# Blau Farmacêutica S.A.

**Financial statements**
**December 31, 2017 and 2016**
(A free translation of the original report in Portuguese, containing the financial statements prepared in accordance with accounting practices adopted in Brazil)

# Content

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# Independent Auditors' report on the individual and consolidated financial statements

To Management and the Shareholders of
**Blau Farmacêutica S.A.**
Cotia - SP

## Opinion

We have audited the individual and consolidated financial statements of Blau Farmacêutica S.A. ("Company"), identified as parent company and consolidated, respectively, which comprise the consolidated statement of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Blau Farmacêutica S.A. as at December 31, 2017, and its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended in accordance with the accounting practices adopted in brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

## Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Individual and Consolidated Financial Statements" section of our report. We are independent of the Company in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key audit matters**

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

**Goodwill impairment on business acquisition – Individual and Consolidated**

As described under Notes 8.j, 13 and 15 to the financial statements, the Company has an amount of R$ 6,800 thousand in goodwill on the acquisition of the control of Blau Farmacêutica Colombia S.A.S., occurred in 2013, registered as investment in the individual financial statements and as intangible asset in the consolidated financial statements, and the recoverable value of this amount must be tested annually. The evaluation and need or not of registering impairment loss of the goodwill is supported by estimates of value in use based on the business plan and budget prepared and approved by the Company.

Due to judgments inherent to the process of determining the estimated value in use of the cash generating unit for the purpose of evaluating the recoverable value, and the complexity of the process, requiring a significant degree of judgment by the Company, and which can cause an impact to the value of this asset in the individual and consolidated financial statements, we have considered this matter as a key audit matter.

**How the matter was addressed in our audit**

We obtained an understanding of the key internal controls related to the preparation of the cash flow projections prepared and approved by the Company to determine the value in use of the cash generating unit.

Involving our own corporate finance specialists, we evaluated the assumptions and methodologies used in the study performed by the Company as well as the appropriateness and consistency of the assumptions used, such as discount rates, projected sales prices and volumes and costs in relation to the normal market practices and to the business characteristics.

Performing our own sensitivity analysis, assessing the impact over the recoverable value resulting from possible and reasonable changes to the key-assumptions used by the Company.

We evaluated the adequacy of the financial statement disclosures, mainly in relation to the assumptions used to determine the value in use.

Based on the evidence obtained by means of the procedures summarized above, we consider that, in relation to impairment, the goodwill balance resulting from the business acquisition, as well as the related disclosures, are acceptable in the context of the individual and consolidated financial statements, taken as a whole, for the year ended December 31, 2017.

## Other matters

### Statements of value added

The individual and consolidated financial statements related to the statement of value added for the year ended December 31, 2017, prepared under the responsibility of the Company's Management, the presentation of which is not required by the Brazilian Corporate Law for closed companies, or by the international financial reporting standards, presented as supplementary information for both purposes, were subject to the same audit procedures performed jointly with the audit of the financial statements of the Company. To prepare our audit opinion we evaluated whether these statements are reconciled with the financial statements and accounting registers, as applicable, and whether the form and contents are in accordance with the criteria defined under Technical Pronouncement CPC 09 - Statement of Value Added. In our opinion, the statements of value added have been fairly prepared, in all material respects, in accordance with the criteria determined in the aforementioned technical pronouncement, and are consistent with the overall individual and consolidated financial statements.

### Other information accompanying the individual and consolidated financial statements and the auditors' report

Management is responsible for the other information comprising the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

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

### Responsibilities of Management for the individual and consolidated financial statements

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

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

**Auditors' responsibilities for the audit of the individual and consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and international standards on auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and its subsidiary to cease to continue as a going concern.

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

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

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

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

São Paulo, March 28, 2018

KPMG Auditores Independentes
CRC 2SP014428/O-6

Leonardo Augusto Giusti
Accountant CRC 1SP203952/O-9

**Blau Farmacêutica S.A.**

**Statements of Financial Position as at December 31, 2017 and 2016**

***(In thousands of Brazilian Reais - R$)***

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| **Assets** | **Notes** | **2017** | **2016** | **2017** | **2016** |
| Cash and cash equivalents | 9 | 13.175 | 10.199 | 5.163 | 1.764 |
| Trade receivables | 10 | 104.111 | 98.721 | 101.971 | 97.453 |
| Inventories | 11 | 119.080 | 104.440 | 113.032 | 96.124 |
| Recoverable taxes | 12 | 6.955 | 4.902 | 6.147 | 4.027 |
| Other credits | | 3.011 | 3.760 | 2.361 | 3.120 |
| Total current assets | | 246.332 | 222.022 | 228.674 | 202.488 |
| Escrow deposits | | 2.373 | 1.254 | 2.277 | 1.254 |
| Loans receivable - related parties | 16 | - | 1.462 | - | 1.462 |
| Recoverable taxes | 12 | 3.373 | 7.455 | 3.373 | 7.455 |
| Deferred income tax and social contribution | 18 | 1.953 | 1.402 | 1.953 | 957 |
| Other credits | | 2.778 | - | - | - |
| Total long-term assets | | 10.477 | 11.573 | 7.603 | 11.128 |
| Investments | 13 | 15 | 10 | 28.120 | 24.027 |
| Biological assets | | 306 | 306 | 306 | 306 |
| Property, plant and equipment | 14 | 99.655 | 72.023 | 98.630 | 70.885 |
| Intangible assets | 15 | 9.296 | 9.790 | 1.552 | 2.138 |
| | | 109.272 | 82.129 | 128.608 | 97.356 |
| Total non-current assets | | 119.749 | 93.702 | 136.211 | 108.484 |
| **Total assets** | | **366.081** | **315.724** | **364.885** | **310.972** |

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| **Liabilities** | **Notes** | **2017** | **2016** | **2017** | **2016** |
| Suppliers | 17 | 75.853 | 45.998 | 76.004 | 45.216 |
| Loans and financing | 19 | 102.979 | 108.198 | 102.575 | 105.831 |
| Tax obligations | | 1.776 | 1.230 | 1.703 | 1.063 |
| Income tax and social contribution payable | 18 | 6.742 | 6.279 | 6.742 | 6.279 |
| Labor obligations | | 13.855 | 11.518 | 13.523 | 11.085 |
| Other payables | | 20.867 | 7.857 | 20.448 | 7.334 |
| Total current liabilities | | 222.072 | 181.080 | 220.995 | 176.808 |
| Loans and financing | 19 | 938 | 33.707 | 937 | 33.234 |
| Deferred income tax and social contribution | 18 | 111 | - | - | - |
| Provisions for contingencies | 20 | 4.624 | 3.450 | 4.617 | 3.443 |
| Total non-current liabilities | | 5.673 | 37.157 | 5.554 | 36.677 |
| Shareholders' equity | 21 | | | | |
| Share capital | | 56.500 | 56.070 | 56.500 | 56.070 |
| Profit reserve | | 76.660 | 35.631 | 76.660 | 35.631 |
| Other comprehensive income | | 5.176 | 5.786 | 5.176 | 5.786 |
| Total shareholders' equity | | 138.336 | 97.487 | 138.336 | 97.487 |
| Total liabilities | | 227.745 | 218.237 | 226.549 | 213.485 |
| **Total liabilities and shareholders' equity** | | **366.081** | **315.724** | **364.885** | **310.972** |

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

## Blau Farmacêutica S.A.

### Statements of Profit and Loss

**For the years ended December 31, 2017 and 2016**

***(In thousands of Brazilian Reais - R$)***

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | **Notes** | **2017** | **2016** | **2017** | **2016** |
| Net revenue | 22 | 617.658 | 430.933 | 603.926 | 424.835 |
| Cost of goods and products sold | 23 | (337.224) | (251.566) | (330.895) | (251.588) |
| **Gross profit** | | **280.434** | **179.367** | **273.031** | **173.247** |
| Commercial expenses | 24 | (47.550) | (35.873) | (42.547) | (29.554) |
| Administrative expenses | 24 | (79.024) | (89.171) | (75.646) | (84.682) |
| Other operating income, net | | 10.473 | 13.855 | 8.839 | 14.343 |
| Total operating expenses, net | | (116.101) | (111.189) | (109.354) | (99.893) |
| Equity in investments at the equity method, net of taxes | 14 | - | - | (430) | (4.903) |
| | 13 | | | | |
| **Income before financial income and taxes** | | **164.333** | **68.178** | **163.247** | **68.451** |
| Financial income | 25 | 607 | 13.158 | 453 | 12.461 |
| Financial expenses | 25 | (16.453) | (35.392) | (16.125) | (34.968) |
| Net financial expenses | | (15.846) | (22.234) | (15.672) | (22.507) |
| **Income before taxes** | | **148.487** | **45.944** | **147.575** | **45.944** |
| Current income tax and social contribution | 18 | (45.931) | (14.530) | (45.019) | (14.530) |
| Deferred income tax and social contribution | 18 | 572 | 919 | 572 | 919 |
| **Income tax and social contribution** | | **(45.359)** | **(13.611)** | **(44.447)** | **(13.611)** |
| **Net income for the year** | | **103.128** | **32.333** | **103.128** | **32.333** |
| **Basic and diluted earnings per common share** | | **0,70** | **0,22** | **0,70** | **0,22** |

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

## Blau Farmacêutica S.A.

### Statements of comprehensive income

**For the years ended December 31, 2017 and 2016**

*(In thousands of Brazilian Reais - R$)*

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Net income | 103.128 | 32.333 | 103.128 | 32.333 |
| Other comprehensive income | | | | |
| Accumulated translation adjustment in subsidiaries | 798 | (1.321) | 798 | (1.321) |
| **Total comprehensive income** | **103.926** | **31.012** | **103.926** | **31.012** |
| Controlling shareholders | 103.926 | 31.012 | 103.926 | 31.012 |
| **Total Comprehensive Income** | **103.926** | **31.012** | **103.926** | **31.012** |

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

# Blau Farmacêutica S.A.

## Statement of changes in Shareholders' equity - Company and Consolidated

**For the years ended December 31, 2017 and 2016**

***(In thousands of Brazilian Reais - R$)***

| | | Profit reserves | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital** | **Legal reserve** | **Reserves for investments** | **Additional proposed dividends** | **Other comprehensive income** | **Retained earnings** | **Total equity** |
| **Balance as at January 1, 2016** | **56.070** | **3.117** | **11.465** | **-** | **8.536** | **-** | **79.188** |
| Equity valuation adjustments | - | - | - | - | (1.429) | 1.429 | - |
| Net income | - | - | - | - | - | 32.333 | 32.333 |
| Interim dividends | - | - | (5.400) | - | - | - | (5.400) |
| Interest on own capital | - | - | - | - | - | (6.199) | (6.199) |
| Minimum dividends | - | - | - | - | - | (1.114) | (1.114) |
| Legal reserve | - | 1.605 | - | | - | (1.605) | - |
| Reserve for investments | - | - | 24.844 | - | - | (24.844) | - |
| Proposed additional dividends | - | - | (30.677) | 30.677 | - | - | - |
| Accumulated translation adjustment in subsidiary | - | - | - | - | (1.321) | - | (1.321) |
| **Balance as at December 31, 2016** | **56.070** | **4.722** | **232** | **30.677** | **5.786** | **-** | **97.487** |
| Capital increase | 430 | - | - | (430) | - | - | - |
| Equity valuation adjustments | - | - | - | - | (1.408) | 1.408 | - |
| Accumulated translation adjustments | - | - | - | - | 798 | - | 798 |
| Net income | - | - | - | - | - | 103.128 | 103.128 |
| Formation of reserves | - | 5.156 | - | - | - | (5.156) | - |
| Mandatory minimum dividends | - | - | - | - | - | (15.359) | (15.359) |
| Interim dividends | - | - | - | - | - | (8.337) | (8.337) |
| Interest on own capital | - | - | - | - | - | (9.134) | (9.134) |
| Deliberation additional proposed dividends | - | - | - | (30.247) | - | - | (30.247) |
| Additional proposed dividends | - | - | (232) | 66.782 | - | (66.550) | - |
| **Balance as at December 31, 2017** | **56.500** | **9.878** | **-** | **66.782** | **5.176** | **-** | **138.336** |

