Financial Statements

União Química Farmacêutica Nacional S.A.

December 31, 2016
with Independent Auditor's Report

União Química Farmacêutica Nacional S.A.

Financial statements

December 31, 2016

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A free translation from Portuguese into English of Independent Auditor's Report on 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, Brazil

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, 2016, 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, 2016, its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

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.

Other information accompanying the individual and consolidated financial statements and 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 included the management's report and we do not express any audit conclusion on this report.

In connection with the audit of the individual and consolidated financial statements, our responsibility is to read the management's report and consider whether it is significantly consistent with the financial statements or, based on our understanding of the audit, presents any material misstatement. If, based on the work performed, we conclude that there is any material misstatement in management's report, we are required to report this fact. We have nothing to report in this regard.

Management and governance'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.

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

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

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

Brasília, February 21, 2017.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/F-6

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

União Química Farmacêutica Nacional S.A.

Statements of financial position
December 31, 2016 and 2015
(In thousands of reais)

		Company		Consolidated	
	Note	**2016**	**2015**	**2016**	**2015**
Assets					
Current assets					
Cash and cash equivalents	4	**48,322**	150,680	**49,096**	152,543
Trade accounts receivable	6	**293,657**	228,079	**313,196**	255,791
Inventories	7	**216,744**	171,639	**238,863**	196,800
Taxes and contributions recoverable	8	**44,977**	23,253	**52,015**	28,298
Other accounts receivable	9	**14,476**	12,843	**15,000**	14,286
Prepaid expenses		**1,882**	2,264	**2,134**	2,291
		620,058	588,758	**670,304**	650,009
Noncurrent assets					
Other accounts receivable	9	**7,022**	33,404	**-**	13,236
Deferred taxes	18,2	**-**	6,146	**-**	6,146
Marketable securities	5	**3,903**	3,967	**3,903**	3,967
Taxes and contributions recoverable	8	**4,447**	2,614	**4,676**	2,703
Judicial deposits	20	**11,085**	7,134	**11,280**	7,134
Prepaid expenses		**600**	1,017	**600**	1,017
Investments	11	**107,501**	94,959	**3,501**	770
Property, plant and equipment	12	**296,590**	279,281	**454,293**	442,161
Intangible assets	13	**38,346**	36,647	**38,351**	36,649
		469,494	465,169	**516,604**	513,783
Total assets		**1,089,552**	1,053,927	**1,186,908**	1,163,792

See accompanying notes.

União Química Farmacêutica Nacional S.A.

Statements of financial position
December 31, 2016 and 2015
(In thousands of reais)

		Company		Consolidated	
	Note	2016	2015	2016	2015
Liabilities and equity					
Current liabilities					
Trade accounts payable	15	**64,738**	47,222	**67,723**	54,824
Loans and financing	16	**114,806**	119,315	**114,836**	119,315
Labor and tax liabilities	17	**49,794**	42,495	**56,816**	51,661
Income and social contribution taxes		**-**	-	**4**	984
Dividends	21,5	**4,301**	2,354	**4,301**	2,354
Other accounts payable	19	**12,854**	12,915	**15,189**	14,744
		246,493	224,301	**258,869**	243,882
Noncurrent liabilities					
Loans and financing	16	**219,995**	278,960	**220,016**	278,960
Provision for contingencies	20	**13,797**	13,588	**13,801**	13,588
Deferred taxes	18,2	**3,561**	895	**4,610**	895
Labor and tax liabilities	17	**19,465**	17,070	**19,465**	17,070
Supply agreement - manufacturing	1	**-**	-	**83,906**	90,265
Other accounts payable	19	**63,206**	61,686	**63,206**	61,705
		320,024	372,199	**405,004**	462,483
Equity					
Capital	21,1	**198,288**	198,288	**198,288**	198,288
Capital reserve		**1,680**	1,680	**1,680**	1,680
Legal reserve	21,2	**14,701**	10,928	**14,701**	10,928
Income reserve	21,4	**247,489**	189,482	**247,489**	189,482
Tax incentive reserve	21,3	**60,877**	57,049	**60,877**	57,049
		523,035	457,427	**523,035**	457,427
Total liabilities and equity		**1,089,552**	1,053,927	**1,186,908**	1,163,792

See accompanying notes.

União Química Farmacêutica Nacional S.A.

Income statement
December 31, 2016 and 2015
(In thousands of reais, except for earnings per share - in reais)

		Company		Consolidated	
	Note	2016	2015	2016	2015
Net operating revenue	22	**886,622**	767,650	**1,011,439**	877,685
Cost of sales	23	**(422,026)**	(402,282)	**(483,841)**	(485,326)
Gross profit		**464,596**	365,368	**527,598**	392,359
Operating expenses and income:					
Selling, general and administrative expenses	23	**(369,825)**	(281,014)	**(414,068)**	(298,131)
Other operating income, net	24	**8,360**	14,194	**9,677**	16,001
Equity pickup	11.2	**12,542**	3,176	**2,731**	(2,914)
Operating income before financial income and expenses		**115,673**	101,724	**125,938**	107,315
Financial income (expenses), net:					
Financial income	25	**35,415**	11,241	**33,322**	10,348
Financial expenses	25	**(58,277)**	(62,041)	**(61,421)**	(62,337)
Income before income and social contribution taxes		**92,811**	50,924	**97,839**	55,326
Provision for income and social contribution taxes:					
Current	18.1	**(4,711)**	(6,397)	**(8,690)**	(10,799)
Deferred	18.2	**(8,812)**	2,451	**(9,861)**	2,451
Net income for the year		**79,288**	46,978	**79,288**	46,978
Basic and diluted net earnings per share for the year, in reais	21.6	**0.4013**	0.2378		

See accompanying notes.

União Química Farmacêutica Nacional S.A.

Statements of comprehensive income
December 31, 2016 and 2015
(In thousands of reais)

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Net income for the year	**79,288**	46,978	**79,288**	46,978
Other comprehensive income	**-**	-	**-**	-
Comprehensive income for the year	**79,288**	46,978	**79,288**	46,978

See accompanying notes.

União Química Farmacêutica Nacional S.A.

Statement of changes in equity
December 31, 2016 and 2015
(In thousands of reais)

	Capital								
	Subscribed capital	Unpaid capital	Capital	Capital reserve	Legal reserve	Income reserve	Tax incentive reserve	Retained earnings	Total
Balances at December 31, 2014	198,512	(224)	198,288	1,680	9,265	159,784	43,328	-	412,345
Net income for the year	-	-	-	-	-	-	-	46,978	46,978
Allocation of net income:									-
Dividends	-	-	-	-	-	-	-	(1,896)	(1,896)
Setting up of reserves	-	-	-	-	1,663	29,698	13,721	(45,082)	-
Balances at October 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:									
Proposed additional dividend	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(9,379)**	**(9,379)**
Mandatory minimum dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,301)**	**(4,301)**
Setting up of reserves	**-**	**-**	**-**	**-**	**3,773**	**58,007**	**3,828**	**(65,608)**	**-**
Balances at December 31, 2016	**198,512**	**(224)**	**198,288**	**1,680**	**14,701**	**247,489**	**60,877**	**-**	**523,035**

See accompanying notes.

União Química Farmacêutica Nacional S.A.

