Individual and consolidated financial statements

União Química Farmacêutica Nacional S.A.

December 31, 2017
with independent auditor's report

União Química Farmacêutica Nacional S.A.

Financial Statements

December 31, 2017

Contents

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A free translation from Portuguese into English of Independent Auditor's Report on individual and consolidated financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil

Independent auditor's report on individual and consolidated financial statements

The Shareholders, Board of Directors and Officers
União Química Farmacêutica Nacional S.A.
São Paulo - SP

Opinion

We have audited the accompanying individual and consolidated financial statements of União Química Farmacêutica Nacional S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2017, and the related statements of income, of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting practices and other explanatory information.

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of União Química Farmacêutica Nacional S.A. as at December 31, 2017, its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil and the international financial reporting standards (IFRS) 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 individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements defined in the Code of Ethics for Professional Accountants and the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC), and we have fulfilled our ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, a description of how our audit addressed the matter, including any comments on the results of our procedures, is provided in the context of the overall individual and consolidated financial statements.

We have fulfilled the responsibilities described in the "Auditor's Responsibilities for audit of the individual and consolidated financial statements" section, including those relating to these key audit matters. Accordingly, our audit included conducting procedures designed to respond to our assessment of the risks of material misstatement in the financial statements. The results of our procedures, including those performed to address the matters below, provide the basis for our audit opinion on the individual and consolidated financial statements of the Company.

Recognition of sales revenue

As described in Notes 2.e and 23 to the financial statements, revenue from the sale of products is recognized upon billing, including adjustments to reflect the timing of the transfer of risks and rewards inherent in the products and goods sold. Accordingly, determining the amount of revenue to be recognized, as well as the timing of its recognition, requires the detailed analysis of these terms and conditions, in addition to involving significant judgment by the Company's Management. There is a risk of early revenue recognition, especially as regards the monthly accounting closing period (cutoff period), considering the judgment adopted in determining the timing of transfer of risks and rewards applicable to each sale transaction. Due to these reasons and the magnitude of the amounts involved and the volume of transactions, we considered revenue recognition to be a key audit matter.

How our audit addressed this matter

In response to this focus area, our audit procedures included, among others: (i) Obtaining an understanding of the revenue recognition flow, considering the nature of the sale, the channels used, types of customers etc.; (ii) Evaluating the design, implementation and effectiveness of the significant internal controls determined by Management over revenue recognition; (iii) Obtaining an understanding of the main systems used in sales, pricing and trade discounts, with the assistance of our information technology (IT) specialists for reviews of the IT environment; (v) Selecting sales transactions throughout the year on a sampling basis and comparison with the related supporting documentation to check if they represented valid revenues consistent with the Company's ordinary course of business; (vi) Checking the effect of revenue cuttoff by comparison with the actual related delivery dates, on a sampling basis; and (vii) Considering whether the disclosures are appropriate.

As a result of these procedures, audit adjustments were identified in connection with the early recognition of effects on revenues from certain transactions that, due to their immateriality in relation to the individual and consolidated financial statements taken as a whole, were not recorded by the Company.

Based on the results of our auditing procedures, which are consistent with Management's evaluation, we believe that the Company's and its subsidiaries' revenue recognition policies are appropriate to support the judgment and information included in the financial statements taken as a whole.

Contingent liabilities and provisions for civil, tax and labor risks

As described in Notes 2.e and 21, the Company and its subsidiaries are parties to various civil, tax and labor claims and administrative proceedings arising in the ordinary course of their activities. The assessment of the likelihood of loss and the measurement of estimates of future disbursements require significant professional judgment by management, which may result in material changes in the balances of provisions and/or disclosures relating to the cases. Due to the significance, complexity and judgment involved in the evaluation, measurement, recognition and disclosures related to contingent liabilities, we considered this to be a key audit matter.

How our audit addressed this matter

In response to this focus area, we assessed the sufficiency of the provisions for civil, tax and labor risks recognized in the individual and consolidated financial statements, as well as the related disclosures, by reviewing the criteria and assumptions used in the measurement methodology considering internal information provided by management and external data obtained from the Company's legal advisors, data and historical information and comparison with the accounting information recorded in the individual and consolidated financial statements. We also considered whether the disclosures in the individual and consolidated financial statements provide information on the nature, and on amounts accrued or disclosed in connection with the main lawsuits in which the Company and its subsidiaries are involved.

Based on the results of the audit procedures performed on contingent liabilities and provisions for civil, tax and labor risks, which are consistent with management's assessment, we consider that the criteria and assumptions adopted by management in relation to the recognition of such contingencies, as well as the respective disclosures in Note 21, are appropriate in the context of the financial statements taken as a whole.

Business combination – Acquisition of Inovat Industria Farmacêutica Ltda.

As described in Notes 1 and 12 to the financial statements, in the year ended December 31, 2017, the Company entered into a business combination transaction involving the acquisition of control of Inovat Indústria Farmacêutica Ltda. for R$ 159,746 thousand. Considering that the preliminary allocation of assets and liabilities acquired in a business combination is complex and involves a high degree of subjectivity, we considered this to be a key audit matter.

How our audit addressed this matter

In response to this focus area, our audit procedures included, among others: (i) Reviewing the acquisition date determined to obtain control of the acquiree, as well as the price actually paid for the purpose of calculating goodwill generated from the acquisition; (ii) Assessing the objectivity, independence and technical capacity of the external consultants engaged by the Company to prepare the appraisal report on the purchase price allocation; (iii) Using valuation professionals to assist us in reviewing the assumptions and methodology adopted by the Company in relation to the allocation, recognition and preliminary measurement of the identifiable assets acquired and the liabilities assumed on the date of acquisition; and (iv) Assessing the adequacy of the disclosures made by the Company in the footnotes regarding the business combination that took place in the fiscal year.

Based on the results of our auditing procedures, which are consistent with Management's evaluation, we believe that the Company's business combination policies are appropriate, as well as the information included in the financial statements taken as a whole.

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

Company management is responsible for such other information that is included in the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express an audit conclusion on this report.

In connection with the audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in so doing, consider whether this report is materially inconsistent with the individual and consolidated financial statements or with our knowledge obtained in the audit or otherwise appear to contain material misstatements. If, based on our work, we conclude that there is a material misstatement in the Management Report, we are required to report this fact. We have nothing to report in respect of this matter.

Management's responsibility for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of these individual and consolidated financial statements in accordance with accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of individual and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the individual 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 jointly, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of the audit conducted in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess risks of material misstatements of the individual 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 one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations;
- 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 Company's and its subsidiary's internal control;
- 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 substantial doubt as to the Companies' and its subsidiary's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual 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 a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the corresponding transactions and events in a manner that achieves fair presentation.

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

Brasília, March 2, 2018.

ERNST & YOUNG
Auditores Independendes S.S.
CRC-2SP015199/O-6

Wagner dos Santos Júnior
Accountant-Partner CRC-1SP216386/O-T

União Química Farmacêutica Nacional S.A.

Statements of financial position
December 31, 2017 and 2016
(In thousands of reais)

		Company		Consolidated	
Assets	**Note**	**12/31/2017**	**12/31/2016**	**12/31/2017**	**12/31/2016**
Current assets					
Cash and cash equivalents	**4**	**31,670**	48,322	**42,402**	49,096
Trade accounts receivable	**6**	**341,340**	293,657	**350,323**	313,196
Inventories	**7**	**194,588**	216,744	**251,756**	238,863
Taxes and contributions recoverable	**8**	**37,018**	44,977	**50,749**	52,015
Other accounts receivable	**9**	**11,253**	14,476	**12,460**	15,000
Derivative financial instruments	**10**	**158**	-	**158**	-
Prepaid expenses		**3,108**	1,882	**3,774**	2,134
		619,135	620,058	**711,622**	670,304
Noncurrent assets					
Other accounts receivable	**9**	**748**	7,022	**-**	-
Long-term investments	**5**	**4,230**	3,903	**4,230**	3,903
Taxes and contributions recoverable	**8**	**9,346**	4,447	**10,620**	4,676
Judicial deposits	**21**	**23,535**	11,085	**23,964**	11,280
Prepaid expenses		**394**	600	**394**	600
Investments	**12**	**271,609**	107,501	**6,186**	3,501
Property, plant and equipment	**13**	**296,591**	296,590	**604,500**	454,293
Intangible assets	**14**	**44,598**	38,346	**47,827**	38,351
		651,051	469,494	**697,721**	516,604
Total assets		**1,270,186**	1,089,552	**1,409,343**	1,186,908

See accompanying notes.

União Química Farmacêutica Nacional S.A.

Statements of financial position
December 31, 2017 and 2016
(In thousands of reais)

		Company		Consolidated	
Liabilities and equity	**Note**	**12/31/2017**	**12/31/2016**	**12/31/2017**	**12/31/2016**
Current liabilities					
Trade accounts payable	**16**	**75,510**	64,738	**88,935**	67,723
Loans and financing	**17**	**150,744**	114,806	**151,177**	114,836
Labor and tax liabilities	**18**	**68,486**	49,794	**87,634**	56,816
Income and social contribution taxes		**-**	-	**865**	4
Derivative financial instruments	**10**	**1,595**	-	**1,595**	-
Dividends payable	**22.5**	**5,344**	4,301	**5,344**	4,301
Other accounts payable	**20**	**14,406**	12,854	**19,354**	15,189
		316,085	246,493	**354,904**	258,869
Noncurrent liabilities					
Loans and financing	**17**	**241,162**	219,995	**241,483**	220,016
Provision for contingencies	**21**	**11,656**	13,797	**11,783**	13,801
Deferred taxes	**19.2**	**8,973**	3,561	**9,180**	4,610
Labor and tax liabilities	**18**	**19,674**	19,465	**19,674**	19,465
Supply agreement - manufacturing	**12.3**	**-**	-	**92,141**	83,906
Other accounts payable	**20**	**37,665**	63,206	**45,207**	63,206
		319,130	320,024	**419,468**	405,004
Equity					
Capital	**22.1**	**440,077**	198,288	**440,077**	198,288
Capital reserve		**1,680**	1,680	**1,680**	1,680
Legal reserve	**22.2**	**19,389**	14,701	**19,389**	14,701
Income reserve	**22.4**	**48,951**	247,489	**48,951**	247,489
Tax incentive reserve	**22.3**	**124,843**	60,877	**124,843**	60,877
Equity adjustments		**31**	-	**31**	-
		634,971	523,035	**634,971**	523,035
Total liabilities and equity		**1,270,186**	1,089,552	**1,409,343**	1,186,908

See accompanying notes.

União Química Farmacêutica Nacional S.A.

Statements of profit and loss
Years ended December 31, 2017 and 2016
(In thousands of reais, except for earnings per share - in reais)

		Company		Consolidated	
	Note	2017	2016	2017	2016
Net operating revenue	23	**1,031,370**	886,622	**1,117,953**	1,011,439
Cost of sales and services	24	**(474,659)**	(422,026)	**(493,043)**	(483,841)
Gross profit		**556,711**	464,596	**624,910**	527,598
Operating expenses and income:					
Selling, general and administrative	24	**(392,166)**	(369,825)	**(460,698)**	(414,068)
Other operating income, net	25	**3,438**	8,360	**9,911**	9,677
Equity pickup	12.2	**5,498**	12,542	**2,869**	2,731
Operating income before finance income and costs		**173,481**	115,673	**176,992**	125,938
Finance income	26	**33,443**	35,415	**33,681**	33,322
Finance costs	26	**(64,012)**	(58,277)	**(66,978)**	(61,421)
Finance income (costs), net:		**(30,569)**	(22,862)	**(33,297)**	(28,099)
Income before income and social contribution taxes		**142,912**	92,811	**143,695**	97,839
Provision for income and social contribution taxes:					
Current	19.1	**(14,551)**	(4,711)	**(16,176)**	(8,690)
Deferred	19.1	**(5,412)**	(8,812)	**(4,570)**	(9,861)
Net income for the year		**122,949**	79,288	**122,949**	79,288
Basic and diluted earnings per share attributable to shareholders (in R$)	22.6	**0.3829**	0.4013		

See accompanying notes.

União Química Farmacêutica Nacional S.A.

Statements of comprehensive income
Years ended December 31, 2017 and 2016
(In thousands of reais)

	Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Net income for the year	**122,949**	79,288	**122,949**	79,288
Equity adjustments	**31**	**-**	**31**	-
Comprehensive income for the year	**122,980**	79,288	**122,980**	79,288

See accompanying notes.

União Química Farmacêutica Nacional S.A.

Statements of changes in equity
Years ended December 31, 2017 and 2016
(In thousands of reais)

	Capital									
	Subscribed capital	**Unpaid capital**	**Capital**	**Capital reserve**	**Legal reserve**	**Income reserve**	**Tax incentive reserve**	**Retained earnings**	**Other comprehensive income**	**Total**
Balances at December 31, 2015	198,512	(224)	198,288	1,680	10,928	189,482	57,049	-	-	457,427
Net income for the year	-	-	-	-	-	-	-	79,288	-	79,288
Allocation of net income:										
Setting up of reserves	-	-	-	-	3,773	67,386	3,828	(74,987)	-	-
Mandatory minimum dividends	-	-	-	-	-	-	-	(4,301)	-	(4,301)
Proposed additional dividend	-	-	-	-	-	(9,379)	-	-	-	(9,379)
Balances at December 31, 2016	198,512	(224)	198,288	1,680	14,701	247,489	60,877	-	-	523,035
Capital increase	**241,789**	**-**	**241,789**	**-**	**-**	**(241,789)**	**-**	**-**	**-**	**-**
Net income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**122,949**	**-**	**122,949**
Allocation of net income:										
Setting up of reserves	**-**	**-**	**-**	**-**	**4,688**	**48,951**	**63,966**	**(117,605)**	**-**	**-**
Mandatory minimum dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,344)**	**-**	**(5,344)**
Additional proposed dividends	**-**	**-**	**-**	**-**	**-**	**(5,700)**	**-**	**-**	**-**	**(5,700)**
Equity adjustments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**31**	**31**
Balances at December 31, 2017	**440,301**	**(224)**	**440,077**	**1,680**	**19,389**	**48,951**	**124,843**	**-**	**31**	**634,971**

See accompanying notes.