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

## Blau Farmacêutica S.A.

### Statements of Cash Flows - Indirect method

**For the years ended December 31, 2017 and 2016**

***(In thousands of Brazilian Reais - R$)***

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Cash flows from operating activities** | | | | |
| Income before taxes on income | 148.487 | 45.944 | 147.575 | 45.944 |
| **Adjustment to reconcile the income for the year with cash from operating activities** | | | | |
| Depreciation and amortization | 8.912 | 8.751 | 8.729 | 8.509 |
| Write-off of property, plant and equipment and intangible assets | 271 | 3.036 | 205 | 2.686 |
| Financial charges on financing | 10.366 | 16.877 | 10.358 | 16.864 |
| Unrealized foreign exchange variation in loans and SWAP/MtM provisions | (2.247) | (5.779) | (1.933) | (5.748) |
| Unrealized foreign exchange variation in suppliers and clients | 2.027 | 259 | 2.027 | 259 |
| Equity in investments | - | - | 430 | 4.903 |
| Allowance for doubtful accounts, net | 2.198 | (272) | 3.218 | 248 |
| (Reversal) provision for inventory loss, net | (189) | 907 | 686 | 1.693 |
| Other (reversals), net | 198 | 960 | 636 | 158 |
| Provision for contingencies, net | 1.174 | (2.749) | 1.174 | (2.384) |
| | **171.197** | **67.934** | **173.105** | **73.132** |
| **(Increase) decrease in asset accounts** | | | | |
| Trade accounts receivable | (7.897) | (12.386) | (8.045) | (17.301) |
| Inventories | (14.451) | (12.314) | (17.594) | (11.039) |
| Recoverable taxes | (9.329) | 1.692 | (9.184) | 2.567 |
| Other credits | (2.029) | 6.366 | 759 | 3.566 |
| Escrow deposits | (1.119) | (178) | (1.023) | (178) |
| **Increase (decrease) in liability accounts** | | | | |
| Suppliers | 28.137 | 8.743 | 29.070 | 11.629 |
| Labor obligations | 2.337 | 1.547 | 2.438 | 1.487 |
| Tax obligations | 546 | 505 | 640 | 73 |
| Provision for income tax | - | (410) | - | (410) |
| Other accounts payable | (6.650) | 4.989 | (6.546) | 6.307 |
| **Cash generated by operating activities** | **160.742** | **66.488** | **163.620** | **69.833** |
| Income tax and social contribution paid | (34.110) | (20.809) | (33.198) | (20.809) |
| **Net cash flow from operating activities** | **126.632** | **45.679** | **130.422** | **49.024** |
| **Cash flows from investment activities** | | | | |
| Additions to property, plant and equipment | (36.071) | (14.062) | (36.003) | (14.044) |
| Payment of final installment on acquisition of equity interest | - | - | (15) | - |
| Advance for future capital increase in investee | - | - | (4.981) | (3.404) |
| Acquisition of investee - Preserv S.A. | - | (2.274) | - | (2.274) |
| Additions to intangible assets | (250) | (513) | (90) | (49) |
| Temporary investments in subsidiaries | (5) | - | - | - |
| **Net cash flow (used in) investment activities** | **(36.326)** | **(16.849)** | **(41.089)** | **(19.771)** |
| **Cash flows from financing activities** | | | | |
| Dividends and interest on own capital | (43.418) | (12.712) | (43.418) | (12.712) |
| Raising of loans and financing | 92.265 | 254.149 | 91.901 | 253.546 |
| Receivables from related parties | 1.462 | 8.599 | 1.462 | 8.599 |
| Payment of loans and financing -  principal | (128.016) | (260.623) | (125.558) | (260.507) |
| Payment of loans and financing - interest | (10.356) | (16.767) | (10.321) | (16.765) |
| **Net cash used in financing activities** | **(88.063)** | **(27.354)** | **(85.934)** | **(27.839)** |
| **Net decrease in cash and cash equivalents** | **2.243** | **1.476** | **3.399** | **1.414** |
| Cash and cash equivalents as at January 1 | 10.199 | 10.044 | 1.764 | 350 |
| Effect of foreign exchange rate on the balance of cash and cash equivalents | 733 | (1.321) | - | - |
| Cash and cash equivalents as at December 31 | 13.175 | 10.199 | 5.163 | 1.764 |
| **Net decrease in cash and cash equivalents** | **2.243** | **1.476** | **3.399** | **1.414** |

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

## Blau Farmacêutica S.A.

### Statements of Value Added

**For the years ended December 31, 2017 and 2016**

***(In thousands of Brazilian Reais - R$)***

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Revenue** | **656.434** | **465.669** | **640.650** | **459.445** |
| Sale of goods, products and services | 648.662 | 461.214 | 634.930 | 454.992 |
| Other (expenses) income, net | 10.510 | 5.373 | 8.445 | 5.373 |
| Allowance for doubtful accounts | (2.738) | (918) | (2.725) | (920) |
| **Inputs acquired from third parties** | **(341.569)** | **(263.250)** | **(331.464)** | **(258.305)** |
| Costs of products, goods and services sold | (271.251) | (200.901) | (264.922) | (201.085) |
| Materials, energy, outsourced services and other | (70.552) | (62.426) | (66.776) | (57.297) |
| Gain (loss) on assets | 234 | 77 | 234 | 77 |
| **Gross value added** | **314.866** | **202.419** | **309.186** | **201.140** |
| **Depreciation, amortization and depletion** | (8.952) | (8.730) | (8.775) | (8.482) |
| **Net value added produced by the entity** | **305.914** | **193.689** | **300.411** | **192.658** |
| **Value added received in transfer** | **10.580** | **28.049** | **9.887** | **22.925** |
| Equity investments | (431) | - | (431) | (4.903) |
| Financial income | 11.010 | 28.534 | 10.318 | 27.828 |
| Other | - | (485) | - | - |
| **Total value added for distribution** | **316.494** | **221.738** | **310.298** | **215.583** |
| **Personnel** | **87.121** | **75.007** | **82.771** | **69.466** |
| Direct remuneration | 67.328 | 57.798 | 63.692 | 52.257 |
| Benefits | 11.618 | 8.910 | 10.904 | 8.910 |
| FGTS | 8.175 | 8.299 | 8.175 | 8.299 |
| **Taxes, fees and contributions** | **85.197** | **35.537** | **84.218** | **35.356** |
| Federal | 59.483 | 16.758 | 58.570 | 16.578 |
| State | 23.079 | 18.095 | 23.013 | 18.095 |
| Municipal | 2.635 | 684 | 2.635 | 683 |
| **Third party capital remuneration** | **41.048** | **81.161** | **40.181** | **80.728** |
| Interest | 14.267 | 37.136 | 14.267 | 37.136 |
| Financial expenses (includes foreign exchange variation) | 12.589 | 14.563 | 11.722 | 14.130 |
| Rent | 14.192 | 29.462 | 14.192 | 29.462 |
| **Own capital remuneration** | **103.128** | **30.033** | **103.128** | **30.033** |
| Dividends and interest on own capital | 32.830 | 11.782 | 32.830 | 11.782 |
| Retained earnings (loss) for the year, including discontinued operations | 70.298 | 18.251 | 70.298 | 18.251 |
| **Total distributed value added** | **316.494** | **221.738** | **310.298** | **215.583** |

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

# Notes to the financial statements

***(In thousands of Brazilian Reais – R$, unless otherwise stated)***

## 1 Operations

Blau Farmacêutica S.A., hereinafter referred to as "Blau", "Company" or "Group", is a pharmaceutical industry of national capital, established in 1987, under the form of a privately-held corporation with head office located in the city of Cotia, state of São Paulo, engaged in the production, commercialization and exportation of medication with own trademark of high complexity for the main therapeutic areas of the hospital product market, and in the importation, exportation, trade and distribution of active and inactive pharmaceutical inputs.

- **Biopharmaceuticals:** Medication produced by biosynthesis in live cells, contrary to synthetics, produced using chemical synthesis. Biopharmaceuticals are a diverse and heterogeneous class of products and comprise vaccines, hyper immune serum, blood derivatives, bio medicaments classified as:

  (a) Medicaments obtained from biological fluids or tissues of animal origin;

  (b) Medicaments obtained through biotechnological procedures, monoclonal antibodies; and

  (c) Medicaments containing live, attenuated or inactive microorganisms. Medicaments produced through biosynthesis are indicated for replacement of deficient proteins in the organism, such as proteins, hormones, anticoagulants, immunological, among others.

- **Oncological:** oral and injectable pharmaceutical products of sundry origin, destined for the treatment of cancer, encompassing various therapeutic classes and types of treatment, producing a wide range of medicaments for cancer patients.

- **Specialties (ex-oncological):** wide range of pharmaceutical products with plants dedicated to specialized treatment of infectious and rare diseases, special treatments, immunology, among others. Encompasses antibiotics, injectable medication, among others, with a focus on the hospital market.

- **Other:** Includes medicaments of medical prescription, exempt of medical prescription, focused on retail and non-retail markets, including a complete line of dermocosmetics, human reproduction, preservatives and similar.

The production of its products is substantially own production at the plants located in the municipalities of Cotia, Caucaia do Alto and São Paulo, all in the state of São Paulo.

The Company has a sales and distribution structure with national and international scope (though its subsidiaries and exports to other countries).

Currently, the Company is comprised of nine subsidiaries, seven of which are located in the State of São Paulo, one in Paraná and one in Ceará.

**(i) Unit I - Building 100 - Head Office:**
Located at Rodovia Raposo Tavares, 2.833, Km 30, Barro Branco, Cotia - SP.
Manufacturing unit responsible for the manufacture of biopharmaceuticals and injectable solutions and post-lyophilizes. Additionally, a line for the production of biotechnological raw materials is under construction (IFA).

**(ii) Branch 01:**
Located at Avenida Mario Isaac Pires, 7.602, Caucaia, Cotia - SP.
Industrialization of oncological medication in the form of injectable solution, lyophilic powder, tablets and capsules, intended to serve the pharmaceutical and hospital division.

**(iii) Branch 02:**
Located at Rodovia Raposo Tavares, 2.833, Km 30.5, Barro Branco, Cotia - SP.
Production of allopathic, biological and biotechnological drugs for human use in the form of injectable solution, lyophilic powder, intended to serve the pharmaceutical and hospital division.

**(iv) Branch 03:**
Located at Rua João Bettega, 101, Sala 213, Curitiba - PR.
Contact office for rental of equipment and vehicles (rental not included in the lease act).

**(v) Branch 04**
Located at Rua Tomas Acioli, 840, Sala 701, in the State of Ceará.
Administrative office, exclusively for contacts of sellers and sales representatives

**(vi) Branch 05**
Located at Rodovia Raposo Tavares, 2.833, Km 30.5, Barro Branco, Cotia - SP.Manufacturing of raw materials to meet the consumption needs in the production of medicaments for human use, including the manufacturing of pharmaceutical specialties and quality control for third parties; research, development and innovations in inputs, including raw materials and medicaments, biological, biopharmaceutical and biotechnology products.

**(vii) Branch 06**
Located at Rua Thomaz Sepe, 454, Jardim da Glória, Cotia - SP.
Warehouse of primary and secondary packaging material, semi-finished preservatives, pharmaceutical retention material and related items of plants I and II, obsolete equipment and material for product incineration, shipping and storing of packaging materials.

**(viii) Branch 07**
Located at Rua Etiópia 258, Parque São Lourença, Cotia - SP.
Warehouse of primary and secondary packaging material, semi-finished preservatives, pharmaceutical retention material and related items of plants I and II, obsolete equipment and material for product incineration, shipping and storing of packaging materials.

**(ix) Branch 08**
Located at Rua Adherbal Stresser, 84, Jardim Arpoador, São Paulo - SP
Industrialization of condoms, related products, injectable and lyophilic powder antibiotics intended to serve the pharmaceutical and hospital division.

## 2 List of subsidiaries

In line with its expansion policy, in August 2011 the Company acquired a distributer located in Bogotá, Colombia, which was named Blau Farmacêutica Colombia S.A.S. and to distribute in that country the medications produced by the Company in Brazil. In January 2012, the Company acquired Ganden S.A., which became Blaufarma Uruguay S.A., to help in the distribution of its products and to attend to the clients in that country, which today has 40 health registrations of medication produced by the Company. The wholly-owned subsidiary of Uruguay represents also key part in the expansion policy of the Company to the South American market, and is presently the holder of the equity interest in Blau Farmaceutica Peru S.A.C., Blau Farmaceutica Chile S.p.A. and Blau Farmaceutica Argentina S.A., all established in 2016.

| Company | Country | Equity interest 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| Blau Farmaceutica Colombia S.A.S. | Colombia | Direct 100% | 100% |
| Blau Farma Uruguay S.A. | Uruguay | Direct 100% | 100% |
| Preserv S.A. | Brazil | Direct - | 100% |
| Blau Farmaceutica Chile S.p.A. | Chile | Indirect 100% | - |
| Blau Farmaceutica Peru S.A.C | Peru | Indirect 100% | - |
| Blau Farmaceutica Argentina S.A. | Argentina | Indirect 100% | - |

### Blau Farmaceutica Colombia S.A.S.

A subsidiary headquartered in the city of Bogotá, Colombia, engaged in the production and commercialization of pharmaceutical drugs for human consumption and biopharmaceutical inputs. The company’s main activity is the import of Company's products for distribution in Colombia and other countries.