Cash flow statement
December 31, 2016 and 2015
(In thousands of reais)

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Cash flow from operating activities				
Net income before income and social contribution taxes	**92,811**	50,924	**97,839**	55,326
Adjustments to reconcile net income (loss) to cash provided by:				
Allowance for doubtful accounts	**7,122**	4,475	**7,122**	4,475
Provision for inventory losses	**1,506**	3,002	**2,890**	3,002
Equity pickup	**(12,542)**	(3,176)	**(2,731)**	2,914
Provision for contingencies and restatement of judicial deposits	**879**	919	**879**	919
Losses on other receivables	**1,028**	-	**1,028**	-
Provision for impairment of assets	**-**	8,310	**-**	8,310
Gain (loss) on tax incentives	**2,157**	-	**2,157**	-
Gain (loss) on disposal of property, plant and equipment	**(1,108)**	824	**(1,092)**	2,879
Interest on and present value adjustment of debt with Novartis	**631**	-	**631**	-
Bargain purchase	**-**	(2,633)	**-**	-
Amortization of supply agreement	**-**	-	**(6,359)**	-
Depreciation and amortization	**21,330**	19,217	**36,380**	27,886
	113,814	81,862	**138,744**	105,711
Changes in current and noncurrent assets and liabilities:				
Accounts receivable	**(69,325)**	(9,034)	**(61,152)**	(36,738)
Inventories	**(46,611)**	(41,669)	**(44,953)**	(59,709)
Taxes recoverable and deferred	**(14,745)**	(15,367)	**(15,829)**	(20,502)
Other assets	**836**	(1,828)	**1,159**	1,709
Prepaid expenses	**417**	(492)	**574**	(519)
Trade accounts payable	**17,516**	2,776	**12,899**	10,354
Labor and tax liabilities	**10,334**	1,232	**6,797**	5,450
Other liabilities	**(11,631)**	7,127	**(11,142)**	6,842
Income and social contribution taxes paid	**(16,320)**	(6,397)	**(20,935)**	(9,818)
Net cash provided by (used in) operating activities:	**(15,715)**	18,210	**6,162**	2,780
Cash flow from investing activities:				
Acquisition of property, plant and equipment	**(44,548)**	(41,261)	**(54,422)**	(44,842)
Acquisition of intangible assets	**(3,018)**	(2,883)	**(3,018)**	(2,885)
Short-term investments	**64**	2,891	**64**	2,866
Gain (loss) on disposal of property, plant and equipment	**4,956**	-	**4,956**	-
Future capital contributions	**(2,158)**	-	**(2,158)**	-
Intercompany loan receivable	**13,146**	(20,168)	**-**	-
Merger of subsidiary, net of cash	**-**	72	**-**	-
Capital contribution	**-**	(3,500)	**-**	(3,500)
Acquisition of subsidiary, net of cash	**-**	(32,318)	**-**	(32,318)
Net cash used in investing activities:	**(31,558)**	(97,167)	**(54,578)**	(80,679)
Cash flow from financing activities:				
Loans, intercompany loans and financing, net	**(43,352)**	225,706	**(43,298)**	225,706
Dividends paid	**(11,733)**	(3,927)	**(11,733)**	(3,927)
Related parties	**-**	(2,021)	**-**	(1,272)
Net cash provided by (used in) financing activities:	**(55,085)**	219,758	**(55,031)**	220,507
Net increase (decrease) in cash and cash equivalents	**(102,358)**	140,801	**(103,447)**	142,608
Cash and cash equivalents at beginning of year	**150,680**	9,879	**152,543**	9,935
Cash and cash equivalents at end of year	**48,322**	150,680	**49,096**	152,543
	(102,358)	140,801	**(103,447)**	142,608

See accompanying notes.

1. Operations

União Química Farmacêutica Nacional S.A., a privately-held corporation ("União Química", "Company" or "Parent Company"), and its subsidiary (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) is the parent company of Anovis Industrial Famarcêutica Ltda.

<u>Acquisition of Anovis Industrial Farmacêutica Ltda.</u>

On February 13, 2015, the Company acquired all units of interest of Anovis Industrial Farmacêutica Ltda. ("Anovis"), a company engaged in industrial processing of pharmaceutical products, focused mainly on the industrial processing of products of Novartis Biociências S.A. ("Novartis"), former owner of this unit, and also of other customers. The primary purpose of this acquisition was to do business in the pharmaceutical toll-manufacturing segment for its customers, thus generating additional revenue and cash measured by this new business, and to expand the production capacity of União Química, a transaction classified as a business combination.

(In thousands of reais, unless otherwise stated)

1. **Operations** (Continued)

The surplus value of identifiable assets and liabilities of Anovis on the acquisition date, measured by an independent company, as defined by CPC 15 - Business combination, was allocated and is presented as follows:

Assets:	**Book value**	**Surplus value**	**Fair value**
Cash and cash equivalents	510	-	510
Inventories	7,097	-	7,097
Advances	1,296	-	1,296
Related parties	3,694	-	3,694
Property, plant and equipment, net	97,497	70,942	168,439
	110,094	70,942	181,036
Liabilities:			
Labor obligations	4,991	-	4,991
Supply agreement	-	90,265	90,265
	4,991	90,265	95,256
Equity	**105,103**	**(19,323)**	85,780
Consideration paid	**-**	**-**	83,147
Bargain purchase	**-**	**-**	2,633

Bargain purchase is the fair value of the manufacturing agreement entered into with Novartis, in the amount of R$90,265, net of gains of R$70,942 on the surplus value of tangible assets in relation to the consideration paid. The surplus value of the manufacturing agreement was computed considering the contractual clauses on absorption of costs and synergy. From the total consideration of R$83,147, the amount of R$37,512 was paid in 2015 and 2016 and the restated balance of R$48,110 at December 31, 2016 (R$55,910 in 2015) will be settled in five years (see Note 19).

At December 31, 2016, the Company recognized in P&L for the year the depreciation on the surplus value of tangible assets in the amount of R$6,717, as well as the amortization of the surplus value of the manufacturing agreement in the amount of R$6,359. (See Note 11.2, item iii).

2. Accounting policies

a) Statement of compliance

The Company's individual and consolidated financial statements were prepared and are presented in accordance with accounting practices adopted in Brazil, and pronouncements, guidance and interpretations issued by the Brazilian Financial Accounting Standards Board - FASB ("CPC"), approved by Brazil's National Association of State Boards of Accountancy ("CFC").

2. Accounting policies (Continued)

a) Statement of compliance (Continued)

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

The financial statements are prepared considering different assessment bases used in accounting estimates. 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 review of estimates for useful lives of property, plant and equipment items and intangible assets.

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.

The Company reviews its estimates and assumptions at least once a year.

Upon preparing the individual financial statements as of December 31, 2016, Company management reviewed its accounting practice for presentation of cash flow. As a result, the individual cash flow statement as of December 31, 2015, presented as comparative information of these financial statements, was changed.

The balance reclassified between financing and investment transactions for the year ended December 31, 2015 amounted to R$20,168.

This reclassification had no other impact on the Company financial statements.

The Company's Executive Board authorized the completion of these financial statements on February 21, 2017.

(In thousands of reais, unless otherwise stated)

2. Accounting policies (Continued)

c) 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.