União Química Farmacêutica Nacional S.A.

Cash flow statements
Years ended December 31, 2017 and 2016
(In thousands of reais)

	Company		Consolidated	
	2017	2016	2017	2016
Cash flow from operating activities				
Net income before income and social contribution taxes	**142,912**	92,811	**143,695**	97,839
Adjustments to reconcile net income (loss) to cash provided by:				
Allowance for doubtful accounts	**1,079**	7,122	**1,079**	7,122
Provision for inventory losses	**6,669**	1,506	**8,192**	2,890
Equity pickup	**(5,498)**	(12,542)	**(2,869)**	(2,731)
Financial charges and foreign exchange gains/losses	**41,855**	-	**42,476**	-
Provision for contingencies and restatement of judicial deposits	**1,202**	879	**1,091**	879
Reversal of impairment of assets - trademark	**(4,540)**	-	**(4,540)**	-
Losses on collection of receivables	**-**	1,028	**-**	1,028
Tax incentive gains	**-**	2,157	**-**	2,157
Proceeds from disposal of property, plant and equipment	**70**	(1,108)	**65**	(1,092)
Interest on and present value adjustment of debt with Novartis	**1,626**	631	**1,626**	631
Fair value adjustment of financial instruments	**1,437**	-	**1,437**	-
Amortization of supply agreement	**-**	-	**(4,505)**	(6,359)
Unrealized profits in inventories	**1,124**	-	**-**	-
Provision for manufacturing agreement	**-**	-	**(5,598)**	-
Depreciation and amortization	**20,545**	21,330	**33,742**	36,380
	208,481	113,814	**215,891**	138,744
Changes in current and noncurrent assets and liabilities:				
Accounts receivable	**(48,762)**	(69,325)	**(32,603)**	(61,152)
Inventories	**15,487**	(46,611)	**(610)**	(44,953)
Taxes recoverable	**25,516**	(14,745)	**24,382**	(15,829)
Other assets	**(7,427)**	836	**1,966**	1,159
Prepaid expenses	**(1,020)**	417	**(1,434)**	574
Trade accounts payable	**5,881**	17,516	**15,274**	12,899
Labor and tax liabilities	**1,114**	10,334	**(2,244)**	6,797
Other liabilities	**(5,493)**	(11,631)	**(1,087)**	(11,142)
Income and social contribution taxes paid	**(25,073)**	(16,320)	**(25,431)**	(20,935)
Net cash provided by (used in) operating activities:	**168,704**	(15,715)	**194,104**	6,162
Cash flow from investing activities:				
Acquisition of property, plant and equipment	**(29,308)**	(44,548)	**(45,669)**	(54,422)
Acquisition of intangible assets	**(3,254)**	(3,018)	**(8,154)**	(3,018)
Long-term investments	**(327)**	64	**(327)**	64
Proceeds from sales of property, plant and equipment	**9,467**	4,956	**9,467**	4,956
Future capital contributions	**-**	(2,158)	**-**	(2,158)
Intercompany loan receivable	**6,914**	13,146	**-**	-
Acquisition of subsidiary, net of cash	**(159,746)**	-	**(153,426)**	-
Net cash used in investing activities:	**(176,254)**	(31,558)	**(198,109)**	(54,578)
Cash flow from financing activities:				
Loans and financing raised	**168,467**	(43,352)	**169,313**	(43,298)
Payment of principal of loans and financing	**(116,085)**	-	**(116,261)**	-
Payment of interest on loans and financing	**(29,397)**	-	**(29,403)**	-
Dividends paid to shareholders	**(10,001)**	(11,733)	**(10,001)**	(11,733)
Related parties	**(22,086)**	-	**(16,337)**	-
Net cash used in financing activities:	**(9,102)**	(55,085)	**(2,689)**	(55,031)
Net decrease in cash and cash equivalents	**(16,652)**	(102,358)	**(6,694)**	(103,447)
Cash and cash equivalents at beginning of year	**48,322**	150,680	**49,096**	152,543
Cash and cash equivalents at end of year	**31,670**	48,322	**42,402**	49,096
	(16,652)	(102,358)	**(6,694)**	(103,447)

See accompanying notes.

1. Operations

União Química Farmacêutica Nacional S.A., a privately-held corporation (“União Química”, “Company” or “Parent Company”), and its subsidiaries (jointly, the “Group”) are primarily engaged in manufacturing, compounding, selling and distributing pharmaceutical products for human and veterinary use, biological products for pest control, cosmetics, dietary and personal care products, concentrating their operations on the following lines: Ophthalmologicals, Central Nervous System and Pain, Prescription-Free Medicines, Over-the-Counter (OTC) Medicines, Hospital Medicines, Ethical and Generic Medicines.

The Company has currently five manufacturing plants located in Embu-Guaçu (São Paulo state), Pouso Alegre (Minas Gerais state), Taboão da Serra (São Paulo state), and two in Brasília (Federal District); three distribution centers located in Taboão da Serra (São Paulo state), Brasília (Federal District) and Extrema (Minas Gerais state); one printing facility in Taboão da Serra (São Paulo state); and two offices: the administrative and sales office in São Paulo (São Paulo state) and the sales and representation office in Rio de Janeiro (Rio de Janeiro state).

The Company holds interest in the following companies: i) Bionovis S.A. – joint venture - engaged in the research, development, production, distribution and sales of biotechnology products; and ii) subsidiaries Anovis Industrial Farmacêutica Ltda., Inovat Industria Farmacêutica Ltda. and Union Quimica Farmaceutica Internacional. S.A

<u>Acquisition of Inovat Industria Farmacêutica Ltda.</u>

On November 14, 2017, the Company and Zoetis Industria de Produtos Veterinários Ltda. ("Zoetis") entered into a "Share Purchase and Sale Agreement" to acquire all the shares (units of interest) in Inovat Indústria Farmacêutica Ltda. ("Inovat"). In addition to executing the aforementioned agreement, at the transaction closing date, the Company and Zoetis entered into a manufacturing and supply contract, whereby Inovat will manufacture Zoetis products, and distribute them in more than 100 countries. The purpose of the acquisition was to outsource the production of veterinary drugs, with additional revenue and cash generation measured by this new business and to expand the output capacity of União Química, characterizing a business combination.

The acquisition price of Inovat on the acquisition date, appraised by an external consulting firm, is allocated and broken down as follows:

(In thousands of reais, unless otherwise stated)

1. Operations (Continued)

Acquisition of Inovat Industria Farmacêutica Ltda. (Continued)

Assets:	Book value	Surplus value	Fair value
Cash and cash equivalents	6,320	-	6,320
Accounts receivable	5	-	5
Inventories	20,477	-	20,477
Taxes recoverable	5,807	-	5,807
Related parties	7,637	-	7,637
Property, plant and equipment, net	95,999	51,447	147,446
	136,245	**51,447**	**187,692**
Liabilities:			
Trade accounts payable	965	-	965
Labor and tax liabilities	14,281	-	14,281
Supply agreement	-	12,743	12,743
	15,246	**12,743**	**27,989**
Equity	**120,999**	**38,704**	**159,703**
Consideration paid	**-**	**-**	159,746
Goodwill based on future profitability	**-**	**-**	(43)

Goodwill is represented by the appreciation of tangible and other assets identified in the amount of R$ 51,447, net of the fair value of the supply agreement with Zoetis in the amount of R$ 12,743, in relation to the amount of consideration paid. The appreciation in the supply agreement considered the contractual clauses for the supply to Zoetis over the next 5 years. Total consideration amounted to R$ 159,746 and was fully settled as at December 31, 2017. As shown in the table above, this business combination generated goodwill in the amount of R$ 43 and no other assets than related equity elements were identified.

Acquisition of Claris Produtos Farmacêuticos do Brasil Ltda.

On December 28, 2017, the Company, Catalys Venture Cap Limited and Claris Lifesciences Limited entered into a "Share Purchase Agreement" to acquire all the shares shares (units of interest) in Claris Produtos Farmacêuticos do Brasil Ltda. ("Claris"). The registration and filing of the "Private Instrument of Amendment of the Articles of Association for Assignment and Transfer of Shares" is pending. After registration of this instrument by the proper authorities, the Company will take control of Claris.

2. Accounting policies

a) Statement of compliance (regarding IFRS and CPC standards)

The Company's individual and consolidated financial statements were prepared in accordance with accounting practices adopted in Brazil, which comprise provisions contained in the Brazilian Corporation Law (Law No. 6404/76), as amended by Laws No. 11638/07 and No. 11941/09, and the accounting pronouncements, interpretations and guidelines issued by the Brazilian Financial Accounting Standards Board ("CPC"), as well as the international financial reporting standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

All significant information of the individual and consolidated financial statements themselves, and only such information, is being disclosed and corresponds to that used by the Company over its management.

b) Significant accounting estimates

The preparation of the individual and consolidated financial statements require the use of certain critical accounting estimates and also the exercise of judgment by Company management in the process of applying its accounting practices. The accounting estimates used in preparing the financial statements were based on objective and subjective factors, considering management's judgment to determine the adequate amount to be recognized in the financial statements. Significant items subject to those estimates and assumptions include risk analysis to determine provisions and related amounts; review of estimates for useful lives of property, plant and equipment items and the timing for generating future economic benefits of intangible assets; deferred tax assets and liabilities; impairment of financial and non-financial assets; fair value of financial instruments. The Company reviews its estimates and assumptions at least once a year.

Settlement of transactions involving these estimates may result in amounts different from those recorded in the financial statements due to the probabilistic treatment given to the estimation process.

2. Accounting policies (Continued)

c) Basis of preparation and presentation of individual and consolidated financial statements

The individual and consolidated financial statements were prepared on a cost basis, except for some asset and liability items measured at fair value, as indicated in this Note.

The Company's Executive Board authorized the completion of these individual and consolidated financial statements on March 2, 2018.

d) Basis of consolidation

The following accounting policies are applied in the preparation of the consolidated financial statements:

Subsidiaries

Subsidiaries are all entities over which the Company has the power to determine financial and operating policies, generally involving ownership interest of more than half of their capital. The subsidiaries are fully consolidated as from the date when the control is transferred to the Company. The consolidation is discontinued as from the date when such control ends.

Intercompany transactions, balances and unrealized gains on transactions between the Company's entities are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of *impairment* of the asset transferred.

Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Company.

(In thousands of reais, unless otherwise stated)

2. **Accounting policies** (Continued)

d) Basis of consolidation (Continued)

Companies included in the consolidated financial statements

The consolidated financial statements include the financial statements of União Química Farmacêutica Nacional S.A. and of its direct subsidiaries Anovis Industrial Farmacêutica Ltda., Union Quimica Farmaceutica Internacional S.A. and Inovat Indústria Farmacêutica Ltda. The Company holds 100% interest in the subsidiaries (except for the 99.99% interest in Anovis) which are accounted for using the equity method in the individual financial statements. The following table summarizes the subsidiaries' financial information:

	Anovis		**Inovat**	**Union**
	2017	**2016**	**2017**	**2017**
Current assets	**78,796**	54,252	**39,354**	**8,284**
Noncurrent assets	**105,237**	93,907	**97,412**	**-**
Current liabilities	**59,062**	16,382	**12,556**	**23**
Noncurrent liabilities	**655**	8,096	**2,564**	**7,542**
Equity	**124,316**	123,681	**121,646**	**719**
Interest	**100.00%**	100.00%	**100.00%**	**100.00%**
Net operating revenue	**123,074**	134,210	**2,482**	**-**
Net income/(loss) for the year	**635**	10,168	**647**	**(116)**

Subsidiaries - Individual financial statements

In the individual financial statements, subsidiaries are recorded under the equity method. The adjustments are made to both individual and consolidated financial statements in order to reach the same earnings/(losses) and equity attributable to the Company's shareholders.

Jointly-controlled entities

A jointly-controlled entity is an entity in which the Company has joint control, which is contractually agreed and requires the unanimous consent about strategic and operational decisions.

The financial information of jointly-controlled subsidiaries is recorded in the individual and consolidated financial statements under the equity method.

2. Accounting policies (Continued)

e) Summary of significant accounting practices

General principles and criteria for revenue recognition

Assets, liabilities, revenues and expenses are computed on an accrual basis. Sales revenue is recognized in the statement of profit and loss upon billing and adjusted to reflect the timing of the transfer of risks and rewards inherent in the products and goods sold, also considering an analysis of the potential realization of amounts owed to the Company and its subsidiaries, and when Management is no longer involved with the goods/products. Sales revenue is presented net of deductions, including taxes on sales.

