 | 48,243 | 61,324 | 48,243 |
| Profits reinvested for the year | 252,984 | 189,956 | 252,984 | 189,956 |
| Non-controlling interests in profits reinvested | | | 3,179 | (421) |
| **Value added distributed** | 3,786,595 | 2,942,003 | 3,834,663 | 2,948,773 |

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

**All amounts in thousands of reais unless otherwise stated**

## 1. Operations

Raia Drogasil S.A. (the "Company") is a publicly-held company listed on the Novo Mercado (“New Market”) listing segment of the BM&FBOVESPA S.A. - São Paulo Stock Exchange, with its headquarters in the capital of the state of São Paulo.

On October 1, 2015, the Company acquired the control of 4Bio Medicamentos S.A. ("4Bio"), a company the main activity of which is the marketing of specialty medicines and medicines used to treat serious health conditions, which are prescribed by clinical experts. The transaction involving this business combination is described in Note 10a.

Raia Drogasil S.A. and its subsidiary (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 1,420 stores (1,235 stores – 2015), distributed in 18 Brazilian states, as follows:

| | Consolidated |
|---|---|
| | 2016 |
| São Paulo | 819 |
| Rio de Janeiro | 103 |
| Minas Gerais | 93 |
| Paraná | 77 |
| Distrito Federal | 59 |
| Goiás | 55 |
| Bahia | 35 |
| Santa Catarina | 31 |
| Rio Grande do Sul | 29 |
| Pernambuco | 28 |
| Espírito Santo | 26 |
| Mato Grosso do Sul | 17 |
| Mato Grosso | 11 |
| Rio Grande do Norte | 10 |
| Paraíba | 9 |
| Sergipe | 9 |
| Alagoas | 7 |
| Tocantins | 2 |
| | 1,420 |

Raia Drogasil’s stores are supplied by 8 distribution centers located in six States: São Paulo, Rio de Janeiro, Minas Gerais, Paraná, Goiás and Pernambuco.

The subsidiary 4Bio markets its products through telesales and 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 16, 2017.

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, 2016 and 2015 have been prepared in accordance with the accounting practices adopted in Brazil, including the rules issued by the CVM and the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC). These financial statements are in conformity with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and provide all the significant information related solely to the financial statements, which is consistent with the information used by management. These financial statements are disclosed together with the consolidated financial statements.

The consolidated financial statements include the Company's financial statements and, as of October 1, 2015, the financial statements of its subsidiary 4Bio. The consolidated financial statements have been prepared in accordance with consolidation practices and applicable legal provisions. Therefore, the consolidated statements of income, cash flows and value added include 12 months of operations of the Company and three months of operations of the subsidiary. In 2016, the consolidated financial statements include 12 months of operations of the Company and its subsidiary 4Bio.

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

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

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

The Group adopted all standards, revised standards and interpretations issued by the CPC that were effective as at December 31, 2016.

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

a) New and revised accounting standards

New or revised standards issued but not yet effective, i.e., that will become effective for annual periods beginning on or after January 1st, 2017:

(i) IFRS 9 Financial Instruments (effective from January 1st, 2018): this standard's aim is to replace IAS 39. The main changes include: (i) all financial assets should be initially recognized at fair value; (ii) the standard divides all financial assets into two classifications: those measured at amortized cost and those measured at fair value; (iii) the concept of embedded derivatives is eliminated; and (iv) relaxation of the requirements for adoption of the hedge accounting. Management assessed the new pronouncement and, considering its current transactions, did not identify changes that could have material effects on the Company's financial statements.

(ii) IFRS 15 Revenue from Contracts with Customers (effective from January 1st, 2018): the main objective of IFRS 15 is to provide clear principles for revenue recognition and simplify the preparation of financial statements. Management assessed this new standard and, in its opinion, it will not have material effects on its financial statements, considering the nature of its retail sale transactions and considering that the transfer of risks and rewards of goods and services occurs on their delivery directly to the end consumer at points of sale and, therefore, there is no complexity in the definition of performance obligations and transfer of control.

(iii) IFRS 16 - Leases (effective from January 1st, 2019): the new standard requires lessees to recognize the liability of future payments and the right of use of the leased assets for virtually all lease contracts, including operating leases. Certain short-term and low-value contracts may be out of the scope of this new standard. Management is evaluating the effects, mainly related to lease of real estate from third parties (Note 22). This standard requires a strict evaluation and appropriate controls to define the contracts that qualify as lease. Given the complexity of the application of the standard, and until it is applied, the conclusions may be changed.

(iv) Amendments to IFRS 2 – Share-Based Payments (effective from January 1st, 2018): The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change a grant from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require a grant to be treated as if it was wholly equity–settled, where the employer is obligated to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authorities. Management is evaluating the effects of these changes for new grants as from their effective date.

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".

### (c) Cash and cash equivalents

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

### (d) Financial instruments

#### (i) Financial assets

**Classification and measurement**

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

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

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

#### (2) Assets held to maturity

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

#### (3) Loans and receivables

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

#### (ii) Impairment of financial assets

#### (1) Assets carried at amortized cost

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

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

**(iii) Financial liabilities**

**Classification and measurement**

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

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

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

**(2) Other financial liabilities**

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

**(iv) Fair value**

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

**Fair value hierarchy**

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

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

### (e) Trade receivables

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

### (f) Inventories

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

### (g) Income tax and social contribution

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

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

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

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

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

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

### (h) Judicial deposits

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

### (i) Property and equipment

Property and equipment are stated at acquisition cost, net of accumulated depreciation and/or impairment losses, if any. Depreciation is calculated using the straight-line method, over the useful life of the assets, according to the rates shown in Note 11a. 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 11b, 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 11b.

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 11b.

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

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

## (k) Impairment of assets

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

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

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

### (l) Leases

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

### (m) Provisions

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

### (n) Employee and management benefits

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

Part of the benefits granted to the officers include a restricted share plan, classified as an equity instrument. The fair value of share-based payments is recognized in income in accordance with the concession period, against equity (Note 16c).

### (o) Loyalty program

The parent company has a loyalty program named "Muito Mais Raia", whereby participants may accumulate credits to be used in future purchases.

Liabilities assumed under this program are recorded as deferred revenue in liabilities, and recognized at fair value, representing the estimated price that the parent company would pay for a third party to assume the liability of the credits to be used in future purchases.

Deferred revenue is realized in the statement of income when the credits are used by the customers. Credits that are not redeemed within the program period (five months after the month in which the credits accumulate) are written off, since the liability has ceased to exist. The parent company calculates the estimated use of credits based on historical data.

### (p) Capital and income reserves

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

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

### (q) Dividend

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

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

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

### (r) Interest on capital

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

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

### (s) Revenue recognition

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

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

**(t) Commercial agreements**

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

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

When formalizing the negotiation, the Group recognizes in line item Other receivables the right established in contract, with a balancing item in Other payables. When the product from the negotiation completes the operating execution (product display, arrangement, sale of promoted product, right to receive the financial amount agreed, etc.), the Group recognizes the gain earned from the negotiation in Cost of sales. The balance of Other receivables is settled according to the receipt terms, established between the Group and supplier.

**(u) Adjustment to present value**

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

**(v) Segment reporting**

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

**(w) Significant accounting judgments, estimates and assumptions**

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

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

**(1) Taxes recoverable**

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

### (2) Fair value of financial instruments

When the fair value of financial assets and liabilities stated in the balance sheet cannot be obtained from active markets, it is determined using valuation techniques, including the discounted cash flow method. The data for this method are based 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 11f.

### (4) Provision for tax, civil and labor risks

The Group is party to various legal and administrative proceedings, as mentioned in Note 13. Provision is recorded for all litigation contingencies the likelihood of loss of which is estimated as probable, in an amount that can be reliably estimated. The assessments of the likelihood of loss include the evaluation of available evidence, the hierarchy of laws, available case law, recent court decisions and their importance in the legal system, as well as the opinion of outside legal advisors.

## 5. Reclassification in the statement of value-added for the year ended December 31, 2015

The Company has sought to improve continuously its internal controls over financial reporting. Among the actions taken are the review of the tools used in the determination and classification of the wealth created by the Company and the form how such wealth was distributed for purposes of preparing the statement of value added.