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 subsidiary Anovis Industrial Farmacêutica Ltda. The Company holds 100% interest in this subsidiary, which is accounted for using the equity method in the consolidated financial statements. The following table sets forth a summary of financial information on the Company's investments in Anovis:

	2016	**2015**
Current assets	**54,252**	62,204
Noncurrent assets	**93,907**	92,029
Current liabilities	**16,382**	20,534
Noncurrent liabilities	**8,096**	20,187
Equity	**123,681**	113,512
Interest	**100.00%**	100.00%
Net operating revenue	**134,210**	110,034
Net income for the year	**10,168**	8,409

2. Accounting policies (Continued)

c) Basis of consolidation (Continued)

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.

d) 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 income statement when: (i) the risks and rewards of ownership of the products and goods sold are transferred to buyer; (ii) it is probable that the amounts payable to the Company and its subsidiary will be received; and (iii) management is no longer involved with the products/goods. 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. Temporary investments are recorded at cost, plus earnings through the date of the statement of financial position, which do not exceed their market value or realizable value.

Marketable securities

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.

2. Accounting policies (Continued)

d) Summary of significant accounting practices (Continued)

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 subsidiary normally grant an average of 102 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, which is not classified as financing. Consequently, sales are not measured at present value upon initial recognition.

Trade accounts receivable are initially recognized by the adjusted billing and, where applicable, by the provision for losses upon realization.

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)

d) Summary of significant accounting practices (Continued)

Investments in jointly-controlled subsidiaries

The investments in the jointly-controlled subsidiary Bionovis S.A. are recorded and measured in the financial statements by the equity method, and recognized in the income statement for the year as an operating expense.

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.

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 subsidiary 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.

2. **Accounting policies** (Continued)

d) Summary of significant accounting practices (Continued)

Property, plant and equipment (Continued)

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 12. 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 their estimated useful lives, as described in Note 13.

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 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 benefits are expected.

2. Accounting policies (Continued)

d) Summary of significant accounting practices (Continued)

Intangible assets (Continued)

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 in the Company's individual statement of financial position as "investments" in the group of investments, and in the consolidated statement of financial position as "Intangible Assets".

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. 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 useful life.

Provision for impairment

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).

2. Accounting policies (Continued)

d) Summary of significant accounting practices (Continued)

Provision for impairment (Continued)

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. Loans and financing at subsidized rates, other than transactions applicable to any company, are adjusted at present value considering the average rate of the Interbank Deposit Certificate (CDI).

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.

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.

2. Accounting policies (Continued)

d) Summary of significant accounting practices (Continued)

Income and social contribution taxes (Continued)

Deferred taxes arise from temporary differences at the date of the statement of financial position, between the tax bases of assets and liabilities and their book value.

Deferred tax assets are recognized only to the extent that it is likely that temporary differences are reversed in the near future and taxable profit is available so the temporary differences may be used.

Deferred income and social contribution taxes are measured at rates expected to be applied to temporary differences when they are reversed, based on laws that were enacted or substantially enacted at the financial statements reporting date.

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 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)

d) Summary of significant accounting practices (Continued)

Contingencies and other provisions

The accounting practices for recording and disclosure of contingent assets and liabilities and legal obligations are the following: i) Contingent assets are recognized only when the inflow of economic benefits is virtually certain, i.e. when there is security interest or a favorable court decision upon which no further appeals can be filed. Contingent assets involving probable favorable outcome on the case are only disclosed in the notes to financial statements; ii) Contingent liabilities are provisioned when losses are assessed as probable and the amounts involved may be reliably measured. Contingent liabilities for which the likelihood of loss is considered as possible are only disclosed in notes to financial statements, and contingent liabilities for which the likelihood of loss is considered as remote are neither provisioned nor disclosed; iii) Legal obligations are recorded as possible losses, irrespective of any assessment of the probability of success.

Functional currency and transactions in foreign currency

The functional currency of the Company and its subsidiary 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 subsidiary 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.

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 27.

2. Accounting policies (Continued)

d) <u>Summary of significant accounting practices</u> (Continued)

Profit sharing

The Company and its subsidiary 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 subsidiary 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 subsidiary.

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.

Standards, amendments and interpretations to standards

The pronouncements and interpretations issued by the International Accounting Standards Board (IASB) that were not yet effective as of the Company's financial statements date are stated below. The Company intends to adopt these pronouncements once they become effective in Brazil.

IFRS 9 - Financial Instruments;
IFRS 15 - Revenue from Contracts with Customers;
IFRS 16 - Lease.

2. Accounting policies (Continued)

d) Summary of significant accounting practices (Continued)

Standards, amendments and interpretations to standards (Continued)

The Company is evaluating the impacts and related disclosures on its individual and consolidated financial statements have neither defined the transition method nor determined the impacts on its current financial reports yet.

3. Financial risk management

3.1. Financial risk factors

The Company's and its subsidiary's activities expose them to certain financial risks, such as market risk (including currency, cash flow interest rate and price risk), credit risk and liquidity risk.

The Company and its subsidiary 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 subsidiary was defined by the 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 subsidiary incurring losses due to fluctuations in interest rates that increase financial expenses relating to loans and financing raised in the market. The Company and its subsidiary monitor market interest rates continuously 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 themself against such rates volatility risk.

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 incurring losses due to exchange rate fluctuations that increase the funds raised in the marketplace. At December 31, 2016, the Company's net exposure refers to loans in foreign currency amounting to US$19,388 thousand and €1,555 thousand (2015 - US$16,439 thousand and €5,021 thousand) and import of raw materials and/or services amounting to US$99 thousand and €1,390 thousand (2015 - US$168 thousand and €2 thousand), and there are no instruments to hedge this exposure on those dates.

b) Credit risk

Credit risk is managed by the Executive Board of Company and its subsidiary. 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.

Credit limits were not exceeded in the year and management does not expect any loss due to default of these counterparties, except for the allowance for doubtful accounts presented in Note 6.

c) Liquidity risk

This is the risk of the Company and its subsidiary not having sufficient liquidity to meet its 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.

3.2. Capital risk management

The objectives of Company and its subsidiary 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 its capital structure, the Company and its subsidiary may revise the policy for payment of dividends, return capital to shareholders, issue new shares, or sell assets to reduce its indebtedness level, for example.

Consistently with other companies operating in this industry, the Company and its subsidiary 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)

4. Cash and cash equivalents

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Cash and banks	**720**	603	**746**	612
Short-term investments				
Santander	**16,700**	57,534	**17,448**	59,388
Bradesco	**307**	48,265	**307**	48,265
Banco do Brasil	**30,575**	44,211	**30,575**	44,211
Itaú Unibanco	**20**	67	**20**	67
	48,322	150,680	**49,096**	152,543

Short-term investments in Bank Deposit Certificates (CDB) have an average yield of 90% of CDI, immediate liquidity and no loss upon redemption.

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. Marketable securities

	Company		Consolidated	
Noncurrent assets	**2016**	**2015**	**2016**	**2015**
Banco Regional de Brasília	**3,903**	3,967	**3,903**	3,967
	3,903	3,967	**3,903**	3,967

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 17.

(In thousands of reais, unless otherwise stated)

6. Trade accounts receivable

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Domestic customers	**239,132**	215,232	**261,656**	243,897
Foreign customers	**3,939**	96	**3,939**	96
Related parties (Note 10)	**54,039**	19,666	**51,054**	18,713
	297,110	234,994	**316,649**	262,706
(-) Allowance for doubtful accounts	**(3,453)**	(6,915)	**(3,453)**	(6,915)
	293,657	228,079	**313,196**	255,791

The Company and its subsidiary's procedure is to set up an allowance for doubtful accounts for corporate bonds with customers overdue for more than 180 days, and for government securities with customers overdue for more than 360 days.