### Blau Farma Uruguay S.A.

A subsidiary headquartered in the city of Montevideo, Uruguay, engaged in the production and commercialization of pharmaceutical drugs for human consumption and biopharmaceutical inputs. The company’s main activity is the import of Company's products for distribution in Uruguay and other countries.

### Preserv S.A.

Preserv is a subsidiary headquartered in the city of Cotia, State of São Paulo, engaged in the commercialization, import and export of condoms and related products intended for intimate and personal hygiene. Preserv was incorporated by the Company in January 2017.

### Blau Farmaceutica Peru S.A.C.

A subsidiary headquartered in the city of Lima, Peru, directly controlled by Blau Farma Uruguay S.A., engaged in the commercialization of pharmaceutical drugs for human consumption and biopharmaceutical inputs. The main activity of the company will be the import of Company’s products for distribution in Peru and other countries. Commercial operations have not yet started.

### Blau Farmaceutica Chile S.pA.

A subsidiary headquartered in the city of Santiago, Chile, directly controlled by Blau Farma Uruguay S.A., engaged in the commercialization of pharmaceutical drugs for human consumption and biopharmaceutical inputs. The main activity of the company will be the import of Company’s products for distribution in Chile and other countries. Commercial operations have not yet started.

### Blau Farmaceutica Argentina S.A.

A subsidiary headquartered in the city of Buenos Aires, Argentina, directly controlled by Blau Farma Uruguay S.A., engaged in the commercialization of pharmaceutical drugs for human consumption and biopharmaceutical inputs. The main activity of the company will be the import of Company's products for distribution in Argentina and other countries. Commercial operations have not yet started.

## 3 Acquisition of subsidiaries

### Acquisition of jointly-controlled subsidiaries

Based on its expansion project for the pharmaceutical market, on November 11, 2016 the Company acquired full equity control of Preserv S.A. for R$ 2,274. Considering that Preserv was controlled by the same shareholders of the Company, following the accounting practices adopted in Brazil, the transaction was carried out by the accounting net assets based on the statement of financial position as at October 31, 2016, as follows:

| Assets | | Liabilities | |
|---|---|---|---|
| **Current assets** | **7,148** | **Current liabilities** | **3,886** |
| Cash and cash equivalents | (12) | Suppliers | 2,982 |
| Trade receivables | 1,414 | Loans and financing | 401 |
| Inventory | 2,721 | Tax obligations | 37 |
| Other credits | 3,025 | Labor and social obligations | 101 |
| **Non-current assets** | **345** | Accounts payable | 130 |
| Property, plant and equipment | 335 | Provisions | 235 |
| Intangible assets | 10 | **Non-current liabilities** | **1,333** |
| | | Loans and financing | 1.333 |
| | | **Total Liabilities** | **5.219** |
| **Total Assets** | **7,493** | **Net assets acquired** | **2,274** |

The Extraordinary General Assembly held on January 30, 2017 approved the Asset Appraisal Report of Preserv S.A. and ratified the merger of the subsidiary by the Company, which occurred on January 27, 2017 with effective date retroactive to January 1, 2017. Accordingly this investment ceased to exist as of such date and the assets and liabilities became a part of the equity and financial position of the Company.

## 4 Basis for preparation

### Compliance statement

The individual and consolidated financial statements were prepared in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the *International Accounting Standards Board* (IASB).

The conclusion of the preparation of the financial statements of the Company was authorized in a meeting of the Board of Directors of the Company, held on March 28, 2018.

All material information that is relevant to the financial statements, and only such information, is disclosed, which is consistent with that used by Management.

# 5 Functional and presentation currency

These financial statements are being presented in Brazilian Real, functional currency of the Company. All financial information presented in Brazilian Real has been rounded to the nearest value, unless otherwise indicated.

# 6 Use of estimates and judgment

The preparation of the individual and consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported values of assets, liabilities, income and expenses.

## a. Uncertainties on assumptions and estimates

Information related to assumption and estimation uncertainties that have a significant risk of resulting in a material adjustment for the year ending December 31, 2017 is included in the following notes:

- **Note 10** – Trade receivables – allowance for doubtful accounts;
- **Note 11** – Inventory – provision for inventory loss;
- **Note 15** – Intangible assets – amortization and goodwill impairment test – main assumptions in relation to recoverable values;
- **Note 20** – Provision for contingencies.

The settlement of transactions involving these estimates may result in significantly different amounts to those described in financial information due to the estimation process. The Company reviews its estimates at each reporting date, and if changes in estimates are required, these are recognized prospectively.

### *Fair value measurement*

A number of the Company’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Significant assessment issues are reported to the Company's Management.

When measuring fair value of an asset or liability, the Company and its subsidiaries use observable market data as much as possible. The fair value is classified in different levels of a hierarchy based on the information (inputs) utilized on the valuation techniques in the following manner:

- **Level 1**: quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2**: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- **Level 3**: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Additional information on the assumptions adopted in the measurement of fair values is included in the following note:

- **Note 26** – financial instruments.

## 7 Basis for measurement

The individual and consolidated financial statements have been prepared considering the historical cost, with exception to the following material items recognized in the statement of financial position:

- Derivative financial instruments measured at fair value;
- Non-derivative financial instruments measured at fair value through profit or loss; and
- Biological assets measured at acquisition cost, and any changes are recognized through profit or loss.

## 8 Significant accounting practices

The accounting policies described in detail below have been consistently applied to all reporting periods presented in these individual and consolidated financial statements.

### a. Basis of consolidation

#### *(i) Business combination*

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. Control is defined as the ability to govern the entity's financial and operating policies in order to benefit from its activities. When determining that its control is in place, the Company takes into account the currently exercisable potential voting rights.

The Company measures goodwill on the date of acquisition as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interest in the acquiree; less
- the net value (generally at fair value) of identifiable assets acquired and liabilities assumed.

When the value is negative, the gain from an advantageous purchase is recorded directly under profit or loss for the period.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Transaction costs, except costs for issuing debt or equity instruments, incurred by the Company in connection with business combinations, are recorded under profit or loss as incurred.

#### *(ii) Non-controlling interests*

For each business combination, the Company chooses to measure any minority interest in the acquired company using the following criteria:

- at fair value; or

- at the proportionate share of the acquiree's identifiable net assets at the date of acquisition, which are generally at fair value.

Changes to the Company's interest in a subsidiary that do not result in loss of control are accounted for as equity transactions. Adjustments to minority interest are based on a proportional amount of the subsidiary's net assets. No adjustment is made to goodwill based on future profitability and no gain or loss is recognized in profit or loss for the period.

***(iii) Subsidiaries***

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The accounting policies of the subsidiaries are aligned with the policies adopted by the Company. In the individual financial statements of the parent company the financial information of subsidiaries are recognized using the equity method.

***(iv) Loss of control***

When the Company loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized under profit or loss.  Any interest retained in the former subsidiary is measured at fair value when control is lost.

***(v) Transactions eliminated in the consolidation***

Intragroup and transaction balances, and any unrealized income or expenses derived from intragroup transactions, are eliminated in the preparation of the consolidated financial statements. Unrealized gains originating from transactions with investees recorded using the equity method are eliminated against the investment in the proportion of the Company's interest in the investee.  Unrealized losses are eliminated in the same way as unrealized gains, but only up to the point where there is no evidence of loss due to impairment.

## b. Operating revenue

Operating revenue is recognized when (i) significant risks and rewards of ownership have been transferred to the buyer, (ii) it is probable that economic financial benefits will flow to the Group, (iii) associated costs and possible return of goods can be estimated reliably, (iv) there is no continuing management involvement with the goods sold, and (v) the amount of revenue cab be measured reliably.  Revenue is measured net of returns, trade discounts and volume rebates.

## c. Financial income and expenses

The financial income and expenses of the Group comprise:

- Interest income;
- Discounts obtained;
- Interest expenses;
- Financial transaction tax (IOF) expenses;
- Commissions and bank charges;

- Net gain/loss from financial assets measured at fair value through profit or loss; and
- Net gain/loss from exchange variations over financial assets and liabilities.

Interest income and expenses are recognized under profit or loss using the effective interest method.

## d. Foreign currency

### *(i) Foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currencies of the Company at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Exchange gain or loss in monetary items is the difference between the amortized cost of the functional currency at the beginning of the year adjusted by the effective payments during the year and the amortized cost in foreign currency at the exchange rate of the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognized in profit or loss.

### *(ii) Foreign operations*

For subsidiaries abroad, with functional currency other than the Brazilian Real, assets and liabilities, including goodwill and fair value arising on acquisition, are translated into the Brazilian real at the exchange rates at the reporting date. Income and expenses of foreign operations are translated into the Brazilian real at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized under other comprehensive income  and accumulated in the translation reserve under net equity, except to the extent that the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Company disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Company disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Exchange gains or losses resulting from a monetary item receivable from, or payable to, a foreign operation, in which the settlement has not been planned or has the probability of occurring in the foreseeable future, are considered as part of the net investment in the foreign operation and recognized under other comprehensive income, and presented in net equity.

## e. Employee benefits

### *Short-term employee benefits*

Short-term employee benefits are recognized as personnel expenses as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. The Company does not have long-term benefits for employees.

## f. Income tax and social contribution

Income and social contribution, both current and deferred, are calculated based on the rates of 15% plus a surtax of 10% on taxable income in excess of R$ 240 (annual basis) for income tax and 9% on taxable income for social contribution on net income.

Income tax and social contribution expense comprises both current and deferred taxes. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

### *(i) Current income tax and social contribution expenses*

Current tax expense is the tax payable or receivable on the taxable income or loss for the year and any adjustments to taxes payable in relation to prior years. The amount of current taxes payable or receivable is recognized in the statement of financial position as a tax asset or liability at the best estimate of taxes amount to be paid or received that reflects uncertainties related to its calculation, if any. It is measured based on tax rates enacted at the date of the statement of financial position.

Current tax assets and liabilities are offset only if certain criteria are met.

### *(ii) Deferred income and social contribution tax expenses*

Deferred tax assets and liabilities are recognized in relation to temporary differences between asset and liability values for financial statement purposes and those used for taxation purposes. Changes in deferred tax assets and liabilities for the year are recognized as deferred income and social contribution tax expenses. Deferred taxes are not recognized for:

- temporary differences related to investment in subsidiaries, to the extent in which the Group is able to control the time of temporary difference reversal and is probable that temporary difference will not be reversed in a predictable future; and

- taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at tax rates expected to be applied to temporary differences when they are reversed, based on rates on rates that were decreed up to date of the statement of financial position.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would derive from the manner in which the Group expects to recover or settle assets and liabilities.

Deferred tax assets and liabilities are offset only if some criteria are met.

## g. Biological assets

Biological assets measured at acquisition cost, and any changes are recognized in profit or loss.

## h. Inventories

Inventories are measured at the lower of cost and net realizable value.  The cost of inventories is based on the weighted average cost criteria and includes expenditure incurred in acquiring the inventories, production or conversion costs, as well as other costs incurred in bringing them to their current location and condition.  In the case of manufactured inventories and work in progress, the cost includes an appropriate share of overheads based on normal operating capacity.

The net realizable value is the estimated price of sale in the normal course of business, less estimated costs of conclusion and estimated completion costs and selling expenses.

## i. Property, plant and equipment

***(i) Recognition and measurement***

Items of property, plant and equipment are measured at historical cost of acquisition or construction, less accumulated depreciation and any accumulated impairment losses. The cost of certain items of property, plant and equipment at 1 January 2009, the Group's date of transition to CPC, was determined with reference to its fair value at that date.

In accordance to Technical Pronouncement CPC 20 equivalent to IAS 23, the Company capitalizes loan costs directly attributable to the acquisition, construction or production of a qualifiable asset as part of the cost of the asset, always when it is probable that the Company will benefit from future economic results and also when it is possible to be reliably measured.

***(ii) Subsequent costs***

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

***(iii) Depreciation***

Depreciation is calculated to amortize the cost of items of property, plant and equipment, net of their estimated residual values, using the straight-line method based on estimated useful lives of such items. Depreciation is recognized under profit or loss.