Cash and cash equivalents

Cash and cash equivalents include cash, bank demand deposits and temporary investments with maturity and grace period of up to 90 days as from the investment date, or maturing after 90 days, but considered as highly liquid, since there is the intention and possibility of being redeemed in the short term from the instrument issuer for an amount of cash and subject to an insignificant risk of change in value.

Financial instruments

Financial instruments are only recognized as from the date the Company and its subsidiary become a party to such instruments contractual provisions. They are initially stated at fair value upon recognition plus transaction costs directly attributable to their acquisition or issue (where applicable). They are subsequently measured at each date of the statement of financial position in accordance with the rules established for each type of classification of financial assets and liabilities, as described in Note 28.

Financial assets are classified in the following specific categories: (i) financial assets measured at fair value through profit or loss; (ii) held-to-maturity investments; and (iii) loans and receivables. Classification depends on the nature and purpose of the financial assets and is determined upon initial recognition.

Temporary investments are initially recorded at cost to subsequently include earnings based on the effective interest rate through the reporting date (amortized cost), which do not exceed their market value or realizable value. These comprise investments redeemable above 90 days from investment date, or those redeemable above 90 days that cannot be early redeemed without risk of change in value.

All financial liabilities are measured at amortized cost.

2. **Accounting policies** (Continued)

e) Summary of significant accounting practices (Continued)

Financial instruments (Continued)

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value every month through to year-end. Gains or losses are immediately recognized in the statement of profit and loss, and are classified as financial assets at fair value through profit or loss.

Accounts receivable

Trade accounts receivable correspond to receivables from customers for the sale of goods in the ordinary course of business. The Company and its subsidiaries normally grant an average of 119 days for customers to pay, a term deemed by management as part of the commercial conditions inherent in the operations of Company and of its subsidiary, with no embedded significant financing component. Consequently, sales transactions are not subject to present value adjustments at the reporting date. All receivables are measured at amortized cost after initial recognition.

Impairment of financial assets

The Company and its subsidiaries assess, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment loss may include indicators that the borrower is going through significant financial difficulties. The likelihood that borrowers will go bankrupt or undergo any other type of financial restructuring, be in default or make late principal or interest payments may be indicated by a measurable decrease in future estimated cash flows, such as changes in maturity or economic conditions related to the defaults.

2. Accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

Inventories

Inventories are carried at the lower amount between cost and net realizable value. The raw material cost is determined using the weighted average method. The cost of finished products and work-in-process comprise raw materials, direct labor and other direct production costs and overhead. The net realizable value is the estimated selling price for the ordinary course of business, less production costs and selling expenses and, where applicable, the provision for losses due to expiration date, rejection by quality control and damages.

The net realizable value is the estimated selling price for the ordinary course of business, less production costs and selling expenses and, where applicable, the provision for losses due to expiration date, rejection by quality control and damages.

Judicial deposits

Judicial deposits are demand cash deposits made in court to back lawsuits filed against the Company. They are tested for impairment periodically.

2. Accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

Investments

The Company's investments in subsidiaries and jointly-controlled subsidiaries are measured and recorded under the equity method in the individual financial statements, initially recognized at cost, with changes posted in the net income for the year or directly in equity, as applicable.

Where necessary, the accounting policies of the investees are adjusted to ensure consistency with the policies adopted by the Company (investor).

Business combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition-date fair value, and the value of any noncontrolling interests in the acquiree. For every business combination, the Company measures the non-controlling interest in the acquiree at fair value or based on its share in such entity's identifiable net assets. Costs directly associated with an acquisition are expensed as incurred.

When acquiring a business, the Company measures the financial assets acquired and the financial liabilities assumed so as to classify and allocate them on the basis of the contractual terms, economic conditions and other pertinent conditions existing at the acquisition date, which includes separation, by the acquiree, of existing embedded derivatives from host contracts.

Any contingent portion to be transferred by the acquirer will be recognized at fair value on the acquisition date. Subsequent changes in the fair value of the contingent portion to be considered as an asset or liability shall be recognized in accordance with CPC 38 in the income statement.

2. Accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

Property, plant and equipment

Property, plant and equipment items are segregated into well-defined classes related to its operating activities. The industry in which the Company and its subsidiaries operate is significantly impacted by the technological development, which requires that management review the recoverable amounts and estimates of useful lives of property, plant and equipment items frequently.

Land and buildings comprise mainly plants. Property, plant and equipment are measured at historical cost, net of accumulated depreciation. The historical cost includes costs directly attributable to the acquisition of the items and financing costs related to the acquisition of assets.

Costs subsequently incurred are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. The book value of replaced items or parts is written off. All other repair and maintenance costs are recorded as a matching entry to P&L for the year as incurred.

Land is not depreciated. Depreciation rate of other assets is calculated under the straight-line method for allocation of their costs to their residual values over the estimated useful life, as detailed in Note 13. The useful life of assets is reviewed and adjusted at year-end, as appropriate.

The carrying amount of an asset is immediately discounted to its recoverable amount when the carrying amount exceeds the estimated recoverable amount.

Gains and losses from sale of assets are determined by comparing P&L and carrying amount, and are recognized in “Other income (expenses), net” in the income statement.

Intangible assets

Intangible assets are broken down into: (i) unamortized goodwill based on future profitability; (ii) unamortized acquisition cost of trademarks and patents of certain products; (iii) acquired software licenses capitalized and amortized over the estimated generation of future economic benefits, as described in Note 14.

2. Accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

Intangible assets (Continued)

Research expenditures are recognized as expenses when incurred. Costs incurred in developing projects (relating to the project and testing phase of new or enhanced products) are recognized as intangible assets when it is probable that the projects will succeed, considering their commercial and technological feasibility, and only if their cost can be reliably measured. Other development costs not reasonably identified are charged to expense as incurred. When capitalized, development costs are amortized since the beginning of the commercial production of the product under the straight-line method and over the period future economic benefits are expected.

Goodwill is the positive difference between the amount paid and/or payable in a business acquisition and the net fair value of assets and liabilities of the acquired subsidiary. The goodwill on acquisition of subsidiaries is recorded as “Intangible Assets.”

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any. Impairment losses on goodwill are not reversed Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to Cash-Generating Units (CGUs) for impairment testing. Goodwill is allocated to CGUs or groups of CGUs that are expected to benefit from the business combination generating the goodwill, and segregated by operating segment.

Trademarks and licenses acquired separately are initially recognized at historical cost. Trademarks and licenses acquired in a business combination are recognized at fair value on the acquisition date.

Software licenses acquired are capitalized based on the costs incurred to buy software and bring them to use. These costs are amortized over their estimated generation of future economic benefits.

2. Accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

Provision for impairment of non-financial assets

Assets with indefinite useful lives, such as goodwill, are not subject to amortization but to annual impairment tests. The assets subject to amortization are reviewed for *impairment* whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An *impairment* loss is recognized at the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset’s fair value less costs to sell and its value in use. For *impairment* measurement, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash-Generating Units - CGU).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of such impairment at the financial statements reporting date.

Loans and financing

Loans and financing are initially recognized at fair value, net of transaction costs incurred, and are subsequently carried at amortized cost. Any difference between the funds raised (net of transaction costs) and the total amount repayable is recognized in the income statement over the period the loans remain outstanding, using the effective interest rate method.

The rates paid when loans are taken are recognized as transaction costs, and are capitalized as prepayment of liquidity services and amortized over the period of the loan to which they relate.

Trade accounts payable

Trade accounts payable are obligations payable for goods or services acquired from suppliers in the ordinary course of business, and are classified as current liabilities if payment is due within one year or less. Accounts payable are otherwise stated as noncurrent liabilities.

The average payment term of trade accounts payable is 46 days, which follows the Company’s usual conditions and the arm’s length principle; consequently, no present-value adjustment was applied.

2. Accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

Current and deferred income and social contribution taxes

These taxes are calculated based on the effective income and social contribution tax rates and consider the offsetting of income and social contribution tax losses for payment requirement determination purposes.

Tax expenses for the period comprise current and deferred income and social contribution taxes. Income taxes are recognized in the statement of profit and loss, except where they refer to items directly recognized in equity. In this case, this tax is also recognized in equity or comprehensive income.

Corporate income tax (IRPJ) is calculated based on net income adjusted for additions and exclusions determined by tax legislation in force, at a rate of 15%, plus a 10% surtax, as applicable. Social contribution tax on net profit (CSLL) is calculated at 9% of pre-tax income adjusted as required by applicable legislation.

Deferred IRPJ and CSLL are calculated on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. CPC 32 establishes conditions for recording deferred tax assets arising from temporary differences and IRPJ and CSLL tax losses. These conditions include a history of profitability and expected future taxable profits, supported by a technical feasibility study, that allow the realization of deferred tax assets.

Deferred IRPJ and CSLL liabilities are fully recognized, while the related tax assets depend on the expected future realization.

2. Accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

Income and social contribution taxes (Continued)

Deferred tax assets and liabilities are stated net if there is a legal or contractual right to offset tax assets against tax liabilities and the deferred taxes are related to the same taxable entity and subject to the same tax authority.

Other assets and liabilities (current and noncurrent)

An asset is recognized in the statement of financial position when its future economic benefits are likely to flow to the Company and its subsidiaries, and its cost or value can be reliably measured. A liability is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an economic resource is required to settle it. These include their corresponding charges and monetary or foreign exchange gains or losses incurred, where applicable. Provisions are recorded reflecting the best estimates of the risk involved.

Assets and liabilities are classified as current when their realization or settlement is likely to occur within the next twelve months. They are otherwise stated as noncurrent.

2. Accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

Provisions for tax, civil and labor claims

The Company and its subsidiaries are parties to various legal and administrative proceedings. Provisions are recognized for all contingencies in connection with legal proceedings for which it is likely that a cash outflow will be required to settle the contingency/obligation and a reasonable estimate can be made. The assessment of the likelihood of loss includes an analysis of available evidence, the hierarchy of laws, available case law, recent court decisions and their relevance in the legal system, as well as the opinion of outside legal advisors. Provisions are reviewed and adjusted to take into account changes in circumstances, such as the applicable statute of limitations, tax audit conclusions or additional exposures identified based on new matters or court decisions.

Functional currency and transactions in foreign currency

The functional currency of the Company and its main subsidiaries is the Brazilian real (R$), which is also their reporting currency. Foreign currency-denominated transactions are translated into the functional currency of the Company and its subsidiaries at the exchange rates prevailing on the transaction dates. The accounts in the statement of financial position are translated at the exchange rate prevailing at its date. Exchange gains and losses arising from the settlement of these transactions and from the conversion of monetary assets and liabilities denominated in foreign currency are recognized in P&L for the year.

2. Accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

Profit sharing

The Company and its subsidiaries recognize a liability and an expense for employee profit sharing, which is contingent on achieving operational goals and specific objectives determined and approved at the beginning of each year. The Company and its subsidiaries recognize a provision when it is contractually bound or when a past practice created an obligation that was not formalized.

There are no other benefits for employees and officers after leaving the Company and its subsidiaries (post-employment benefits).

Government grants

Government grants are recognized when there is reasonable certainty that the benefit shall be received and that all the related conditions shall be met. Whenever the benefit relates to an expense item, it is recognized as revenue throughout the benefit period, on a systematic basis in relation to the costs whose benefit offset is sought. Whenever the benefit relates to an asset, it is recognized as deferred revenue and posted to P&L in equal amounts throughout the expected useful life of the corresponding asset. When the Company receives non-monetary benefits, the relevant item and the benefit are recorded at par value and reflected in the income statement over the expected useful life of the asset in equal annual portions.

The loan or assistance is initially recognized or measured at fair value. Government grants are measured as the difference between the initial carrying amount of the loan and income earned. The loan is subsequently measured according to the accounting policy.

2. Accounting policies (Continued)

e) Summary of significant accounting practices (Continued)

Standards, amendments and interpretations to standards

The pronouncements and interpretations issued by the Brazilian Financial Accounting Standards Board (CPC) applicable to the Company and its subsidiaries that were not yet effective as at the date of these individual and consolidated financial statements are described below. The Company and its subsidiaries intend to adopt these pronouncements once they become effective in Brazil.

- CPC 47 (IFRS 15) - Revenue Recognition - specifies how and when to recognize revenue from contracts with customers, and requires an entity to provide users of financial statements with more informative and relevant information.

- CPC 48 (IFRS 9) - Financial Instruments - aims to replace CPCs 38, 39 and 40 (IAS 39) and establishes principles for disclosure of financial assets and liabilities, as well as adds a new impairment model and limited changes to the classification and measurement requirements by introducing a valuation criterion at "fair value through equity adjustments" for certain simple debt instruments.

The Company assessed the effects from implementing the above regulations in its individual and consolidated financial statements and concluded that the impacts will not be significant. Additionally, the cumulative method was defined as the transition method.

Applicable on or after January 1, 2019:

- CPC 06 (R2) (IFRS 16) - Leases (new pronouncement) - aims to introduce requirements for recognition, measurement, presentation and disclosure of leases. The pronouncement provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. There are no significant changes for lessor accounting, and lessors should continue to classify leases as operating or finance, as defined in the standard.

The Company has not yet concluded the evaluation of the effects and disclosures arising from this standard in its individual and consolidated financial statements.

3. Financial risk management

3.1. Financial risk factors

The Company's and its subsidiaries' activities expose them to certain financial risks, such as market risk, credit risk and liquidity risk.