Changes in allowance for doubtful accounts:

	Company and Consolidated
Balance at 12/31/2014	(2,324)
Allowance	(4,475)
Write-off (effective loss)	(116)
Balance at 12/31/2015	(6,915)
Allowance	(4,145)
Write-off (effective loss)	7,607
Balance at 12/31/2016	**(3,453)**

Throughout 2016, the amount of R$2,977 referring to trade accounts payable not provisioned was written off directly of P&L.

The aging list of the summarized accounts receivable is as follows:

	Company					
	2016			2015		
	Corporate bonds	**Government securities**	**Total**	**Corporate bonds**	**Government securities**	**Total**
Falling due	**262,244**	**5,048**	**267,292**	204,681	4,575	209,256
Overdue up to 30 days	**8,094**	**5,350**	**13,444**	4,087	4,631	8,718
Overdue from 31 to 60 days	**1,560**	**1,937**	**3,497**	450	2,559	3,009
Overdue from 61 to 120 days	**1,628**	**3,712**	**5,340**	538	3,153	3,691
Overdue from 121 to 180 days	**668**	**3,984**	**4,652**	877	1,541	2,418
Overdue for more than 181 days	**273**	**2,612**	**2,885**	3,098	4,804	7,902
	274,467	**22,643**	**297,110**	213,731	21,263	234,994

(In thousands of reais, unless otherwise stated)

6. Trade accounts receivable (Continued)

	Consolidated					
	2016			2015		
	Corporate bonds	Government securities	Total	Corporate bonds	Government securities	Total
Falling due	**281,726**	**5,048**	**286,774**	230,481	4,575	235,056
Overdue up to 30 days	**8,121**	**5,350**	**13,471**	5,999	4,631	10,630
Overdue from 31 to 60 days	**1,590**	**1,937**	**3,527**	450	2,559	3,009
Overdue from 61 to 120 days	**1,628**	**3,712**	**5,340**	538	3,153	3,691
Overdue from 121 to 180 days	**668**	**3,984**	**4,652**	877	1,541	2,418
Overdue for more than 181 days	**273**	**2,612**	**2,885**	3,098	4,804	7,902
	294,006	**22,643**	**316,649**	241,443	21,263	262,706

7. Inventories

	Company		Consolidated	
	2016	2015	2016	2015
Finished products	**95,682**	80,852	**97,112**	82,864
Work-in-process	**14,200**	11,310	**15,277**	12,555
Raw materials	**77,946**	61,143	**85,045**	66,877
Packaging material	**22,741**	21,126	**30,127**	30,822
Maintenance and safety materials	**12,239**	8,576	**18,778**	15,076
Other	**8,330**	4,532	**8,330**	4,534
(-) Provision for losses	**(14,394)**	(15,900)	**(15,806)**	(15,928)
	216,744	171,639	**238,863**	196,800

8. Taxes and contributions recoverable

	Company		Consolidated	
	2016	2015	2016	2015
State Value-added Tax (ICMS) (i)	**21,784**	11,330	**25,989**	14,389
Contribution Tax on Gross Revenue for Social Integration Program (PIS)	**348**	324	**348**	396
Contribution Tax on Gross Revenue for Social Security Financing (Cofins)	**1,628**	1,530	**1,775**	2,191
Corporate Income Tax (IRPJ) (ii)	**14,235**	8,176	**15,634**	9,129
Social Contribution Tax on Net Profit (CSLL) (ii)	**4,696**	509	**5,693**	860
Withholding Income Tax (IRRF)	**1,433**	1,215	**1,450**	1,230
Federal Value-added Tax (IPI)	**4,741**	2,783	**5,216**	2,783
Other	**559**	-	**586**	23
	49,424	25,867	**56,691**	31,001
Current	**44,977**	23,253	**52,015**	28,298
Noncurrent	**4,447**	2,614	**4,676**	2,703

(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	
	2016	**2015**	**2016**	**2015**
Advances to suppliers	**3,479**	6,984	**3,637**	8,062
Prepaid vacation pay	**2,882**	2,997	**3,230**	3,256
Pledges and collaterals	**1,647**	1,544	**1,647**	1,543
Other	**1,051**	1,318	**1,069**	1,425
Advance for future investment acquisition	**5,417**	-	**5,417**	-
Related parties (Note 10)	**7,022**	33,404	**-**	13,236
	21,498	46,247	**15,000**	27,522
Current	**14,476**	12,843	**15,000**	14,286
Noncurrent	**7,022**	33,404	**-**	13,236

10. Related parties

Related-party transactions and balances are as follows:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Revenues				
Sales to Anovis (i)	**9,393**	538	**-**	-
Sales to F&F Distribuídora (i)	**94,807**	44,111	**-**	-
	104,200	44,649	**-**	-
Purchases				
Purchases from Anovis (i)	**1,209**	2	**-**	-
Current assets				
Accounts receivable from Anovis (i)	**2,985**	953	**-**	-
Accounts receivable from F&F Distribuídora (i)	**51,054**	18,713	**51,054**	18,713
	54,039	19,666	**51,054**	18,713
Noncurrent assets				
Receivables from shareholders	**-**	1,358	**-**	1,358
Loans with Anovis (ii)	**7,022**	20,168	**-**	-
Loans with Biolab (iii)	**-**	11,876	**-**	11,876
Other	**-**	2	**-**	2
	7,022	33,404	**-**	13,236
Current liabilities				
Accounts payable to Anovis (i)	**131**	953	**-**	-
	131	953	**-**	-
Noncurrent liabilities				
Loans with Biolab (iii)	**-**	12,208	**-**	12,208
Loans with Robeferma (iv)	**20,122**	-	**20,122**	-
	20,122	12,208	**20,122**	12,208

(i) Balances referring to transactions of purchase and sale of medicines and packaging materials carried out at observable market prices and conditions;

(In thousands of reais, unless otherwise stated)

10. Related parties (Continued)

(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;

(iii) The amount of R$11,876 comprises R$2,175 referring to balances of accounts receivable and survey of certain transactions carried out with Biolab Sanus Farmacêutica Ltda., which resulted in a credit in the amount of R$9,701. The existing asset and liability amounts between the Company and this related party were settled in 2016, as part of the agreement entered into between shareholder Fernando de Castro Marques (shareholder of União Química) and the controlling shareholders of Biolab, resulting in the transfer of shares, as stated in Note 21.1.

(iv) 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.

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	
	2016	**2015**	**2016**	**2015**
Payroll and related charges	**5,822**	7,457	**6,624**	7,457
Executive board fees	**1,950**	1,945	**1,950**	1,945
	7,772	9,402	**8,574**	9,402

11. Investments

11.1. Information on investments

	Capital	Ownership interest - %	Equity	P&L
Bionovis S.A. (jointly-controlled subsidiary)				
At December 31, 2015	24,000	25.00	948	(13,092)
At December 31, 2016	**24,000**	**25.00**	**13,272**	**12,324**
Anovis Industrial Farmacêutica Ltda.				
At December 31, 2015 (i)	105,524	99.99	113,513	8,409
At December 31, 2016	**105,524**	**99.99**	**123,681**	**10,168**

(i) P&L refers to the period from February to December 2015.