Estimated useful lives for the current period and comparative years for fixed assets are as follow:

| | |
|---|---|
| Property | 25 years |
| Machinery and equipment | 10-13 years |
| Vehicles | 10 years |
| Furniture and fixtures | 10 years |
| Facilities in use | 10 years |
| IT equipment | 5-6 years |
| Other | 4 years |

Depreciation methods, useful lives and residual values are reviewed at each date statement of financial position and adjusted if appropriate.

## j. Intangible assets and goodwill

### *Goodwill*

Goodwill is measured at cost, less accumulated impairment loss. In relation to the investees registered using the equity accounting method, the carrying value of the goodwill is included in the carrying value of the investment, and any impairment loss is allocated to the carrying value of the investment as a whole.

### *Other intangible assets*

Other intangible assets acquired by the Company and its subsidiaries with finite useful lives are carried at cost, net of accumulated amortization and any accumulated impairment losses.

***Amortization***
Except for the goodwill, the intangible assets are amortized on the straight-line method and amortization is recognized in income based on the estimated useful life of the assets as of the date they are available for use. The estimated useful lives are as follows:

| | |
|---|---|
| Software | 5 years |
| Health registers | 4 years |

## k. Financial instruments
The Group classifies non-derivative financial assets under the following categories: financial assets measured at fair value through profit or loss and loans and receivables.

The Group classifies non-derivative financial liabilities under the following categories: financial liabilities measured at fair value through profit or loss and other financial liabilities.

### *(i) Non-derivative financial assets and liabilities – recognition and derecognition*
The Group initially recognizes loans and receivables and debt instruments on the date in which they are originated. All other financial assets and liabilities are recognized on the date of negotiation under which the entity becomes a party to the contractual provisions of the instrument.

The Group fails to recognize a financial asset when the contractual rights to the cash flow of the asset expire, or when the Group transfers the rights to the reception of contractual cash flows over a financial asset in a transaction in which essentially all the risks and benefits of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or canceled or expire.

Financial assets or liabilities are offset and net value presented in the statement of financial position only when there is a legally enforceable right of the Group to set off and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

### *(ii) Non-derivative financial assets - Measurement*
*Financial assets measured at fair value through profit or loss*
A financial asset is classified as measured at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. The transaction costs are recognized in income (loss) as incurred. They are measured at fair value and changes in the fair value, including gains with interest and dividends, are recognized under profit or loss.

*Loans and receivables*
These assets are measured initially at fair value plus any attributable transaction costs. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

*Cash and cash equivalents*
Cash and cash equivalents comprise balances of cash and financial investments with original maturities of three months or less from the date of the contract, and that are readily convertible into known amounts of cash and subject to insignificant risk of change in value, and are used by the Company and its subsidiaries in the management of short-term liabilities.

***(iii) Non-derivative financial liabilities - Measurement***
A financial liability is classified as measured at fair value through profit or loss if it is held for trading or designated as such upon initial recognition. Transaction costs are recognized under profit or loss as incurred. Financial liabilities measured at fair value through profit or loss are measured at fair value and changes in the fair value of these liabilities, including gains with interest, are recognized under profit or loss for the year.

Other non-derivative financial liabilities are initially measured at fair value less any attributable transaction costs. After initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

***(iv) Share capital***

*Common shares*
The Company's capital is comprised by 100% of common, nominative shares with no par value.

*Dividends*
Minimum mandatory dividends as defined in the Bylaws are recognized as liabilities. In addition, the Bylaws provide for the declaration and distribution of interim and / or intermediary dividends, by resolution of the Board of Directors. Such interim and / or intermediate dividends are recognized as liabilities when deliberated.

Additional dividends, proposed by the Board of Directors, are not recognized as liabilities until the effective ratification in Assembly, as provided by the Brazilian Corporate Law and the Company's Bylaws.

*Interest on own-capital*
Interest on own capital paid or credited are originally registered under profit or loss as financial expenses, and subsequently reverted in the calculation of the net income for the year and accounted for as allocated to retained earnings in the statement of changes in equity, as dividends paid or payable, in accordance with the essence of the operation.

## l. Impairment

***(i) Non-derivative financial assets***
Financial assets not classified as financial assets at fair value through profit or loss, including investments accounted for under the equity method, are evaluated at each balance sheet date to determine if there are objective impairment evidence.

Objective evidence the financial assets are impaired includes:

- default or delinquency by a debtor;

- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets .

*Investees accounted under the equity method*
A loss by a reduction to recoverable value referring to an investee valued under the equity method is measured by comparing the investment's recoverable value to its book value. An impairment loss is recognized in the statement of income and is reversed if there has been a favorable change in the estimates used to determine the recoverable value.

***(ii) Non-financial assets***
The book values of the non-financial assets of the Company and its subsidiaries, except for inventories, biological assets and deferred income and social contribution taxes are reviewed at each reporting date for indication of impairment. If such indication exists, the asset's recoverable value is estimated.

An impairment loss is recognized when the book value an asset or its cash generating unit (CGU) exceeds its recoverable value. Impairment losses are recorded under profit or loss.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, the assets that cannot be individually tested are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash flows of other assets or CGU.

For the years ended December 31, 2017 and 2016, the Company and its subsidiaries did not identify indicators of loss in the value of its non-financial assets.

## m. Leases

***(i) Leased assets***
Leases of property, plant and equipment that transfer to the Company and its subsidiaries substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the statement of financial position of the Company and its subsidiaries.

***(ii) Lease payments***

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

## n. Provisions

A provision is recognized if the Company and its subsidiaries have a legal or constructive obligation as a result of a past event, which can be reliably estimated, and it is probable that an outflow of funds will be required to settle the obligation.

## o. Segment reporting

Management determined that the Company has a single operating segment, the hospital segment. The operations are significantly concentrated in Brazil and distributed between four lines of medicinal products (Biological, Oncological, Specialties and Other) and in two groups of clients (public and private).

## p. Statements of value added

The Company prepared the statements of value added under the terms of technical pronouncement CPC 09 – Statement of Value Added, presented as an integral part of the financial statements.

## q. New standards and interpretations

A number of new standards, changes in standards and international interpretations will be effective for periods beginning after January 1, 2018.

The Company did not adopt these alterations in the preparation of these financial statements. The Company does not plan early adoption of these standards. It is not expected that these standards will have any significant impact to the financial statements of the Group in the period of initial adoption.

***IFRS 9 - Financial Instruments - CPC 48***

CPC 48 replaces the guidance in CPC 38 Financial Instruments: Recognition and Measurement. CPC 48 includes new models for the classification and measurement of financial instruments and the measurement of expected credit losses for financial and contractual assets, as well as new requirements on hedge accounting. The new standard retains the existing guidance on the recognition and derecognition of financial instruments in CPC 38.

CPC 48 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted only for financial statements in accordance with CPCs.

The new standard will require the Company to review its accounting and internal control processes related to the classification and measurement of financial instruments and these changes are not yet finalized..

(i) *Classification – Financial Assets*

CPC 48 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

CPC 48 contains three principal classification categories for financial assets: measured at amortized cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit and loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under CPC 48, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Company does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

(ii) *Impairment – Financial Assets and Contractual Assets*

CPC 48 replaces the ‘incurred loss’ model in CPC 38 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgment about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under CPC 39, loss allowances will be measured on either of the following bases:

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

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

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Group has chosen to apply this policy also for trade receivables and contract assets with a significant financing component.

The Company believes that impairment losses are likely to increase and become more volatile for assets in the scope of the CPC 49 impairment model. Based on its assessment, the Company does not consider that the new requirements will have a significant impact to its accounting registers.

*(iii) Classification – Financial Liabilities*

CPC 49 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognized in profit or loss, whereas under CPC 48 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

***IFRS 16 Leases***

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing lease standards, including CPC 06 (IAS 17) Leasing Operations and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) Complementary Aspects of Leasing Operations.

The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted only for financial statements in accordance with IFRSs and only for entities that apply IFRS 15 Revenue from Contracts with Customers on or before date of initial application of IFRS 16.

Based on its assessment and on its existing lease operations, the Company does not consider that the new requirements will have any significant impact in its accounting.

***IFRS 15 Revenue from Contracts with Customers - CPC 47***

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including CPC 30 (IAS 18) Revenue, CPC 17 (IAS 11) Construction Contracts and CPC 30 Interpretation A (IFRIC 13) Customer Loyalty Programs.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted only for financial statements in accordance with IFRSs.

*Sale of products*

For the sale of products, revenue is currently recognized when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

The Company's assessment does not indicate that the adoption of CPC 47 will result in additional costs recognized over time, once there are no transactions of contracts for commissioned production, in which the client controls the work in process in the measure in which the products are manufactured.

The Company plans to adopt CPC 47using the cumulative effect method, with initial adoption of the standard (in other words, January 1, 2018). As a result the Group will not apply the requirements of CPC 47 to the comparative period presented.

The Company plans to use practical expedients for concluded contracts. This means that completed contracts that have commenced and ended in the same comparative presentation period, as well as contracts that are concluded at the beginning of the earliest period presented, will not be restated.

***Disclosure initiative (Amendments to CPC 26/ IAS 7)***

The amendments require additional disclosures that allow users of financial statements to understand and assess changes in liabilities arising from financing activities, whether arising from cash flow and other changes.

The changes are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted only for financial statements in accordance with IFRSs**.**

In order to meet the new disclosure requirements, the Company intends to present reconciliation between the opening and closing balances of liabilities with changes arising from financing activities.

***Other amendments***

It is not expected that the new standards or amendments to standards below shall have a significant impact to the financial statements of the Company and subsidiaries.

- Amendments to CPC 10 (IFRS 2) Share-based payment in relation to the classification and measurement of certain share-based payment transactions.

- Transfers of Investment Property (Amendments to CPC 28 / IAS 40).

- Amendments to CPC 36 Consolidated Statements (IFRS 10) and CPC 18 Investments in Associates (IAS 28) in relation to sales or contributions of assets between an investor and its associated company or its jointly controlled enterprise

- ICPC 21 / IFRIC 22 Foreign Currency Transactions and Advance Consideration.

- IFRIC 23 - Uncertainty over Income Tax Treatments.

The Accounting Pronouncements Committee has not yet issued an accounting pronouncement or change in the current pronouncements corresponding to all new IFRS. Therefore, the early adoption of these IFRS is not permitted for entities that disclose their financial statements in accordance with accounting practices adopted in Brazil.

# 9 Cash and cash equivalents

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Cash equivalents in U.S. Dollars | 9 | - | 6 | - |
| Cash equivalents in Euro | 25 | 3 | 25 | 3 |
| Cash in Brazilian Real | 4 | 154 | 4 | 3 |
| | **38** | **157** | **35** | **6** |
| Bank current account | 9,125 | 7,624 | 5,128 | 1,758 |
| Financial investments | 4,012 | 2,418 | - | - |
| | **13,137** | **10,042** | **5,128** | **1,758** |
| **Total cash and cash equivalents** | **13,175** | **10,199** | **5,163** | **1,764** |

Highly liquid short-term interest earning bank deposits, promptly convertible into a known sum of cash and subject to an insignificant risk of change of value. The subsidiary Blau Farmaceutica Colombia SAS has the option of early redemption of said securities, without penalties or loss of profitability of the investment, with average rates in 2017 of 2.36% per year (2.5% per year in 2016).

The exposure of the Company to interest rate and foreign exchange rate risks is disclosed under Note 26 to the financial statements.