The Company and its subsidiaries follow a risk management control that guides transactions and requires diversification of transactions and of counterparties. Based on this control, the nature and the general position of financial risks are regularly monitored and managed in order to assess P&L and the financial impact on cash flow.

The risk management control of the Company and its subsidiaries was defined by the Group's Executive Board. Under the terms of this control, market risks are hedged when supporting the corporate strategy is deemed necessary or when maintaining the financial flexibility level is required.

a) Market risk

i) Interest rate risk

Interest rate risk refers to the possibility of the Company and its subsidiaries incurring losses due to fluctuations in interest rates that increase finance costs relating to loans and financing raised in the market. The Company and its subsidiaries continually monitor market interest rates in order to assess whether renegotiation or payment/early receipt of transactions is required, or even enter into transactions in the financial market in order to hedge against the risk of rate fluctuations.

3. Financial risk management (Continued)

3.1. Financial risk factors (Continued)

a) Market risk (Continued)

ii) *Currency risk*

The associated risk arises from the possibility of the Company and its subsidiaries incurring losses due to exchange rate fluctuations that increase the funds raised in the marketplace. At December 31, 2017, the Company's net exposure refers to loans in foreign currency amounting to US$18,236 thousand and €2,119 thousand (2016 - US$19,388 thousand and €1,555 thousand) and import of raw materials and/or services amounting to US$4,844 thousand and €1,126 thousand (2016 - US$99 thousand and €1,390 thousand), with NDF hedging this exposure as at December 31, 2017 totaling US$6,210 thousand and €806 thousand.

b) Credit risk

Credit risk is managed by the Executive Board of Company and its subsidiaries. Credit risk arises from cash and cash equivalents, credit exposure of outstanding accounts receivable and transactions with related parties. The credit analysis area assesses the customer's credit quality, taking into consideration its financial position, past experience, market behavior, credit analyses and other factors. Individual risk limits are determined based on internal ratings defined by management. Use of credit limits is monitored on a regular basis. Sales to customers are usually suspended when there is evidence of default.

For customers with history of default, management requires early payment in some cases to release new orders.

Management does not expect any loss due to default of these counterparties, except for the allowance for doubtful accounts shown in Note 6.

c) Liquidity risk

This is the risk of the Company and its subsidiaries not having sufficient liquidity to meet their financial commitments, due to the mismatch of terms or volume between expected receipts and payments.

3. Financial risk management (Continued)

3.1. Financial risk factors (Continued)

c) Liquidity risk (Continued)

To manage cash liquidity in domestic and foreign currency, future cash outflows and receivables assumptions are determined and monitored by the treasury department. See liquidity quantitative analysis in Note 28.

3.2. Capital risk management

The objectives of Company and its subsidiaries when managing capital are to safeguard their ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust their capital structure, the Company and its subsidiaries may revise the policy for payment of dividends, return capital to shareholders, issue new shares, or sell assets to reduce their indebtedness level, for example.

Consistently with other companies operating in this industry, the Company and its subsidiaries monitor capital based on the financial leverage ratio. This ratio corresponds to the net debt divided by total capital. Net debt, in its turn, corresponds to total loans and financing (including short and long-term loans, as stated in the consolidated statement of financial position), deducted from cash and cash equivalents. Total capital is calculated through the sum of equity, as stated in the consolidated statement of financial position, with net debt.

The financial leverage is basically due to the following transactions:

(i) Finance lease (machinery, equipment and vehicles);

(ii) Import financing and re-financing;

(iii) Raising of working capital;

(iv) FINAME (Government Fund for Financing of Machinery and Equipment) - acquisition of machinery and equipment with at least 60% of their parts manufactured in Brazil; and

(v) Debentures.

(In thousands of reais, unless otherwise stated)

3. Financial risk management (Continued)

3.3. Sensitivity analysis of financial assets and liabilities

The financial liabilities of the Company and its subsidiaries relate mostly to contracts subject to foreign exchange fluctuations and pegged to the CDI variation, representing 43.3% of the consolidated financial liabilities in 2017, totaling 86.6%. In addition, 12.2% of bank loans are pegged to fixed interest rates, and 1.2% are restated by other monetary restatement indexes (such as TJLP and INPC).

CPC 38, 39 and 40 provide for the presentation of information on financial instruments in a specific note, and for the disclosure of a sensitivity analysis table.

With a view to checking the sensitivity of the debt indexes to which the Company and its subsidiaries are exposed as at December 31, 2017, three different scenarios were estimated, considering the volume of total financing. Based on these consolidated amounts at December 31, 2017, the Company defined the Probable Scenario for the next 12-month period (Scenario I). Based on Scenario I (Probable), the Company simulated additions of 25% (Scenario II) and 50% (Scenario III) on projections of restatement indexes of each agreement.

For each scenario, gross finance costs were calculated, not considering taxes and the aging list of each agreement for 2018 and thereafter. The reporting date used was December 31, 2017, with projection of restatement indexes for each contract for the next 12 months and assessment of their sensitivity under each scenario.

	Probable scenario	Scenario II	Scenario III
Risk	Dec 2018	Dec 2018	Dec 2018
Exchange gains (losses)	**68,740**	**68,740**	**68,740**
Projected finance costs	2,029	13,334	25,639
Variation %	2.95%	19.40%	37.30%
CDI	**270,628**	**270,628**	**270,628**
Projected finance costs	25,179	29,642	34,105
Variation %	9.30%	10.95%	12.60%
Fixed	**47,944**	**47,944**	**47,944**
Projected finance costs	1,845	1,845	1,845
Variation %	3.85%	3.85%	3.85%
Other	**4,594**	**4,594**	**4,594**
Projected finance costs	555	637	718
Variation %	12.08%	13.87%	15.63%
Total bank indebtedness	**391,906**	**391,906**	**391,906**
Total projected finance costs	29,608	45,458	62,307
Total variation %	7.55%	11.60%	15.90%

(In thousands of reais, unless otherwise stated)

3. Financial risk management (Continued)

3.3. Sensitivity analysis of financial assets and liabilities (Continued)

The financial assets of the Company and its subsidiaries are pegged to the CDI variation. In order to assess the sensitivity of possible changes in the CDI at December 31, 2017, the Company defined a Probable Scenario for the next 12-month period and thereafter and, based on this scenario, it simulated variations of 25% (Scenario II) and 50% (Scenario III) on index projections.

	Probable scenario	Scenario II	Scenario III
Investments - CDI	**35,564**	**35,564**	**35,564**
Rate subject to variation	6.42%	8.03%	9.63%
Projected finance income	2,284	2,855	3,426
Variation	**-**	**571**	**1,142**

The financial assets of the Company and its subsidiaries at December 31, 2017 are pegged to the daily yield equivalent to a percentage of the CDI variation, with daily liquidity. Part of the investments characterize as automatic investments, based on the final balance available in the checking account. Part of the investments were invested in CDBs with daily liquidity through specific amounts/lots traded and distributed in the main institutions with which the Company and its subsidiaries do business.

The Company and its subsidiaries include NDFs and Swap in the sensitivity analysis using the scenarios below:

Scenario I - considered a benchmark by the Company and its subsidiaries: derived from the R$ / US$ exchange rate and CDI rates, based on the compilation of market projections obtained from reports of leading consulting firms, national and international financial institutions and the Bank Central of Brazil.

Scenarios II and III - decrease in exchange rates and CDI - these scenarios consider 25% and 50% decrease (devaluation) in interest rates (marked to market) linked to derivative financial instruments entered into by the Company and its subsidiaries with outstanding positions on the closing date.

The sensitivity values shown in the table below are variations of derivative financial instruments under each scenario.

	Company and Consolidated		
	12/31/2017		
Transaction	**Probable scenario (I)**	**Scenario (II) 25% decrease**	**Scenario (II) 50% decrease**
NDFs (banks)	**11**	**5,714**	**11,650**
Swap (banks)	**(1,448)**	**(1,086)**	**(724)**
Total	**(1,437)**	**4,628**	**10,926**

(In thousands of reais, unless otherwise stated)

4. Cash and cash equivalents

	Company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Cash and banks	**336**	720	**512**	746
Short-term investments				
Santander	**12,876**	16,700	**15,424**	17,448
Bradesco	**-**	307	**-**	307
Banco do Brasil	**8,180**	30,575	**8,180**	30,575
Itaú Unibanco	**20**	20	**8,028**	20
Alfa	**1**	-	**1**	-
BRB	**49**	-	**49**	-
Citibank	**10,208**	-	**10,208**	-
	31,670	48,322	**42,402**	49,096

Short-term investments in Bank Deposit Certificates (CDB) have an average yield of 97% of CDI. They comprise cash or cash equivalent amounts invested in securities issued by prime financial institutions with credit rating assigned by international credit rating agencies, which are highly liquid and redeemable at any time without any effective loss.

5. Long-term investments

	Company		Consolidated	
Noncurrent assets	**12/31/2017**	**12/31/2016**	**12/31/2017**	**12/31/2016**
CDBs	**4,230**	3,903	**4,230**	3,903
	4,230	3,903	**4,230**	3,903

The Company maintained transactions referring to financing of 70% of the State VAT (ICMS) amount arising from sales made through Brasília, and the Company is responsible for paying the other 30%. As required by the respective agreement, Bank Deposit Certificates (CDB) issued by Banco Regional de Brasília have been acquired as guarantee, in an amount equivalent to 10% of each loan installment drawn down, which shall be maintained until the maturity of referred to financing and fully used to amortize the debt. This program was terminated and the Company awaits the auction definition to settle the outstanding balances of investments and ICMS payable relating to the business support program of the Federal District (Pro-DF) - see Note 18.

(In thousands of reais, unless otherwise stated)

6. Trade accounts receivable

	Company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Domestic customers	**260,129**	239,132	**301,281**	261,656
Foreign customers	**68**	3,939	**68**	3,939
Related parties (Note 11)	**82,861**	54,039	**50,692**	51,054
	343,058	297,110	**352,041**	316,649
(-) Allowance for doubtful accounts	**(1,718)**	(3,453)	**(1,718)**	(3,453)
	341,340	293,657	**350,323**	313,196

The Company and its subsidiaries' procedure is to set up an allowance for doubtful accounts receivable from corporate customers overdue for more than 180 days after the financial reporting date, also considering the individual analysis of its customer portfolio.

Changes in the allowance for doubtful accounts for 2017 and 2016:

	Company and Consolidated
Balance at 12/31/2015	(6,915)
Allowance	(7,132)
Reversal	2,987
Write-off (actual loss)	7,607
Balance at 12/31/2016	(3,453)
Allowance	**(4,632)**
Reversal	**3,553**
Write-off (actual loss)	**2,814**
Balance at 12/31/2017	**(1,718)**

In 2017, the Company reversed the allowance for doubtful accounts receivable from government entities, considering their remote probability of default in the long term and the history of realization of the receivables, even though such credits currently show a default level.

The aging list of accounts receivable is summarized as follows:

(In thousands of reais, unless otherwise stated)

6. Trade accounts receivable (Continued)

	Company					
	12/31/2017			12/31/2016		
	Corporate	Governme	Total	Corporate	Governme	Total
Falling due	**313,084**	**4,960**	**318,044**	262,244	5,048	267,292
Overdue up to 30 days	**5,187**	**3,306**	**8,493**	8,094	5,350	13,444
Overdue from 31 to 60 days	**431**	**1,798**	**2,229**	1,560	1,937	3,497
Overdue from 61 to 120 days	**1,279**	**2,761**	**4,040**	1,628	3,712	5,340
Overdue from 121 to 180	**361**	**1,507**	**1,868**	668	3,984	4,652
Overdue from 181 to 360	**1,023**	**4,377**	**5,400**	269	1,633	1,902
Overdue for more than 361	**425**	**2,559**	**2,984**	4	979	983
	321,790	**21,268**	**343,058**	274,467	22,643	297,110

	Consolidated					
	12/31/2017			12/31/2016		
	Corporate		Total	Corporate		Total
Falling due	**319,709**	**4,960**	**324,669**	281,726	5,048	286,774
Overdue up to 30 days	**7,290**	**3,306**	**10,596**	8,121	5,350	13,471
Overdue from 31 to 60	**551**	**1,798**	**2,349**	1,590	1,937	3,527
Overdue from 61 to 120	**1,403**	**2,761**	**4,164**	1,628	3,712	5,340
Overdue from 121 to 180	**399**	**1,507**	**1,906**	668	3,984	4,652
Overdue from 181 to 360	**989**	**4,377**	**5,366**	269	1,633	1,902
Overdue for more than 361	**432**	**2,559**	**2,991**	4	979	983
	330,773	**21,268**	**352,041**	294,006	22,643	316,649

7. Inventories

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Finished products	**67,617**	95,682	**82,390**	97,112
Work-in-process	**16,308**	14,200	**21,274**	15,277
Raw materials	**69,209**	77,946	**86,666**	85,045
Packaging material	**24,057**	22,741	**39,147**	30,127
Maintenance and safety materials	**15,747**	12,239	**30,577**	18,778
Advance for acquisition of supplies (i)	**3,226**	-	**3,226**	-
Other	**5,323**	8,330	**9,592**	8,330
(-) Provision for losses	**(6,899)**	(14,394)	**(21,116)**	(15,806)
	194,588	216,744	**251,756**	238,863

(i) This refers to advances for the acquisition of imported medications for resale.

