

# **Financial Statements**

## **União Química Farmacêutica Nacional S.A.**

December 31, 2015  
with Independent Auditor's Report

# **União Química Farmacêutica Nacional S.A.**

Financial statements

December 31, 2015

## **Contents**

Independent auditor's report on financial statements.....	1
Audited financial statements	
Balance sheets .....	3
Income statements .....	5
Statement of comprehensive income .....	6
Statement of changes in equity .....	7
Cash flow statement .....	8
Notes to financial statements.....	9



SH S Setor Hoteleiro Sul Qd. 06  
Bloco A Sala 105  
Brasília – DF, 70,316-000  
Brasil

Tel: (55 61)2104-0100  
www.ey.com.br

**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 financial statements**

The Board of Directors, Shareholders and Officers  
**União Química Farmacêutica Nacional S.A.**  
Brasília - DF

### **Introduction**

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 balance sheet as at December 31, 2015 and the related income statements, statements of comprehensive income, of changes in equity and of cash flow for the year then ended, and a summary of significant accounting practices and other explanatory information.

### **Management's responsibility for the 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.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these individual and consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the Company's individual and consolidated financial statements 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 internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the individual and consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Basis for qualified opinion**

As mentioned in Note 10, the Company has rights with a related party, Biolab Sanus Farmacêutica Ltda., recorded under noncurrent assets in the amount of R\$11,876 thousand, as well as assets that were of common use until then, in addition to unrecorded obligations and obligations recorded under noncurrent liabilities with the referred to related party in the amount of R\$12,208 thousand, which are currently being analyzed and reconciled by the Company management. We were unable to conclude, through alternative audit procedures performed on the individual and consolidated financial statements for the year ended December 31, 2015, on the existence of rights and obligations relating to the related party Biolab Sanus Farmacêutica Ltda.

### **Qualified opinion on the financial statements**

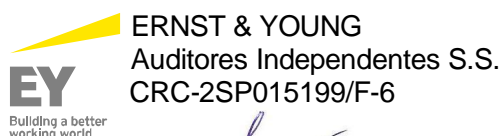
In our opinion, except for the effects, if any, of the matter described in the Basis for qualified opinion paragraph, the individual and consolidated financial statements referred to above present fairly, in all material respects, the financial position of União Química Farmacêutica Nacional S.A. as at December 31, 2015, its individual and consolidated financial performance and its respective cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

### **Emphasis of a matter**

#### **Claims filed in and out of court by noncontrolling shareholders**

Without qualifying our opinion, we draw attention to Note 20, which states that there are claims filed by noncontrolling shareholders against the Company and its controlling shareholder that challenge matters such as certain resolutions approved by special shareholders' meetings (capital increase), request that various documents be produced and explanations be given on certain expenditures, request that financial charges be levied on interest on equity payable from its allocation to its payment, and request that assets assigned under free lease be returned, among other demands. The legal advisors that are following the referred to claims consider the likelihood of loss in these claims as possible and, consequently, no provision for an eventual loss was set up at December 31, 2015.

Brasília, March 16, 2016.



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

A free translation from Portuguese into English of Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil

## União Química Farmacêutica Nacional S.A.

Balance sheets  
December 31, 2015 and 2014  
(In thousands of reais)

Assets	Note	Company		Consolidated	
		2015	2014	2015	2014
<b>Current assets</b>					
Cash and cash equivalents	4	150,680	9,879	152,543	9,935
Marketable securities	5	-	3,256	-	3,256
Trade accounts receivable	6	228,079	223,481	255,791	223,528
Inventories	7	171,639	132,730	196,800	132,996
Taxes and contributions recoverable	8	23,253	7,485	28,298	7,485
Other accounts receivable	9	12,843	9,300	14,286	9,300
Prepaid expenses		2,264	1,334	2,291	1,334
		<b>588,758</b>	<b>387,465</b>	<b>650,009</b>	<b>387,834</b>
<b>Noncurrent assets</b>					
Related parties	10	33,404	16,536	13,236	13,431
Deferred taxes	18.2	6,146	2,799	6,146	2,799
Marketable securities	5	3,967	3,577	3,967	3,577
Taxes recoverable	8	2,614	3,015	2,703	3,015
Judicial deposits	20	7,134	8,189	7,134	8,192
Prepaid expenses		1,017	1,454	1,017	1,455
Investments	11	94,959	3,840	770	184
Property, plant and equipment	12	279,281	252,007	442,161	258,263
Intangible assets	13	36,647	42,672	36,649	43,459
		<b>465,169</b>	<b>334,089</b>	<b>513,783</b>	<b>334,375</b>
<b>Total assets</b>		<b>1,053,927</b>	<b>721,554</b>	<b>1,163,792</b>	<b>722,209</b>

See accompanying notes.

## União Química Farmacêutica Nacional S.A.

Balance sheets  
December 31, 2015 and 2014  
(In thousands of reais)

Liabilities and equity	Note	Company		Consolidated	
		2015	2014	2015	2014
<b>Current liabilities</b>					
Trade accounts payable	15	47,222	44,440	54,824	44,470
Loans and financing	16	119,315	69,526	119,315	69,526
Labor and tax liabilities	17	42,495	39,158	51,661	39,181
Income and social contribution taxes		-	-	984	2
Dividends	21.4	2,354	4,385	2,354	4,385
Other accounts payable	19	12,915	3,863	14,744	3,863
		<b>224,301</b>	<b>161,372</b>	<b>243,882</b>	<b>161,427</b>
<b>Noncurrent liabilities</b>					
Loans and financing	16	278,960	102,443	278,960	102,443
Related parties	10	12,208	13,675	12,208	13,675
Provision for contingencies	20	13,588	12,022	13,588	12,022
Deferred income tax	18.2	895	-	895	-
Labor and tax liabilities	17	17,070	19,110	17,070	19,110
Supply agreement – manufacturing	1	-	-	90,265	-
Other accounts payable	19	49,478	587	49,497	1,187
		<b>372,199</b>	<b>147,837</b>	<b>462,483</b>	<b>148,437</b>
<b>Equity</b>					
Capital	21.1	198,288	198,288	198,288	198,288
Capital reserve		1,680	1,680	1,680	1,680
Legal reserve		10,928	9,265	10,928	9,265
Income reserve		189,482	159,784	189,482	159,784
Tax incentive reserve	21.3	57,049	43,328	57,049	43,328
		<b>457,427</b>	<b>412,345</b>	<b>457,427</b>	<b>412,345</b>
<b>Total liabilities and equity</b>		<b>1,053,927</b>	<b>721,554</b>	<b>1,163,792</b>	<b>722,209</b>

See accompanying notes.

## União Química Farmacêutica Nacional S.A.

### Income statement

December 31, 2015 and 2014

(In thousands of reais, except for earnings per share - in reais)

	Note	Company		Consolidated	
		2015	2014	2015	2014
Net operating revenue	22	767,650	715,284	877,685	715,374
Cost of goods sold	23	(402,282)	(339,978)	(485,326)	(341,272)
Gross profit		365,368	375,306	392,359	374,102
Operating expenses and income:					
Selling, general and administrative expenses	23	(281,014)	(248,116)	(298,131)	(249,953)
Other operating income, net	24	13,275	40,926	15,082	40,926
Equity pickup	11,2	3,176	(3,780)	(2,914)	(737)
Operating income before financial income and expenses		100,805	164,336	106,396	164,338
Financial income (expenses), net:					
Financial income	25	11,241	5,132	10,348	5,134
Financial expenses	25	(61,122)	(26,783)	(61,418)	(26,787)
Income before income and social contribution taxes		50,924	142,685	55,326	142,685
Income and social contribution taxes:					
Current	18,1	(6,397)	(33,853)	(10,799)	(33,853)
Deferred	18,1	2,451	569	2,451	569
Net income for the year		46,978	109,401	46,978	109,401
Basic and diluted net earnings per share for the year, in reais		0.2378	0.5537		

See accompanying notes.