(In thousands of reais, unless otherwise stated)

11. Investments (Continued)

11.2. Changes in investments

	Bthek (i)	Bionovis (ii)	Anovis (iii)	Union Química (iv)	Total
Balance at December 31, 2014	3,656	-	-	184	3,840
Capital contribution	-	3,500	-	-	3,500
Acquisition of investee	-	-	105,103	-	105,103
Bargain purchase	-	-	2,633	-	2,633
Fair value upon acquisition	-	-	(21,956)	-	(21,956)
Merger - Bthek	(586)	-	-	-	(586)
Transfer to intangible assets	(751)	-	-	-	(751)
Equity pickup	(2,319)	(2,914)	8,409	-	3,176
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**

(i) Bthek Biotecnologia Ltda. was acquired on February 28, 2013 for R$8,500. This company does business in the area of biological products for pest control. In 2015, Bthek was fully merged into União Quimica Farmacêutica Nacional S.A. Equity pickup (R$2,319) refers to P&L for the 11-month period prior to merger.

(ii) 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. The investments in this joint venture are expected to reach R$500,000 in the next five years and each shareholder has 25% of the company capital. In 2015, another capital contribution was made in the amount of R$3,500. Equity pickup of R$2,731 (R$(2,914) in 2015) refers to P&L for the year.

(iii) 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, 2016, 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$6,716, as well as the amortization of the surplus value of the manufacturing agreement in the amount of R$6,359. The referred to depreciation considered the volumes invoiced up to December 31, 2016. These amounts represent 7% of the expected cumulative volume of the agreement up to 2024.

(iv) Shipment of cash made by the Company for investment and creation of the *"Union Química Farmacêutica Internacional"*, company located in Uruguay.

União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)
December 31, 2016
(In thousands of reais, unless otherwise stated)

12. Property, plant and equipment

As mentioned in Note 16, 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 12/31/2014	8,602	106,272	151,743	13,244	41,086	320,947	5,735	4,860	331,542
Additions	-	2	27,440	1,954	1,743	31,139	5,599	4,523	41,261
Disposals	-	-	(283)	(33)	(2,064)	(2,380)	-	-	(2,380)
Transfer	-	471	5,147	49	-	5,667	-	(5,667)	-
Merger - Bthek	5,360	720	140	15	-	6,235	-	-	6,235
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)
Transfer	-	-	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**
Depreciation									
Book balance at 12/31/2014	-	(18,051)	(45,091)	(3,254)	(13,139)	(79,535)	-	-	(79,535)
Additions	-	(2,013)	(9,498)	(879)	(7,008)	(19,398)	-	-	(19,398)
Disposals	-	-	171	18	1,367	1,556	-	-	1,556
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)**
Net balance at 12/31/2014	8,602	88,221	106,652	9,990	27,947	241,412	5,735	4,860	252,007
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**
Depreciation rate	-	1.67% to 4%	5% to 6.67%	10%	.6% to 20%	-	-	-	-

(In thousands of reais, unless otherwise stated)

12. Property, plant and equipment (Continued)

Consolidated									
	Land	**Buildings and improvements**	**Machinery, equipment and facilities**	**Furniture and fixtures**	**Vehicles and other**	**Total in operation**	**Advance to suppliers**	**Constructio n in progress**	**Total**
Cost									
Book balance at 12/31/2014	14,017	106,992	151,883	13,259	41,086	327,237	5,735	4,860	337,832
Additions	-	2	28,687	2,945	1,743	33,377	6,313	5,152	44,842
Acquisition of subsidiary	41,126	76,195	48,875	2,039	203	168,438	-	-	168,438
Disposals	-	-	(1,277)	(1,094)	(2,064)	(4,435)	-	-	(4,435)
Transfer	-	471	5,147	49	-	5,667	-	(5,667)	-
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)
Transfer	-	-	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**
Depreciation:									
Book balance at 12/31/2014	-	(18,085)	(45,091)	(3,254)	(13,139)	(79,569)	-	-	(79,569)
Additions	-	(5,034)	(13,122)	(1,339)	(7,008)	(26,503)	-	-	(26,503)
Disposals	-	-	171	18	1,367	1,556	-	-	1,556
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)**
Net balance at 12/31/2014	14,017	88,907	106,792	10,005	27,947	247,668	5,735	4,860	258,263
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**
Depreciation rate	-	1.67% to 4%	5% to 6.67%	10%	6.6% to 20%	-	-	-	-

(In thousands of reais, unless otherwise stated)

13. Intangible assets

	Trademarks and patents (i)	Goodwill (ii)	Software (iii)	Total in operation
Cost				
Book balance at 12/31/2014	31,734	7,356	8,191	47,281
Acquisition	13	-	2,870	2,883
Disposals	-	-	(14)	(14)
Transfer	-	751	-	751
Impairment	(2,903)	(5,407)	-	(8,310)
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**
Amortization				
Book balance at 12/31/2014	-	-	(4,609)	(4,609)
Additions	-	-	(1,335)	(1,335)
Book balance at 12/31/2015	-	-	(5,944)	(5,944)
Additions	-	-	(1,314)	(1,314)
Disposals	-	-	-	-
Book balance at 12/31/2016	**-**	**-**	**(7,258)**	**(7,258)**
Net balance at 12/31/2014	31,734	7,356	3,582	42,672
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**

Consolidated	Trademarks and patents (i)	Goodwill (ii)	Software (iii)	Total in operation
Cost				
Book balance at 12/31/2014	31,734	7,356	8,191	47,281
Acquisition	15	-	2,870	2,885
Disposals	-	-	(14)	(14)
Transfer	-	751	-	751
Impairment	(2,903)	(5,407)	-	(8,310)
Book balance at 12/31/2015	28,846	2,700	11,047	42,593
Additions	-	-	3,018	3,018
Book balance at 12/31/2016	**28,846**	**2,700**	**14,065**	**45,611**
Amortization				
Book balance at 12/31/2014	-	-	(4,609)	(4,609)
Additions	-	-	(1,335)	(1,335)
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)**
Net balance at 12/31/2014	31,734	7,356	3,582	42,672
Net balance at 12/31/2015	28,844	2,700	5,105	36,649
Net balance at 12/31/2016	**28,846**	**2,700**	**6,805**	**38,351**

(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 2016, trademarks and patents were tested for impairment and the result did not indicate the need to supplement the provision for impairment (R$2,903 in December 2015).

(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 2016, goodwill was tested for impairment and no supplement to the provision for impairment was recognized (R$5,407 in December 2015).

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

(In thousands of reais, unless otherwise stated)

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

In 2016, 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.

Main assumptions used to calculate value in use

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

15. 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	
	2016	**2015**	**2016**	**2015**
Domestic suppliers	**40,264**	27,649	**47,201**	36,204
Foreign suppliers	**20,468**	18,620	**20,522**	18,620
Related parties (Note 10)	**4,006**	953	**-**	-
	64,738	47,222	**67,723**	54,824

(In thousands of reais, unless otherwise stated)

15. Trade accounts payable (Continued)

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

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Overdue for up to 15 days	**3,160**	-	**3,160**	572
Falling due within 30 days	**41,330**	33,039	**41,120**	35,998
From 31 to 60 days	**15,839**	12,727	**18,463**	15,978
From 61 to 120 days	**4,409**	1,456	**4,980**	2,276
	64,738	47,222	**67,723**	54,824