# 10 Trade receivables

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Domestic | 94,947 | 91,709 | 94,947 | 90,169 |
| Foreign | 11,485 | 10,150 | 3,343 | 2,657 |
| Related parties (Note 16) | 3,160 | 1,395 | 9,151 | 7,899 |
| Subtotal | 109,592 | 103,254 | 107,441 | 100,725 |
| Allowance for doubtful accounts | (5,481) | (4,533) | (5,470) | (3,272) |
| | **104,111** | **98,721** | **101,971** | **97,453** |

## Aging list of trade receivables

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | **Private** | | **Public** | | **Total** | |
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Due | 54,966 | 43,145 | 27,790 | 23,530 | 82,756 | 66,675 |
| Past due | 10,345 | 12,445 | 17,500 | 24,134 | 27,845 | 36,579 |
| From 1 to 30 days | 2,509 | 3,848 | 5,572 | 11,999 | 8,081 | 15,847 |
| From 31 to 60 days | 670 | 980 | 1,090 | 1,056 | 1,760 | 2,036 |
| From 61 to 180 days | 2,442 | 2,815 | 5,386 | 7,295 | 7,828 | 10,110 |
| Over 181 days | 4,724 | 4,802 | 5,452 | 3,784 | 10,176 | 8,586 |
| **Subtotal** | **65,311** | **55,590** | **45,290** | **47,664** | **110,601** | **103,254** |
| Allowance for doubtful accounts | (4,434) | (4,533) | (2,056) | - | (6,490) | (4,533) |
| **Total** | **60,877** | **51,057** | **43,234** | **47,664** | **104,111** | **98,721** |

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | **Private** | | **Public** | | **Total** | |
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Due | 51,806 | 44,158 | 27,790 | 23,530 | 79,596 | 67,688 |
| Past due | 10,345 | 8,903 | 17,500 | 24,134 | 27,845 | 33,037 |
| From 1 to 30 days | 2,509 | 2,538 | 5,572 | 11,999 | 8,081 | 14,537 |
| From 31 to 60 days | 670 | 980 | 1,090 | 1,056 | 1,760 | 2,036 |
| From 61 to 180 days | 2,442 | 1,750 | 5,386 | 7,295 | 7,828 | 9,045 |
| Over 181 days | 4,724 | 3,635 | 5,452 | 3,784 | 10,176 | 7,419 |
| **Subtotal** | **62,151** | **53,061** | **45,290** | **47,664** | **107,441** | **100,725** |
| Allowance for doubtful accounts | (3,414) | (3,272) | (2,056) | - | (5,470) | (3,272) |
| **Total** | **58,737** | **49,789** | **43,234** | **47,664** | **101,971** | **97,453** |

The Company has the procedure of recording allowance for doubtful accounts for overdue notes of private clients, except related parties, which have already been listed for collection in administrative sphere. Receivables from public agencies do not have a background of loss due to long-overdue securities and accordingly the tax rule for provision is being considered. Currently 35% of the balance receivable with private clients is given as collateral for bank loans and financing, presented in Note 19.

### Changes in allowance for doubtful accounts are presented below

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Initial balance | (4,533) | (4,805) | (3,272) | (3,024) |
| Register of provision | (2,757) | (1,381) | (2,744) | (1,196) |
| Reversal | 800 | 1,653 | 546 | 948 |
| **Final balance** | **(6,490)** | **(4,533)** | **(5,470)** | **(3,272)** |

## 11 Inventories

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Finished goods | 28,493 | 30,606 | 28,493 | 24,295 |
| Products for resale | 5,969 | 681 | - | - |
| Semi-finished goods | 23,796 | 18,949 | 23,796 | 17,707 |
| Products in process | 472 | 94 | 472 | 94 |
| Raw materials | 40,989 | 32,324 | 40,989 | 32,324 |
| Packaging materials | 16,993 | 19,465 | 16,993 | 19,385 |
| Materials with third parties | 86 | 83 | 86 | 83 |
| Imports in progress | 1,148 | 418 | 1,069 | 418 |
| Advance for imports | 590 | 1,571 | 590 | 1,569 |
| Ancillary production materials | 544 | 249 | 544 | 249 |
| | **119,080** | **104,440** | **113,032** | **96,124** |

In 2017, provision for depreciation of inventories, to take them to their net realizable values, totaled R$ 6,432 Company and R$ 6,536 consolidated (R$ 6,818 Company and R$ 7,797 Consolidated as at December 31, 2016).

The provision for devaluation is calculated considering the maturity date of the products and also takes into account the expected future commercialization of the products. Products with expired due dates are fully provisioned, as well as those with expiration dates in up to 180 days, regardless of the expectation or not of sales.

### Changes in the provision for loss of inventory:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Initial balance | (7,797) | (6,890) | (6,818) | (5,124) |
| Register of provision | (6,125) | (3,667) | (6,164) | (4,745) |
| Write-off | 5,907 | - | 5,071 | 652 |
| Reversal | 1,479 | 2,760 | 1,479 | 2,399 |
| **Final balance** | **(6,536)** | **(7,797)** | **(6,432)** | **(6,818)** |

Changes in the provision for devaluation of inventory are recognized in cost of goods and products sold under profit or loss.

In 2017 the Company performed the incineration of obsolete material in the amount of R$ 1,989 and inventory adjustments of R$ 3,082 during the year.

## 12 Recoverable taxes

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| ***Current*** | | | | |
| ICMS | 317 | 1,506 | 317 | 1,241 |
| IPI | 90 | 212 | 90 | 204 |
| PIS | 331 | 276 | 331 | 276 |
| COFINS | 1,523 | 1,363 | 1,523 | 1,363 |
| IR/CSLL | 3,862 | - | 3,862 | - |
| Other | 832 | 597 | 24 | 20 |
| Withheld taxes | - | 948 | - | 923 |
| **Total current taxes** | **6,955** | **4,902** | **6,147** | **4,027** |
| ***Non-current*** | | | | |
| CIAP | 723 | 551 | 723 | 551 |
| PIS | 555 | 1,300 | 555 | 1,300 |
| COFINS | 2,095 | 5,604 | 2,095 | 5,604 |
| **Total non-current taxes** | **3.373** | **7,455** | **3,373** | **7,455** |
| **Total** | **10,328** | **12,357** | **9,520** | **11,482** |

In 2016, the Company engaged a specialized company to assess and recognize amounts related to tax credits arising from overpayments and credits not recorded on a timely basis. This service involved a review of the entire process for calculation of indirect taxes and also the analysis of consistency of the tax and information recorded covering the period from January 2012 to August 2016, the balances are assessed and updated quarterly.

The credit amounts recognized under “Recoverable taxes” as a contraentry to other income in the profit or loss as at December 31, 2016 were as follows:

| | |
|---|---|
| ICMS | 2,625 |
| PIS | 1,158 |
| COFINS | 5,366 |
| **Total** | **9,149** |

These credits have already been offset in 2016, with IRPJ/CSLL offset against PIS and COFINS. The extemporaneous ICMS credit was used to offset the balance payable of ICMS tax

# 13 Investments

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Equity interest Blau Farmaceutica Colombia S.A.S | - | - | 16,181 | 14,327 |
| Goodwill investment Blau Colombia S.A.S (i) | - | - | 6,800 | 6,800 |
| Total investment Blau Colombia S.A.S | **-** | **-** | **22,981** | **21,127** |
| Equity interest Blaufarma Uruguay S.A | - | - | (467) | 1,443 |
| Goodwill investment Blaufarma Uruguay S.A. (i) | - | - | 271 | 271 |
| Advance for future capital increase (ii) | - | - | 5,320 | 339 |
| Total investment Blaufarma Uruguay S.A. | **-** | **-** | **5,124** | **2,053** |
| Equity interest Preserv S.A. | - | - | - | 847 |
| Total investment Preserv S.A. | **-** | **-** | **-** | **847** |
| Other investments | 15 | 10 | 15 | - |
| **Total Investments** | **15** | **10** | **28,120** | **24,027** |

(i) For the purpose of consolidation the goodwill amounts of the investees Blau Colombia R$ 6,800 and Blau Uruguay R$ 271 were reclassified to intangible assets, see Note 15.

(ii) Remittance of capital as advance for future capital increase in 2016 in the amount of USD 100 thousand, equivalent to R$ 339, and in 2017 in the amount equivalent to USD 1,540 thousand, equivalent to R$ 4,981.

## Changes in investments:

| | Blau Colombia | Blau Uruguay | Preserv | Other equity interests | Total |
|---|---|---|---|---|---|
| **Balance as at January 1, 2016** | **17,841** | **(4,414)** | **-** | - | **13,427** |
| Equity in investments | (1,070) | (1,948) | (1,427) | - | (4,445) |
| Unrealized profit | (458) | - | - | - | (458) |
| **Total net equity in investments** | **(1,528)** | **(1,948)** | **(1,427)** | **-** | **(4,903)** |
| Advance for future capital increase (i) | - | 6,984 | - | - | 6,984 |
| Translation adjustments | (2,142) | 821 | - | | (1,321) |
| Result of deferred IR/CS | 156 | - | - | - | 156 |
| Acquisition of equity interest in Preserv S.A | - | - | 2,274 | - | 2,274 |
| **Balance as at December 31, 2016** | **14,327** | **1,443** | **847** | **-** | **16,617** |
| Equity in investments | 653 | (2,238) | - | - | (1,585) |
| Unrealized profit | 1,358 | (203) | - | - | 1,155 |
| **Total equity in investments** | **2,011** | **(2,441)** | **-** | **-** | **(430)** |
| Translation adjustment | 336 | 462 | - | - | 798 |
| Acquisition of equity interest | - | - | - | 15 | 15 |
| Realized profit | (493) | 69 | - | - | (424) |
| Write-off investment due to merger | - | | (847) | | (847) |
| **Balance as at December 31, 2017** | **16,181** | **(467)** | **-** | **15** | **15,729** |

(i) On September 30, 2016, Blau Farma Uruguay increased its capital by $U 63,912,957 - which is equivalent to R$ 6,984 - using advance for future capital increase made by Blau from 2013 up to the end of September 2016, as demonstrated below:

| Advances for future capital increase | Amount |
|---|---|
| 2013 | 152 |
| 2014 | 1,151 |
| 2015 | 2,584 |
| 2016 | 3,097 |
| | 6,984 |

In compliance to CPC 45 and IFRS 12- disclosure of interests in other entities, a summary financial information of Blau Colombia, Blau Uruguay and Preserv as at December 31, 2017 and 2016, is disclosed in the table below

| | 2017 | | 2016 | | |
|---|---|---|---|---|---|
| | Blau Colombia | Blaufarma Uruguay | Blau Colombia | Blaufarma Uruguay | Preserv |
| Current assets | 20,334 | 3,342 | 19,971 | 3,078 | 3,920 |
| Non-current assets | 761 | 3,714 | 1,141 | 891 | 141 |
| **Total assets** | **21,095** | **7,056** | **21,112** | **3,969** | **4,061** |
| Current liabilities | 4,633 | 2,524 | 5,752 | 1,845 | 3,122 |
| Non-current liabilities | 158 | - | 45 | 343 | 92 |
| Net equity | 16,304 | 4,532 | 15,315 | 1,781 | 847 |
| **Total Liabilities + net equity** | **21,095** | **7,056** | **21,112** | **3,969** | **4,061** |
| Net operating income | 20,447 | 3,846 | 18,411 | 2,498 | 1,188 |
| Net income/loss for the year | 653 | (2,316) | (1,070) | (1,948) | (551) |

# 14 Property, plant and equipment

| | Consolidated | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | **Acquisition of subsidiary (a)** | **Addition** | **Transf** | **Write-off** | **2016** | **Addition** | **Transf.** | **Write-off** | **2017** |
| **Cost** | | | | | | | | | | |
| Land | 500 | - | - | - | - | 500 | 8,315 | - | - | 8,815 |
| Buildings | 1,873 | - | 8 | 30 | - | 1,911 | 9,482 | 10,144 | - | 21,537 |
| Machinery and equipment | 52,460 | 234 | 6,597 | 277 | (46) | 59,522 | 3,442 | 1,386 | (43) | 64,307 |
| Vehicles | 2,132 | - | 9 | - | (89) | 2,052 | 1,508 | - | (321) | 3,239 |
| Furniture and fixtures | 5,489 | 67 | 200 | 2 | (72) | 5,686 | 260 | - | (159) | 5,787 |
| Installations in use | 6,996 | 9 | 176 | 283 | (132) | 7,332 | 51 | 1,321 | - | 8,704 |
| IT equipment | 2,590 | 54 | 497 | 114 | (41) | 3,214 | 490 | - | (35) | 3,669 |
| Property, plant and equipment in progress | 24,313 | - | 5,852 | (5,186) | (236) | 24,743 | 13,775 | (4,372) | (549) | 33,597 |
| Leasehold improvement | 4,012 | 180 | 35 | 4,480 | (180) | 8,527 | - | (8,479) | (4) | 44 |
| Advance of goods for future delivery | 3,994 | - | 688 | - | (2,506) | 2,176 | 5,404 | - | (6,656) | 924 |
| **Total cost** | **104,359** | **544** | **14,062** | **-** | **(3,302)** | **115,663** | **42,727** | **-** | **(7,767)** | **150,623** |
| **Depreciation** | | | | | | | | | | |
| Buildings | (102) | - | (80) | - | - | (182) | (385) | (409) | - | (976) |
| Machinery and equipment | (22,534) | (132) | (5,967) | - | 71 | (28,562) | (6,345) | - | 42 | (34,865) |
| Vehicles | (1,959) | - | (303) | - | 86 | (2,176) | (306) | - | 442 | (2,040) |
| Furniture and fixtures | (4,059) | (43) | (515) | - | 83 | (4,534) | (237) | - | 138 | (4,633) |
| Installations in use | (4,957) | (5) | (711) | - | 11 | (5,662) | (315) | (45) | 184 | (5,838) |
| IT equipment | (2,078) | (29) | (266) | - | 27 | (2,346) | (305) | - | 35 | (2,616) |
| Leasehold improvement | - | - | (178) | - | - | (178) | (276) | 454 | - | - |
| **Total accumulated depreciation** | **(35,689)** | **(209)** | **(8,020)** | **-** | **278** | **(43,640)** | **(8,168)** | **-** | **840** | **(50,968)** |
| **Net balance** | **68,670** | **335** | **6,042** | **-** | **(3,024)** | **72,023** | **34,559** | **-** | **(6,927)** | **99,655** |