## União Química Farmacêutica Nacional S.A.

Statements of comprehensive income  
December 31, 2015 and 2014  
(In thousands of reais)

	Company		Consolidated	
	2015	2014	2015	2014
Net income for the period	46,978	109,401	46,978	109,401
Other comprehensive income	-	-	-	-
Comprehensive income for the year	<u>46,978</u>	<u>109,401</u>	<u>46,978</u>	<u>109,401</u>

See accompanying notes.



## União Química Farmacêutica Nacional S.A.

Statement of changes in equity  
December 31, 2015 and 2014  
(In thousands of reais)

	Capital					Income reserve	Tax incentive reserve	Retained earnings	Total
	Subscribed capital	Unpaid capital	Capital	Capital reserve	Legal reserve				
Balances at December 31, 2013	198,512	(224)	198,288	1,680	5,736	96,753	4,511	-	306,968
Net income for the period	-	-	-	-	-	-	-	109,401	109,401
Allocation of net income:									
Dividends	21.4	-	-	-	-	-	-	(4,024)	(4,024)
Setting up of reserves		-	-	-	3,529	63,031	38,817	(105,377)	-
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	21.4	-	-	-	-	-	-	(1,896)	(1,896)
Setting up of reserves		-	-	-	1,663	29,698	13,721	(45,082)	-
Balances at December 31, 2015	198,512	(224)	198,288	1,680	10,928	189,482	57,049	-	457,427

See accompanying notes.

## União Química Farmacêutica Nacional S.A.

### Cash flow statement December 31, 2015 and 2014 (In thousands of reais)

	Company		Consolidated	
	2015	2014	2015	2014
<b>Cash flow from operating activities</b>				
Net income before income and social contribution taxes	50,924	142,685	55,326	142,685
<b>Adjustments to reconcile net income (loss) to cash provided by:</b>				
Allowance for doubtful accounts	4,475	1,504	4,475	1,504
Provision for inventory losses	3,002	1,626	3,002	1,626
Equity pickup	(3,176)	3,780	2,914	737
Provision for contingencies and restatement of judicial deposits	919	2,198	919	2,198
Provision for impairment of assets	8,310	8,675	8,310	8,675
Provision for losses on receivables	-	3,585	-	3,585
Income from tax incentive programs	-	(38,817)	-	(38,817)
Gain from disposal of property, plant and equipment items	824	7,469	2,879	7,469
Bargain purchase	(2,633)	-	-	-
Depreciation and amortization	19,217	15,829	27,886	15,846
	<b>81,862</b>	<b>148,534</b>	<b>105,711</b>	<b>145,508</b>
<b>Changes in current and noncurrent assets:</b>				
Accounts receivable	(9,034)	(36,581)	(36,738)	(36,548)
Inventories	(41,669)	(24,102)	(59,709)	(24,186)
Taxes recoverable and deferred	(15,367)	(4,120)	(20,502)	(4,120)
Other accounts receivable	(1,828)	(6,780)	1,709	(6,783)
Prepaid expenses	(492)	2,413	(519)	2,413
Trade accounts payable	2,776	12,642	10,354	12,664
Labor and tax liabilities	1,232	(2,736)	5,450	(2,742)
Other liabilities	7,127	(64)	6,842	(64)
Income and social contribution taxes paid	(6,397)	(33,853)	(9,818)	(33,855)
<b>Net cash flow from operating activities:</b>	<b>18,210</b>	<b>55,353</b>	<b>2,780</b>	<b>52,287</b>
<b>Cash flow from investing activities:</b>				
Acquisition of property, plant and equipment	(41,261)	(57,791)	(44,842)	(57,808)
Acquisition of intangible assets	(2,883)	(3,072)	(2,885)	(3,072)
Short-term investments	2,891	5,084	2,866	5,084
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:	<b>(76,999)</b>	<b>(55,779)</b>	<b>(80,679)</b>	<b>(55,796)</b>
<b>Cash flow from financing activities:</b>				
Loans, intercompany loans and financing	225,706	7,442	225,706	7,442
Dividends paid	(3,927)	(1,954)	(3,927)	(1,954)
Related parties	(22,189)	(2,617)	(1,272)	487
<b>Net cash from financing activities:</b>	<b>199,590</b>	<b>2,871</b>	<b>220,507</b>	<b>5,975</b>
Net increase in cash and cash equivalents	<b>140,801</b>	<b>2,445</b>	<b>142,608</b>	<b>2,466</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>9,879</b>	<b>7,434</b>	<b>9,935</b>	<b>7,469</b>
<b>Cash and cash equivalents at end of year</b>	<b>150,680</b>	<b>9,879</b>	<b>152,543</b>	<b>9,935</b>

See accompanying notes.

# União Química Farmacêutica Nacional S.A.

Notes to financial statements

December 31, 2015

(In thousands of reais, unless otherwise stated)

## 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: Bionovis S.A. – joint venture – engaged in the research, development, production, distribution and sales of biotechnology products and the parent company of Anovis Industrial Farmacêutica Ltda.

### Acquisition of Anovis Industrial Farmacêutica Ltda.

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.

The excess 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:

	<b>Book value</b>	<b>Excess value</b>	<b>Fair value</b>
<b>Assets:</b>			
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
<b>Liabilities:</b>			
Labor obligations	4,991	-	4,991
Supply agreement	-	90,265	90,265
	4,991	90,265	95,256
<b>Equity</b>	<b>105,103</b>	<b>(19,323)</b>	<b>85,780</b>
Consideration paid	-	-	83,147
Bargain purchase	-	-	2,633

# União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

## 1. Operations (Continued)

### Acquisition of Anovis Industrial Farmacêutica Ltda. (Continued)

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 excess value of tangible assets in relation to the consideration paid. The excess value of the manufacturing agreement was computed considering the contractual clauses on absorption of costs and synergy. From the total amount of R\$83,147, R\$32,318 were paid in 2015 and the restated balance of R\$55,910 at December 31, 2015 will be settled in six years (see Note 19).

## 2. Accounting policies

### a) Statement of compliance

The financial statements were prepared and are presented in accordance with accounting practices adopted in Brazil, which comprise the standards included in the Brazilian Corporation Law and the pronouncements, guidance and technical interpretations issued by the Brazilian Financial Accounting Standards Board (CPC) and approved by Brazil's National Association of State Boards of Accountancy (CFC).

### b) Basis of preparation and presentation of 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, review of estimates for useful lives of property, plant and equipment items and intangible assets, and analysis of recovery of noncurrent 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.

In preparing the individual and consolidated financial statements as at December 31, 2015, the Company management reviewed its accounting practice for segregation of cost and expense balances, described in Note 23. Consequently, the note on expenses by nature for that year, included as information for comparison with these financial statements, underwent changes.

The reclassified balance for the year ended December 31, 2014 was R\$57,382.

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

The Company executive board authorized the conclusion of these financial statements on March 16, 2016.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(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 Indústria Farmacêutica Ltda.