16. Loans and financing

Type		**Company**		**Consolidated**	
Foreign currency:	**Average rate of charges %**	**2016**	**2015**	**2016**	**2015**
FINIMP	Euro exchange variation plus from 2.60% to 3.80% p.a.	**5,382**	3,316	**5,382**	3,316
Eurobond	US dollar exchange difference plus 6.5% p.a. (Sunstate)	**16,363**	19,605	**16,363**	19,605
FINIMP	US dollar exchange variation plus from 2.31% to 3.96% p.a.	**47,155**	44,526	**47,155**	44,526
		68,900	67,447	**68,900**	67,447
Domestic currency:					
Working capital	From 2.2% to 4.9% p.a. plus Interbank Deposit Certificate (CDI) variation	**-**	41,190	**-**	41,190
Espirito Santo State Industry Federation (Findes)/Pro-Invest	6.0% p.a. plus Extended Consumer Price Index (IPCA)	**953**	4,406	**953**	4,406
BNDES - FINAME	From 3% to 5% p.a. plus long-term interest rate (TJLP)	**6,363**	9,254	**6,363**	9,254
Financing BRB (a)	From 2.4% to 25% of National Consumer Price Index (INPC) p.a.	**-**	4,428	**-**	4,428
Midwest Constitutional Financing Fund (FCO) - Banco do Brasil	From 11.5% to 13.1% p.a.	**1,073**	3,185	**1,073**	3,185
Funding Authority for Studies and Projects (Finep)	3.50% p.a.	**55,284**	46,211	**55,284**	46,211
Debentures (b)	CDI + 2.95% p.a.	**197,879**	196,693	**197,879**	196,693
Lease (c)	From 10% to 16% p.a.	**4,349**	12,776	**4,400**	12,776
Credit assignment	From 1.09% to 1.2% p.a.	**-**	12,685	**-**	12,685
		265,901	330,828	**265,952**	330,828
		334,801	398,275	**334,852**	398,275
Current		**114,806**	119,315	**114,836**	119,315
Noncurrent		**219,995**	278,960	**220,016**	278,960

Aging list of debts:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
2016	**-**	119,315	**-**	119,315
2017	**114,806**	81,638	**114,836**	81,638
2018	**59,717**	81,638	**59,738**	81,638
From 2018 onwards	**160,278**	115,684	**160,278**	115,684
	334,801	398,275	**334,852**	398,275

16. 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) IDEAS - Financing

The purpose of the program for Industrial Financing for Sustainable Economic Development (IDEAS) is to promote the economic development of production activities in the Federal District through expansion of the local economy for production and distribution of goods and services and for the effective creation of jobs and income, through financing for facilities, working capital, production and import.

Financing will be proportional to the monthly adjusted gross revenue provided that the Company meets the following conditions: (a) contributes directly to the socioeconomic development of the Federal District; (b) the location of the venture; (c) own investment in infrastructure for implementation; (d) project implementation term; (e) economic potential of the respective market.

The financing term is up to 360 (three hundred and sixty) months, with 0.1% (one-tenth percent) per month payable on an annual basis on the debt balance and on the date determined in the respective agreement. The granting of a financing for development implies the compulsory payment of fees by the borrower to the Fund for Maintenance and Development of Basic Education and Enhancement of the Teaching Profession (FUNDEFE) at 0.5% (five-tenths percent) of the installment to be released. The security interest given by pledging security issued by BRB will be at least 10% (ten percent) of each financing installment released. This financing is not a government grant.

In April 2016, the Company decided to settle the total debt balance of this loan through IDEAS Auction, with a net effect on P&L of R$3,828. At December 31, 2016, there was no outstanding balance related to this program.

(In thousands of reais, unless otherwise stated)

16. Loans and financing (Continued)

b) 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.

c) 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.

17. Labor and tax liabilities

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

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Labor obligations				
Accrual for vacation pay and social charges	**15,593**	15,078	**19,225**	19,301
Social Security Tax (INSS) payable	**4,491**	3,803	**5,789**	4,637
Unemployment Compensation Fund (FGTS) payable	**1,509**	1,327	**1,866**	1,626
Provision for commissions and rewards	**2,280**	2,852	**2,280**	2,852
Provision for profit sharing and bonus	**8,475**	4,627	**8,475**	7,343
Other labor liabilities	**4**	17	**9**	21
	32,352	27,704	**37,644**	35,780
Tax obligations				
ICMS payable	**9,483**	4,916	**10,434**	5,283
PIS and COFINS	**3,630**	2,816	**3,751**	2,898
ICMS - Installment payment (a)	**5,502**	7,839	**5,503**	7,839
IPI - ISS	**744**	669	**828**	834
Withholding Income Tax (IRRF)	**2,672**	2,902	**3,245**	3,378
ICMS Pro-DF (b)	**14,876**	12,719	**14,876**	12,719
	36,907	31,861	**38,637**	32,951
	69,259	59,565	**76,281**	68,731
Current	**49,794**	42,495	**56,816**	51,661
Noncurrent	**19,465**	17,070	**19,465**	17,070

(a) Includes 1 ICMS payment in installment as follows:

Location	Remaining installments	Installment amount (in reais)	Debt balance
Federal District (i)	97	57	5,502

(In thousands of reais, unless otherwise stated)

17. Labor and tax liabilities (Continued)

(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 23 installments payable in 120 months until December 31, 2016.

(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 2015 and 2016, the Company did not participate in auctions.

18. Income and social contribution taxes

18.1. 18.1. 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	
	2016	2015	2016	2015
	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	**92,811**	50,924	**97,839**	55,326
Combined statutory rate of taxes - %	**34**	34	**34**	34
Income and social contribution taxes	**(31,556)**	(17,314)	**(33,265)**	(18,811)
Adjustments for calculation at the effective rate:				
Equity pickup	**4,264**	1,158	**929**	(991)
Technology innovation	**10,647**	4,371	**10,647**	4,371
Donations and gifts	**(803)**	(1,409)	**(803)**	(1,409)
Temporary additions/exclusions	**12,564**	6,667	**13,559**	5,750
Income and social contribution tax expense in P&L	**(4,884)**	(6,527)	**(8,933)**	(11,090)
Deductions (PAT/Rouanet/Fumcad)	**173**	130	**243**	291
Current taxes	**(4,711)**	(6,397)	**(8,690)**	(10,799)
Deferred taxes	**(8,812)**	2,451	**(9,861)**	2,451
Current / deferred expenses	**(13,523)**	(3,946)	**(18,551)**	(8,348)

Current and deferred income and social contribution taxes for current year 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)

18. Income and social contribution taxes (Continued)

18.1. Reconciliation of income and social contribution tax expense (Continued)

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

18.2. 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	
Assets	**2016**	**2015**	**2016**	**2015**
Provisions	**10,009**	11,874	**10,492**	11,874
Sales recorded and not delivered	**937**	2,064	**937**	2,064
Impairment of assets	**5,520**	2,825	**2,610**	2,825
Other	**1,826**	246	**1,826**	246
	18,292	17,009	**15,865**	17,009
Liabilities				
Lease	**(3,559)**	(2,682)	**(652)**	(2,682)
Depreciation of assets - R&D	**(2,485)**	-	**(2,485)**	-
Depreciation - effects of review of new useful life	**(15,947)**	(13,354)	**(17,522)**	(13,354)
Deferred foreign exchange gains (losses)	**1,033**	5,173	**1,079**	5,173
Bargain purchase	**(895)**	(895)	**(895)**	(895)
	(21,853)	(11,758)	**(20,475)**	(11,758)
Noncurrent assets	**-**	6,146	**-**	6,146
Noncurrent liabilities	**3,561**	895	**4,610**	895