(In thousands of reais, unless otherwise stated)

7. **Inventories** (Continued)

Changes in the provision for inventory losses:

	Company	Consolidated
Balance at 12/31/2015	(15,900)	(15,928)
Provision/Reversal	(9,075)	(10,543)
Write-off (actual loss)	10,581	10,665
Balance at 12/31/2016	(14,394)	(15,806)
Provision/Reversal	**(6,669)**	**(8,192)**
Write-off (actual loss)	**14,164**	**14,164**
Acquisition of subsidiary	**-**	**(11,282)**
Balance at 12/31/2017	**(6,899)**	**(21,116)**

8. Taxes and contributions recoverable

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
State Value-added Tax (ICMS) (i)	**26,614**	21,784	**37,333**	25,989
Contribution Tax on Gross Revenue for Social	**851**	348	**943**	348
Contribution Tax on Gross Revenue for Social	**3,786**	1,628	**4,413**	1,775
Corporate Income Tax (IRPJ) (ii)	**4,736**	14,235	**5,991**	15,634
Social Contribution Tax on Net Profit (CSLL)	**6,452**	4,696	**7,440**	5,693
Withholding Income Tax (IRRF)	**-**	1,433	**16**	1,450
Federal Value-added Tax (IPI)	**3,382**	4,741	**4,606**	5,216
Other	**543**	559	**627**	586
	46,364	49,424	**61,369**	56,691
Current	**37,018**	44,977	**50,749**	52,015
Noncurrent	**9,346**	4,447	**10,620**	4,676

(i) This mainly refers to credits resulting from import of medicines;

(ii) Substantially due to monthly prepayments based on estimates for the year and adjusted in December of the current year. They are realized through offsetting of federal taxes and contributions payable.

(In thousands of reais, unless otherwise stated)

9. Other accounts receivable

	Company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Advances to suppliers	**874**	3,479	**1,214**	3,637
Prepaid vacation pay	**3,076**	2,882	**3,781**	3,230
Pledges and collaterals	**1,608**	1,647	**1,608**	1,647
Other	**278**	1,051	**440**	1,069
Advance for future investment acquisition	**5,417**	5,417	**5,417**	5,417
Related parties (Note 11)	**748**	7,022	**-**	-
	12,001	21,498	**12,460**	15,000
Current	**11,253**	14,476	**12,460**	15,000
Noncurrent	**748**	7,022	**-**	-

10. Derivative financial instruments

	Consolidated and Individual	
	12/31/2017	**12/31/2016**
Assets		
NDF (banks)	**158**	**-**
	158	**-**
Liabilities		
NDF (banks)	**147**	**-**
Swap	**1,448**	**-**
	1,595	**-**
Financial instruments, net	**(1,437)**	**-**

(In thousands of reais, unless otherwise stated)

11. Related parties

Related-party transactions and balances are as follows:

	Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Revenue				
Sales to Anovis (i)	**52,608**	9,393	-	-
Sales to F&F Distribuídora (i)	**144,307**	94,807	**144,307**	94,807
	196,915	104,200	**144,307**	94,807
Purchases				
Purchases from Anovis (i)	**3,378**	1,209	-	-

(i) Balances referring to transactions of purchase and sale of medicines and packaging materials carried out at observable market prices and conditions. The Company and F&F Distribuidora have the same controlling shareholder.

	Company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Current assets				
Receivables from Anovis (i)	**32,169**	2,985	**-**	-
Receivables from F&F Distribuídora (i)	**50,665**	51,054	**50,665**	51,054
Receivables from Laboratil (i)	**27**	-	**27**	-
	82,861	54,039	**50,692**	51,054
Noncurrent assets				
Receivables from Inovat (iii)	**748**	-	**-**	-
Loans - Anovis (ii)	**-**	7,022	**-**	-
	748	7,022	**-**	-
Current liabilities				
Payables to Anovis	**653**	4,006	**-**	-
Loan - indirect parent (iv)	**-**	-	**7,542**	-
	653	4,006	**7,542**	-
Noncurrent liabilities				
Loans - Robferma (v)	**-**	20,122	**-**	20,122
	-	20,122	**-**	20,122

(i) Balances referring to transactions of purchase and sale of medicines and packaging materials carried out at observable market prices and conditions, and receivables from shared services. The Company and F&F Distribuidora have the same controlling shareholder;

(ii) The balance with Anovis derives from a loan and is stated at its par value increased by 12% interest p.a., with indefinite maturity date. The transaction was settled in December 2017;

(iii) Balance with Inovat Farmaceutica Ltda. refers to the payment of operating expenses, is stated at nominal value, and has no fixed maturity;

(iv) This refers to the loan balance obtained by Union Internacional from its indirect parent, stated at its nominal value translated into the functional currency, not subject to interest and with no fixed maturity;

(v) This refers to the loan taken out by the Company on December 15, 2016. This transaction has indefinite maturity and regulatory interest set forth based on the accumulated variation of 100% (one hundred percent) of the CDI. The transaction was settled in December 2017.

(In thousands of reais, unless otherwise stated)

11. Related parties (Continued)

Key management personnel compensation

Key management personnel includes the Chief Executive Officer and Executive Officers, and their compensation paid and/or payable is as follows:

	Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Payroll and related charges	**5,561**	5,822	**7,554**	6,624
Executive Board fees	**1,944**	1,950	**1,944**	1,950
	7,505	7,772	**9,498**	8,574

12. Investments

12.1. Information on investees

	Capital	Ownership interest - %	Equity	P&L
Bionovis S.A. (jointly-controlled subsidiary)				
At December 31, 2016	24,000	25.00	11,992	12,324
At December 31, 2017	**24,000**	**25.00**	**24,745**	**12,753**
Anovis Industrial Farmacêutica Ltda.				
At December 31, 2016	105,524	99.99	123,681	10,168
At December 31, 2017	**105,524**	**99.99**	**124,316**	**635**
Union Quimica Farmacêutica Internacional S.A.				
At December 31, 2016	178	100.00	845	618
At December 31, 2017	**176**	**100.00**	**719**	**(116)**
Inovat Indústria Farmacêutica Ltda.				
At December 31, 2017 (i)	**128,027**	**100.00**	**121,646**	**647**

(i) P&L refers to the period November and December 2017.

(In thousands of reais, unless otherwise stated)

12. Investments (Continued)

12.2. Changes in investments

	Bionovis (i)	Anovis (ii)	Union Química (iii)	Inovat (iv)	Inovat (iv)	Total
Balance at December 31, 2015	586	94,189	184	-	-	**94,959**
Equity pickup	2,731	10,168	-	-	-	12,899
Depreciation - surplus of assets	-	(6,716)	-	-	-	(6,716)
Amortization of supply agreement	-	6,359	-	-	-	6,359
Balance at December 31, 2016	3,317	104,000	184	-	-	107,501
Equity pickup	**2,869**	**635**	**506**	**647**	**-**	**4,657**
Acquisition of investee	**-**	**-**	**-**	**121,042**	**-**	**121,042**
Goodwill based on future profitability	**-**	**-**	**-**	**(43)**	**-**	**(43)**
Fair value upon acquisition	**-**	**-**	**-**	**-**	**38,704**	**38,704**
Depreciation - surplus of assets	**-**	**(3,664)**	**-**	**-**	**-**	**(3,664)**
Amortization of supply agreement	**-**	**4,505**	**-**	**-**	**-**	**4,505**
Inventory profits	**-**	**(1,124)**	**-**	**-**	**-**	**(1,124)**
Translation gains (losses) on foreign transactions	**-**	**-**	**31**	**-**	**-**	**31**
Balance at December 31, 2017	**6,186**	**104,352**	**721**	**121,646**	**38,704**	**271,609**

(i) On April 2, 2012, the Company paid in R$2,500 of the capital in Bionovis S.A., first Brazilian biotechnology product company founded by the Company and Aché Laboratórios Farmacêuticos S.A., EMS Participações S.A. and Hypermarcas S.A. Equity pickup of R$2,869 (R$2,731 in 2016) refers to P&L for year 2017.

(ii) Anovis Industrial Farmacêutica Ltda. was acquired on February 13, 2015 for R$83,147. This company operates in the medicines and toll manufacturing segments. Equity pickup refers to P&L for the period under the subsidiary's management. At December 31, 2017, the Company recognized in P&L for the year the depreciation on the surplus value of tangible assets acquired in the business combination, in the amount of R$3,664 (R$6,716 in 2016), as well as the amortization of the surplus value of the manufacturing agreement in the amount of R$4,506 (R$6,359 in 2016). The referred to amortization considered the volumes invoiced up to December 31, 2017. These amounts represent 12% of the expected cumulative volume of the agreement up to 2024. The Company also recognized the amount of R $ 1,124 related to unrealized profits on inventories, arising from sales of medicaments to this investee.

(iii) Cash remitted by the Company for investment and organization of "Union Química Farmacêutica Internacional", a company based in Uruguay. Equity pickup of R$506 refers to year 2017.

(iv) Inovat Industrial Farmacêutica Ltda. was acquired on November 14, 2017 for R$159.746. This company operates in the medicines and toll manufacturing segments. Equity pickup refers to P&L for the period under the subsidiary's management.

12.3. Changes in manufacturing agreements

	Consolidated
Balance at 12/31/2016	83,906
Amortization	**(4,508)**
Acquisition of subsidiary	**12,743**
Balance at 12/31/2017	**92,141**

(In thousands of reais, unless otherwise stated)

13. Property, plant and equipment

As mentioned in Note 17, the Company has collateralized property, plant and equipment items for loans for working capital and financing of assets, such as machinery, equipment, vehicles and properties.

	Company								
	Land	Buildings and improvements	Machinery, equipment and facilities	Furniture and fixtures	Vehicles and other	Total in operation	Advances to suppliers	Construction in progress	Total
Cost									
Book balance at 12/31/2015	13,962	107,465	184,187	15,229	40,765	361,608	11,334	3,716	376,658
Additions	-	-	17,658	1,442	12,727	31,827	1,338	11,383	44,548
Disposals	-	-	(235)	(32)	(13,769)	(14,036)	-	-	(14,036)
Transfers	-	-	14,047	37	-	14,084	(11,205)	(2,879)	-
Book balance at 12/31/2016	13,962	107,465	215,657	16,676	39,723	393,483	1,467	12,220	407,170
Additions	**2,081**	**52**	**8,831**	**1,458**	**1,136**	**13,558**	**8,207**	**7,543**	**29,308**
Disposals	**-**	**-**	**(538)**	**(672)**	**(15,453)**	**(16,663)**	**-**	**-**	**(16,663)**
Transfers	**-**	**13,070**	**10,399**	**17**	**210**	**23,696**	**(7,347)**	**(16,349)**	**-**
Book balance at 12/31/2017	**16,043**	**120,587**	**234,349**	**17,479**	**25,616**	**414,074**	**2,327**	**3,414**	**419,815**
Depreciation									
Book balance at 12/31/2015	-	(20,064)	(54,418)	(4,115)	(18,780)	(97,377)	-	-	(97,377)
Additions	-	(2,033)	(11,138)	(876)	(5,969)	(20,016)			(20,016)
Disposals	-	-	219	28	6,566	6,813			6,813
Book balance at 12/31/2016	-	(22,097)	(65,337)	(4,963)	(18,183)	(110,580)	-	-	(110,580)
Additions	**-**	**(2,032)**	**(11,996)**	**(1,027)**	**(3,948)**	**(19,003)**	**-**	**-**	**(19,003)**
Disposals	**-**	**-**	**313**	**135**	**5,911**	**6,359**	**-**	**-**	**6,359**
Book balance at 12/31/2017	**-**	**(24,129)**	**(77,020)**	**(5,855)**	**(16,220)**	**(123,224)**	**-**	**-**	**(123,224)**
Net balance at 12/31/2015	13,962	87,401	129,769	11,114	21,985	264,231	11,334	3,716	279,281
Net balance at 12/31/2016	13,962	85,368	150,320	11,713	21,540	282,903	1,467	12,220	296,590
Net balance at 12/31/2017	**16,043**	**96,458**	**157,329**	**11,624**	**9,396**	**290,850**	**2,327**	**3,414**	**296,591**
Depreciation rate	-	1.67% to 4%	5% to 6.67%	10%	6.6% to 20%		-	-	

(In thousands of reais, unless otherwise stated)