##### *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 shareholders.

#### c) Summary of significant accounting practices

##### *General principles and criteria for revenue recognition*

Assets, liabilities, revenues and expenses are calculated under the accrual method of accounting. 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.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 2. Accounting policies (Continued)

#### d) Summary of significant accounting practices (Continued)

##### *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 received up to the balance sheet dates, which do not exceed its market or realizable value.

##### *Marketable securities*

Marketable securities comprise short-term investments with maturity and grace period exceeding 90 days from the investment date or maturing before 90 days, their early redemption without risk of change in value not being possible.

##### *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 91 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 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.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 2. Accounting policies (Continued)

#### d) Summary of significant accounting practices (Continued)

##### *Judicial deposits*

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

##### *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.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 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 carrying amount of replaced items or parts is derecognized. All other repair and maintenance costs are recorded as a matching entry to income/loss for the year as incurred.

Land is not depreciated. Depreciation 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 book value, 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.

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 individual balance sheet of Company as "investments" in the group of investments, and in the consolidated balance sheet as "Intangible Assets".



## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 2. Accounting policies (Continued)

#### d) Summary of significant accounting practices (Continued)

##### *Intangible assets* (Continued)

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. Considering that trademarks and licenses have a finite useful life, they will be later recorded at cost less accumulated amortization.

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.

##### *Lease*

Finance lease agreements are recognized in intangible assets and in liabilities as a lease for the lower of present value of minimum compulsory contractual installments or the asset fair value, plus initial direct costs incurred in the transaction, where applicable. The amounts recorded in intangible assets are amortized over the estimated useful life of assets. Implicit interest on the lease recognized in liabilities is recorded in P&L based on the agreement term under the effective interest rate method.

##### *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 value may not be recoverable. An impairment loss is recognized at the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For impairment measurement, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units - CGU). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of such impairment at the financial statements reporting date.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 2. Accounting policies (Continued)

#### d) Summary of significant accounting practices (Continued)

##### *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 35 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.

Deferred taxes arise from temporary differences at the balance sheet date 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 taxes related to items recognized directly in equity are also recognized in equity, rather than in the income statement.

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.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 2. Accounting policies (Continued)

#### d) Summary of significant accounting practices (Continued)

##### *Other assets and liabilities (current and noncurrent)*

An asset is recognized in the balance sheet 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 balance sheet 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.

##### *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 with probable likelihood of success are disclosed in explanatory notes; ii) Contingent liabilities are provisioned only when losses are assessed as likely and the amounts involved can be measured with reasonable certainty. 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 evaluation of the probability of success.

##### *Functional currency and transactions in foreign currency*

The functional currency of Company and its subsidiary is the Brazilian Real (R\$), which is also its reporting currency. Foreign currency-denominated transactions are translated into the functional currency of Company and its subsidiary at the exchange rates prevailing on the dates of the transactions. Balance sheet accounts are translated at the exchange rate prevailing at the balance sheet 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.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 2. Accounting policies (Continued)

#### d) Summary of significant accounting practices (Continued)

##### *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 balance sheet date in accordance with the rules established for each type of classification of financial assets and liabilities, as described in Note 27.

##### *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.

#### e) New standards and interpretations

The pronouncements and interpretations issued by IASB that were not yet effective as of the Company financial statements date are the following: The Company intends to adopt these pronouncements once they become effective.

IFRS 9 - Financial Instruments

IFRS 15 - Revenue from Contracts with Customers

From the new standards that were not yet effective at December 31, 2015, the Company does not expect a material impact on its financial statements.

### 3. Financial risk management

#### 3.1. Financial risk factors

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

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 3. Financial risk management (Continued)

#### 3.1. Financial risk factors (Continued)

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 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 that the Company incurs 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 itself against such rates volatility risk.

###### (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, 2015, the Company exposure refers to loans in foreign currency amounting to US\$16,439 thousand and €5,021 thousand (2014 - US\$10,122 thousand and € 92 thousand) and import of raw materials and/or services amounting to US\$168 thousand and € 2 thousand (2014 - US\$4,508 thousand and €1,251 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.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 3. Financial risk management (Continued)

#### 3.1. Financial risk factors (Continued)

##### (b) Credit risk (Continued)

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.

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 balance sheet), deducted from cash and cash equivalents. Total capital is calculated through the sum of equity, as stated in the consolidated balance sheet, with net debt.

The financial leverage is basically due to the following transactions:

- (i) Finance lease (machinery, equipment and vehicles (renewal of fleet));
- (ii) Import 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.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 4. Cash and cash equivalents

	Company		Consolidated	
	2015	2014	2015	2014
Cash and banks	603	378	612	410
Short-term investments:				
Santander	57,534	7,888	59,388	7,888
Banco Bradesco	48,265	1,516	48,265	1,516
Banco do Brasil	44,211	-	44,211	24
Banco Itaú	67	97	67	97
	<u>150,680</u>	<u>9,879</u>	<u>152,543</u>	<u>9,935</u>

Short-term investments in Bank Deposit Certificates (CDB) have an average yield of 100% 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	
	2015	2014	2015	2014
Banco Regional de Brasília	3,967	3,577	3,967	3,577
Banco do Brasil	-	3,256	-	3,256
	<u>3,967</u>	<u>6,833</u>	<u>3,967</u>	<u>6,833</u>
Current	-	3,256	-	3,256
Noncurrent	3,967	3,577	3,967	3,577

As described in note 16, the Company maintains transactions with Banco Regional de Brasília (BRB) 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 the Bank have been acquired as guarantee, in an amount equivalent to 10% of each loan installment, which shall be maintained until the maturity of each installment and used to amortize the debt. This program was terminated and the Company awaits the auction to settle the outstanding balances of investments and ICMS payable relating to the business support program of the Federal District Pro-DF.

In 2014, the Company applied to IDEAS, the program for Industrial Financing for Sustainable Economic Development. Investments relating to this financing recorded a balance of R\$477. The other investments held in Banco Regional de Brasília in 2015 total R\$3,490 and relate to the Pró-DF program. In 2015, no new deposits relating to the program were made.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 6. Trade accounts receivable

	Company		Consolidated	
	2015	2014	2015	2014
Domestic customers	234,898	225,748	262,610	225,795
Foreign customers	96	57	96	57
(-) Allowance for doubtful accounts	(6,915)	(2,324)	(6,915)	(2,324)
	<b>228,079</b>	<b>223,481</b>	<b>255,791</b>	<b>223,528</b>

The Company and its subsidiary adopt the procedure of setting up an allowance for doubtful accounts for private customers overdue for more than 180 days, and for government customers overdue for more than 360 days.

In December 2015, R\$18,713 were included in trade accounts receivable referring to balances of the related party F&F Distribuidora de Produtos Farmacêuticos Ltda., which relate to drug sales conducted on an arm's length basis.