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

	Company	Consolidated
Balance at December 31, 2014	2,799	2,799
Changes in 2015, net	2,452	2,452
Deferred tax assets at December 31, 2015	6,146	6,146
Deferred tax liabilities at December 31, 2015	(895)	(895)
Balance at December 31, 2015	5,251	5,251
Changes in 2016, net	**(8,812)**	**(9,861)**
Deferred tax assets at December 31, 2016	**-**	**-**
Deferred tax liabilities at December 31, 2016	**(3,561)**	**(4,610)**
Balance of deferred tax liabilities at December 31, 2016	**(3,561)**	**(4,610)**

(In thousands of reais, unless otherwise stated)

19. Other accounts payable

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Accounts payable	**2,157**	2,282	**4,469**	4,130
Novartis Biociências S.A. (i)	**48,110**	55,910	**48,110**	55,910
Freight payable	**1,274**	2,972	**1,274**	2,972
Other accounts payable	**4,397**	1,229	**4,420**	1,229
Related parties (Note 10)	**20,122**	12,208	**20,122**	12,208
	76,060	74,601	**78,395**	76,449
Current	**12,854**	12,915	**15,189**	14,744
Noncurrent	**63,206**	61,686	**63,206**	61,705

(i) This balance refers to debt relating to acquisition of Anovis Industrial Farmacêutica Ltda. with Novartis Biociências S.A., five 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, 2016, the amounts of R$3,237 and R$2,606 were recognized in “Financial income (expense) referring to interest incurred and present value adjustment, respectively.

20. Judicial deposits and provision for contingencies

The Company ant 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	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Tax	**7,773**	4,481	**7,773**	4,481	**4,018**	4,536	**4,018**	4,536
Labor and social security	**2,751**	1,991	**2,751**	1,991	**8,397**	7,199	**8,401**	7,199
Civil	**561**	662	**756**	662	**1,382**	1,853	**1,382**	1,853
	11,085	7,134	**11,280**	7,134	**13,797**	13,588	**13,801**	13,588

(In thousands of reais, unless otherwise stated)

20. Judicial deposits and provision for contingencies (Continued)

Changes in provisions:

	Company	Consolidated
Balance at 12/31/2014	12,022	12,022
Additions	2,524	2,524
Write-offs due to losses	(490)	(490)
Write-offs due to reversal	(1,487)	(1,487)
Restatements	1,019	1,019
Balance at 12/31/2015	13,588	13,588
Additions	**997**	**1,001**
Write-off due to loss	**(1,290)**	**(1,290)**
Write-off due to reversal	**(1,075)**	**(1,075)**
Restatements and change in risk	**1,577**	**1,577**
Balance at 12/31/2016	**13,797**	**13,801**

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.

Civil proceedings - the main lawsuits are related to the results obtained from the use of medicines manufactured by the Company.

Possible losses not covered by provisions in the financial statements

The Company is a party to tax, civil and labor claims involving possible risk of loss according to the assessment of the Company's legal advisors, for which a provision was not set up, as follows:

	Company		Consolidated	
	2016	2015	2016	2015
Tax	**36,527**	33,436	**36,527**	33,436
Labor and social security	**21,535**	10,651	**29,494**	10,651
Civil	**41,274**	60,928	**41,274**	60,928
	99,336	105,015	**107,295**	105,015

(In thousands of reais, unless otherwise stated)

21. Equity

21.1. Capital

At December 31, 2016 and 2015, the paid-in capital amounted to R$198,288, represented by 197,592,163 common shares with no par value, held as follows:

	2016		2015	
	Shares	%	Shares	%
Robferma Administração e Participações Ltda.	**97,307,551**	**49.246665%**	97,307,551	49.246665%
Proparts Investimentos e Participações Ltda.	**-**	**-**	30,911,405	15.644044%
Prova Participações Ltda.	**-**	**-**	31,148,090	15.763829%
MJP Adm. Participações S/S Ltda.	**22,487,195**	**11.380611%**	22,487,195	11.380611%
Fernando de Castro Marques	**62,059,495**	**31.407873%**	-	-
Cleita de Castro Marques	**7,868,961**	**3.982426%**	7,868,961	3.982426%
Cleide Marques Pinto	**7,868,961**	**3.982426%**	7,868,961	3.982426%
	197,592,163	**100.00%**	197,592,163	100.00%

In June 2016, an agreement was entered into between the shareholders that resulted in the transfer of all shares owned by shareholders Proparts Investimentos e Participações Ltda. and Prova Participações Ltda. to shareholder Fernando de Castro Marques.

21.2. 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	2016	2015
Net income for the year	**79,288**	46,978
(-) Grant reserve	**(3,828)**	(13,721)
Legal reserve base	**75,460**	33,257
Legal reserve (5%)	**(3,773)**	(1,663)

(In thousands of reais, unless otherwise stated)

21. Equity (Continued)

21.3. 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. At December 31, 2015, the benefit limit was reached and, therefore, no reserve was established regarding this incentive in 2016.

Regarding IDEAS incentive, a reserve was set up in the amount of R$3,828, as described in Note 16.

21.4. Income reserve

The Company allocated from net income for the year the amount of R$58,007 (R$29,698 in 2015) to the reserve of retained profits for investment, based on a capital budget prepared by Management.

21.5. Mandatory minimum dividend

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	2016	2015
Net income for the year	**79,288**	46,978
(-) Grant reserve	**(3,828)**	(13,721)
Legal reserve base	**75,460**	33,257
Legal reserve (5%)	**(3,773)**	(1,663)
Dividend calculation basis	**71,687**	31,594
Proposed dividends (6%)	**(4,301)**	(1,896)
Unpaid dividends from prior years	**-**	(458)
Dividends payable	**(4,301)**	(2,354)

21.6. Earnings per share

Basic earnings per share are calculated by dividing net income (loss) for the year allocated to common shareholders by the weighted average number of common shares for the year. Basic earnings per share are equivalent to diluted earnings per share, since there are no potentially dilutive financial instruments.

(In thousands of reais, unless otherwise stated)

22. 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	
	2016	**2015**	**2016**	**2015**
Gross sales of products and services	**1,063,753**	901,771	**1,201,544**	1,022,623
(-) Taxes on sales, returns and discounts	**(177,131)**	(134,121)	**(190,105)**	(144,938)
	886,622	767,650	**1,011,439**	877,685

23. Expenses by nature

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Raw material and store and supplies	**(290,113)**	(212,597)	**(283,571)**	(211,492)
Sales commissions	**(34,078)**	(29,003)	**(34,078)**	(29,002)
Payroll and employee benefits	**(194,387)**	(181,061)	**(247,142)**	(225,282)
Social security charges	**(29,038)**	(27,421)	**(41,683)**	(37,611)
Depreciation and amortization	**(21,335)**	(19,217)	**(36,380)**	(27,886)
Transportation expenses	**(22,671)**	(25,823)	**(23,024)**	(27,781)
Advertising expenses	**(17,224)**	(14,656)	**(17,224)**	(14,656)
Research and development	**(9,061)**	(11,604)	**(9,061)**	(11,604)
Third-party services	**(50,626)**	(47,999)	**(66,345)**	(62,880)
Vehicle expenses	**(11,476)**	(7,440)	**(11,554)**	(7,541)
Utilities	**(11,492)**	(11,198)	**(15,695)**	(16,003)
Taxes and charges	**(5,946)**	(7,123)	**(7,380)**	(8,209)
Rentals	**(9,446)**	(8,792)	**(9,520)**	(8,885)
Maintenance	**(19,756)**	(16,153)	**(29,180)**	(26,211)
Communications	**(3,609)**	(3,017)	**(3,609)**	(3,466)
Free samples	**(18,005)**	(13,337)	**(18,026)**	(13,343)
Fines	**(1,114)**	(813)	**(1,129)**	(855)
Insurance	**(3,987)**	(3,418)	**(4,006)**	(3,839)
Gifts and donations	**(4,725)**	(4,546)	**(4,732)**	(4,550)
Travel and lodging	**(11,855)**	(14,031)	**(11,878)**	(14,369)
Fairs and conferences	**(10,590)**	(7,319)	**(10,612)**	(7,478)
Losses with doubtful accounts	**(7,122)**	(4,475)	**(7,122)**	(4,475)
Provision for impairment of assets	**-**	(8,310)	**-**	(8,310)
Other expenses	**(4,195)**	(3,943)	**(4,958)**	(7,729)
	(791,851)	(683,296)	**(897,909)**	(783,457)
Cost of sales	**(422,026)**	(402,282)	**(483,841)**	(485,326)
Selling, general and administrative expenses	**(369,825)**	(281,014)	**(414,068)**	(298,131)
	(791,851)	(683,296)	**(897,909)**	(783,457)