13. Property, plant and equipment (Continued)

	Consolidated								
	Land	Buildings and improvements	Machinery, equipment and facilities	Furniture and fixtures	Vehicles and other	Total in operation	Advances to suppliers	Construction in progress	Total
Cost									
Book balance at 12/31/2015	55,143	183,660	233,315	17,198	40,968	530,284	12,048	4,345	546,677
Additions	-	-	24,286	1,848	12,787	38,921	2,649	12,852	54,422
Disposals	-	-	(793)	(174)	(13,788)	(14,755)	-	-	(14,755)
Transfers	-	-	14,047	37	-	14,084	(11,205)	(2,879)	-
Book balance at 12/31/2016	55,143	183,660	270,855	18,909	39,967	568,534	3,492	14,318	586,344
Acquisition of subsidiary	**4,537**	**50,250**	**83,601**	**1,145**	**365**	**139,898**	**-**	**7,548**	**147,446**
Additions	**2,081**	**52**	**17,006**	**1,533**	**1,136**	**21,808**	**10,975**	**12,886**	**45,669**
Disposals	**-**	**-**	**(6,354)**	**(863)**	**(15,475)**	**(22,692)**	**-**	**(226)**	**(22,918)**
Transfers	**-**	**13,070**	**14,247**	**17**	**210**	**27,544**	**(11,471)**	**(16,349)**	**(276)**
Book balance at 12/31/2017	**61,761**	**247,032**	**379,355**	**20,741**	**26,203**	**735,092**	**2,996**	**18,177**	**756,265**
Depreciation									
Book balance at 12/31/2015	-	(23,119)	(58,042)	(4,575)	(18,780)	(104,516)	-	-	(104,516)
Additions	-	(8,060)	(18,884)	(1,917)	(6,203)	(35,064)	-	-	(35,064)
Disposals	-	-	761	183	6,585	7,529	-	-	7,529
Book balance at 12/31/2016	-	(31,179)	(76,165)	(6,309)	(18,398)	(132,051)	-	-	(132,051)
Additions	**-**	**(6,923)**	**(19,078)**	**(1,806)**	**(4,096)**	**(31,903)**	**-**	**-**	**(31,903)**
Disposals	**-**	**-**	**6,029**	**227**	**5,933**	**12,189**	**-**	**-**	**12,189**
Book balance at 12/31/2017	**-**	**(38,102)**	**(89,214)**	**(7,888)**	**(16,561)**	**(151,765)**	**-**	**-**	**(151,765)**
Net balance at 12/31/2015	55,143	160,541	175,273	12,623	22,188	425,768	12,048	4,345	442,161
Net balance at 12/31/2016	55,143	152,481	194,690	12,600	21,569	436,483	3,492	14,318	454,293
Net balance at 12/31/2017	**61,761**	**208,930**	**290,141**	**12,853**	**9,642**	**583,327**	**2,996**	18,177	**604,500**
Depreciation rate	-	1.67% to 4%	5% to 6.67%	10%	6.6% to 20%		-	-	

(In thousands of reais, unless otherwise stated)

14. Intangible assets

Company				
Cost	**Trademarks and patents (i)**	**Goodwill (ii)**	**Software (iii)**	**Total**
Book balance at 12/31/2015	28,844	2,700	11,047	42,591
Additions	-	-	3,013	3,013
Book balance at 12/31/2016	28,844	2,700	14,060	45,604
Additions	**2,633**	**43**	**578**	**3,254**
Disposals	**-**	**-**	**-**	**-**
Reversal of impairment	**4,540**	**-**	**-**	**4,540**
Book balance at 12/31/2017	**36,017**	**2,743**	**14,638**	**53,398**
Amortization				
Book balance at 12/31/2015	-	-	(5,944)	(5,944)
Additions	-	-	(1,314)	(1,314)
Book balance at 12/31/2016	**-**	**-**	(7,258)	(7,258)
Additions	**-**	**-**	**(1,542)**	**(1,542)**
Book balance at 12/31/2017	**-**	**-**	**(8,800)**	**(8,800)**
Net balance at 12/31/2015	28,844	2,700	5,103	36,647
Net balance at 12/31/2016	28,844	2,700	6,802	38,346
Net balance at 12/31/2017	**36,017**	**2,743**	**5,838**	**44,598**

Consolidated				
	Trademarks and patents (i)	**Goodwill (ii)**	**Software (iii)**	**Total**
Cost				
Book balance at 12/31/2015	28,844	2,700	11,049	**42,593**
Additions	-	-	3,018	3,018
Book balance at 12/31/2016	28,844	2,700	14,067	45,611
Additions	**2,633**	**43**	**5,524**	**8,200**
Disposals	**-**	**-**	**(1,701)**	**(1,701)**
Transfers	**-**	**-**	**276**	**276**
Reversal of impairment	**4,540**	**-**	**-**	**4,540**
Book balance at 12/31/2017	**36,017**	**2,743**	**18,166**	**56,926**
Amortization				
Book balance at 12/31/2015	-	-	(5,944)	(5,944)
Additions	-	-	(1,316)	(1,316)
Book balance at 12/31/2016	-	-	(7,260)	(7,260)
Additions	**-**	**-**	**(1,839)**	**(1,839)**
Book balance at 12/31/2017	**-**	**-**	**(9,099)**	**(9,099)**
Net balance at 12/31/2015	28,844	2,700	5,105	36,649
Net balance at 12/31/2016	28,844	2,700	6,807	38,351
Net balance at 12/31/2017	**36,017**	**2,743**	**9,067**	**47,827**

14. Intangible assets (Continued)

(i) This refers to the acquisition cost of trademarks and patents of certain products manufactured and sold by the Company, which are not amortized. In 2017, trademarks and patents were tested for impairment and the result indicated the need to reverse the provision for impairment by R$4,540.

(ii) This refers to a goodwill of R$2,466 paid for the acquisition of trademarks and patents of Bio Macro Laboratório Farmacêutico Ltda. merged in 2008. It includes R$234 referring to goodwill paid in investee Tecnopec Consultoria Comércio e Representações Ltda. in 2010, which was merged into the Company in 2011. In 2017, goodwill was tested for impairment and no supplement to the provision for impairment was recognized.

(iii) This refers to acquired software licenses amortized over the period of five years.

15. Impairment test of goodwill paid based on expected future profitability

In 2017, the Company and its subsidiaries tested goodwill for impairment, based on its value in use, using the discounted cash flow model for the Cash-Generating Units (CGUs). The value-in-use estimate process involves the use of assumptions, judgment and estimates on future cash flows, and represents the Company’s best estimate approved by the Board of Directors. The result of the impairment test performed by the Company did not indicate the need to supplement its provision for impairment.

<u>Main assumptions used to calculate value in use</u>

The calculation of value in use for all cash-generating units presented sensibility in relation to the following assumptions:

(i) Gross margins
(ii) Discount rate
(iii) CAPM Calculation Model
(iv) WACC rate for Discounted Cash Flow
(v) Market share during the projection period
(vi) Investment in Working Capital - trade accounts receivable-inventories/accounts payable

(In thousands of reais, unless otherwise stated)

16. Trade accounts payable

The transactions between União Química and its domestic and foreign suppliers are substantially represented by purchase of industrial equipment and specific inputs.

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Domestic suppliers	**56,761**	40,264	**68,432**	47,201
Foreign suppliers	**18,096**	20,468	**20,503**	20,522
Related parties (Note 11)	**653**	4,006	**-**	-
	75,510	64,738	**88,935**	67,723

The aging list of obligations with domestic and foreign suppliers is as follows:

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Overdue up to 15 days (*)	**4,338**	3,160	**8,390**	3,160
Falling due within 30 days	**42,630**	41,330	**48,334**	41,120
Falling due from 31 to 60 days	**17,459**	15,839	**19,817**	18,463
Falling due from 61 to 120 days	**11,083**	4,409	**12,394**	4,980
	75,510	64,738	**88,935**	67,723

(*) overdue amounts refer to items due on bank holidays at the end of each year.

(In thousands of reais, unless otherwise stated)

17. Loans and financing

Type		Company		Consolidated	
Foreign currency:	Average rate of charges %	12/31/2017	12/31/2016	12/31/2017	12/31/2016
FINIMP	Euro exchange variation plus 1.30% to 3.17% p.a.	**8,415**	5,382	**8,415**	5,382
Eurobond	US dollar exchange variation plus 6.5% p.a. (Sunstate)	**-**	16,363	**-**	16,363
FINIMP	US dollar exchange variation plus 2.95% to 3.97% p.a.	**60,325**	47,155	**60,325**	47,155
Loan - Resolution 4131 (i)	CDI + 2.3% p.a	**101,093**	-	**101,093**	-
		169,833	68,900	**169,833**	68,900
Local currency:					
Findes/Pro-Invest	6.0% p.a. plus IPCA.	**-**	953	**-**	953
BNDES – FINAME	2.5% to 10.10% p.a. plus TJLP	**4,594**	6,363	**4,594**	6,363
FCO – Banco do Brasil	11.5% to 13.1% p.a.	**-**	1,073	**-**	1,073
Finep	3.50% p.a.	**46,232**	55,284	**46,232**	55,284
Debentures (a)	CDI + 2.95% p.a	**169,535**	197,879	**169,535**	197,879
Lease	4.12% to 18.18% p.a.	**1,712**	4,349	**2,466**	4,400
		222,073	265,901	**222,827**	265,952
		391,906	334,801	**392,660**	334,852
Current		**150,744**	114,806	**151,177**	114,836
Noncurrent		**241,162**	219,995	**241,483**	220,016

(i) Transaction entered into by the Company in accordance with Resolution No. 4131, including a swap contract that results in a final cost of 100% of CDI plus 2.3% p.a.

Aging list of debts:

	Company		Consolidated	
	2017	2016	2017	2016
2017	**-**	114,806	**-**	114,836
2018	**150,744**	59,717	**151,177**	59,738
2019	**88,379**	61,670	**88,700**	61,670
From 2020 onwards	**152,783**	98,608	**152,783**	98,608
	391,906	334,801	**392,660**	334,852

17. Loans and financing (Continued)

FINAME and lease agreements are backed by machinery and equipment and financed vehicles, respectively. The other financing agreements are backed by promissory notes, trade notes receivable and guarantee given by the Company's shareholders.

Land and buildings in the Federal District with book value (cost) of R$87,206 are subject to mortgage as a guarantee of debentures issued.

a) Debentures

In 2015, the Company held the 2nd public issue of unsecured debentures structured with the consortium formed by Santander and Bradesco banks. The total amount of this debenture issue was R$200,000, in two series, the first series totaling R$30,500 (with total term of 30 months and grace period of 6 months for amortization of half-yearly interest and grace period of 24 months for payment of half-yearly installments of the principal amount), and the second series totaling R$169,500 (with total term of 60 months and grace period of 6 months for amortization of half-yearly interest and grace period of 30 months for payment of half-yearly installments of the principal amount). The debentures are not convertible into shares and are secured by mortgages and liens. The Company may redeem total outstanding debentures early, at its discretion and at any time.

b) Covenants

The Company has loan and financing agreements with covenants usually applicable to such transactions, such as compliance with economic-financial indices, cash generation and others. These covenants have been met and are not limited to the Company's ability to continue as a going concern.

(In thousands of reais, unless otherwise stated)

18. Labor and tax liabilities

The balance of labor and tax liabilities is broken down as follows:

	Company		Consolidated	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Labor obligations				
Accrued vacation pay and social	**17,245**	15,593	**26,610**	19,225
INSS payable	**5,905**	4,491	**7,821**	5,789
FGTS payable	**1,681**	1,509	**2,352**	1,866
Provision for commissions and	**2,346**	2,280	**2,346**	2,280
Provision for profit sharing and bonus	**8,404**	8,475	**13,905**	8,475
Other labor liabilities	**4**	4	**20**	9
	35,585	32,352	**53,054**	37,644
Tax obligations				
ICMS payable	**22,975**	9,483	**23,223**	10,434
PIS and COFINS	**5,436**	3,630	**5,547**	3,751
ICMS - Installment payment (a)	**5,370**	5,502	**5,370**	5,503
IPI – ISS	**552**	744	**639**	828
Withholding Income Tax (IRRF)	**3,366**	2,672	**4,599**	3,245
ICMS Pro-DF (b)	**14,876**	14,876	**14,876**	14,876
	52,575	36,907	**54,254**	38,637
	88,160	69,259	**107,308**	76,281
Current	**68,486**	49,794	**87,634**	56,816
Noncurrent	**19,674**	19,465	**19,674**	19,465

(a) Includes ICMS payment in installment as follows:

Location	Remaining installments	Installment amount (in reais)	Debt balance
Federal District (i)	84	60,380	5,132
Minas Gerais (ii)	3	79,332	238
			5,370

(i) Installment payment referring to ICMS Pro-DF not approved by the Federal District Finance Department in the period from July through November 2010, in the amount of R$4,435, with down payment of R$114 and the other installments payable in 120 months, with 36 installments paid by December 31, 2017.

(ii) Installment payment referring to ICMS on the import of medications in 2017, in the amount of R$317, with down payment of R$85 and the other installments payable in 5 months, with 2 installments paid by December 31, 2017.

(b) The original ICMS tax incentive installment of the Federal District Government, which awaits approval by the oversight agency. According to Decree No. 24430, article 17, if the taxpayer is confirmed for the incentive program, the extended term to comply with a part of the tax liability that is equivalent to the tax benefit amount is applicable. In 2017, the Company did not participate in auctions.

(In thousands of reais, unless otherwise stated)

19. Income and social contribution taxes

19.1. Reconciliation of income and social contribution tax expenses

The reconciliation between the income and social contribution tax expenses at the statutory and effective rate is shown below:

	Company		Consolidated	
	2017	2016	2017	2016
	Income and social contribution taxes	Income and social contribution taxes	Income and social contribution taxes	Income and social contribution taxes
Income before income and social contribution taxes	**142,912**	92,811	**143,695**	97,839
Combined statutory rate of taxes - %	**34**	34	**34**	34
Income and social contribution taxes	**(48,590)**	(31,556)	**(49,292)**	(33,265)
Adjustments for calculation at the effective				
Equity pickup	**1,869**	4,264	**1,869**	929
Technology innovation	**5,016**	10,647	**5,016**	10,647
Donations and gifts	**(1,025)**	(803)	**(1,025)**	(803)
Investment grants	**21,330**	-	**21,330**	-
Temporary additions/exclusions	**3,149**	9,690	**1,418**	8,804
Permanent additions/exclusions	**2,720**	2,874	**3,506**	4,755
Income and social contribution tax expense in P&L	**(15,531)**	(4,884)	**(17,178)**	(8,933)
Deductions (PAT and incentives)	**980**	173	**1,002**	243
Current taxes	**(14,551)**	(4,711)	**(16,176)**	(8,690)
Deferred taxes	**(5,412)**	(8,812)	**(4,570)**	(9,861)
Current / deferred expenses	**(19,963)**	(13,523)	**(20,746)**	(18,551)
Effective tax rate	**13.97%**	14.57%	**14.44%**	18.96%

Current and deferred income and social contribution taxes are calculated at a rate of 15%, plus 10% surtax on taxable profit exceeding R$240 in the year for income tax, and a rate of 9% on taxable profit for social contribution tax on net profit, and consider offsetting of social contribution tax losses, limited to 30% of annual taxable profit.