*Changes in allowance for doubtful accounts:*

	Company and Consolidated
Balance at 12/31/2013	(4,961)
Allowance	(1,504)
Write-off (effective loss)	4,141
Balance at 12/31/2014	(2,324)
Allowance	(4,475)
Write-off (effective loss)	(116)
<b>Balance at 12/31/2015</b>	<b>(6,915)</b>

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

	Company		Consolidated	
	2015	2014	2015	2014
Falling due	209,256	194,612	235,056	194,613
Overdue for up to 30 days	8,718	9,659	10,630	9,659
Overdue from 31 to 60 days	3,009	10,774	3,009	10,777
Overdue from 61 to 120 days	3,691	5,085	3,691	5,099
Overdue from 121 to 180 days	2,418	2,434	2,418	2,435
Overdue for more than 181 days	7,902	3,241	7,902	3,269
	<b>234,994</b>	<b>225,805</b>	<b>262,706</b>	<b>225,852</b>

### 7. Inventories

	Company		Consolidated	
	2015	2014	2015	2014
Finished products	80,852	61,235	82,864	61,364
Work-in-process	11,310	10,414	12,555	10,414
Raw materials	61,143	48,655	66,877	48,746
Packaging material	21,126	14,911	30,822	14,957
Maintenance and safety materials	8,576	6,001	15,076	6,001
Other	4,532	4,412	4,534	4,412
( - ) Provision for losses	(15,900)	(12,898)	(15,928)	(12,898)
	<b>171,639</b>	<b>132,730</b>	<b>196,800</b>	<b>132,996</b>



## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 8. Taxes and contributions recoverable

	Company		Consolidated	
	2015	2014	2015	2014
State Value-added Tax (ICMS) (i)	11,330	3,841	14,389	3,841
Contribution Tax on Gross Revenue for Social Integration Program (PIS)	324	328	396	328
Contribution Tax on Gross Revenue for Social Security Financing (Cofins)	1,530	1,510	2,191	1,510
Income tax (ii)	8,176	2,164	9,129	2,164
Social contribution tax on net profit (ii)	509	873	860	873
Withholding Income Tax (IRRF)	1,215	808	1,230	808
Federal Value-added Tax (IPI)	2,783	976	2,783	976
Other	-	-	23	-
	<b>25,867</b>	<b>10,500</b>	<b>31,001</b>	<b>10,500</b>
Current	23,253	7,485	28,298	7,485
Noncurrent	2,614	3,015	2,703	3,015

- (i) Refers mainly to tax benefits granted by the Minas Gerais State government through the Special Tax Regime (RET), due to the creation of Extrema Distribution Center in Minas Gerais state.
- (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.

### 9. Other accounts receivable

	Company		Consolidated	
	2015	2014	2015	2014
Advances to suppliers	6,984	5,436	8,062	5,436
Prepaid vacation pay	2,997	2,019	3,256	2,019
Pledges and collaterals	1,544	948	1,543	948
Other advances	1,318	897	1,425	897
	<b>12,843</b>	<b>9,300</b>	<b>14,286</b>	<b>9,300</b>

### 10. Related parties

#### Assets:

	Company		Consolidated	
	2015	2014	2015	2014
Biolab Sanus Farmacêutica Ltda.(i)	11,876	11,876	11,876	11,876
Checking account of shareholders	1,358	1,358	1,358	1,358
Bthek Biotecnologia Ltda.	-	3,300	-	-
Anovis Industrial Farmaceutica Ltda (ii)	20,168	-	-	-
Other	2	2	2	197
	<b>33,404</b>	<b>16,536</b>	<b>13,236</b>	<b>13,431</b>

- (i) The amount of R\$11,876 comprises R\$2,175 referring to accounts receivable balances and analysis of certain transactions conducted with Biolab Sanus Farmacêutica Ltda. that resulted in credit of R\$9,701 recorded in noncurrent assets under "related parties";
- (ii) The balance held with Anovis refers to a loan and is presented at nominal value plus 12% interest p.a. with undetermined maturity.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 10. Related parties (Continued)

#### Liabilities:

	Company		Consolidated	
	2015	2014	2015	2014
Biolab Sanus Farmacêutica Ltda.	12,208	12,208	12,208	12,208
Robferma Participações Ltda.	-	1,467	-	1,467
	<b>12,208</b>	<b>13,675</b>	<b>12,208</b>	<b>13,675</b>

The accounts "checking account of shareholders" (assets) and "loan - Biolab Sanus Farmacêutica Ltda." (liabilities) are presented at nominal values. A restatement is not expected for these transactions and they do not have a maturity date.

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	
	2015	2014	2015	2014
Payroll and related charges	7,457	7,322	7,457	7,322
Executive board fees	1,945	1,440	1,945	1,140
	<b>9,402</b>	<b>8,762</b>	<b>9,402</b>	<b>8,462</b>

### 11. Investments

#### 11.1. Information on investments

	Capital	Ownership interest - %	Equity	P&L
<b>Bionovis S.A. (jointly-controlled entity)</b>				
At December 31, 2014	10,000	25.00	40	(2,909)
At December 31, 2015	24,000	25.00	14,040	(11,655)
<b>Bthek Biotecnologia Ltda.</b>				
At December 31, 2014	4,253	99.99	(1,897)	(3,043)
At November 30, 2015	4,523	99.99	(4,216)	(2,319)
<b>Anovis Industrial Farmacêutica Ltda.</b>				
At December 31, 2015 (i)	105,524	99.99	113,513	8,409

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

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 11. Investments (Continued)

#### 11.2. Changes in investments

	<b>BThek(i)</b>	<b>Bionovis(ii)</b>	<b>Anovis (iii)</b>	<b>Anovis (iii)</b>	<b>Other</b>	<b>Total</b>
<b>Balance at December 31, 2013</b>	5,780	737	-	-	-	6,517
Capital contribution	919	-	-	-	184	1,103
Equity pickup	(3,043)	(737)	-	-	-	(3,780)
<b>Balance at December 31, 2014</b>	<b>3,656</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>184</b>	<b>3,840</b>
Capital contribution	-	<b>3,500</b>	-	-	-	<b>3,500</b>
Acquisition of investee	-	-	<b>105,103</b>	-	-	<b>105,103</b>
Bargain purchase	-	-	-	<b>2,633</b>	-	<b>2,633</b>
Fair value upon acquisition	-	-	-	<b>(21,956)</b>	-	<b>(21,956)</b>
Merger - Bthek	<b>(586)</b>	-	-	-	-	<b>(586)</b>
Transfer to intangible assets	<b>(751)</b>	-	-	-	-	<b>(751)</b>
Equity pickup	<b>(2,319)</b>	<b>(2,914)</b>	<b>8,409</b>	-	-	<b>3,176</b>
<b>Balance at December 31, 2015</b>	<b>-</b>	<b>586</b>	<b>113,512</b>	<b>(19,323)</b>	<b>184</b>	<b>94,959</b>

- (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 Química 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 of 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 (R\$2,914) refers to P&L for 2015.
- (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.

### 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.

The book value (cost) of property, plant and equipment held under finance lease was R\$49,548 at December 31, 2015 (R\$49,529 in 2014).

Land and buildings in the Federal District with book value (cost) of R\$87,206 (R\$87,206 in 2014) are subject to mortgage as a guarantee of debentures issued.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 12. Property, plant and equipment (Continued)