This work identified the need to reclassify the effects of the expenses incurred on fees paid to card administrators and valuables transportation services, which in essence represent formation of wealth such as inputs acquired from third parties, and to reclassify the PIS and COFINS amounts credited on purchases of goods and those paid as ICMS withheld under the substitute taxpayer regime, which in essence represent distribution of wealth, such as taxes, fees and contributions.

In this context, the Company's management decided to perform the reclassifications for the year ended December 31, 2016 and also considered appropriate to reflect these changes in the corresponding amounts in the statement of value added for the year ended December 31, 2015, as shown below:

All amounts in thousands of reais unless otherwise stated

| | Parent company | | |
|---|---|---|---|
| **Statement of value added** | **2015 Originally reported** | **Reclassification** | **2015 Reclassified** |
| Inputs acquired from third parties | (6,269,289) | 233,031 | (6,036,258) |
| Cost of sales and services | (5,881,819) | 356,416 | (5,525,403) |
| Materials, electricity, outsourced services and others | (382,689) | (123,385) | (506,074) |
| Net value added generated by the entity | 2,622,958 | 233,031 | 2,855,989 |
| Distribution of value added | 2,708,972 | 233,031 | 2,942,003 |
| Taxes and contributions | 832,065 | 356,416 | 1,188,481 |
| Federal | 407,956 | (79,162) | 328,794 |
| State | 412,163 | 435,578 | 847,741 |
| Providers of capital | 581,928 | (123,385) | 458,543 |
| Interest | 273,847 | (123,385) | 150,462 |

| | Consolidated | | |
|---|---|---|---|
| **Statement of value added** | **2015 Originally reported** | **Reclassification** | **2015 Reclassified** |
| Inputs acquired from third parties | (6,317,568) | 232,716 | (6,084,852) |
| Cost of sales and services | (5,927,464) | 356,416 | (5,571,048) |
| Materials, electricity, outsourced services and others | (385,323) | (123,700) | (509,023) |
| Net value added generated by the entity | 2,627,271 | 232,716 | 2,859,987 |
| Distribution of value added | 2,716,057 | 232,716 | 2,948,773 |
| Taxes and contributions | 833,163 | 356,416 | 1,189,579 |
| Federal | 407,977 | (79,162) | 328,815 |
| State | 413,236 | 435,578 | 848,814 |
| Providers of capital | 585,297 | (123,700) | 461,597 |
| Interest | 276,961 | (123,700) | 153,261 |

These reclassifications did not result in changes in any other accounting information in the Company's financial statements for the year ended December 31, 2016.

**All amounts in thousands of reais unless otherwise stated**

## 6. Cash and cash equivalents

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Cash and banks | 67,518 | 38,541 | 68,062 | 38,725 |
| Automatic investment fund | 2,936 | 2,759 | 2,936 | 2,759 |
| Bank deposit certificates (CDBs) | | 60,554 | | 60,554 |
| Debentures held under repurchase agreements | 202,641 | 162,695 | 205,634 | 163,810 |
| Capitalization securities (premium bonds) | | | | 203 |
| | 273,095 | 264,549 | 276,632 | 266,051 |

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

For repurchase debentures, the financial institutions which negotiated these securities guarantee credit risk and immediate liquidity without loss of income. The financial investments are concentrated substantially at Caixa Econômica Federal.

## 7. Trade receivables

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Trade receivables | 716,453 | 578,976 | 774,997 | 608,741 |
| (-) Provision for impairment of trade receivables | (2,612) | (6,893) | (2,756) | (6,910) |
| | 713,841 | 572,083 | 772,241 | 601,831 |

The ageing of trade receivables is as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Not yet due | 684,445 | 551,719 | 738,319 | 579,379 |
| Overdue | | | | |
| Between 1 and 30 days | 20,284 | 17,076 | 24,008 | 17,720 |
| Between 31 and 60 days | 7,510 | 306 | 7,956 | 1,556 |
| Between 61 and 90 days | 1,704 | 46 | 2,204 | 137 |
| Between 91 and 180 days | 2,508 | 6,853 | 2,508 | 6,936 |
| Between 181 and 360 days | 2 | 2,976 | 2 | 3,013 |
| Provision for impairment of trade receivables | (2,612) | (6,893) | (2,756) | (6,910) |
| | 713,841 | 572,083 | 772,241 | 601,831 |

**All amounts in thousands of reais unless otherwise stated**

Days sales outstanding are approximately 39 days, which is considered part of the normal conditions inherent in the Company's operations.

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

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Opening balance | (6,893) | (1,231) | (6,910) | (1,231) |
| Additions through business combinations | | | | (128) |
| Additions | (10,168) | (19,168) | (11,278) | (19,254) |
| Reversals | 14,449 | 13,506 | 15,432 | 13,703 |
| Closing balance | (2,612) | (6,893) | (2,756) | (6,910) |

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

## 8. Inventories

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Goods for resale | 2,100,621 | 1,653,305 | 2,131,661 | 1,670,154 |
| Goods held by third parties | 25,929 | | 25,929 | |
| Materials | 2,043 | 4,611 | 2,043 | 4,611 |
| Provision for inventory losses | (10,165) | (24,312) | (10,165) | (24,312) |
| Total inventory | 2,118,428 | 1,633,604 | 2,149,468 | 1,650,453 |

Changes in the provision for goods losses are as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Opening balance | (24,312) | (36,418) | (24,312) | (36,418) |
| Additions | (6,015) | (10,203) | (6,015) | (10,203) |
| Write-offs | 20,162 | 22,309 | 20,162 | 22,309 |
| Closing balance | (10,165) | (24,312) | (10,165) | (24,312) |

For the year ended December 31, 2016, cost of goods sold recognized in the statement of income was R$ 7,469,484 (R$ 6,137,644 – Dec-2015) for the parent company and R$ 7,752,422 (R$ 6,183,289 - Dec-2015) for the consolidated accounts, including the amount of the write-offs of goods inventories recognized as losses for the year amounting to R$ 68,822 (R$ 75,253 - Dec-2015) for the parent company and R$ 68,867 (R$ 75,259 - Dec-2015) for the consolidated accounts.

**All amounts in thousands of reais unless otherwise stated**

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.

## 9. Taxes recoverable

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Income taxes recoverable** | | | | |
| Withholding Income Tax (IRRF) | 537 | 1,735 | 537 | 1,735 |
| Corporate Income Tax (IRPJ) | 9,587 | 7,148 | 9,650 | 7,350 |
| Social Contribution on Net Profit (CSLL) | 1,826 | 923 | 1,862 | 1,097 |
| | 11,950 | 9,806 | 12,049 | 10,182 |
| **Other taxes recoverable** | | | | |
| Value Added Tax on Sales and Services (ICMS) – credit balance | 75,261 | 48,942 | 75,362 | 49,028 |
| ICMS – Refund of ICMS withheld in advance (CAT Ruling 17/99) | 14,027 | 171 | 14,027 | 171 |
| ICMS on acquisitions of fixed assets | 29,871 | 22,595 | 29,871 | 22,595 |
| Social Integration Program (PIS) | | 27 | 10 | 27 |
| Social Contribution on Revenue (COFINS) | 2,807 | 122 | 2,856 | 122 |
| Social Investment Fund - 1982 - securities issued to cover court-ordered debts | 561 | 561 | 561 | 561 |
| | 122,527 | 72,418 | 122,687 | 72,504 |
| | 134,477 | 82,224 | 134,736 | 82,686 |
| Current assets | (111,513) | (59,068) | (111,772) | (59,530 ) |
| Non-current assets | 22,964 | 23,156 | 22,964 | 23,156 |

The ICMS credits amounting to R$ 75,261 and R$ 14,027 (R$ 48,942 and R$ 171 Dec-2015) for the parent company are the result of applying different ICMS rates and of refunds of ICMS-ST (the substitute taxpayer regime) on goods receiving and shipping operations carried out by the Company's distribution centers in the states of São Paulo, Paraná and Pernambuco, in order to supply its branches located in other Brazilian states. There was a higher accumulation of credits from such tax in the first and second quarters of 2016, due to the credit obtained on generic drug inventories in the State of São Paulo, because of the decrease in rate from 18% to 12% and also on several products that are no longer in the substitute taxpayer regime. There was also a specific accumulation of ICMS credit on inventories existing in the Distribution Center recently inaugurated in the State of Pernambuco, credit that will be utilized in the next months due to the supply of the branches in the Northeast Region.

The Group analyzed the use of ICMS credits and concluded that the tax credit balances will be used within 12 months.