(In thousands of reais, unless otherwise stated)

24. Other operating income, net

	Company		Consolidated	
	2016	2015	2016	2015
Recovery of expenses (i)	**5,123**	10,819	**6,429**	11,970
Net gain on disposal of property, plant and equipment items (iii)	**1,108**	448	**1,092**	448
Income from tax incentives (ii)	**1,671**	-	**1,671**	-
Other, net	**458**	2,927	**485**	3,583
	8,360	14,194	**9,677**	16,001

(i) This substantially comprises the receipt of trade accounts receivable, previously considered to be losses, reimbursements of claims and reversals of provisions.

(ii) Net income from the settlement of the balance related to IDEAS tax incentive in the amount of R$3,828 (Note 16), which took place in April 2016, and restatement of the ICMS Pro-DF balance in the amount of R$2,157 (Note 17);

(iii) This comprises the write-off of cost and depreciation amounting to R$7,223 and the sale amount of R$8,331, of which R$4,956 were received.

25. Financial income (expenses), net

	Company		Consolidated	
	2016	2015	2016	2015
Financial income				
Short-term investment yields	**8,738**	1,853	**8,881**	2,046
Foreign exchange gains	**18,782**	6,770	**19,430**	6,835
Present value adjustment	**2,606**	-	**2,606**	-
Interest income, discounts received and other income	**5,289**	2,618	**2,405**	1,467
	35,415	11,241	**33,322**	10,348
Financial expenses				
Monetary variations and financial commissions	**(3,501)**	(4,792)	**(3,770)**	(4,814)
Interest on loans and financing	**(11,759)**	(20,857)	**(12,185)**	(20,880)
Interest on the debt with Novartis	**(3,237)**	(2,337)	**(3,237)**	(2,337)
Interest payable on debentures	**(33,222)**	(5,580)	**(33,222)**	(5,580)
Discounts granted	**(62)**	-	**(1,602)**	(5)
Bank expenses and Tax on Financial Transactions (IOF)	**(1,441)**	(1,769)	**(1,556)**	(1,888)
Foreign exchange losses	**(3,799)**	(25,091)	**(4,593)**	(25,218)
Interest on ICMS payment in installments	**(1,256)**	(1,615)	**(1,256)**	(1,615)
	(58,277)	(62,041)	**(61,421)**	(62,337)
	(22,862)	(50,800)	**(28,099)**	(51,989)

(In thousands of reais, unless otherwise stated)

26. Insurance coverage

The insurance coverage at December 31, 2016 presented the following amounts, pursuant to the insurance policies, and are in accordance with the risk assessment made by management:

Insurance lines	Effective until	Coverage
Operational risks, including fire in inventories and PP&E items	12/27/2017	867,570
Land transportation	03/31/2017	1,049
Aircraft	02/03/2018	USD 9,895 thousand
Vehicles and optional civil liability	08/13/2017	Market value - FIPE

27. Financial instruments

The Company has various financial instruments including cash and cash equivalents, accounts receivable, loans and financing and trade accounts payable.

Amounts recorded under current assets and liabilities are highly liquid or mature within 12 months. Considering the maturity and characteristics of these instruments, which are regularly renegotiated, their book balances approximates their fair values.

- Cash and cash equivalents: the market values of bank checking account balances are equal to book balances;
- Marketable securities: include short-term investments recorded at acquisition or issue value, with market values identical to book balances;
- Accounts receivable: trade accounts receivable are deducted of the allowance for doubtful accounts;
- Loans and financing: amounts taken out for acquisition of property, plant and equipment items and for working capital purposes, restated at interest rates for the year;
- Trade accounts payable: the amounts taken out to cover payables to suppliers refer mostly to acquisition of inputs for production;
- Derivative financial instruments and hedging activities: the Company has neither made nor hold investments for speculation purposes, in derivatives or any other risky assets, and has no swap transactions or similar transactions. At December 31, 2016, the Company had no assets or liabilities hedged by derivative financial instruments.

(In thousands of reais, unless otherwise stated)

28. Sensitivity analysis of financial assets and liabilities

The Company's financial liabilities relate mostly to contracts pegged to the CDI variation, representing 59.1% of the consolidated financial liabilities in 2016. In addition, 18.1% of bank loans are pegged to fixed interest rates; 20.6% to contracts subject to exchange variation; 0.3% were taken out by reference to the IPCA and 1.9% 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 is exposed as of December 31, 2016, three different scenarios were estimated, considering the volume of total financing. Based on these consolidated amounts at December 31, 2016, the Company defined the Probable Scenario for the 12-month period of 2017 (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 financial expenses have been calculated, not considering taxes and the aging list of each agreement for 2017. The reporting date used was December 31, 2016, 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	**2017**	**2017**	**2017**
Exchange variation	**68,899**	**68,899**	**68,899**
Projected financial expenses	8,778	27,596	44,674
Variation %	12.74%	40.05%	64.84%
CDI	**197,879**	**197,879**	**197,879**
Projected financial expenses	27,151	32,479	37,807
Variation %	13.72%	16.41%	19.11%
IPCA	**953**	**953**	**953**
Projected financial expenses	105	117	129
Variation %	11.02%	12.28%	13.54%
Fixed	**60,708**	**60,708**	**60,708**
Projected financial expenses	2,656	2,656	2,656
Variation %	4.38%	4.38%	4.38%
Other	**6,363**	**6,363**	**6,363**
Projected financial expenses	819	944	1,070
Variation %	12.87%	14.84%	16.82%
Total bank indebtedness	**334,802**	**334,802**	**334,802**
Total projected financial expenses	39,509	63,792	86,336
Total variation %	11.80%	19.05%	25.79%

(In thousands of reais, unless otherwise stated)

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

The Company's financial assets are pegged to the CDI variation. In order to assess the sensitivity of possible changes in the CDI at December 31, 2016, the Company defined a Probable Scenario for the 12-month period of 2017 and, based on this scenario, it simulated variations of 25% (Scenario II) and 50% (Scenario III) on index projections.

	Probable scenario I	Scenario II	Scenario III
Investments - CDI	51,505	51,505	51,505
Rate subject to variation	10.46%	13.08%	15.69%
Projected financial income	5,389	6,739	8,083
Variation %	**10.46%**	**13.08%**	**15.69%**

It should be stressed that the Company's financial assets at December 31, 2016 are mostly pegged to the daily yield of demand deposits in checking accounts, with daily yield equivalent to a percentage of the CDI variation, with automatic liquidity.