(a) Position of final balance and changes of assets of Preserv from date of acquisition on November 11 to final position in December 2016.

| | Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | | **Addition** | **Transf** | **Write-off** | **2016** | **Addition** | **Transf.** | **Write-off** | **2017** |
| **Cost** | | | | | | | | | | |
| Land | 500 | | - | - | - | 500 | 8,315 | - | - | 8,815 |
| Buildings | 1,873 | | 8 | 30 | - | 1,911 | 9,482 | 10,144 | - | 21,537 |
| Machinery and equipment | 53,392 | | 6,595 | 277 | (7) | 60,257 | 3,442 | 1,386 | (14) | 65,071 |
| Vehicles | 1,772 | | 9 | - | (37) | 1,744 | 1,508 | - | (263) | 2,989 |
| Furniture and fixtures | 4,329 | | 197 | 2 | (8) | 4,520 | 245 | - | (35) | 4,730 |
| Installations in use | 6,939 | | 167 | 283 | - | 7,389 | 51 | 1,321 | - | 8,761 |
| IT Equipment | 2,451 | | 493 | 114 | - | 3,058 | 437 | - | - | 3,495 |
| Property, plant and equipment in progress | 23,500 | | 5,852 | (5,186) | (236) | 23,930 | 13,775 | (4,372) | (308) | 33,025 |
| Improvement to properties | 3,968 | | 35 | 4,480 | - | 8,483 | - | (8,479) | (4) | - |
| Advance assets future delivery | 4,003 | | 688 | - | (2,506) | 2,185 | 5,404 | - | (6,656) | 933 |
| **Total cost** | **102,727** | **-** | **14,044** | **-** | **(2,794)** | **113,977** | **42,659** | **-** | **(7,280)** | **149,356** |

| | Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2015** | **Addition** | **Transf** | **Write-off** | **2016** | **Addition** | **Transf.** | **Write-off** | **2017** |
| **Depreciation** | | | | | | | | | |
| Buildings | (102) | (80) | - | - | (182) | (369) | (409) | - | (960) |
| Machinery and equipment | (22,798) | (5,946) | - | 22 | (28,722) | (6,332) | - | 16 | (35,038) |
| Vehicles | (1,662) | (203) | - | 79 | (1,786) | (260) | - | 384 | (1,662) |
| Furniture and fixtures | (3,835) | (475) | - | 8 | (4,302) | (233) | - | 19 | (4,516) |
| Installations in use | (5,027) | (696) | - | - | (5,723) | (315) | (45) | - | (6,083) |
| IT Equipment | (1,971) | (228) | - | - | (2,199) | (268) | - | - | (2,467) |
| Improvement to properties | - | (178) | - | - | (178) | (276) | 454 | - | - |
| **Total accumulated depreciation** | **(35,395)** | **(7,806)** | **-** | **109** | **(43,092)** | **(8,053)** | **-** | **419** | **(50,726)** |
| **Net balance** | **67,332** | **6,238** | **-** | **(2,685)** | **70,885** | **34,606** | **-** | **(6,861)** | **98,630** |

Property, plant and equipment in progress totals R$ 33,025, of which R$ 15,730 refers to the construction of a new warehouse for the storage of inventory. The Company expects to conclude these works in the second half of 2018. The other projects in progress refer substantially to R$ 5,600 for the plant of pharmaceutical inputs (Building 400), R$ 1,940 for improvements to the São Paulo Blau plant, R$ 2,864 in improvements to the Head office, R$ 3,410 in installations, R$ 1,974 for machinery and equipment to be installed and R$ 1,507 sundry other projects.

# 15 Intangible assets

| | | Consolidated | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **2015** | **From acquisition of Subsidiary** | **Addition** | **Write-off** | **2016** | **Addition** | **Write-off** | **2017** |
| **Cost** | | | | | | | | | |
| Software | | 3,801 | 6 | 49 | (12) | 3,844 | 213 | - | 4,057 |
| Trademark | | 899 | 4 | 62 | - | 965 | 31 | (1) | 995 |
| Health registers | | 272 | - | 402 | - | 674 | 6 | - | 680 |
| Goodwill (i) | | 7,071 | - | - | - | 7,071 | - | - | 7,071 |
| **Total cost** | | **12,043** | **10** | **513** | **(12)** | **12,554** | **250** | **(1)** | **12,803** |
| **Amortization** | | | | | | | | | |
| Software | 25% | (1,893) | - | (692) | - | (2,585) | (677) | - | (3,262) |
| Trademark | | - | | | | - | (9) | - | (9) |
| Health registers | 25% | (140) | - | (39) | - | (179) | (57) | - | (236) |
| **Total accumulated amortization** | | **(2,033)** | **-** | **(731)** | **-** | **(2,764)** | **(743)** | **-** | **(3,507)** |
| **Net balance** | | **10,010** | **10** | **(218)** | **-** | **9,790** | **(493)** | **(1)** | **9,296** |

| | | Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2015** | **Addition** | **Write-off** | **2016** | **Addition** | **Write-off** | **2017** |
| **Cost** | | | | | | | | |
| Software | | 3,791 | 49 | (1) | 3,839 | 90 | | 3,929 |
| Trademark | | 877 | - | - | 877 | - | | 877 |
| **Total cost** | | **4,668** | **49** | **(1)** | **4,716** | **90** | **-** | **4,806** |
| **Amortization** | | | | | | | | |
| Software | 25% | (1,875) | (703) | - | (2,578) | (676) | - | (3,254) |
| **Total accumulated amortization** | | **(1,875)** | **(703)** | **-** | **(2,578)** | **(676)** | **-** | **(3,254)** |
| **Net balance** | | **2,793** | **(654)** | **(1)** | **2,138** | **(586)** | **-** | **1,552** |

(i) Goodwill is from the acquisition of the investees Blau Colombia in the amount of R$ 6,800 and Blau Uruguay in the amount of R$ 271, which in the consolidated statements are being stated under intangible assets as determined by the accounting standard.

## Impairment test

The Company evaluated recovery of goodwill book value using the concept of “value in use” through cash flow models discounted at each Cash Generating Unit (“CGU”) estimate, representing sets of tangible assets and intangible assets recorded in the subsidiary that generated goodwill.

Determination of CGU recovery based on “Value in Use” involves assumptions, judgments and estimates on cash flows, such as income, costs and expenses growth rates, investment and future working capital estimates and discount rates. Assumptions on growth projections, cash flow and future cash flows are based on best Management estimates, as well as on market comparable data, economic conditions that will exist during economic life of assets that provide cash flow generation. Future cash flows have been discounted based on rate representing capital cost.

Based on annual test of intangible assets recovery prepared based on projections made on financial statements, growth perspectives at that time and follow-up of projections and operating results during the period, no possible losses or indication of losses were identified, as value in use is higher than net book value on evaluation date. Main assumptions used for determination of future cash flows discounted at transactions present values are as follows:

| **Sale of products 2017** | **Considering sales net of taxes and returns** |
|---|---|
| Hospital line | Growth of 9% per year. |
| Oncology line | Growth of 10% per year. |
| Biopharmaceutical line | Growth of 14% per year |
| Sutures | Growth of 9% per year |
| **Operating expenses 2017** | |
| Fixed | Linear growth of 6% per year |
| Variable | Proportional to Net Income based on 12/31/17 |
| **Discounted cash flow – Financial cost 2017** | 11,7% per year capitalized |

The term of the study contemplated 10 years, once Management understands that this term is adequate (instead of 5 years) once there is an operational restructuring of the Colombia subsidiary underway, and the operations will go from only distribution to industrialization and distribution. During the year 2018, the Blau Colombia subsidiary intends to start the construction of a production plant in Colombia. There are negotiations in progress for the acquisition of land in the duty-free zone of Bogota.

At December 31, 2017, the Company assessed whether there was any indication that its assets at the end of their useful lives might be damaged or devalued and concluded that there is no indication of impairment.

# 16 Related parties

## a. Final controlling entity

The final shareholder is Mr. Marcelo Hahn, who holds the total shares of the Company. On August 28, 2017 the shareholder Marcelo Hahn acquired the quantity of 1,850,000 shares from the shareholder Joyce Marrie Hahn, becoming the owner of 100% of the control of the Company.

## b. Key-management personnel compensation

Key management personnel compensation comprises salaries and direct benefits, such as medical and dental care and meals. The Company does not provide non-cash benefits to Directors, nor contributes to a defined post-employment benefit plan. The Company does not offer any share purchase option plans.

| | **2017** | **2016** |
|---|---|---|
| Directors' fees | 3,884 | 2,057 |
| Counselors' fees | 639 | 421 |
| | **4,523** | **2,478** |

## c. Balance and transactions with related parties

Transactions with related parties are duly formalized through a contract or other equivalent instrument, such as a purchase order when dealing with a commercial transaction, and consider the same principles and procedures that guide negotiations conducted by the Company with independent parties. The Company has a Transaction Policy with Related Parties which was informed to all members of Management and officers of the Company.

The main balances with related parties in the equity accounts and statements of profit and loss are presented below:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Assets** | | | | |
| **Current assets** | | | | |
| **Trade receivables (Note 10)** | | | | |
| Kollimed Com, Mat, Hospitalares Ltda, (a) | 3,077 | 664 | 3,077 | 664 |
| The Package Store Imp, Com, Distr, Emb, Ltda, (b) | 83 | 731 | 83 | 731 |
| Blau Farmaceutica Colombia S,A,S, (c) | - | - | 4,037 | 5,079 |
| Blaufarma Uruguay S,A, (d) | - | - | 1,954 | 1,425 |
| **Total trade receivables** | **3,160** | **1,395** | **9,151** | **7,899** |
| **Total current assets** | **3,160** | **1,395** | **9,151** | **7,899** |
| **Non-current assets** | | | | |
| **Loans receivable** | | | | |
| Shareholders (e) | - | 1,462 | - | 1,462 |
| **Investments (Note 13)** | | | | |
| Advance for future capital increase Blaufarma Uruguay S,A, | - | - | 5,320 | 339 |
| **Total non-current assets** | **-** | **1,462** | **5,320** | **1,801** |
| **Total assets** | **3,160** | **2,857** | **14,471** | **9,700** |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| **Suppliers** | | | | |
| Kollimed Com, Mat, Hospitalares Ltda, | - | 104 | - | 104 |
| **Total Suppliers (Note 17)** | **-** | **104** | **-** | **104** |

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Other accounts payable** | | | | |
| F-11 Segurança Privada Ltda, (h) | 279 | 229 | 279 | 229 |
| Dividends payable | 19,659 | 1,003 | 19,659 | 1,003 |
| **Total other accounts payable** | **19,938** | **1,232** | **19,938** | **1,232** |

## *Net income (loss) - Income (Note 22) and Costs (Note 23)*

| | Consolidated | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | **Income** | **Cost** | **Income** | **Cost** |
| Kollimed Com. Mat. Hospitalares Ltda. (a) | 19,566 | (11,840) | 17,725 | (12,953) |
| The Package Store Imp. Com. Distr. Emb. Ltda. (b) | 1,167 | (696) | 2,202 | (899) |
| **Total income (loss) from related parties** | **20,733** | **(12,536)** | **19,927** | **(13,852)** |

| | Company | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | **Income** | **Cost** | **Income** | **Cost** |
| Kollimed Com. Mat. Hospitalares Ltda. (a) | 19,566 | (11,840) | 17,726 | (12,953) |
| The Package Store Imp. Com. Distr. Emb. Ltda. (b) | 1,167 | (696) | 2,202 | (899) |
| Blau Farmaceutica Colombia S.A.S. (c) | 8,149 | (6,996) | 13,291 | (9,816) |
| Blaufarma Uruguay S.A. (d) | 2,412 | (2,424) | 1,894 | (1,660) |
| Preserv S.A. (e) | - | - | 814 | (547) |
| **Total income (loss) from related parties** | **31,294** | **(21,956)** | **35,927** | **(25,875)** |

## *Net income (loss) other operations*

| | Company | |
|---|---|---|
| | **2017** | **2016** |
| Hahn Participações (f) | (12,018) | (26,974) |
| Giannetto e Faccio Advogados Associados (g) | - | (471) |
| Alban Consultoria Empresarial Ltda. | - | (88) |
| F - 11 Segurança Privada Ltda. (h) | (3,768) | (1,089) |
| **Total expenses with related parties** | **(15,786)** | **(28,622)** |

(a) Kolimed Com. Mat. Hospitalares Ltda has as its main activity the Distribution of Medicaments, the amounts billed to Kolimed come from sales of medicaments under normal market conditions. The margin of sales used for related parties is 15% and the average term of payment is 40 days.