## 10. 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 business combination took place through the acquisition of 55% of the equity interest in 4Bio, for which the Company paid a total amount of R$ 24,010, distributed as follows: (i) capital increase of R$ 13,000 through the issue of 4Bio shares, and (ii) acquisition of shares of the founding stockholder for the amount of R$ 11,010, of which 50% was paid in local currency and 50% through a transfer of the Company's shares currently held in treasury to be made after the completion and verification of all conditions precedent set forth in the Agreement.

With the fulfillment of the contractual conditions related to changes to the 2015 EBITDA, the Company recognized, as at March 31, 2016, the adjustment of the purchase price of R$ 2,040, which was recognized as consideration for the acquisition of 4Bio, against goodwill, of which R$ 238 will be paid in local currency and 1,802 by transferring of the Company’s shares, currently held in treasury.

On December 31, 2016, the Company made the payment for the restricted shares of the founding stockholder 4Bio, as follows: (i) the amount of R$ 238 in local currency and (ii) the amount of R$ 7,307 through transfer of 185,446 restricted shares, which were held in treasury.

The Agreement also establishes the granting of call and put options for all the remaining shares held by the founding stockholder after January 2021, and the exercise price will be calculated based on the average of the adjusted EBITDA of 4Bio for the years ending December 31, 2018, 2019 and 2020 the fair value of which at December 31, 2016 corresponds to R$ 45,228 (R$ 31,632 - Dec-2015).

Financial liabilities arising from the call option were recognized separately from the consideration transferred, through the adoption of the 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 their participation, against "carrying value adjustments" in equity.

The fair value of the call option for additional shares of R$ 45,228 (R$ 31,632 - Dec-2015) is classified as Level 3 in the fair value hierarchy. The main fair value measurements have as reference: (i) a discount rate of 22.04% (19.89% - Dec-2015), (ii) an average growth rate of EBITDA of 27.4%, considering the average of the EBITDAs projected for 2018 to 2020 and the multiple provided for in contract.

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

**All amounts in thousands of reais unless otherwise stated**

### (b) Changes in investments

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

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

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

| | Parent company 12/31/2016 |
|---|---|
| At December 31, 2015 | 23,497 |
| Equity in the results of subsidiaries | 4,360 |
| Adjustment to purchase price | 2,040 |
| Share of dividends proposed | (473) |
| At December 31, 2016 | 29,424 |

For the purposes of calculating the equity of 4Bio Medicamentos S.A., the Company has adjusted the assets, liabilities and related changes in the statement of income of 4Bio based on the allocation of purchase price at the acquisition date. The table below shows the effects on the profit for the year of 4Bio for the purposes of determining the equity in the results of the subsidiary for 2016:

| | Parent company 12/31/2016 |
|---|---|
| Result of 4Bio (year ended December 31, 2016) | 4,982 |
| Amortization of surplus arising from the business combination | (622) |
| Adjusted profit of 4Bio | 4,360 |

| **Adjusted equity** | **12/31/2016** | **12/31/2015** |
|---|---|---|
| Investment at book value (55%) | 12,988 | 8,006 |
| Allocation of the purchase price (surplus of assets) | 6,063 | 7,005 |
| Deferred income tax liability on allocation adjustments | (2,061) | (2,381) |
| Share of dividends proposed | (473) | |
| | 16,517 | 12,630 |
| Goodwill based on expected future profitability | 12,907 | 10,867 |
| | 29,424 | 23,497 |

### (c) Subsidiary’s dividend

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

**All amounts in thousands of reais unless otherwise stated**

## 11. Property and equipment and intangible assets

### a) Property and equipment

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

| | Land | Buildings | Furniture, fittings and facilities | Machinery and equipment | Vehicles | Leasehold improvements | Store renovation and modernization | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At January 1, 2015 | 27,440 | 41,917 | 295,647 | 168,147 | 21,188 | 515,668 | 10,939 | 1,080,946 |
| Additions | | | 90,649 | 60,547 | 4,084 | 167,679 | | 322,959 |
| Disposals and write-offs | | | (2,874) | (2,563) | (3,945) | (76,340) | (40) | (85,762) |
| Provision for store closures | | | 454 | 192 | | 1,368 | 40 | 2,054 |
| At December 31, 2015 | 27,440 | 41,917 | 383,876 | 226,323 | 21,327 | 608,375 | 10,939 | 1,320,197 |
| Additions | | | 131,819 | 77,503 | 4,274 | 214,165 | | 427,761 |
| Disposals and write-offs | | | (13,259) | (1,578) | (2,377) | (56,453) | (7,076) | (80,743) |
| Provision for store closures | | | (1,394) | (1,329) | | 400 | | (2,323) |
| At December 31, 2016 | 27,440 | 41,917 | 501,042 | 300,919 | 23,224 | 766,487 | 3,863 | 1,664,892 |
| **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, 2015 | | (17,646) | (114,968) | (73,984) | (12,352) | (206,017) | (8,306) | (433,273) |
| Additions | | (1,113) | (30,179) | (24,094) | (4,032) | (103,678) | (1,225) | (164,321) |
| Disposals and write-offs | | | 1,212 | 2,327 | 3,607 | 72,906 | 32 | 80,084 |
| Provision for store closures | | | (412) | (176) | | (782) | (34) | (1,404) |
| At December 31, 2015 | | (18,759) | (144,347) | (95,927) | (12,777) | (237,571) | (9,533) | (518,914) |
| Additions | | (1,113) | (40,061) | (34,607) | (3,579) | (132,862) | (809) | (213,031) |
| Disposals and write-offs | | | 10,164 | 1,316 | 1,978 | 50,349 | 7,076 | 70,883 |
| Provision for store closures | | | 589 | 574 | | (102) | | 1,061 |
| At December 31, 2016 | | (19,872) | (173,655) | (128,644) | (14,378) | (320,186) | (3,266) | (660,001) |
| **Net balance** | | | | | | | | |
| At December 31, 2015 | 27,440 | 23,158 | 239,529 | 130,396 | 8,550 | 370,804 | 1,406 | 801,283 |
| At December 31, 2016 | 27,440 | 22,045 | 327,387 | 172,275 | 8,846 | 446,301 | 597 | 1,004,891 |

**All amounts in thousands of reais unless otherwise stated**

Changes in the consolidated property and equipment are as follows:

| | Land | Buildings | Furniture, fittings and facilities | Machinery and equipment | Vehicles | Leasehold improvements | Store renovation and modernization | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At January 1, 2015 | 27,440 | 41,917 | 295,647 | 168,147 | 21,188 | 515,668 | 10,939 | 1,080,946 |
| Additions through business combinations | | | 411 | 487 | 209 | 346 | | 1,453 |
| Additions | | | 90,651 | 60,552 | 4,084 | 167,679 | | 322,966 |
| Disposals and write-offs | | | (2,874) | (2,563) | (3,945) | (76,340) | | (85,722) |
| Provision for store closures | | | 454 | 192 | | 1,368 | | 2,014 |
| At December 31, 2015 | 27,440 | 41,917 | 384,289 | 226,815 | 21,536 | 608,721 | 10,939 | 1,321,657 |
| Additions | | | 132,293 | 77,817 | 4,352 | 214,561 | | 429,023 |
| Disposals and write-offs | | | (13,259) | (1,578) | (2,377) | (56,453) | (7,076) | (80,743) |
| Provision for store closures | | | (1,394) | (1,329) | | 400 | | (2,323) |
| At December 31, 2016 | 27,440 | 41,917 | 501,929 | 301,725 | 23,511 | 767,229 | 3,863 | 1,667,614 |
| **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, 2015 | | (17,646) | (114,968) | (73,984) | (12,352) | (206,017) | (8,306) | (433,273) |
| Additions through business combinations | | | (191) | (232) | (163) | (133) | | (719) |
| Additions | | (1,113) | (30,192) | (24,109) | (4,034) | (103,686) | (1,225) | (164,359) |
| Disposals and write-offs | | | 1,212 | 2,327 | 3,607 | 72,905 | 32 | 80,083 |
| Provision for store closures | | | (412) | (176) | | (782) | (34) | (1,404) |
| At December 31, 2015 | | (18,759) | (144,551) | (96,174) | (12,942) | (237,713) | (9,533) | (519,672) |
| Additions | | (1,113) | (40,118) | (34,686) | (3,632) | (132,923) | (809) | (213,281) |
| Disposals and write-offs | | | 10,164 | 1,316 | 1,978 | 50,350 | 7,076 | 70,884 |
| Provision for store closures | | | 589 | 574 | | (102) | | 1,061 |
| At December 31, 2016 | | (19,872) | (173,916) | (128,970) | (14,596) | (320,388) | (3,266) | (661,008) |
| **Net balance** | | | | | | | | |
| At December 31, 2015 | 27,440 | 23,158 | 239,738 | 130,641 | 8,594 | 371,008 | 1,406 | 801,985 |
| At December 31, 2016 | 27,440 | 22,045 | 328,013 | 172,755 | 8,915 | 446,841 | 597 | 1,006,606 |