	Company								
	Land	Buildings and improvements	Machinery, equipment and facilities	Furniture and fixtures	Vehicles and other	Total in operation	Advance to suppliers	Construction in progress	Total PP&E
Balances at December 31, 2013	8,602	88,812	69,225	3,050	29,585	199,274	12,699	4,887	216,860
Acquisition	-	430	35,302	1,154	24,522	61,408	110	4,048	65,566
Disposal	-	-	(122)	(18)	(13,610)	(13,750)	(7,775)	-	(21,525)
Transfer	-	1,793	2,550	14	(282)	4,075	-	(4,075)	-
Write-off - depreciation	-	-	111	16	6,154	6,281	-	-	6,281
Depreciation	-	(1,961)	(5,431)	(289)	(7,494)	(15,175)	-	-	(15,175)
Balances at December 31, 2014	8,602	89,074	101,635	3,927	38,875	242,113	5,034	4,860	252,007
Total cost	8,602	105,982	148,462	6,679	51,923	321,648	5,034	4,860	331,542
Accumulated depreciation	-	(16,908)	(46,827)	(2,752)	(13,048)	(79,535)	-	-	(79,535)
Acquisition	-	-	23,757	600	6,782	31,139	5,599	4,523	41,261
Disposal	-	-	(176)	(29)	(2,175)	(2,380)	-	-	(2,380)
Transfer	-	471	4,603	45	548	5,667	-	(5,667)	-
Merger - Bthek	5,360	720	140	15	-	6,235	-	-	6,235
Write-off - depreciation	-	-	171	18	1,367	1,556	-	-	1,556
Depreciation	-	(4,247)	(13,770)	(544)	(837)	(19,398)	-	-	(19,398)
Balances at December 31, 2015	13,962	86,018	116,360	4,032	44,560	264,932	10,633	3,716	279,281
Total cost	13,962	107,173	176,786	7,310	57,078	362,309	10,633	3,716	376,658
Accumulated depreciation	-	(21,155)	(60,426)	(3,278)	(12,518)	(97,377)	-	-	(97,377)
Annual depreciation rate	-	1.67% to 4%	5% to 6.67%	10%	6.6% to 20%	-	-	-	-

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(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	Construction in progress	Total PP&E
Balances at December 31, 2013	12,897	90,413	69,574	3,063	29,585	205,532	12,699	4,887	223,118
Acquisition	-	430	27,527	1,154	24,522	53,633	110	4,048	57,791
Acquisition of subsidiary	-	-	14	2	-	16	-	-	16
Disposal	-	-	(122)	(18)	(13,610)	(13,750)	-	-	(13,750)
Transfer	-	1,793	10,325	14	(282)	11,850	(7,775)	(4,075)	-
Write-off - depreciation	-	-	111	16	6,154	6,281	-	-	6,281
Depreciation	-	(1,962)	(5,447)	(290)	(7,494)	(15,193)	-	-	(15,193)
Balances at December 31, 2014	12,897	90,674	101,982	3,941	38,875	248,369	5,034	4,860	258,263
Total cost	12,897	107,582	148,843	6,693	51,923	327,938	5,034	4,860	337,832
Accumulated depreciation	-	(16,908)	(46,861)	(2,752)	(13,048)	(79,569)	-	-	(79,569)
Acquisition	-	2	25,003	1,591	6,781	33,377	6,313	5,152	44,842
Acquisition of subsidiary	41,126	76,195	48,875	2,039	203	168,438	-	-	168,438
Disposal	-	-	(1,170)	(1,090)	(2,175)	(4,435)	-	-	(4,435)
Transfer	-	511	4,847	49	548	5,955	-	(5,955)	-
Write-off - depreciation	-	-	171	18	1,367	1,556	-	-	1,556
Depreciation	-	(5,371)	(19,267)	(1,028)	(837)	(26,503)	-	-	(26,503)
Balances at December 31, 2015	54,023	162,011	160,441	5,520	44,762	426,757	11,347	4,057	442,161
Total cost	54,023	184,290	226,398	9,282	57,280	531,273	11,347	4,057	546,677
Accumulated depreciation	-	(22,279)	(65,957)	(3,762)	(12,518)	(104,516)	-	-	(104,516)
Depreciation rate	-	1.67% to 4%	5% to 6.67%	10%	6.6% to 20%	-	-	-	-

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 13. Intangible assets

Description	Company				
	Trademarks and patents (i)	Goodwill (ii)	Software (iii)	Amortization (iii)	Net balance
Balance at December 31, 2013	36,508	11,257	5,119	(3,955)	48,929
Addition	-	-	3,072	(654)	2,418
Impairment	(4,774)	(3,901)	-	-	(8,675)
Balance at December 31, 2014	31,734	7,356	8,191	(4,609)	42,672
Addition	13	-	2,870	(1,335)	1,548
Transfer - merger	-	751	-	-	751
Write-off	-	-	(14)	-	(14)
Impairment	(2,903)	(5,407)	-	-	(8,310)
Balance at December 31, 2015	28,844	2,700	11,047	(5,944)	36,649

Description	Consolidated				
	Trademarks and patents (i)	Goodwill (ii)	Software (iii)	Amortization (iii)	Net balance
Balance at December 31, 2013	36,543	12,008	5,119	(3,955)	49,715
Addition	-	-	3,072	(653)	2,419
Impairment	(4,774)	(3,901)	-	-	(8,675)
Balance at December 31, 2014	31,769	8,107	8,191	(4,608)	43,459
Addition	13	-	2,870	(1,383)	1,500
Write-off	-	-	-	-	-
Impairment	(2,903)	(5,407)	-	-	(8,310)
Balance at December 31, 2015	28,879	2,700	11,061	(5,991)	36,649

(i) Refers to the acquisition cost of brands and patents of certain products manufactured and sold by the Company, which are not amortized. In 2015, trademarks and patents were tested for impairment and a provision for impairment of R\$2,903 (R\$4,774 in December 2014) was recognized.

(ii) 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\$8,791 referring to goodwill paid in investee Tecnopec Consultoria Comércio e Representações Ltda. in 2010, which was merged into the Company in 2011; it further includes R\$751 referring to goodwill paid in investee Bthek Biotecnologia Ltda. in 2013, which was merged into the Company in 2015. In 2015, goodwill was tested for impairment and a provision for impairment of R\$5,407 (R\$3,901 in December 2014) was recognized.

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

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

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

For impairment test purposes, the goodwill acquired in business combinations was allocated to cash-generating units that are also operating segments, as follows:

- (i) Cash-generating unit that manufactures the products of the veterinary line;
- (ii) Cash-generating unit that manufactures part of the products of the human pharmaceutical line;  
and
- (iii) Cash-generating unit that manufactures biological products for pest control.

Book value of goodwill allocated to each cash-generating unit:

	<b>Tecnopec</b>		<b>Biomacro</b>		<b>Bthek</b>		<b>Company</b>		<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Goodwill – accounting books	<b>8,791</b>	8,791	<b>2,466</b>	2,466	<b>2,850</b>	2,850	<b>14,107</b>	11,257	<b>14,107</b>	14,107
Provision for impairment	<b>(8,557)</b>	(3,901)	-	-	<b>(2,850)</b>	(2,099)	<b>(11,407)</b>	(3,901)	<b>(11,407)</b>	(6,000)
Net balance	<b>234</b>	4,890	<b>2,466</b>	2,466	-	751	<b>2,700</b>	7,356	<b>2,700</b>	8,107

The Company performs impairment test and considers, among other factors, the relation between its capitalization in the market and its book value while conducts a review to identify impairment indicators. At December 31, 2015, the market capitalization of one of the Cash-Generating Units was lower than the book value of its capital, indicating a potential impairment of goodwill and impairment of assets of the Cash-Generating Unit for the veterinary line products and the unit for biological products for pest control.

#### Cash-generating unit for veterinary products

The recoverable amount of the cash-generating unit for veterinary products of R\$234 at December 31, 2015 is determined based on the calculation of value in use vis-à-vis the cash flow projections based on financial estimates approved by top management for a five-year period. The discount rate after taxes applied to cash flow projections is 14.5% (2014: 14.5%). The growth rate used to extrapolate the cash flow of the unit for a period above five years is 7.6% (2014: 4.5%), calculated based on the inflation projection of the Central Bank of Brazil. Based on this analysis, management recognized a provision for impairment in the amount of R\$8,557.