(b) The main activity of Package Store Imp. Distr. Emb. Ltda' is the sale of glass packaging for the pharmaceutical industry. The invoiced values for The Package come from glass containers purchased by the Company from suppliers abroad and resold to The Package under normal market conditions. The sales margins used for related parties is 15% and the average term of payment is 40 days.

(c) Refers to the export operations of drugs manufactured by the Company, which are resold by the subsidiary in Colombian territory. Transactions are made in US Dollars, and the average payment term is 90 days.

(d) Refers to the export operations of drugs manufactured by the Company, which are resold by the subsidiary in the Uruguayan territory. Transactions are made in US Dollars, and the average payment term is 180 days.

(e) Loans receivable from shareholders do not have a maturity period, monetary restatement or guarantee terms. The amounts receivable are settled annually through deduction of dividends due to shareholders, as evidenced in note 21 (e). The outstanding balance on December 31, 2016 was fully settled in September 2017.

(f) The Company has real estate rental agreements with the related Hahn Participações Eireli, signed in June 2013 with validity for 5 years. The contract has no warranty clauses. The rental amount is updated annually by inflation indexes, and monthly payments made. The contract provides for a grace period of 36 months for cancellation, thus being subject to a fine for early termination. The rental expense totaled R$ 12,018 as at December 31, 2017 (R$ 26,974 as at December 31, 2016). As at June 30, 2017 the contract was extinguished and on the same date the purchase and sale agreement was signed between the Company and Hahn Participações for the acquisition of the properties, in the total amount of R$ 17,927. In accordance with the contract, the total agreed amount was settled in December 2017.

(g) The Company has a security service agreement that began in the second half of 2016 with the related company F-11 Seguranças Privada Ltda., which Mr. Marcelo Hahn holds 89% and the Legal Director 10%. The expenses of the services affected the result of general and administrative expenses in the amount of R$ 3,768 as at December 31, 2017 (R$ 1,089 as at December 31, 2016). The term of the contract is 1 year, and the renewal will take place upon signature of the respective contractual amendment by both parties. The agreement will be readjusted during the validity term on the base date of the category (January). The payment is on the fourth business day of the month subsequent to the rendering of services, with a fine of 2% (two percent) on the value of the invoice, in addition to the financial charges referring to default interest of 1% (one percent ) per month if payment delays occur. The monthly amount according to the contract is R$ 283.

# 17 Suppliers

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Domestic | 8,058 | 8,029 | 8,058 | 7,944 |
| Foreign | 67,795 | 37,865 | 67,946 | 37,168 |
| **Subtotal** | **75,853** | **45,894** | **76,004** | **45,112** |
| Related parties (Note 16) | **-** | **104** | **-** | **104** |
| **Total Suppliers** | **75,853** | **45,998** | **76,004** | **45,216** |

# 18 Income tax and social contribution

## Current taxes

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Income tax | 5,062 | 4,587 | 5,062 | 4,587 |
| Social contribution | 1,680 | 1,692 | 1,680 | 1,692 |
| **Subtotal** | **6,742** | **6,279** | **6,742** | **6,279** |

## Changes in income tax and social contribution payable

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Initial balance | 6,279 | 13,067 | 6,279 | 13,067 |
| Provision | 45,931 | 14,530 | 45,019 | 14,530 |
| Interest | (396) | 1,831 | (396) | 1,831 |
| Compensation | (10,962) | (2,340) | (10,962) | (2,340) |
| Tax paid | (34,110) | (20,809) | (33,198) | (20,809) |
| Final balance | **6,742** | **6,279** | **6,742** | **6,279** |

## Effective tax rate in the Company

| **Reconciliation of income tax (IR)/Social contribution (CS)** | **2.017** | **2.016** |
|---|---|---|
| Income before income tax and social contribution | 147,575 | 45,944 |
| Statutory rate | 34% | 34% |
| IR/CSLL on income at statutory rate | **50,176** | **15,621** |
| **Additions / Exclusions** | | |
| Equity in investments | 761 | 1,582 |
| Tax incentives | (1,499) | (1,434) |
| Provisions | (470) | 775 |
| Interest on own capital | (3,106) | (2,108) |
| Other | 657 | 574 |
| | **46,519** | **15,010** |
| **Deductions** | | |
| PAT (worker's meal program) | (603) | (263) |
| Sponsored donations | (873) | (199) |
| Exempt portion | (24) | (18) |
| **Current income tax and social contribution expenses** | **45,019** | **14,530** |
| **Effective rate** | **30.51%** | **31.63%** |

## Deferred income tax and social contribution, net

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Liabilities** | | | | |
| Income tax | (1,457) | (1,879) | (1,346) | (1,879) |
| Social contribution | (484) | (676) | (484) | (676) |
| **Subtotal** | **(1,941)** | **(2,555)** | **(1,830)** | **(2,555)** |
| **Assets** | | | | |
| Income tax | 2,782 | 2,970 | 2,782 | 2,524 |
| Social contribution | 1,001 | 987 | 1,001 | 988 |
| **Subtotal** | **3,783** | **3,957** | **3,783** | **3,512** |
| Total – assets | **1,953** | **1,402** | **1,953** | **957** |
| Total - liabilities | **(111)** | **-** | **-** | **-** |

### Changes in deferred income tax and social contribution

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Initial balance | 957 | (182) | 957 | (182) |
| IR/CS on equity adjustments | 726 | 1,135 | 726 | 1,135 |
| IR/CS on provision for contingencies | 399 | (475) | 399 | (475) |
| IR/CS on other | 111 | - | - | - |
| IR/CS on provision for inventory loss | (115) | 1,494 | (115) | 1,494 |
| IR/CS on allowance for doubtful accounts | (16) | - | (16) | - |
| IR/CS on other | 2 | (1,015) | 2 | (1,015) |
| **Total – assets** | **1,953** | **957** | **1,953** | **957** |
| **Total – liabilities** | **(111)** | **-** | **-** | **-** |
| IR/CS on social contribution tax loss carryforward of Blau Colombia | - | 445 | - | - |
| **Total – assets** | **1,953** | **1,402** | **1,953** | **957** |
| **Total - liabilities** | **(111)** | **-** | **-** | **-** |

## 19 Loans and financing

### Breakdown by maturity of loans and financing:

| | | | Consolidated | | Company | |
|---|---|---|---|---|---|---|
| **Modality** | | **Guarantee** | **2017** | **2016** | **2017** | **2016** |
| Advance on foreign exchange contract | US$+4.33% year | Approval of | 7,492 | 15,870 | 7,492 | 15,870 |
| Leasing | 13.96% year | CEO | 823 | 38 | 783 | - |
| Working capital | 5% year | No guarantee | - | 77 | - | - |
| Working capital | 17.88% year<br>11.46% year | 35% private receivables | 80,168 | 75,257 | 79,803 | 72,532 |
| Working capital | 17.38% year<br>11.70% year | No guarantee | 15,434 | 50,663 | 15,434 | 50,663 |
| **Total loans and financing from financial institutions** | | | **103.917** | **141.905** | **103,512** | **139,065** |
| Current | | | 102,979 | 108,198 | 102,575 | 105,831 |
| Non-current | | | 938 | 33,707 | 937 | 33,234 |
| **Total** | | | **103,917** | **141,905** | **103,512** | **139,065** |

## Breakdown of long-term loans and financing by maturity:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| 2018 | 102,979 | 33,707 | 102,575 | 33,234 |
| 2019 | 938 | - | 937 | - |
| **Total** | **103,917** | **33,707** | **103,512** | **33,234** |

Disclosure of IAS 7 (Disclosure Initiative - Amendments to IAS 7): clarifications made by IASB on liabilities from financing activities.

## Changes in loans and financing

| | Consolidated | Company |
|---|---|---|
| **Balance 2016** | **141,905** | **139,065** |
| Loans raised with cash effect | 92,265 | 91,901 |
| Appropriated interest | 10,366 | 10,358 |
| Payment of principal | (128,016) | (125,558) |
| Payment of interest | (10,356) | (10,321) |
| Monetary adjustment | (2,247) | (1,933) |
| **Balance in 2017** | **103,917** | **103,512** |

As at December 31, 2017 there are no restrictive covenant clauses to be fulfilled by the Company and its subsidiaries.

## Restrictive contractual clauses (covenants) for the year ended December 31, 2016

The Company had four contracts for working capital loans with Banco Itaú BBA, with covenants that determine certain obligations to be complied with so that respective values are not subject to early maturity, of which the main one was:

- Ratio between (A) net bank debt and (B) “EBITDA” must always be lower than or equal to 2.5.

The Company complied with all the restrictive clauses of the contracts.

## 20 Provisions for tax, civil and labor contingencies

The Company and its subsidiaries, in the normal course of business, are subject to judicial proceedings of tax, labor and civil nature. Management, based on the opinion of its legal advisors and, when applicable, on specific opinions issued by experts, evaluates the expected outcome of the proceeding in course and determines the need or not for registering a provision for contingencies. Based on this evaluation, the following provisions were registered:

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | **Labor claims** | **Civil claims** | **Anvisa claims** | **Commercial claims** | **Total** |
| **Balance January 1, 2016** | **4,765** | **930** | **132** | **137** | **5,964** |
| **Addition** | **1,458** | **932** | **20** | **-** | **2,410** |
| New proceedings | 929 | 585 | 20 | | **1,534** |
| Monetary adjustment | 529 | 347 | - | - | **876** |
| **Write-off** | **(3,694)** | **(1,081)** | **(12)** | **(137)** | **(4,924)** |
| Reversal | (2,548) | - | - | (137) | **(2,685)** |
| Payments | (256) | (1,077) | (12) | - | **(1,345)** |
| Monetary adjustment | (890) | (4) | - | - | **(894)** |
| **Balance December 31, 2016** | **2,529** | **781** | **140** | **-** | **3,450** |
| **Addition** | **2,602** | **834** | **68** | **-** | **3,504** |
| New proceedings | 1,536 | 343 | 68 | - | **1,947** |
| Reclassification (*) | 552 | - | - | - | **552** |
| Monetary adjustment | 514 | 491 | - | - | **1,005** |
| **Write-off** | **(1,211)** | **(1,075)** | **(44)** | **-** | **(2,330)** |
| Reversal | (360) | - | - | - | **(360)** |
| Payment | (215) | (278) | (44) | - | **(537)** |
| Reclassification (*) | (538) | - | - | - | **(538)** |
| Monetary adjustment | (98) | (797) | - | - | **(895)** |
| **Balance December 31, 2017** | **3,920** | **540** | **164** | **-** | **4,624** |

| | Company | | | | |
|---|---|---|---|---|---|
| | **Labor claims** | **Civil claims** | **Anvisa claims** | **Commercial claims** | **Total** |
| **Balance January 1, 2016** | **4,741** | **955** | **132** | **-** | **5,828** |
| **Addition** | **1,450** | **932** | **20** | **-** | **2,402** |
| New proceedings | 921 | 585 | 20 | | **1,526** |
| Monetary adjustment | 529 | 347 | | | **876** |
| **Write-off** | **(3,693)** | **(1,082)** | **(12)** | **-** | **(4,787)** |
| Reversal | (2,548) | | | | **(2,548)** |
| Payment | (256) | (1,077) | (12) | | **(1,345)** |
| Monetary adjustment | (889) | (5) | | | **(894)** |
| **Balance December 31, 2016** | **2,498** | **806** | **140** | | **3,443** |
| **Addition** | **2,602** | **834** | **68** | **-** | **3,504** |
| New proceedings | 1,536 | 343 | 68 | | **1,947** |
| Reclassification (*) | 552 | - | - | - | **552** |
| Monetary adjustment | 514 | 491 | - | - | **1,005** |
| **Write-off** | **(1,211)** | **(1,075)** | **(44)** | **-** | **(2,330)** |
| Reversal | (360) | - | - | - | **(360)** |
| Payment | (215) | (278) | (44) | - | **(537)** |
| Reclassification(*) | (539) | - | - | - | **(539)** |
| Monetary adjustment | (97) | (797) | - | - | **(894)** |
| **Balance December 31, 2017** | **3,888** | **565** | **164** | **-** | **4,617** |

(*) The reclassifications in additions are proceedings that were registered as of possible loss and passed to probable loss increasing the registered provision. In relation to the write-offs these are proceedings that were registered as having probable risk of loss and passed to possible risk of loss, decreasing the provision recorded, in accordance with the report by the legal advisors of the Company.