**All amounts in thousands of reais unless otherwise stated**

## b) Intangible assets

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

| | Points of sale | Software license and systems implementation | Goodwill on business acquisition(Vison Ltda) | Goodwill on business acquisition (Raia S.A.) | Trademarks | Customer portfolio | Other intangible assets | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At January 1, 2015 | 245,228 | 78,462 | 22,275 | 780,084 | 151,700 | 41,700 | 5,563 | 1,325,012 |
| Additions | 45,463 | 22,360 | | | | | 702 | 68,525 |
| Write-offs | (62,325) | (10) | | | | | (786) | (63,121) |
| Provision for store closures | 844 | 1 | | | | | | 845 |
| At December 31, 2015 | 229,210 | 100,813 | 22,275 | 780,084 | 151,700 | 41,700 | 5,479 | 1,331,261 |
| Additions | 46,902 | 22,015 | | | | | 751 | 69,668 |
| Disposals and write-offs | (31,457) | (42,524) | | | | | (101) | (74,082) |
| Provision for store closures | 1,158 | 1 | | | | | | 1,159 |
| At December 31, 2016 | 245,813 | 80,305 | 22,275 | 780,084 | 151,700 | 41,700 | 6,129 | 1,328,006 |
| **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, 2015 | (120,867) | (46,881) | (2,387) | | | (29,007) | (849) | (199,991) |
| Additions | (42,954) | (11,827) | | | | (7,710) | (33) | (62,524) |
| Write-offs | 60,950 | 3 | | | | | 785 | 61,738 |
| Provision for store closures | (80) | (1) | | | | | | (81) |
| At December 31, 2015 | (102,951) | (58,706) | (2,387) | | | (36,717) | (97) | (200,858) |
| Additions | (44,963) | (13,982) | | | | (460) | | (59,405) |
| Disposals and write-offs | 27,564 | 42,507 | | | | | 97 | 70,168 |
| Provision for store closures | (632) | | | | | | | (632) |
| At December 31, 2016 | (120,982) | (30,181) | (2,387) | | | (37,177) | | (190,727) |
| **Net balance** | | | | | | | | |
| At December 31, 2015 | 126,259 | 42,107 | 19,888 | 780,084 | 151,700 | 4,983 | 5,382 | 1,130,403 |
| At December 31, 2016 | 124,831 | 50,124 | 19,888 | 780,084 | 151,700 | 4,523 | 6,129 | 1,137,279 |

**All amounts in thousands of reais unless otherwise stated**

Changes in the consolidated intangible assets are as follows:

| | Points of sale | Software license and systems implementation | Goodwill on business acquisition (Vison Ltda) | Goodwill on business acquisition (Raia S.A.) | Goodwill on company acquisition (4BIO) | Raia S.A. brands | 4BIO brands | Raia S.A. customers portfolio | 4BIO customers relationship | 4BIO distribution channel | Other intangible assets | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | | | |
| At January 1, 2015 | 245,228 | 78,462 | 22,275 | 780,084 | | 151,700 | | 41,700 | | | 5,563 | 1,325,012 |
| Additions through business combinations | | 362 | | | 23,523 | | 5,069 | | 7,928 | 535 | 68 | 37,485 |
| Additions | 45,463 | 22,361 | | | | | | | | | 702 | 68,526 |
| Disposals and write-offs | (62,325) | (11) | | | | | | | | | (786) | (63,122) |
| Provision for store closures | 844 | 1 | | | | | | | | | | 845 |
| At December 31, 2015 | 229,210 | 101,175 | 22,275 | 780,084 | 23,523 | 151,700 | 5,069 | 41,700 | 7,928 | 535 | 5,547 | 1,368,746 |
| Additions | 46,902 | 22,068 | | | 2,040 | | | | | | 751 | 71,761 |
| Disposals and write-offs | (31,457) | (42,524) | | | | | | | | | (101) | (74,082) |
| Provision for store closures | 1,158 | 1 | | | | | | | | | | 1,159 |
| At December 31, 2016 | 245,813 | 80,720 | 22,275 | 780,084 | 25,563 | 151,700 | 5,069 | 41,700 | 7,928 | 535 | 6,197 | 1,367,584 |
| **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, 2015 | (120,867) | (46,881) | (2,387) | | | | | (29,007) | | | (849) | (199,991) |
| Additions through business combinations | | (149) | | | | | | | | | (53) | (202) |
| Additions | (42,954) | (11,842) | | | | | (253) | (7,710) | (142) | (401) | (37) | (63,339) |
| Disposals and write-offs | 60,950 | 3 | | | | | | | | | 786 | 61,739 |
| Provision for store closures | (80) | (1) | | | | | | | | | | (81) |
| At December 31, 2015 | (102,951) | (58,870) | (2,387) | | | | (253) | (36,717) | (142) | (401) | (153) | (201,874) |
| Additions | (44,963) | (14,041) | | | | | (1,014) | (460) | (566) | (134) | (12) | (61,190) |
| Disposals and write-offs | 27,564 | 42,507 | | | | | | | | | 97 | 70,168 |
| Provision for store closures | (632) | | | | | | | | | | | (632) |
| At December 31, 2016 | (120,982) | (30,404) | (2,387) | | | | (1,267) | (37,177) | (708) | (535) | (68) | (193,528) |
| **Net balance** | | | | | | | | | | | | |
| At December 31, 2015 | 126,259 | 42,305 | 19,888 | 780,084 | 23,523 | 151,700 | 4,816 | 4,983 | 7,786 | 134 | 5,394 | 1,166,872 |
| At December 31, 2016 | 124,831 | 50,316 | 19,888 | 780,084 | 25,563 | 151,700 | 3,802 | 4,523 | 7,220 | | 6,129 | 1,174,056 |

### c) Goodwill on acquisition of Drogaria Vison Ltda.

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

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

### d) 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 and arising from the difference between the assets assigned and received, with an expected return in five-and-a half years.

### e) 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 01, 2015, whose amount was supplemented by the final adjustment of price at March 31, 2016 of R$2,040, which is based on expected future profitability and arising from the difference between the assets assigned and received.

### f) Impairment testing of goodwill and intangible assets with an indefinite useful life

At December 31, 2016, the Company assessed the recovery of the net book value of the goodwill on the acquisitions of Drogaria Vison Ltda., Raia S.A. and 4Bio S.A., through business combinations based on value in use, using the discounted cash flow model allocated to the related CGUs that gave rise to such goodwill.

The recoverable amount of the sales made by the CGUs that gave rise to goodwill was calculated based on value in use, considering cash projections from financial budgets approved by management over a five-year period. The projected cash flow was restated to reflect the changes in product and service demand. The discount rate, after taxes, applied to cash flow projections is 12.5% (13.97% - Dec-2015) for Drogaria Vison Ltda. and Raia S.A. and 22.04% (19.89% - Dec-2015) for 4Bio S.A. (Note 10a).

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 9.66% (7.96% - Dec-2015) with perpetuity of 4.5% (4.5% - Dec-2015) for Raia S.A., (ii) average for the next three years of 6.81% (7.96% - Dec-2015) with perpetuity of 4.5% (4.5% - Dec-2015) for Drogaria Vison Ltda., and (iii) average for the next three years of 23.1% with perpetuity of 7.5% for 4Bio S.A.

#### Gross margins

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

#### Discount rates

The 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.