#### Cash-generating unit for the human pharmaceutical line products

The recoverable amount of the cash-generating unit for a part of the human pharmaceutical line products of R\$2,466 at December 31, 2015 is determined based on the calculation of value in use vis-à-vis the cash flow projections based on financial estimates approved by top management for a five-year period. The projected cash flow was restated to reflect the product demand.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 14. Impairment test of goodwill paid based on expected future profitability (Continued)

#### Cash-generating unit for the human pharmaceutical line products (Continued)

The discount rate after taxes applied to cash flow projections is 14.5% (2014: 14.5%). The growth rate used to extrapolate the cash flow of the unit for a period above five years is 7.6% (2014: 4.5%), calculated based on the inflation projection of the Central Bank of Brazil. Based on the updated analysis, management has not identified a significant impairment for this Cash-Generating Unit.

#### Cash-generating unit for biological products for pest control

The recoverable amount of the cash-generating unit for biological products for pest control of R\$751 at December 31, 2015 is determined based on the calculation of value in use vis-à-vis the cash flow projections based on financial estimates approved by top management for a five-year period. The discount rate after taxes applied to cash flow projections is 14.5% (2014: 14.5%). Based on this analysis, management recognized a provision for impairment in the amount of R\$751.

#### 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

	Company		Consolidated	
	2015	2014	2015	2014
Domestic suppliers	<u>28,602</u>	28,430	<u>36,204</u>	28,460
Foreign suppliers	<u>18,620</u>	16,010	<u>18,620</u>	16,010
	<u>47,222</u>	44,440	<u>54,824</u>	44,470

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



## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(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	
	2015	2014	2015	2014
Falling due within 30 days	33,039	28,715	36,204	28,745
From 31 to 60 days	12,727	11,058	16,344	11,058
From 61 to 120 days	1,456	4,667	2,276	4,667
	<b>47,222</b>	<b>44,440</b>	<b>54,824</b>	<b>44,470</b>

### 16. Loans and financing

Type	Company and Consolidated		
	Average rate of charges %	2015	2014
<b>Foreign currency:</b>			
Import financing (FINIMP)	Euro exchange difference plus 2.70% p.a.	3,316	-
Eurobond	US dollar exchange difference plus 6.5% p.a. (Sunstate)	19,605	298
FINIMP	US dollar exchange rate plus 2.31% to 3.30% p.a.	44,526	26,886
		<b>67,447</b>	<b>27,184</b>
<b>Domestic currency:</b>			
Working capital	2.2% to 4.9% p.a. plus Interbank Deposit Certificate (CDI) variation	41,190	1,788
Espirito Santo State Industry Federation (Findes)/Pro-Invest	6.0% p.a. plus Extended Consumer Price Index (IPCA)	4,406	7,225
BNDES - FINAME	3% to 5% p.a. plus long-term interest rate (TJLP)	9,254	11,263
BNDES – New Plant	0.8% p.m. plus CDI	-	321
Financing BRB (a)	2.4% to 25% of National Consumer Price Index (INPC) p.a.	4,428	4,323
Midwest Constitutional			
Financing Fund (FCO) - Banco do Brasil	From 11.5% to 13.1% p.a.	3,185	5,355
Funding Authority for Studies and Projects (Finep)	3.50% p.a.	46,211	35,726
Debentures (b)	CDI + 2.95% p.a.	196,693	43,220
Lease (c)	From 10% to 16% p.a.	12,776	19,827
Credit assignment	From 1.09% to 1.2% p.a.	12,685	15,737
		<b>330,828</b>	<b>144,785</b>
		<b>398,275</b>	<b>171,969</b>
Current		119,315	69,526
Noncurrent		278,960	102,443

Aging list of debts:

	Company and Consolidated	
	2015	2014
2016	119,315	69,526
2017	81,638	29,524
2018 onwards	197,322	72,919
	<b>398,275</b>	<b>171,969</b>

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 shareholders.

#### (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 of facilities, working capital, production and import.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 16. Loans and financing (Continued)

#### (a) IDEAS – Financing (Continued)

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 business 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 debit 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 compliance with Decree No. 34607 of August 27, 2013, the Company has investments of R\$ 477 referring to loans amounting to R\$4,428 at December 31, 2015.

#### (b) Debentures

In 2015, the Company made its 2<sup>nd</sup> public issue of nonconvertible 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. Due to the 2<sup>nd</sup> public issue of debentures in December 2015, the Company redeemed the 1<sup>st</sup> public issue of debentures earlier for the total balance of R\$14,560, comprising R\$14,320 (principal), R\$212 (interest) and R\$28 (early premium redemption).

#### (c) Operating lease

Certain assets are leased on the basis of irrevocable agreements with payment of fixed installments in US dollar; consequently, they are subject to the exchange rate fluctuation and additional half-yearly installments equivalent to the positive difference, if any, between the planned principal balance of lessor, less the remaining current principal balance, based on increases in the LIBOR rates above the projected LIBOR rate for 90 days of 1.17% p.a.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 16. Loans and financing (Continued)

#### (d) 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	
	2015	2014	2015	2014
<b>Labor liabilities:</b>				
Accrual for vacation pay and social charges	15,078	11,650	19,301	11,650
Social Security Tax (INSS) payable	3,803	2,492	4,637	2,492
Unemployment Compensation Fund (FGTS) payable	1,327	1,189	1,625	1,204
Provision for commissions and rewards	2,852	2,490	2,852	2,490
Provision for profit sharing and bonus	4,627	6,500	7,343	6,500
Other labor liabilities	17	8	21	8
	<b>27,704</b>	<b>24,329</b>	<b>35,779</b>	<b>24,344</b>
<b>Tax obligations:</b>				
ICMS payable	4,916	6,157	5,283	6,159
PIS and COFINS	2,816	2,748	2,898	2,748
ICMS – Installment payment (a)	7,839	9,235	7,839	9,235
IPI – ISS	669	795	835	795
IRRF	2,902	2,285	3,378	2,292
ICMS Pro-DF (b)	12,719	12,719	12,719	12,718
	<b>31,861</b>	<b>33,939</b>	<b>32,952</b>	<b>33,947</b>
	<b>59,565</b>	<b>58,268</b>	<b>68,731</b>	<b>58,291</b>
<b>Current</b>	<b>42,495</b>	<b>39,158</b>	<b>51,661</b>	<b>39,181</b>
<b>Noncurrent</b>	<b>17,070</b>	<b>19,110</b>	<b>17,070</b>	<b>19,110</b>

(a) Includes two ICMS installments as follows:

Place	Remaining installments	Installment amount (R\$)	Debt balance
Federal District (i)	12	246	2,950
Federal District (ii)	109	45	4,889
		<b>291</b>	<b>7,839</b>

(i) Voluntary ICMS installment payment comprising October 2010 through June 2011 formalized in December 2011, in the amount of R\$7,989, with down payment of R\$399 and the other 48 installments payable in 60 months until December 31, 2015.

(ii) Installment payment referring to ICMS Pro-DF not granted 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 11 installments payable in 120 months until December 31, 2015.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 17. Labor and tax liabilities (Continued)

(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, the Company did not participate in auctions.