(In thousands of reais, unless otherwise stated)

19. Income and social contribution taxes (Continued)

19.1. Reconciliation of income and social contribution tax expenses (Continued)

The temporary additions and exclusions used to reconcile income and social contribution tax expenses basically refer to the recording and reversal of provisions.

19.2. Deferred income and social contribution taxes

Deferred Corporate Income Tax (IRPJ) and Social Contribution Tax on Net Profit (CSLL), assets and liabilities, are broken down as follows:

	Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Provisions	**8,274**	10,009	**9,374**	10,492
Sales recorded and not delivered	**3,179**	937	**3,180**	937
Impairment of assets	**3,976**	5,520	**3,976**	2,610
Deferred foreign exchange gains (losses)	**566**	1,033	**593**	1,079
Other	**(101)**	1,826	**885**	1,826
	15,894	19,325	**18,008**	16,944
Lease	**(2,729)**	(3,559)	**(2,722)**	(652)
Depreciation - R&D assets	**(2,353)**	(2,485)	**(2,353)**	(2,485)
Depreciation - effects of review of new useful life	**(18,890)**	(15,947)	**(21,218)**	(17,522)
Bargain purchase	**(895)**	(895)	**(895)**	(895)
	(24,867)	(22,886)	**(27,188)**	(21,554)
Deferred income and social contribution tax	**(8,973)**	(3,561)	**(9,180)**	(4,610)

Changes in deferred income and social contribution taxes are as follows:

	Company	Consolidated
Balance of deferred tax assets/liabilities at December 31, 2015	5,251	5,251
Changes for 2016, net	(8,812)	(9,861)
Deferred tax liabilities at December 31, 2016	(3,561)	(4,610)
Changes for 2017, net	**(5,412)**	**(4,570)**
Balance of deferred tax liabilities at December 31, 2017	**(8,973)**	**(9,180)**

(In thousands of reais, unless otherwise stated)

20. Other accounts payable

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Accounts payable	**4,276**	2,157	**9,160**	4,469
Novartis Biociências S.A. (i)	**40,976**	48,110	**40,976**	48,110
Freight payable	**664**	1,274	**664**	1,274
Other accounts payable	**6,155**	4,397	**6,219**	4,420
Related parties (Note 11)	**-**	20,122	**7,542**	20,122
	52,071	76,060	**64,561**	78,395
Current	**14,406**	12,854	**19,354**	15,189
Noncurrent	**37,665**	63,206	**45,207**	63,206

(i) This balance refers to debt relating to acquisition of Anovis Industrial Farmacêutica Ltda. with Novartis Biociências S.A., with for annual consecutive installments remaining for settlement of the balance. This amount is restated by reference to the IPCA, and over the year ended December 31, 2017, the amounts of R$1,330 (R$3,237 in 2016) and R$295 (R$2,606 in 2016) were recognized in "Finance income (costs) referring to interest incurred and present value adjustment, respectively.

21. Judicial deposits, provision for contingencies, and contingent liabilities

The Company and its subsidiaries are parties to legal and administrative proceedings before courts and government agencies arising from the ordinary course of their business, involving mostly tax, social security, labor and civil matters. The provisions for contingencies are determined based on the analysis of ongoing lawsuits, official notices and risk assessments in which the likelihood of loss is deemed probable by management and legal advisors.

	Judicial deposits				Provision for contingencies			
	Company		Consolidated		Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Tax (i)	**19,361**	7,773	**19,361**	7,773	**4,059**	4,018	**4,059**	4,018
Labor and social security	**3,540**	2,751	**3,774**	2,751	**6,384**	8,397	**6,511**	8,401
Civil	**634**	561	**829**	756	**1,213**	1,382	**1,213**	1,382
	23,535	11,085	**23,964**	11,280	**11,656**	13,797	**11,783**	13,801

(i) This primarily comprises judicial deposits in connection with the proceeding for payment into court of part of the ICMS in the scope of the Tax Incentive Program for Industrial Financing for Sustainable Economic Development - IDEAS.

(In thousands of reais, unless otherwise stated)

21. Judicial deposits, provision for contingencies, and contingent liabilities (Continued)

Changes in provisions:

	Company	Consolidated
Balance at 12/31/2015	13,588	13,588
Additions	997	1,001
Write-off due to losses	(1,290)	(1,290)
Write-off due to reversal	(1,075)	(1,075)
Restatements and changes in risks	1,577	1,577
Balance at 12/31/2016	13,797	13,801
Additions	**-**	**123**
Write-off due to losses	**(4,096)**	**(4,096)**
Write-off due to reversal	**(77)**	**(77)**
Restatements and changes in risks	**2,032**	**2,032**
Balance at 12/31/2017	**11,656**	**11,783**

The nature of legal proceedings and obligations is summarized as follows:

Tax proceedings - refer to legal proceedings in which the lawfulness or constitutionality of certain taxes, charges and contributions, as well as the different interpretations on the calculation or offsetting methods applied to certain taxes are challenged. Such issues include lawsuits involving ICMS collection by the Finance Department of Goiás, Minas Gerais and São Paulo states, challenges involving tax delinquency notices referring to collection of IPI, PIS and COFINS on lease for acquisition of assets.

Labor and social security proceedings - refer primarily to claims filed by employees in connection with compensations paid in case of employment termination, and sales representatives' claims for employment status.

Civil proceedings - the main lawsuits are related to sales representatives' claims for employment status and to the results obtained from the use of medicines manufactured by the Company.

Contingent liabilities - Possible risks (no provision recognized in the financial statements)

The Company is a party to tax, civil and labor lawsuits involving risks of loss classified by the Company's legal advisors as possible, for which no provision is recorded, broken down as follows:

Possible loss	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Tax	**52,942**	21,992	**52,942**	21,992
Labor and social security	**17,745**	21,535	**25,619**	29,494
Civil	**38,242**	41,274	**38,242**	41,274
	108,929	84,801	**116,803**	92,760

21. Judicial deposits, provision for contingencies, and contingent liabilities (Continued)

Possible losses, with no provision recognized in the interim financial information (Continued)

The Company's and its subsidiaries' main cases with a possible loss risk, as determined by the legal advisors, are listed below:

Tax claims

(i) Challenge relating to the Tax Violation Notice and Imposition of Fines relating to the disallowance of expenses used and considered nondeductible for the purpose of determining Corporate Income Tax (IRPJ) and Social Contribution Tax (CSLL) tax bases. The defense submitted awaits review and judgment. The files were sent to the Federal Revenue Judgment Office where they remain awaiting judgment. The statement of discontentment (appeal) submitted awaits review and judgment.

(ii) Tax violation notice served by the Internal Revenue Service in 2004, challenging the proof of costs of the goods and services sold and their related deductibility for the purpose of determining Corporate Income Tax (IRPJ) and Social Contribution Tax (CSLL) tax bases.

(iii) The São Paulo State Finance Office challenged the use of ICMS credits with the record of invoices for the transfer of goods received from a branch unit located in the Federal District.

(iv) Writ of mandamus seeking the right to not pay PIS / PASEP contribution taxes and COFINS on the importation of fixed assets.

Civil claims

(i) Lawsuit demanding the payment of compensation for pain and suffering and property damages for the collection of own property in bankruptcy proceedings.

(ii) Principal declaratory proceeding relating to a payment order given as guarantee. Lawsuit involving pain and suffering and property damages relating to employee termination and loss of profits. Losses due to the alleged unilateral agreement termination and retention of a new distributor.

(iii) Allegation of health problems caused by supposed medical malpractice or defective medications prescribed by the hospital. Compensation sought for pain and suffering, and aesthetic and property damages for reimbursement of medical expenses with medications and loss of profits due to the decrease in work capacity.

(In thousands of reais, unless otherwise stated)

21. Judicial deposits, provision for contingencies, and contingent liabilities (Continued)

Possible losses, with no provision recognized in the interim financial information (Continued)

(iv) Disputes involving alleged injuries from the use of drugs, claiming compensation for pain and suffering and damages, in monthly payments.

Labor claims

(i) The Company and its subsidiaries are parties to labor claims involving disputes seeking compensation for salary differences.

(ii) The other cases refer to claims for pain and suffering, property damages, as well as employment relationship.

22. Equity

22.1. Capital

According to the Minutes of the Annual Shareholders' Meeting (AGO) of April 27, 2017, the Company increased its capital by R$ 241,789 with the balance of the income reserve, issuing 181,785,128 common shares.
Accordingly, as at December 31, 2017, paid-in capital was R$ 440,077 (R$ 198,288 as at December 31, 2016), comprising 379,377,291 (197,592,163 as at December 31, 2016) common shares, held as follows:

	12/31/2017		12/31/2016	
	Shares	**%**	**Shares**	**%**
Robferma Administração e Participações Ltda.	**305,985,001**	**80.654538%**	97,307,551	49.246665%
MJP Adm. Participações S/S Ltda.	**43,175,452**	**11.380611%**	22,487,195	11.380611%
Fernando de Castro Marques	**-**	**-**	62,059,495	31.407873%
Cleita de Castro Marques	**15,108,419**	**3.982426%**	7,868,961	3.982426%
Cleide Marques Pinto	**15,108,419**	**3.982426%**	7,868,961	3.982426%
	379,377,291	**100.00%**	197,592,163	100.00%

(In thousands of reais, unless otherwise stated)

22. Equity (Continued)

22.2. Legal reserve

The legal reserve is set up on an annual basis at 5% of net income for the year, less the government grant portion, and shall not exceed 20% of capital. The purpose of the legal reserve is to ensure capital integrity and it may only be used to offset losses and/or increase capital. The legal reserve calculation is as follows:

Description	2017	2016
Net income for the year	**122,949**	79,288
(-) Grant reserve	**(29,190)**	(3,828)
Legal reserve base	**93,759**	75,460
Legal reserve (5%)	**(4,688)**	(3,773)

22.3. Tax incentive reserve

The Company has ICMS tax benefits granted in an administrative tax proceeding, supported by a law/decree of the Minas Gerais State Government, which required signing an “Agreement”. Changes in this reserve is presented in the Statement of Changes in Equity. In 2017, the Company’s Management recognized R$63,966 for the current year and previous periods.

22.4. Income reserve

The Company allocated from net income for the year the amount of R$48,951 (R$67,386 in 2015) to the reserve of retained profits for investment, based on a capital budget prepared by Management.

(In thousands of reais, unless otherwise stated)

22. Equity (Continued)

22.5. Mandatory minimum dividends

According to the Company's Articles of Incorporation, 6% of adjusted net income are allocated to pay mandatory minimum dividends, as provided for by article 202 of the Brazilian Corporation Law. The calculation of proposed dividends is presented below:

Description	2017	2016
Net income for the year	**122,949**	79,288
(-) Grant reserve	**(29,190)**	(3,828)
Legal reserve base	**93,759**	75,460
Legal reserve (5%)	**(4,688)**	(3,773)
Dividend calculation basis	**89,071**	71,687
Proposed dividends (6%)	**(5,344)**	(4,301)

22.6. Earnings per share

Basic and diluted earnings per share are calculated by dividing net income (loss) for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period.

There are no arrangements or agreements in place to issue common shares; thus, there is no event that may dilute the dividends attributable to the Company's shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2017	2016
Numerator		
Profit attributable to ordinary equity holders	**122,949**	**79,288**
Denominator		
Weighted average number of outstanding common shares - basic and diluted	321,106,442	197,592,163
Basic and diluted earnings per share (in R$)	**0.3829**	0.4013

(In thousands of reais, unless otherwise stated)

23. Net operating revenue

Sales revenue is recognized when all significant risks and rewards of ownership are transferred to buyer, which usually occurs upon their delivery.

	Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Gross sales of products and services	**1,255,486**	1,063,753	**1,338,724**	1,201,544
(-) Taxes on sales, returns and discounts	**(224,116)**	(177,131)	**(220,771)**	(190,105)
	1,031,370	886,622	**1,117,953**	1,011,439

In compliance with technical pronouncement CPC 30 (R1) - Revenue, and with International Accounting Standard IAS 18 - Revenue, the Company recognized revenue only from invoices with actual delivery in the year. Invoices issued but not delivered as at December 31, 2017 total R$21,878 (R$6,912 as at December 31, 2016).