**All amounts in thousands of reais unless otherwise stated**

## 12. Borrowings

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| Borrowing for acquisition of: | **Average annual long term interest rate** | **2016** | **2015** | **2016** | **2015** |
| **BNDES - FINEM** | | | | | |
| Businesses | IPCA + 7.50% (+ 1.30% - Dec/2015) p.a. | | 3,565 | | 3,565 |
| **BNDES – Sub-loan** | | | | | |
| Businesses | TJLP + 2.75% (+ 3.32% - Dec/2015) p.a. | 163,895 | 138,488 | 163,895 | 138,488 |
| Businesses | SELIC + 2.50% (+ 2.69% - Dec/2015) p.a. | 128,350 | 66,169 | 128,350 | 66,169 |
| Machinery, equipment and vehicles | Fixed + 3.10% ( 3.01% - Dec/2015) p.a. | 4,658 | 9,072 | 4,658 | 9,072 |
| Machinery, equipment and vehicles | TJLP + 2.02% (+ 1.79% - Dec/2015) p.a. | 12,456 | 797 | 12,456 | 797 |
| Machinery, equipment and vehicles | PSI + 8.62% (+8.36% - Dec/2015) p.a. | 8,087 | 8,653 | 8,087 | 8,653 |
| Working capital | SELIC + 2.70% (+ 3.10% - Dec/2015) p.a | 92,135 | 60,449 | 92,135 | 60,449 |
| Other | | 3,610 | 2,492 | 3,610 | 2,492 |
| **Borrowings** | | | | | |
| Other | | | | 777 | 6,703 |
| | | 413,191 | 289,685 | 413,968 | 296,388 |
| Current liabilities | | (131,804) | (102,266) | (132,581) | (108,192) |
| Non-current liabilities | | 281,387 | 187,419 | 281,387 | 188,196 |

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

The agreements that have bank guarantees were settled in March 2016.

The subloans for the Social Project, Development of Own Brands and Purchase of Domestic Software are grouped in the line of other. The Company is part of the borrowings from BNDES substantially contracted as subloans, totaling R$ 413,191 (R$ 286,120 Dec/2015) contingent upon two covenants:

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

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

Covenants are measured annually and, at December 31, 2016 and 2015, 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** |
|---|---|---|
| | **2016** | **2016** |
| 2018 | 117,114 | 117,114 |
| 2019 | 89,697 | 89,697 |
| 2020 | 51,493 | 51,493 |
| 2021 | 23,083 | 23,083 |
| | 281,387 | 281,387 |

**All amounts in thousands of reais unless otherwise stated**

## 13. Provision for contingencies and judicial deposits

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

At December 31, 2016 and 2015, the Group had the following provision and corresponding judicial deposits relating to legal proceedings:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Labor and social security | 16,449 | 10,024 | 16,449 | 10,024 |
| Tax | 655 | 514 | 655 | 514 |
| Civil | 426 | 294 | 426 | 326 |
| | 17,530 | 10,832 | 17,530 | 10,864 |
| (-) Corresponding judicial deposits | (14,939) | (4,166) | (14,939) | (4,166) |
| Total | 2,591 | 6,666 | 2,591 | 6,698 |
| Current liabilities | | (3,346) | | (3,346) |
| Non-current liabilities | 2,591 | 3,320 | 2,591 | 3,352 |

Changes in the provision were as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Opening balance | 6,666 | 9,312 | 6,698 | 9,312 |
| Additions | 12,773 | 9,679 | 12,773 | 9,711 |
| Write-offs | (10,656) | (7,349) | (10,688) | (7,349) |
| Favorable outcome | (1,177) | (5,372) | (1,177) | (5,372) |
| Unfavorable outcome | 5,013 | 853 | 5,013 | 853 |
| Change in criterion | (263) | (745) | (263) | (745) |
| Revaluation of amounts | (1,528) | (3,354) | (1,528) | (3,354) |
| Monetary restatement | 2,536 | 2,642 | 2,536 | 2,642 |
| Defense and appeal related deposits | (10,773) | 1,000 | (10,773) | 1,000 |
| Closing balance | 2,591 | 6,666 | 2,591 | 6,698 |

The provision for legal proceedings took into consideration the best estimate of the amounts involved, for the cases in which the likelihood of loss is estimated as probable by external and internal legal advisors, and a portion of these proceedings is guaranteed by pledged assets (Note 21).

**All amounts in thousands of reais unless otherwise stated**

### Possible losses

At December 31, 2016 and 2015, 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$ 88,642 (R$ 114,388 Dec-2015) for the parent company and R$ 88,642 for the consolidated accounts.

### Judicial deposits

At December 31, 2016 and 2015, the Group had the following judicial deposit amounts for which no corresponding provision had been set up:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Labor and social security | 10,584 | 13,048 | 10,584 | 13,048 |
| Tax | 8,969 | 3,343 | 8,969 | 3,343 |
| Civil | 3,454 | 2,339 | 3,454 | 2,339 |
| Total | 23,007 | 18,730 | 23,007 | 18,730 |

### Labor contingencies

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

### Tax contingencies

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

### 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.

All amounts in thousands of reais unless otherwise stated

## 14. Income tax and social contribution

### (a) Income tax and social contribution paid

At December 31, 2016 and 2015, effective income and social contribution taxes were as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Profit before income tax and social contribution | 587,543 | 436,807 | 595,216 | 435,902 |
| Interest on capital | (194,701) | (179,210) | (194,701) | (179,210) |
| Taxable profit | 392,842 | 257,597 | 400,515 | 256,692 |
| Combined tax rate (25% for income tax and 9% for social contribution) | 34 | 34 | 34 | 34 |
| Theoretical tax expense | (133,566) | (87,583) | (136,175) | (87,275) |
| Permanent additions | (9,901) | (7,054) | (9,940) | (7,054) |
| Equity in the results of investees | 1,482 | (175) | | |
| Reduction of taxes due to incentives | 5,525 | 3,545 | 5,525 | 3,545 |
| Adjustments arising from offsetting of tax losses | | (2,934) | | (2,933) |
| Other | 117 | 55 | 141 | 55 |
| Tax incentives – donations | (3,515) | (2,455) | (3,515) | (2,455) |
| Effective income tax and social contribution expense | (139,858) | (96,601) | (143,964) | (96,117) |
| Effective tax rate | 23.8% | 22.1% | 24.2% | 22.1% |

### (b) Deferred income tax and social contribution

Deferred income tax and social contribution assets amounting to R$ 61,087 at December 31, 2016 (R$ 48,832 – Dec-2015) for the parent company and R$61,464 at December 31, 2016 (R$ 49,006 – Dec/2015) in 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$ 250,905 at December 31, 2016 (R$ 210,658 – Dec-2015) for the parent company and R$ 254,651 at December 31, 2016 (214,987 - Dec-2015) in the consolidated accounts relate to tax charges on the remaining balances of: (i) the revaluation reserve; and (ii) goodwill from future profitability.

**All amounts in thousands of reais unless otherwise stated**

At December 31, 2016 and 2015, deferred income and social contribution taxes were as follows:

| | Balance sheet | | | | Statement of income | | | |
|---|---|---|---|---|---|---|---|---|
| | Parent company | | Consolidated | | Parent company | | Consolidated | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revaluation at fair value of land and buildings | (7,162) | (7,258) | (7,162) | (7,258 | | | | |
| Amortization of the goodwill from future profitability | (183,737) | (140,869) | (183,737) | (140,869 | 42,868 | 43,107 | 42,868 | 43,107 |
| Non-deductible intangible assets - merger of Raia S.A. | (60,006) | (62,531) | (60,006) | (62,531 | (2,524) | (4,989) | (2,524) | (4,989 |
| Non-deductible intangible assets - acquisition of 4Bio | | | (3,746) | (4,329 | | | (583) | (731) |
| Goodwill from future profitability of Drogaria Vison Ltda. | 365 | 365 | 365 | 365 | | | | |
| Tax losses to be offset against future taxable profits | | | | | | 2,671 | | 2,671 |
| Tax benefit from goodwill on acquisitions | | | | | | 1,399 | | 1,399 |
| Adjustment to present value | 911 | 2,308 | 1,027 | 2,363 | (243) | (2,308) | (303) | (2,364) |
| Provision for inventory obsolescence | 27,500 | 21,838 | 27,500 | 21,838 | (5,661) | (4,783) | (5,661) | (4,783) |
| Provision for sundry obligations | 6,144 | 2,691 | 6,205 | 2,705 | (3,455) | 1,541 | (3,502) | 1,922 |
| Provision for employee profit sharing | 11,111 | 9,532 | 11,262 | 9,620 | (1,579) | (2,821) | (1,642) | (2,909) |
| Provision for contingencies | 5,960 | 3,683 | 5,960 | 3,694 | (2,277) | 1,240 | (2,266) | 1,229 |
| Provision for impairment of trade receivables | 1,810 | 1,859 | 1,859 | 1,865 | 1,689 | (236) | 1,646 | (198) |
| Provision for commercial leases (renewal action) | 1,806 | 1,667 | 1,806 | 1,667 | (140) | (233) | (140) | (233) |
| Provision for customer loyalty programs | 2,553 | 1,871 | 2,553 | 1,871 | (682) | (617) | (682) | (617) |
| Provision for store closures | 1,011 | 760 | 1,011 | 760 | (250) | 481 | (250) | 481 |
| Provision for stock option plan | 1,227 | 1,437 | 1,227 | 1,437 | 210 | (1,181) | 210 | (1,181) |
| Provision for internal campaigns | 162 | 116 | 162 | 116 | (46) | 125 | (46) | 125 |
| Provision for Officers' bonuses | | | | | | 2,725 | | 2,725 |
| Sundry provision | 527 | 705 | 527 | 705 | 177 | (145) | 177 | (145) |
| **Deferred income tax and social contribution expense (benefit)** | | | | | 28,087 | 35,976 | 27,302 | 35,509 |
| **Deferred tax assets (liabilities), net** | (189,818) | (161,826) | (193,187) | (165,981 | | | | |