### 18. Income and social contribution taxes

#### 18.1. Reconciliation of income and social contribution tax expenses

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

	Company		Consolidated	
	2015	2014	2015	2014
	<b>Income and social contribution taxes</b>	<b>Income and social contribution taxes</b>	<b>Income and social contribution taxes</b>	<b>Income and social contribution taxes</b>
Income before income and social contribution taxes	50,924	142,685	55,326	142,685
Combined statutory rate of taxes - %	34	34	34	34
Income and social contribution taxes	(17,314)	(48,513)	(18,811)	(48,513)
<b>Adjustments for calculation at the effective rate:</b>				
Equity pickup	1,158	(1,285)	(991)	(1,285)
Technology innovation	4,371	3,803	4,371	3,803
Donations and gifts	(1,409)	(1,058)	(1,409)	(1,058)
Permanent additions and exclusions	(2,787)	(1,460)	(2,787)	(1,460)
Other	9,532	13,270	8,538	13,270
Income and social contribution tax expense	(6,527)	(35,243)	(11,089)	(35,243)
Deductions ( Pat / Rouanet / Fumcad )	130	1,390	291	-
Current taxes	(6,397)	(33,853)	(10,799)	(33,853)
Deferred taxes	2,451	569	2,451	569
Current / deferred expenses	(3,946)	(33,284)	(8,348)	(33,284)

Current and deferred income and social contribution taxes for the year are calculated at a rate of 15%, plus 10% surtax on taxable profit exceeding R\$240 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.

Current and deferred income and social contribution taxes are recognized in the income or loss for the year, unless they are related to items recorded in other comprehensive income or directly in equity. In such event, current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 18. Income and social contribution taxes (Continued)

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

The adjustment under "Other" used to reconcile income and social contribution tax expenses basically refers to setting up and reversal of provisions, as well as to exclusion of government grant benefit.

The Provisional Executive Order No. 627, enacted on November 11, 2013, in addition to other amendments to federal tax legislation, revokes the Transition Tax Regime (RTT), set forth by Law No. 11941, of May 27, 2009. The Company and its subsidiary decided to adopt this rule as from January 2015.

#### 18.2. Deferred income and social contribution taxes

Deferred income tax (IRPJ) and social contribution tax (CSLL) assets and liabilities are broken down as follows:

	Company and Consolidated	
	2015	2014
Provisions	11,874	10,082
Sales recorded and not delivered	2,064	(6,001)
Impairment of assets	2,825	3,664
Other	246	1,493
Assets (temporarily non-deductible expenses)	17,009	9,238
Lease	(2,682)	2,814
Depreciation – effects of review of new useful life	(13,354)	(10,853)
Deferred foreign exchange gains (losses)	5,173	1,600
Bargain purchase	(895)	-
Liabilities	(11,758)	(6,439)
Noncurrent assets	6,146	2,799
Noncurrent liabilities	895	-

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

Balance at December 31, 2014	2,799
Changes for the year, net	2,452
Deferred tax assets at December 31, 2015	6,146
Deferred tax liabilities at December 31, 2015	(895)

### 19. Other accounts payable

	Company		Consolidated	
	2015	2014	2015	2014
Accounts payable	2,282	678	4,130	678
Novartis Biociências S.A. (i)	55,910	-	55,910	-
Freight payable	2,972	3,190	2,972	3,190
Other	1,229	582	1,229	1,182
	62,393	4,450	64,241	5,050
Current	12,915	3,863	14,744	3,863
Noncurrent	49,478	587	49,497	1,187

- (i) This balance refers to debt relating to acquisition of Anovis Industrial Farmacêutica Ltda. with Novartis Biociências S.A., to be settled in six annual consecutive installments from February 13, 2016. This amount is restated at the IPCA rate and for the year ended December 31, 2015 R\$2,337 referring to interest incurred were recognized in the income statement under financial expenses.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 20. Judicial deposits and provision for contingencies

The Company is party to legal and administrative proceedings before courts and government agencies arising from the ordinary course of its 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	
	2015	2014	2015	2014	2015	2014	2015	2014
Tax contingencies	4,481	4,106	4,481	4,106	4,536	3,813	4,536	3,813
Labor and social security contingencies	1,991	2,624	1,991	2,624	7,199	5,782	7,199	5,782
Civil claims	662	1,459	662	1,462	1,853	2,427	1,853	2,427
	<b>7,134</b>	<b>8,189</b>	<b>7,134</b>	<b>8,192</b>	<b>13,588</b>	<b>12,022</b>	<b>13,588</b>	<b>12,022</b>

#### Changes in provisions:

Balance at December 31, 2013	9,567
Additions	2,214
Write-off due to loss	(186)
Write-off due to reversal	(281)
Restatements	708
Balance at December 31, 2014	12,022
Additions	2,524
Write-off due to loss	(490)
Write-off due to reversal	(1,487)
Restatements	1,019
<b>Balance at December 31, 2015</b>	<b>13,588</b>

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

Tax claims – refer to legal claims 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 claims – refer primarily to claims filed by employees in connection with compensations paid in case of employment termination.

Civil claims – the main lawsuits are related to the results obtained from the use of medication manufactured by the Company.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 20. Judicial deposits and provision for contingencies (Continued)

#### 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, in the amount of R\$85,391 (R\$75,705 in 2014).

#### Other Information

There are proceedings in and out of court filed by minority shareholders against the Company and other shareholders that challenge, among other matters, certain resolutions approved in Special Shareholders' Meetings (capital increase), and request that several documents be produced, and that financial charges be levied on interest on equity payable, from its allocation to its payment. The legal advisors that are following the referred to claims consider the likelihood of loss in these claims as possible.

### 21. Equity

#### 21.1. Capital

At December 31, 2015 and 2014, the paid-in capital amounted to R\$198,288, divided into 197,592,163 common shares with no par value, as follows:

<u>Shareholder</u>	<u>Shares</u>	<u>%</u>
Robferma Administração e Participações Ltda.	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%
Cleita de Castro Marques	7,868,961	3.982426%
Cleide Marques Pinto	7,868,961	3.982426%
	<b>197,592,163</b>	<b>100.00%</b>

#### 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:

<u>Description</u>	<u>2015</u>	<u>2014</u>
Net income for the year	46,978	109,401
(-) Grant reserve	(13,721)	(38,817)
Legal reserve base	33,257	70,584
Legal reserve (5%)	(1,663)	(3,529)

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(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/decreed of the Minas Gerais State Government, which required signing an "Agreement". Changes in this reserve is presented in the Statement of Changes in Equity.

#### 21.4. Minimum mandatory dividends

According to the Company's articles of incorporation, 6% of adjusted net income are allocated to pay minimum mandatory dividends, as provided for by article 202 of the Corporation Law.

The calculation of proposed dividends is presented below:

Description	2015	2014
Net income for the year	46,978	109,401
(-) Grant reserve	(13,721)	(38,817)
Legal reserve base	33,257	70,584
Legal reserve (5%)	(1,663)	(3,529)
Dividend base	31,594	67,055
Proposed dividends (6%)	(1,896)	(4,024)
Unpaid dividends from prior years	(458)	(361)
Dividends payable	(2,354)	(4,385)

#### 21.5 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.

### 22. Net operating revenue

Revenue from goods sold is recognized when all significant risks and rewards of ownership are transferred to buyer, which usually occurs upon their delivery.