(In thousands of reais, unless otherwise stated)

24. Expenses by nature and function

	Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Raw material and store and supplies	**(335,682)**	(290,113)	**(299,871)**	(283,571)
Sales commissions	**(38,813)**	(34,078)	**(38,813)**	(34,078)
Payroll and employee benefits	**(219,145)**	(194,387)	**(281,943)**	(247,142)
Social security charges	**(30,678)**	(29,038)	**(44,599)**	(41,683)
Depreciation and amortization	**(20,545)**	(21,335)	**(33,742)**	(36,380)
Transportation expenses	**(24,584)**	(22,671)	**(25,502)**	(23,024)
Advertising expenses	**(16,328)**	(17,224)	**(16,336)**	(17,224)
Research and development	**(4,540)**	(9,061)	**(4,556)**	(9,061)
Services rendered	**(49,016)**	(50,626)	**(64,129)**	(66,345)
Vehicle expenses	**(14,924)**	(11,476)	**(15,060)**	(11,554)
Utilities	**(11,651)**	(11,492)	**(15,878)**	(15,695)
Taxes and charges	**(6,124)**	(5,946)	**(7,634)**	(7,380)
Rental	**(7,927)**	(9,446)	**(8,943)**	(9,520)
Maintenance	**(19,326)**	(19,756)	**(28,286)**	(29,180)
Communications	**(3,795)**	(3,609)	**(3,799)**	(3,609)
Free samples	**(25,597)**	(18,005)	**(25,605)**	(18,026)
Legal costs, net	**(3,501)**	(3,047)	**(3,627)**	(3,047)
Fines	**(500)**	(582)	**(559)**	(597)
Insurance	**(4,172)**	(3,987)	**(4,175)**	(4,006)
Gifts and donations	**(6,278)**	(4,725)	**(6,291)**	(4,732)
Travel and lodging	**(12,461)**	(11,855)	**(12,861)**	(11,878)
Fairs and conferences	**(10,322)**	(10,590)	**(10,390)**	(10,612)
Allowance for doubtful accounts	**(1,079)**	(7,122)	**(1,079)**	(7,122)
Other	**163**	(1,680)	**(63)**	(2,443)
	(866,825)	(791,851)	**(953,741)**	(897,909)
Cost of sales	**(474,659)**	(422,026)	**(493,043)**	(483,841)
Selling, general and administrative expenses	**(392,166)**	(369,825)	**(460,698)**	(414,068)
	(866,825)	(791,851)	**(953,741)**	(897,909)

(In thousands of reais, unless otherwise stated)

25. Other operating income, net

	2017	2016	2017	2016
Recovery of expenses (i)	**3,960**	2,157	**4,084**	3,468
Net gain (loss) on disposal of property, plant and equipment	**(70)**	1,108	**(65)**	1,092
Insurance compensation	**10**	1,533	**10**	1,533
Bank receipts - payroll management	**150**	150	**150**	150
Recovery of expenses	**-**	-	**5,598**	-
Proceeds from the sale of scrap	**389**	339	**479**	364
ICMS written off - Rate differential	**(1,239)**	-	**(1,355)**	-
Recovery of trade receivables	**1,128**	2,890	**1,128**	2,890
Income from tax incentives	**-**	1,671	**-**	1,671
Other, net	**(890)**	(1,488)	**(118)**	(1,491)
	3,438	8,360	**9,911**	9,677

(i) This substantially comprises claim compensation, recovery of taxes reversals of provisions.

(ii) This comprises the write-off of cost and depreciation amounting to R$10,304, donation of R$761, and the sale amount of R$9,743, of which R$9,467 were received.

(In thousands of reais, unless otherwise stated)

26. Finance income (costs), net

	Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Finance income				
Short-term investment yield	**7,104**	8,738	**7,119**	8,880
Foreign exchange gains	**15,966**	18,781	**16,775**	19,429
Interest income, discounts received and other	**8,033**	5,290	**7,447**	2,407
Present value adjustment	**1,362**	2,606	**1,362**	2,606
Gains - NDF	**978**	-	**978**	-
	33,443	35,415	**33,681**	33,322
Finance costs				
Monetary variations and financial commissions	**(5,545)**	(9,387)	**(7,317)**	(10,079)
Interest on loans and financing	**(4,911)**	(5,749)	**(4,950)**	(5,752)
Interest on intercompany loan - Robferma	**(1,964)**	(122)	**(1,964)**	(122)
Interest on debt with Novartis	**(1,330)**	(3,239)	**(1,330)**	(3,239)
Interest on debentures	**(25,531)**	(33,222)	**(25,531)**	(33,222)
Foreign exchange losses	**(19,082)**	(3,799)	**(20,146)**	(4,593)
Bank expenses and Tax on Financial	**(1,291)**	(1,503)	**(1,382)**	(3,158)
Present value adjustment	**(1,657)**	-	**(1,657)**	-
Interest on ICMS payment in installments	**(596)**	(1,256)	**(596)**	(1,256)
Losses - NDF	**(657)**	-	**(657)**	-
Fair value - Swap	**(1,448)**	-	**(1,448)**	-
	(64,012)	(58,277)	**(66,978)**	(61,421)
	(30,569)	(22,862)	**(33,297)**	(28,099)

27. Insurance coverage

The insurance coverage at December 31, 2017 presented the following amounts, pursuant to the insurance policies, and are in accordance with the risk assessment made by management:

Insurance lines	Effective until	Sum insured
Operational risks, including fire in inventories and PP&E items	3/27/2019	986,021
Land transportation	4/30/2018	31,500
Aircraft	2/3/2018	USD 40,890
Vehicles and optional civil liability	8/13/2018	Market value - FIPE

28. Financial instruments

Capital management

The capital management policies of the Company and its subsidiaries involve maintaining a strong capital base to uphold relations of trust with investors, creditors and market players, also allowing future business development.

The primary objective of the Company and its subsidiaries when managing their capital is to ensure their ability to continue as a going concern in order to offer returns to shareholders and benefits to stakeholders, maintaining an adequate capital structure to reduce this cost.

Transactions with derivative financial instruments carried out by the Company and its subsidiaries are measured at fair value and posted to the statement of profit and loss.

a) Classification of financial instruments

The financial instruments held by the Company and its subsidiaries are classified in the following categories:

(i) Financial assets and liabilities measured at fair value through profit or loss;
(ii) Loans and receivables.

The Company's and its subsidiaries' financial instruments had the following positions as at December 31, 2017 and December 31, 2016:

(In thousands of reais, unless otherwise stated)

28. Financial instruments (Continued)

Capital management (Continued)

a) Classification of financial instruments (Continued)

		Company		Consolidated	
Assets	**Category**	**12/31/2017**	**12/31/2016**	**12/31/2017**	**12/31/2016**
Cash and cash equivalents	(i)	**31,670**	48,322	**42,402**	49,096
Long-term investments	(i)	**4,230**	3,903	**4,230**	3,903
Trade accounts receivable	(ii)	**341,340**	293,657	**350,323**	313,196
Other accounts receivable	(ii)	**12,001**	21,498	**12,460**	15,000
Currency derivatives	(i)	**158**	-	**158**	-
Judicial deposits	(ii)	**23,535**	11,085	**23,964**	11,280
Total assets		**412,934**	378,465	**433,537**	392,475
Liabilities					
Trade accounts payable	(ii)	**75,510**	64,738	**88,935**	67,723
Currency derivatives	(i)	**1,595**	-	**1,595**	-
Loans and financing	(ii)	**391,906**	334,801	**392,660**	334,852
Other accounts payable	(ii)	**52,071**	76,060	**64,561**	78,395
Total liabilities		**521,082**	475,599	**547,751**	480,970

b) Fair value of financial instruments

The estimated fair values of financial instruments for the period of 2017 considered the following methods and assumptions:

- Cash and cash equivalents: these are stated at market value, which approximates book value, as described in Note 4.

- Long-term investments: these are stated at market value, which approximates book value, as described in Note 5.

- Accounts receivable from domestic and foreign customers: these derive directly from the Company's and its subsidiaries' transactions; they are classified as held-to-maturity, recorded at their original values, adjusted for exchange variation, when applicable, and subject to an allowance for doubtful accounts. The amounts recorded approximate the fair values at the closing date of the interim financial information, as described in Note 6.

- Currency derivatives: these are classified as financial assets and liabilities and are recorded at the amounts measured through profit or loss, as described in Note 10.

28. Financial instruments (Continued)

Capital management (Continued)

b) Fair value of financial instruments (Continued)

- Judicial deposits: these are classified as loans and receivables, and adjusted using the effective interest method.

- Trade accounts payable: these are classified as financial liabilities at amortized cost and the amounts approximate to the respective fair values of the obligations recorded under this item.

- Loans and financing (in local and foreign currency): these are classified as financial liabilities at amortized cost and are recorded at their contractual values. The market value of these loans and financing approximates book value,as described in Note 17.

- Other accounts payable: these are classified as loans and receivables, and adjusted using the effective interest method (amortized cost).

c) Fair value calculation of derivative financial instruments

The fair value calculation of derivative financial instruments for the individual and consolidated interim financial information at December 31, 2017 considered the following methods and assumptions:

- **Non Deliverable Forward ("NDF")**: the market values of NDF contracts were obtained through information available in the active market where these financial instruments are traded.

- **Swap**: The fair value of interest rate swaps is measured at the present value of future cash flows estimated based on the yield curves adopted by the market.

Management believes that the results obtained from these derivative transactions comply with the price, currency and interest rate hedge strategies established by the Company and its subsidiaries.

(In thousands of reais, unless otherwise stated)

28. Financial instruments (Continued)

c) Fair value calculation of derivative financial instruments (Continued)

The fair values of financial assets and liabilities were determined based on available market information and appropriate valuation methodologies. The use of different market assumptions and/or estimate methodology may have a different effect on the estimated fair values.

As of December 31, 2017, the Company’s and its subsidiaries’ derivative financial instruments had the following positions:

	Company and Consolidated			
	12/31/2017			
	Hedged item	Notional currency	Notional value (R$)	Fair value (R$)
Non-deliverable forwards	Currency	USD	**20,390**	**(33)**
Non-deliverable forwards	Currency	EUR	**3,133**	**44**
Swap	Currency	USD	**101,438**	**(1,448)**
Total currency derivatives			**124,961**	**(1,437)**

Management believes that the Company’s and its subsidiaries’ internal controls are sufficient and adequate to manage derivative financial instruments and mitigate the risks associated with each market's operating strategy. Subsidiaries Anovis, Inovat and Union did not have transactions involving derivative financial instruments as at December 31, 2017 and 2016.

d) Fair value hierarchy

The table below shows the financial instruments used by the Company and its subsidiaries, which are recorded at fair value. The different levels were defined as follows:

Level 1: quoted (unadjusted) prices in active markets for similar assets and liabilities.

Level 2: inputs, other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).

Level 3: assumptions for the asset or liability that are not based on market observable data (unobservable inputs).

(In thousands of reais, unless otherwise stated)

28. Financial instruments (Continued)

d) Fair value hierarchy (Continued)

The Company and its subsidiaries show the respective derivative financial instruments in the table below, as well as their classifications at the abovementioned levels:

	Company and Consolidated			
	12/31/2017			
	Level 1	Level 2	Level 3	Total
NDF agreements (banks)	-	11	-	11
Swap	-	(1,448)	-	(1,448)
	-	(1,437)	-	(1,437)

The Company and its subsidiaries recorded gains and losses on derivative financial instruments, as shown in the table below:

	Company and Consolidated		
	Impact on assets and liabilities		Impact on P&L
	12/31/2017		
	Current assets	Current liabilities	
Currency risks			
NDF (banks)	158	(147)	11
Swap	-	(1,448)	(1,448)
	158	(1,595)	(1,437)

28. Financial instruments (Continued)

Foreign exchange rate risk, interest rate risk and transactions with derivative financial instruments

The Company and its subsidiaries use derivative financial instruments, such as NDF and Swap transactions, to hedge any exposed positions subject to impacts from exchange rate and interest rate fluctuations.

Derivative transactions do not have initial disbursements, and are only due in the respective maturities.

The prices of raw materials used by the Company and its subsidiaries are partially indexed to the U.S. dollar and the euro, while a significant part of the costs, expenses, investments and indebtedness are indexed to reais. Therefore, the Company's cash flow is continuously exposed to the dollar and the euro volatility against the Brazilian real and interest rates, especially to the fluctuation of the U.S. currency, since part of the costs and expenses are in Reais.

In order to mitigate risk and reduce exposure to foreign currency volatility and its effects on the Company's accounts denominated in Brazilian Reais, Management has used derivative financial instruments, such as NDF and swap contracts, in order to cover any exposed positions subject to impacts from exchange rate fluctuations in the futures market and interest rates. Derivative transactions do not have initial disbursements, and are only due in the respective maturities.

The fair value is calculated using the discounted cash flow method, and the receipts and payments refer to the cash flow forecasts for the year. Below is a summary of the net exposure of the Company and its subsidiaries to the exchange rate factor as of December 31, 2017:

	Consolidated	
	US$ 000	**US$ 000**
	12/31/2017	**12/31/2016**
Cash and cash equivalents	**2,426**	2,670
Accounts receivable - foreign market	**33**	1,246
Advances to foreign suppliers	**1,184**	1,653
Total asset exposure	**3,643**	5,569
Loans and financing	**(20,780)**	(21,141)
Foreign suppliers	**(6,196)**	(6,394)
Total liability exposure	**(26,976)**	(27,535)
Net exposure	**(23,333)**	(21,966)

(In thousands of reais, unless otherwise stated)

29. Long term commitments

The Company's subsidiaries have future commitments resulting from supply agreements with their customers. As at December 31, 2017, they total a minimum R$ 60,941, broken down as follows (nominal values):

	Consolidated	
Commitments	**2017**	**2016**
Within 1 year	**13,890**	10,489
From one year to five years	**66,908**	52,441
Over five years	**11,343**	20,976
	92,141	83,906