| | | | | |
|---|---|---|---|---|
| Reflected in the balance sheet as follows: | | | | |
| Deferred tax liabilities | (189,818) | (161,826) | (193,187) | (165,981) |
| **Deferred tax assets (liabilities), net** | (189,818) | (161,826) | (193,187) | (165,981) |

| **Reconciliation of deferred tax assets (liabilities), net** | **2016** | **2015** | **2016** | **2015** |
|---|---|---|---|---|
| **Balance at the beginning of the year** | (161,826) | (125,946) | (161,6[illegible]) | (125,946) |
| Additions through business combinations | | | | (4,622) |
| Taxable revenue recognized in the income statement | (28,087) | (35,976) | (31) | (35,509) |
| Realization of deferred tax recognized in equity | 95 | 96 | 95 | 96 |
| **Balance at the end of the year** | (189,818) | (161,826) | (193,1[illegible]) | (165,981) |

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

The projections of future taxable profits are based on estimates relating to the Group's *performance*, the behavior of the market in which the Group operates and certain economic aspects, among other factors. Actual amounts may differ from these estimates. According to projections, the tax credit amounting to R$61,087 in the parent company and R$ 61,464 in the consolidated accounts will be substantially realized by the end of December 2017.

## 15. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potential common diluted shares. At December 31, 2016 and 2015, the Group's share did not have any dilutive effect, and the profits of basic and diluted shares were equal.

**All amounts in thousands of reais unless otherwise stated**

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

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Basic** | | | | |
| Profit for the year | 447,685 | 340,206 | 451,252 | 339,785 |
| Weighted average number of common shares | 329,752 | 329,426 | 329,752 | 329,426 |
| **Basic earnings per share - R$** | 1,35764 | 1,03272 | 1,36846 | 1,03144 |
| **Diluted** | | | | |
| Profit for the year | 447,685 | 340,206 | 451,252 | 339,785 |
| Weighted average number of common shares | 329,752 | 329,426 | 329,752 | 329,426 |
| Weighted average number of common shares adjusted for dilution effect | 329,752 | 329,426 | 329,752 | 329,426 |
| **Diluted earnings per share - R$** | 1,35764 | 1,03272 | 1,36846 | 1,03144 |

## 16. Equity

### (a) Capital

At December 31, 2016, the fully paid-up capital amounted to R$ 1,808,639 (R$ 1,808,639 – Dec-2015), represented by 330,386,000 common registered book-entry shares with no par value, of which 206,572,133 (199,310,429 common shares - Dec-2015) shares were outstanding.

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

At December 31, 2016, the Company’s ownership interest is as follows.

| | Number of shares | | Equity interest (%) | |
|---|---|---|---|---|
| | **Dec/2016** | **Dec/2015** | **Dec/2016** | **Dec/2015** |
| Controlling stockholders | 122,956,483 | 129,975,571 | 37,22 | 39,34 |
| Outstanding shares | 206,572,133 | 199,310,429 | 62,52 | 60,33 |
| Treasury shares | 857,384 | 1,100,000 | 0,26 | 0,33 |
| | 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.

All amounts in thousands of reais unless otherwise stated

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

| | Shares outstanding |
|---|---|
| At December 31, 2015 | 199,310,429 |
| (Purchase)/sale of restricted shares, net | 7,261,704 |
| At December 31, 2016 | **206,572,133** |

At December 31, 2016, the Company's common shares were quoted at R$ 61.19 (closing quote) (R$ 35.48 at December 31, 2015).

**(b) Treasury shares**

On April 24, 2014, the Board of Directors authorized the Company to repurchase, over a period of 365 days, its own registered common shares with no par value to be held in treasury and subsequently sold.

| | Parent company | |
|---|---|---|
| | Number of shares | Amount shares |
| At December 31, 2015 | (1,100,000) | 20,898 |
| Shares delivered to executives related to the 1st tranche of the 2014 grant | 50,914 | (967) |
| Shares delivered to executives relating to employee contract termination | 6,256 | (119) |
| Shares delivered to subsidiary's executives | 185,446 | (3,523) |
| At December 31, 2016 | (857,384) | 16,289 |

At December 31, 2016, the market value of the treasury shares, having as reference the quotation of R$ 61.19 per share at that date, corresponds to R$ 52,463.

**(c) Restricted share plan**

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

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

**All amounts in thousands of reais unless otherwise stated**

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

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

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

The changes in the restricted shares are summarized below:

| | Dec-2016 | | Dec-2015 | |
|---|---|---|---|---|
| | **Shares** | **Amount** | **Shares** | **Amount** |
| Opening balance | 193,640 | 4,225 | 45,961 | 754 |
| Granted shares for the year | 238,742 | 7,984 | 147,679 | 3,471 |
| Delivery of shares in the year | (57,170) | (1,086) | | |
| Closing balance | 375,212 | 11,123 | 193,640 | 4,225 |

### (d) Stockholders' remuneration

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

| | Parent company | |
|---|---|---|
| | **2016** | **2015** |
| Profit for the year | 447,685 | 340,206 |
| Legal reserve | (22,384) | (17,010) |
| Realization of the revaluation reserve in the year | 186 | 186 |
| Dividend calculation basis (a) | 425,487 | 323,382 |
| Minimum mandatory dividends, according to statutory provision (25%) | 106,372 | 80,846 |
| Interest on capital proposed | 194,701 | 150,250 |
| Income Tax Withheld at source (or) on interest on capital. | (27,005) | (21,161) |
| Compensation net of income tax withheld at source (b) | 167,696 | 129,089 |
| % distributed on the dividend calculation basis (b ÷ a) | 39,41 | 39,92 |
| Amount in excess of the mandatory minimum dividend | 61,324 | 48,243 |

**All amounts in thousands of reais unless otherwise stated**

The Company recognized interest on capital of R$ 194,701 (R$ 150,250 - 2015), observing both the limit of the TJLP variation in 2016 and 2015 and the expense deductibility limits for income and social contribution tax calculation, pursuant to Law 9,249/95.

At December 31, 2016 the amount of R$ 61,324 (R$ 408,243 - 2015) in excess of the minimum mandatory dividend established in the Company's bylaws was recorded in equity as proposed additional dividend.

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

| | Parent company | |
|---|---|---|
| | **2016** | **2015** |
| Opening balance | 24,402 | 28,664 |
| Additions | 154,615 | 117,020 |
| Payments | (153,344) | (121,024) |
| Write-offs | (127) | (258) |
| Closing balance | 25,546 | 24,402 |

## 17. Net sales revenue

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Gross sales revenue | | | | |
| Sales revenue | 11,457,909 | 9,227,077 | 11,814,193 | 9,283,815 |
| Service revenue | 13,232 | 12,124 | 13,373 | 12,163 |
| | 11,471,141 | 9,239,201 | 11,827,566 | 9,295,978 |
| Taxes on sales | (410,225) | (277,539) | (425,384) | (278,605) |
| Returns, rebates and other | (136,227) | (116,080) | (145,617) | (119,524) |
| Net sales revenue | 10,924,689 | 8,845,582 | 11,256,565 | 8,897,849 |

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).