	Company		Consolidated	
	2015	2014	2015	2014
Gross sales of products and services	901,771	851,241	1,022,707	851,347
(-) Taxes on sales/returns	(134,121)	(135,957)	(145,022)	(135,973)
	767,650	715,284	877,685	715,374



## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 23. Expenses by nature

	Company		Consolidated	
	2015	2014	2015	2014
Raw material and store and supplies	212,597	168,279	211,492	168,367
Sales commissions	29,003	25,027	29,002	25,027
Payroll and employee benefits	181,061	161,140	225,282	162,809
Social security charges	27,421	24,871	37,611	25,483
Depreciation and amortization	19,217	15,829	27,886	15,846
Transportation expenses	25,823	24,493	27,781	24,508
Advertising expenses	14,656	18,076	14,656	18,077
Research and development	11,604	7,217	11,604	7,217
Third-party services	47,999	46,365	62,880	46,800
Vehicle expenses	7,440	6,924	7,541	6,924
Utilities	11,198	7,120	16,003	7,182
Taxes and charges	7,123	5,912	8,209	5,941
Rentals	8,792	5,460	8,885	5,483
Maintenance	16,153	13,479	26,211	13,504
Communications	3,017	3,627	3,466	3,638
Free samples	13,337	11,354	13,343	11,354
Fines	813	1,088	855	1,089
Insurance	3,418	2,145	3,839	2,145
Gifts and donations	4,546	3,576	4,550	3,576
Travel and lodging	14,031	9,723	14,369	9,733
Fairs and conferences	7,319	5,710	7,478	5,710
Losses with doubtful accounts	4,475	1,504	4,475	1,504
Provision for impairment of assets	8,310	8,675	8,310	8,675
Other expenses	3,943	10,500	7,729	10,633
	<b>683,296</b>	<b>588,094</b>	<b>783,457</b>	<b>591,225</b>
Cost of goods sold	402,282	339,978	485,326	341,272
Selling and general and administrative expenses	281,014	248,116	298,131	249,953
	<b>683,296</b>	<b>588,094</b>	<b>783,457</b>	<b>591,225</b>

### 24. Other operating income, net

	Company		Consolidated	
	2015	2014	2015	2014
Recovery of expenses (i)	10,819	2,074	11,970	2,074
Sale of property, plant and equipment items	579	2,628	579	2,628
Net book value of property, plant and equipment written off	(131)	(699)	(131)	(699)
Income from tax incentive programs	-	38,817	-	38,817
Monetary restatement of contingencies and judicial deposits	(919)	(2,198)	(919)	(2,198)
Other, net (ii)	2,927	304	3,583	304
	<b>13,275</b>	<b>40,926</b>	<b>15,082</b>	<b>40,926</b>

- (i) Refers to R\$8,766 received in a lawsuit from Latinofarma and refunds from insurers in connection with damages to goods during transportation.
- (ii) Refers substantially to recognition of bargain purchase in the acquisition of Anovis in the amount of R\$2,633.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### 25. Financial income (expenses), net

	Company		Consolidated	
	2015	2014	2015	2014
Short-term investment yield	1,853	1,364	2,046	1,366
Foreign exchange gains	6,770	2,084	6,834	2,084
Interest income, discounts and other income	2,618	1,684	1,468	1,684
Financial income	11,241	5,132	10,348	5,134
Financing loss	(24,730)	(7,850)	(24,776)	(7,852)
Interest on acquisition agreement	(2,337)	-	(2,337)	-
Interest on debentures	(5,580)	(7,783)	(5,580)	(7,783)
Discounts	-	(1,371)	(5)	(1,371)
Bank expenses and Tax on Financial Transactions (IOF)	(1,769)	(788)	(1,888)	(790)
Foreign exchange losses	(25,091)	(7,200)	(25,217)	(7,200)
Interest on ICMS installments	(1,615)	(1,791)	(1,615)	(1,791)
Financial expenses	(61,122)	(26,783)	(61,418)	(26,787)
	<b>(49,881)</b>	<b>(21,651)</b>	<b>(51,070)</b>	<b>(21,653)</b>

### 26. Insurance

The insurance coverage at December 31, 2015 presented the following amounts, pursuant to the insurance policies, and are in accordance with the risk assessment made by management:

Insurance lines	Coverage
Operational risks, including fire in inventories and PP&E items	820,770
Land transportation	1,040
Aircraft	USD 9,895 thousand
Vehicles and optional civil liability	Market value

### 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 in less than 12 months. Considering the maturity and characteristics of these instruments, which are regularly renegotiated, their carrying amount approximates their fair value.

- 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 from allowance for doubtful accounts;

## **União Química Farmacêutica Nacional S.A.**

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

### **27. Financial instruments (Continued)**

- Loans and financing: taken out for acquisition of property, plant and equipment items and working capital, 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 held investments for speculation purposes, in derivatives or any other risky assets, and has no swap transactions or similar transactions. At December 31, 2015, the Company had no assets or liabilities hedged by derivative financial instruments.

### **28. Sensitivity analysis of financial assets and liabilities**

The Company's financial liabilities relate mostly to contracts pegged to the CDI variation, representing 59.7% of the consolidated financial liabilities in 2015. In addition, 18.7% of bank loans are pegged to fixed interest rates; 17.0% to contracts subject to exchange fluctuation; 1.1% were taken out based on the IPCA variation and 3.5% are restated by other monetary restatement indices (such as TJLP and INPC).

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

With a view to checking the sensitivity of the debt indices to which the Company is exposed as of December 31, 2015, three different scenarios were estimated, considering the volume of total financing. Based on these consolidated amounts at December 31, 2015, we defined the Probable Scenario for the 12-month period of 2016 (Scenario I). Based on Scenario I (Probable), we simulated additions of 25% (Scenario II) and 50% (Scenario III) on projections of adjustment indices of each agreement.

For each scenario, gross financial expenses have been calculated, not considering taxes and the aging list of each agreement for 2016. The reporting date used was December 31, 2015, with projection of adjustment indices for each contract for the next 12 months and assessment of their sensitivity under each scenario.

## União Química Farmacêutica Nacional S.A.

Notes to financial statements (Continued)

December 31, 2015

(In thousands of reais, unless otherwise stated)

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

	Probable scenario	Scenario II	Scenario III
RISK	2016	2016	2016
<b>Exchange gains (losses)</b>	<b>67,447</b>	<b>67,447</b>	<b>67,447</b>
Projected financial expenses	5,850	24,272	41,415
Variation %	8.67%	35.99%	61.40%
<b>CDI</b>	<b>237,884</b>	<b>237,884</b>	<b>237,884</b>
Projected financial expenses	39,242	46,562	53,614
Variation %	16.50%	19.57%	22.54%
<b>IPCA</b>	<b>4,406</b>	<b>4,406</b>	<b>4,406</b>
Projected financial expenses	591	673	755
Variation %	13.41%	15.27%	17.14%
<b>Fixed</b>	<b>74,856</b>	<b>74,856</b>	<b>74,856</b>
Projected financial expenses	3,777	3,777	3,777
Variation %	5.05%	5.05%	5.05%
<b>Other</b>	<b>13,682</b>	<b>13,682</b>	<b>13,682</b>
Projected financial expenses	1,664	1,937	2,211
Variation %	12.16%	14.16%	16.16%
<b>Total bank indebtedness</b>	<b>398,275</b>	<b>398,275</b>	<b>398,275</b>
Total projected financial expenses	51,124	77,221	101,771
Total variation %	12.84%	19.39%	25.55%

The Company financial assets are pegged to the CDI variation. In order to assess the sensitivity of possible changes in the CDI at December 31, 2015, we defined a Probable Scenario for the 12-month period of 2016 and, based on this scenario, we simulated variations of 25% (Scenario II) and 50% (Scenario III) on index projections.

	Probable scenario I	Scenario II	Scenario III
<b>Investments - CDI</b>	150,077	150,077	150,077
Rate subject to variation	12.87%	16.10%	19.30%
Projected financial income	19,317	24,146	28,975
<b>Variation %</b>	<b>12.87%</b>	<b>16.10%</b>	<b>19.30%</b>

We point out that the Company's financial assets at December 31, 2015 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.