**All amounts in thousands of reais unless otherwise stated**

## 18. 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 | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Cost of sales | (7,469,484) | (6,137,644) | (7,752,422) | (6,183,289) |
| Personnel expenses | (1,439,237) | (1,141,137) | (1,455,915) | (1,144,608) |
| Service provider expenses | (124,115) | (101,760) | (124,857) | (101,919) |
| Depreciation and amortization (ii) | (272,436) | (226,846) | (274,434) | (227,698) |
| Other (iii) | (921,461) | (728,083) | (935,722) | (730,654) |
| | (10,226,733) | (8,335,470) | (10,543,350) | (8,388,168) |
| **Classified in the statement of income as:** | | | | |
| | **2016** | **2015** | **2016** | **2015** |
| Cost of sales | (7,469,484) | (6,137,644) | (7,752,422) | (6,183,289) |
| Selling expenses | (2,435,743) | (1,928,135) | (2,460,199) | (1,933,157) |
| General and administrative expenses | (321,506) | (269,691) | (330,729) | (271,722) |
| | (10,226,733) | (8,335,470) | (10,543,350) | (8,388,168) |

(i) Depreciation and amortization totaled R$ 272,436 (R$ 226,846 - 2015) in 2016, of which R$ 239,913 (R$ 190,395 - 2015) corresponded to the area of sales and R$ 32,523 (R$ 36,451 – 2015) to the administrative area.

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

## 19. Other operating expenses

In 2016, other operating expenses totaled R$ 7,677 (R$ 8,390 - 2015) for the parent company and R$ 7,677 (R$ 8,818 - 2015) for the consolidated. These amounts consisted of non-recurring expenses, basically relating to the career plan restructuring, stores portfolio adjustment, net recoveries of prior years, and closure of the loyalty program.

**All amounts in thousands of reais unless otherwise stated**

## 20. Finance income and costs

### (a) Finance income

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Discounts obtained | 1,472 | 1,636 | 1,611 | 1,667 |
| Short term investment yields | 19,863 | 27,256 | 19,863 | 27,256 |
| Interest received | 1,625 | | | |
| Monetary gains | 2,590 | 2,285 | 2,642 | 2,294 |
| Other finance income | 3 | 18 | 142 | 41 |
| Taxes thereon (PIS/COFINS) | (1,188) | (810) | (1,188) | (810) |
| Present Value Adjustment (PVA) - finance income | 81,166 | 56,142 | 86,363 | 58,338 |
| Total finance income | 105,531 | 86,527 | 109,433 | 88,786 |

### (b) Finance costs

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Discounts granted to customers | (1,678) | (425) | (2,129) | (440) |
| Interest, charges and bank fees | (1,515) | (1,260) | (1,798) | (1,321) |
| Charges on borrowings | (41,035) | (31,048) | (42,304) | (31,624) |
| Monetary losses | (4,928) | (5,228) | (5,335) | (5,266) |
| Interest on additional stock option | (13,596) | (1,402) | (13,596) | (1,402) |
| PVA - finance costs | (149,875) | (111,566) | (154,593) | (113,694) |
| Total finance costs | (212,627) | (150,929) | (219,755) | (153,747) |
| **Finance results** | (107,096) | (64,402) | (110,322) | (64,961) |

## 21. Guarantees for lawsuits

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

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Furniture and facilities | 32 | 37 | 32 | 37 |
| Machinery and equipment | 85 | 85 | 85 | 85 |
| | 117 | 122 | 117 | 122 |

**All amounts in thousands of reais unless otherwise stated**

## 22. Lease agreement commitments

The Company and its subsidiary have lease agreements with terms ranging from one to 21 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$ 38,710 (R$ 31,099 – Dec-2015) for the parent company and R$ 38,810 (R$ 31,275 - Dec-2015) for the consolidated accounts.

At December 31, 2016 and 2015, the future minimum payments relating to leases of stores (under cancelable lease agreements) were as follows:

| | **Parent company** | | **Consolidated** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| First 12 months | 385,361 | 306,669 | 386,110 | 307,046 |
| From 13 to 60 months | 971,035 | 764,191 | 972,702 | 764,847 |
| Over 60 months | 291,003 | 225,582 | 291,003 | 225,582 |
| | 1,647,399 | 1,296,442 | 1,649,815 | 1,297,475 |

## 23. Financial instruments and risk management policy

### Financial instruments by category

| | **Parent company** | | **Consolidated** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Assets as per balance sheet** | | | | |
| Loans and receivables | | | | |
| Cash and cash equivalents (Note 6) | 273,095 | 264,549 | 276,632 | 266,051 |
| Trade receivables (Note 7) | 713,841 | 572,083 | 772,241 | 601,831 |
| Other receivables | 120,711 | 98,040 | 105,112 | 98,261 |
| Judicial deposits (Note 13) | 23,007 | 18,730 | 23,007 | 18,730 |
| | 1,130,654 | 953,402 | 1,176,992 | 984,873 |
| **Total assets** | 1,130,654 | 953,402 | 1,176,992 | 984,873 |

**All amounts in thousands of reais unless otherwise stated**

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Liabilities as per balance sheet** | | | | |
| Liabilities at fair value through profit or loss | | | | |
| Additional stock option (Note 10) | 45,228 | 31,632 | 45,228 | 31,632 |
| | 45,228 | 31,632 | 45,228 | 31,632 |
| Other financial liabilities | | | | |
| Trade payables | 1,564,787 | 1,177,928 | 1,615,587 | 1,203,382 |
| Borrowings (Note 12) | 413,191 | 289,685 | 413,968 | 296,388 |
| Other payables | 175,046 | 123,316 | 175,972 | 124,265 |
| | 2,153,024 | 1,590,929 | 2,205,527 | 1,624,035 |
| **Total liabilities** | 2,198,252 | 1,622,561 | 2,250,755 | 1,655,667 |

## Financial risk management

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

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

### (a) Market risk

#### Foreign exchange risk

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

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

### (b) Credit risk

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

**All amounts in thousands of reais unless otherwise stated**

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 | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | 2015 |
| **Rating – National Scale** | | | | |
| brAA | 38,036 | 142,831 | 41,030 | 144,149 |
| BrA+ | 167,541 | 83,177 | 167,541 | 83,177 |
| **Total – National Scale** | 205,577 | 226,008 | 208,571 | 227,326 |

The granting of credit on sales of goods follows a policy that aims at minimizing defaults. For the year ended December 31, 2016, credit sales represented 50% (49% - Dec-2015) e 51% (50% - Dec-2015) for the consolidated accounts of which 91% (90% - Dec-2015) and 86% (87% - Dec-2015) in 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 9% (10% - Dec-2015) and 14% (13% - Dec-2015) 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** | **Scenario I (probable)** | **Scenario II** | **Scenario III** |
|---|---|---|---|---|
| Short term investments - CDI | 0.5% increase | 1,028 | 1,285 | 1,542 |
| Revenue | | 1,028 | 1,285 | 1,542 |
| REFIS (SELIC) | 0.5% increase | 6 | 7 | 9 |
| Expense | | 6 | 7 | 9 |

**All amounts in thousands of reais unless otherwise stated**

| Consolidated | | | | |
|---|---|---|---|---|
| **Operation** | **Risk** | **Scenario I (probable)** | **Scenario II** | **Scenario III** |
| Short term investments - CDI | 0.5% increase | 1,043 | 1,304 | 1,564 |
| Revenue | | 1,043 | 1,304 | 1,564 |
| REFIS (SELIC) | 0.5% increase | 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) at interest rates that are commensurate with the Group's profit levels.

Accordingly, the gearing ratio is calculated by dividing net debt by equity. Net debt is calculated as total borrowing less total cash and cash equivalents, as shown below:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Short - and long-term borrowings | 413,191 | 289,685 | 413,968 | 296,388 |
| (-) Cash and cash equivalents | (273,095) | (264,549) | (276,632) | (266,051) |
| Net debt | 140,096 | 25,136 | 137,336 | 30,337 |
| Equity attributable to the stockholders of the parent company | 2,909,787 | 2,633,809 | 2,909,787 | 2,633,809 |
| Non-controlling interest | | | 26,168 | 22,989 |
| Total equity | 2,909,787 | 2,633,809 | 2,935,955 | 2,656,798 |
| Gearing ratio | 4,81 | 0,95 | 4,68 | 1,14 |

### (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 is assumed to approximate their fair values, taking into consideration the realization of these balances, and settlement terms not exceeding 60 days.

**All amounts in thousands of reais unless otherwise stated**

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.

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, 2016, the Group had no material assets and liabilities measured at fair value at Level 1 and Level 2 in the fair value hierarchy. The following table presents the changes in Level 3 instruments for the year ended December 31, 2016:

| | Parent company and Consolidated |
|---|---|
| | **Additional stock option** |
| Opening balance | |
| Acquisition of 4Bio (Note 10) | 31,632 |
| Expenses recognized in the statement of income: | 13,596 |
| Closing balance | 45,228 |
| Total expenses for the year recognized in the statement of income | 13,596 |
| Changes in unrealized expenses for the year included in the statement of income | 13,596 |

## 24. Derivative financial instruments

The Group does not have any operations involving derivative financial instruments.

All amounts in thousands of reais unless otherwise stated

## 25. Transactions with related parties

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

| | Relationship | Parent company | | Consolidated | | Parent company | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|
| | | Current assets | | | | Revenue | | | |
| | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Receivables | | | | | | | | | |
| Special plans (i) | | | | | | | | | |
| Regimar Comercial S.A. | Stockholder/Family | 15 | 12 | 15 | 12 | 105 | 74 | 105 | 74 |
| Heliomar S.A. | Stockholder/Board Member | 1 | 2 | 1 | 2 | 16 | 10 | 16 | 10 |
| Rodrigo Wright Pipponzi (Editora Mol Ltda.) | Stockholder/Family | 1 | 1 | 1 | 1 | 5 | 2 | 5 | 2 |
| | | 17 | 15 | 17 | 15 | 126 | 86 | 126 | 86 |
| Other receivables | | | | | | | | | |
| Commercial agreements | | | | | | | | | |
| Natura Cosméticos S.A. (iv) | Stockholder / Related party | 22 | | 22 | | 216 | | 216 | |
| Loan receivable | | | | | | | | | |
| 4Bio Medicamentos S.A. (v) | Subsidiary | 15,624 | | | | 1,624 | | | |
| | | 15,646 | | 22 | | 1,840 | | 216 | |
| | | 15,663 | 15 | 39 | 15 | 1,966 | 86 | 342 | 86 |

**All amounts in thousands of reais unless otherwise stated**

| | Relationship | Parent company | | Consolidated | | Parent company | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|
| | | Current liabilities | | | | Expense | | | |
| | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Payables | | | | | | | | | |
| Rentals (ii) | | | | | | | | | |
| Heliomar S.A. | Stockholder/Board Member | 19 | 19 | 19 | 19 | 209 | 198 | 209 | 198 |
| Antonio Carlos Pipponzi | Stockholder/Board Member | 7 | 6 | 7 | 6 | 84 | 77 | 84 | 77 |
| Rosalia Pipponzi Raia | Stockholder/Board Member | 7 | 6 | 7 | 6 | 84 | 77 | 84 | 77 |
| Estate of Franco Maria David Pietro Pipponzi | Stockholder/Board Member | 7 | 6 | 7 | 6 | 84 | 77 | 84 | 77 |
| | | 40 | 37 | 40 | 37 | 461 | 429 | 461 | 429 |
| Service providers | | | | | | | | | |
| Zurcher, Ribeiro Filho, Pires Oliveira Dias e Freire Advogados (ii) | Stockholder/Family | | 1 | | 1 | 6,103 | 4,422 | 6,103 | 4,422 |
| Rodrigo Wright Pipponzi (Editora Mol Ltda.) (iii) | Stockholder/Family | 790 | 702 | 790 | 702 | 7,878 | 6,293 | 7,878 | 6,293 |
| | | 790 | 703 | 790 | 703 | 13,981 | 10,715 | 13,981 | 10,715 |
| Suppliers | | | | | | | | | |
| Natura Cosméticos S.A. (iv) | Stockholder / Related party | 1,433 | | 1,433 | | 8,585 | | 8,585 | |
| | | 1,433 | | 1,433 | | 8,585 | | 8,585 | |
| | | 2,263 | 740 | 2,263 | 740 | 23,027 | 11,144 | 23,027 | 11,144 |

**All amounts in thousands of reais unless otherwise stated**

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

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

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

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

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

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

(v) On February 23, March 18, and April 8, 2016, Raia Drogasil S.A. Lender) and 4Bio Medicamentos S.A. (Borrower) signed a loan agreement of R$ 3,000, R$ 6,000 and R$ 5,000 respectively, the amount borrowed will be adjusted for inflation at an interest rate of 101.5% of the CDI, which will be paid in a single installment on 2/23/2017, 3/31/2017 and 4/30/2017.

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** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Fees and social charges | 15,510 | 12,721 | 17,195 | 13,071 |
| Bonuses and social charges | 24,263 | 13,347 | 24,462 | 13,536 |
| Fringe benefits | 462 | 427 | 462 | 427 |
| | 40,235 | 26,495 | 42,119 | 27,034 |

All amounts in thousands of reais unless otherwise stated

## 26. 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, 2016:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Inventory loss risks | 145,248 | 117,363 | 161,304 | 118,799 |
| Permanent assets | 193,964 | 157,637 | 199,062 | 158,637 |
| Loss of profits | 171,500 | 142,500 | 195,679 | 142,500 |
| Civil liability risks | 27,150 | 23,175 | 27,150 | 23,175 |
| | 537,862 | 440,675 | 583,195 | 443,111 |

## 27. Non-cash transactions

At December 31, 2016, the main transactions that did not involve the Group's cash were:

(i) the consideration through shares to be transferred for the acquisition of 4Bio (Note 10);
(ii) the financial liability arising from the granting of additional share purchase options in 4Bio (Note 10);
(iii) the adjustment of the purchase price through shares to be transferred for the acquisition of 4Bio (Note 10);
(iv) part of the remuneration of key management personnel (Note 25); and
(v) the installment purchase of property and equipment items in the amount of R$ 20,177 (R$ 11,604 – 2015).

## Raia Drogasil S.A.

### COMMENTS ON THE BUSINESS PROJECTION PERFORMANCE

In this session, pursuant to CVM Instruction 480/09, we compare the store projections for 2016 and 2017, which we disclosed to the market through a Significant Event Notice on July 28, 2016, with the data on store openings actually conducted every year, until the end of the current year.

| YEAR | PRIOR PROJECTION | CURRENT PROJECTION | ACTUAL ACCUMULATED[1] |
|---|---|---|---|
| 2016 | 165 openings | 200 openings | 212 openings |
| 2017 | 195 openings | 200 openings | |

[1] **ACCMMULATED THROUGH 12/31/2016**

On July 28, 2016, we reviewed the prior projection of 165 openings in 2016 and 195 openings in 2017 to 200 store openings every year, as disclosed in the mentioned significant event noticed. The Company closed 2016 with 212 openings, and reaffirms the projection of 200 openings for 2017.

## Raia Drogasil S.A.

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

In accordance with article 25, paragraph 1, items V and VI of CVM Instruction 480/09, the Company's officers represent that they have reviewed and discussed and agree with the financial statements and the opinion expressed in the independent auditor's report.

São Paulo, February 16, 2017.

Marcilio D'Amico Pousada
CEO

Antonio Carlos Coelho
Director

Antonio Carlos de Freitas
Director

Eugênio De Zagottis
Director

Fernando Kozel Varela
Director

Marcello De Zagottis
Director

Renato Cepollina Raduan
Director

Maria Susana de Souza
Director

Antonio Carlos Marques de Oliveira
Accountant Reponsible
CRC-1SP215445/O-0

## SUPERVISORY BOARD’S OPINION

The Company's Supervisory Board, in exercising its duties and legal responsibilities, has examined the financial statements, management report and management's proposal for income allocation for the year ended December 31, 2016 and, based on the examinations performed and on clarifications provided by management, and also considering the favorable unqualified report issued by independent auditor PricewaterhouseCoopers Auditores Independentes, the Supervisory Board members concluded that the documents above mentioned were fairly presented, in all material respects, and unanimously decided to submit them to the General Stockholders' Meeting to be convened pursuant to Law 6,404/76.

São Paulo, February 16, 2017.

Gilberto Lério
Supervisory Board Member

Fernando Carvalho Braga
Supervisory Board Member

Mário Antonio Luiz Corrêa
Supervisory Board Member