## a. Claims classified by the legal advisors as of possible loss

The Company is a party to other legal proceedings, evaluated by the legal advisors as having possible probability of loss. On the table below is the position of the Company by nature of claim. No provision was recognized for contingencies classified as possible loss. There are no other proceedings evaluated as possible loss in the subsidiaries.

| **Nature** | **2017** | **2016** |
|---|---|---|
| Tax | 3,910 | 3,432 |
| Labor | 454 | 454 |
| Civil | 3,159 | 3,049 |
| **Total** | **7,523** | **6,935** |

# 21 Shareholders' equity

## a. Authorized capital

Under the terms of Article 5 of the Company Bylaws, the Company is authorized to increase capital through deliberation of the Board of Directors, independently of statutory amendment, through the issue of shares, debentures convertible into shares or subscription bonus, up to a limit of 190,000,000 (one hundred and ninety million) shares. The Board of Directors is responsible for establishing conditions of issue, including price, term and form of payment.

## b. Subscribed and paid-in capital

The Company's subscribed and paid-in capital, on December 31, 2017, is represented by 148,000,000 common nominative shares, with no par value, in the total amount of R$ 56,500.

On October 23, 2017 capital increase was approved in a General Assembly in the amount of R$ 430, from R$ 56,070 to R$ 56.500, through capitalization of dividends.

On September 20, 2017, the Extraordinary General Meeting approved the split of shares issued by the Company in a ratio of 1:8, with the Company's capital being divided into 148,000,000 common, registered, book-entry and non-voting common shares.

On August 28, 2017, the shareholder Marcelo Rodolfo Hahn acquired the amount of 1,850,000 shares of the shareholder Joyce Marrie Hahn, thus holding 100% of the Company's control..

The shareholding structure is demonstrated below:

| | 2017 | | | |
|---|---|---|---|---|
| **Shareholders** | **Number of shares** | **Capital** | **Shareholder's equity** | **%** |
| Marcelo Rodolfo Hahn | 148,000,000 | 56,500 | 138,336 | 100% |
| **Total** | **148,000,000** | **56,500** | **138,336** | **100%** |
| **Value per share** | **148,000,000** | **R$ 0.38** | **R$ 0,93** | |

| | 2016 | | | |
|---|---|---|---|---|
| **Shareholders** | **Number of shares** | **Capital** | **Shareholder's equity** | **%** |
| Marcelo Rodolfo Hahn | 16,650,000 | 50,463 | 87,379 | 90% |
| Joyce Marrie Hahn | 1,850,000 | 5,607 | 9,748 | 10% |
| **Total** | **18,500,000** | **56,070** | **97,487** | **100%** |
| **Value per share** | **18,500,000** | **R$ 3.03** | **R$ 5.26** | |

## c. Profit reserve

Comprises legal reserve, reserve for investments and additional proposed dividends.

The legal reserve is established in accordance with the Brazilian Corporate Law, based on 5% of net income for each year up until 20% of share capital.

The investment reserve is set up based on up to 75% of the net income for each year, after deducting the amounts allocated to legal reserve, contingency reserve and tax incentive reserve. The investment reserve is intended to ensure sufficient resources for the expansion of the Company's activities and investments, and the balance of the reserve may not exceed the share capital, either separately or in conjunction with other profit reserves

## d. Other comprehensive income

Refers to gain or loss in the translation of the financial statements of subsidiaries domiciled abroad, and initial adoption of equity valuation adjustment (deemed cost).

## e. Profit allocation

Under the terms of the Company Bylaws, altered and approved on September 20, 2017 the shareholders have the right to mandatory minimum dividends of 25% of adjusted net income for the year (previously 5%), offsetting the amounts of interim dividends and interest on own capital.

Considering net income of 2017 and the Bylaws of the Company, the minimum mandatory dividends are of R$ 24.493, less the amount paid as interest on own capital of R$ 9,134 attributed to minimum mandatory dividends for 2017, remaining R$ 15,359 to be paid in 2018, recognized in current liabilities under other accounts payable (R$ 1,114 in 2016, of which R$ 110 were compensated with loans receivable from shareholders and R$ 1,003 paid in 2017).

On December 15, 2017 in accordance with Article 30 of the Company Bylaws, the distribution of interim dividends was approved in the amount of R$ 5.000, with R$ 700 having been paid in the year and a balance of R$ 4,300 to be paid in 2018, recognized in current liabilities under other accounts payable.

On October 23, 2017, in accordance with Article 30 of the Company Bylaws, the distribution of interim dividends was approved in the amount of R$ 3,337, paid in that same year.

According to legal provisions and with the Bylaws of the Company, interest on own capital was declared and distributed to the shareholders ad minimum mandatory dividends as proposed by the Board of Directors in relation to the interim distribution of dividends related to the net income of the Company as at December 31, 2017. On such date, the net value of interest on own capital declared was of R$ 9,134, fully settled within the year.
Interim dividends of R$ 11,599 related to the year ended December 31, 2016 (of which R$6,199 corresponds to interest on own capital) were fully settled within that year, and the amount of R$1,462 compensated with loans receivable from shareholders – see Note 16 and R$ 10,137 paid in cash before the end of the year.

Income tax and social contribution expenses for the years 2017 and 2016 were reduced in the amounts of R$ 3,106 and R$ 2,107, respectively, as a result of the deduction of these taxes by the interest on own capital credited to the shareholders..

## f. Additional proposed dividends

Under the terms of Article 204 of Law 6404/76 and Article 30 of the Company Bylaws, the proposal for distribution of additional dividends in relation to the net income for the year ended December 31, 2017, in the amount of R$ 66,782, is being recognized in the Profit reserve group to be deliberated by the competent body of the Company.

Additional proposed dividends as at December 31, 2016 in the amount of R$ 30,677, were approved in an Extraordinary General Assembly on October 23, 2017, and of this total the amount of R$ 30,247 was fully settled in cash within the year 2017, and R$ 430 were allocated to capital increase.

## g. Earnings per share

Earnings per share data are presented by type and nature of share. Such presentation is in accordance with the practice in Brazil of trading and quotation of shares in lots of shares. The Company has nominative, book-entry shares with no par value.

### *Basic and diluted*

Basic earnings per share are calculated by dividing the profit attributable to the Company's shareholders by the number of shares in the period. The Company does not have dilution instruments, such as, convertible instruments, options or subscription warrants.

Considering the share split made in September 2017, the calculation of basic and diluted earnings per share for all years presented was adjusted retrospectively. The following table sets forth the calculation of the earnings per share of the Company for 2017 and 2016.

| | **Company and Consolidated** | |
|---|---|---|
| | **2017** | **2016** |
| **Numerator** | | |
| Net income attributed to controlling shareholders | 103,128 | 32,333 |
| **Denominator (in thousands of shares)** | | |
| Number of common shares | 148,000 | 148,000 |
| **Earnings per share** | | |
| Basic and diluted earnings per common share | **0.70** | **0.22** |

# 22 Net revenue

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Revenuee from the sale of products – domestic market | 625,995 | 415,700 | 601,228 | 414,376 |
| Revenue from the sale of products – foreign market | 7,590 | 30,378 | 7,590 | 9,469 |
| Revenue from sale to related parties (Note 16) | 20,733 | 19,927 | 31,294 | 35,927 |
| | **654,318** | **466,005** | **640,112** | **459,772** |
| (-) Taxes | (31,004) | (29,932) | (31,004) | (29,808) |
| (-) Discounts granted | (211) | (257) | (5) | (257) |
| (-) Returns | (5,446) | (4,883) | (5,177) | (4,872) |
| | **(36,661)** | **(35,072)** | **(36,186)** | **(34,937)** |
| **Net revenue** | **617,657** | **430,933** | **603,926** | **424,835** |

The Company's sales are substantially concentrated in the hospital segment, in the internal and external market, and distributed and spread between private and public initiatives, as shown below:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Private | 336,397 | 297,197 | 322,666 | 291,099 |
| Public | 281,260 | 133,736 | 281,260 | 133,736 |
| **Net revenue** | **617,657** | **430,933** | **603,926** | **424,835** |

Demonstrated below is the net revenue segregated by types of treatment:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Biopharmaceuticals | 370,434 | 236,995 | 365,449 | 233,468 |
| Specialties | 132,259 | 141,665 | 126,534 | 140,334 |
| Oncological | 44,618 | 33,103 | 42,696 | 32,565 |
| Other | 70,346 | 19,170 | 69,247 | 18,468 |
| **Net revenue** | **617,657** | **430,933** | **603,926** | **424,835** |

In relation to geographic location, net revenues in Brazil represent 95% and 93% of consolidated net revenues for the years ended December 31, 2017 and 2016 respectively.

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| Brazil | 585,572 | 400,591 |
| Colombia | 20,667 | 18,410 |
| Peru | 4,326 | 3,577 |
| Uruguay | 4,544 | 3,978 |
| Thailand | 1,193 | 2,681 |
| Chile | 844 | 1,052 |
| Paraguay | 396 | 644 |
| Other | 115 | - |
| | **617,657** | **430,933** |

The main clients of the Company are segregated among private and public entities, as described below:

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| **Private** | | |
| CM Hospitalar | 23,198 | 15,549 |
| Servimed | 20,635 | 17,867 |
| Kollimed (related party) | 16,907 | 15,476 |
| Comercial Rioclarense | 6,253 | - |
| Health facilities | 3,260 | 3,043 |
| Pharmacies and drugstores | 7,959 | 3,431 |
| Other private clients | 258,186 | 241,831 |
| **Total Private** | **336,398** | **297,197** |
| **Public** | | |
| Ministry of Health | 227,848 | 85,200 |
| Health Departments | 28,110 | 5,068 |
| Other public entities | 25,301 | 43,468 |
| **Total Public** | **281,259** | **133,736** |
| **Total net income** | **617,657** | **430,933** |

# 23 Cost of goods and products sold

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Costs with materials (raw materials and packaging materials) | (263,832) | (190,661) | (257,503) | (190,683) |
| Labor | (15,499) | (14,283) | (15,499) | (14,283) |
| Depreciation and amortization | (5,493) | (5,612) | (5,493) | (5,612) |
| Other manufacturing costs | (52,400) | (41,010) | (52,400) | (41,010) |
| **Total cost of sales** | **(337,224)** | **(251,566)** | **(330,895)** | **(251,588)** |

# 24 Commercial and administrative expenses per function

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Personnel expenses | (50,093) | (43,476) | (45,742) | (38,862) |
| Profit sharing | (1,427) | (1,215) | (1,427) | (1,215) |
| Management and director fees | (4,329) | (1,715) | (3,654) | (1,654) |
| Regulatory expenses | (987) | (1,247) | (721) | (1,085) |
| Specialized outsourced services | (12,547) | (10,865) | (12,547) | (9,471) |
| Vehicles | (1,002) | (4,925) | (1,002) | (4,883) |
| Marketing | (6,835) | (1,445) | (6,583) | (1,067) |
| Travel and representation | (2,179) | (1,375) | (1,864) | (1,107) |
| Freight | (4,952) | (4,042) | (4,800) | (3,935) |
| Losses and provisions with clients | (2,776) | (2,597) | (2,725) | (920) |
| Depreciation and amortization | (3,458) | (3,118) | (3,281) | (2,871) |
| Materials and services | (725) | (382) | (725) | (382) |
| Studies and tests on products | (1,057) | (2,756) | (1,057) | (2,716) |
| Maintenance | (1,636) | (1,410) | (1,755) | (1,407) |
| Research and development materials | (3,480) | (2,502) | (3,277) | (2,666) |
| Communication | (841) | (614) | (801) | (614) |
| IT | (1,859) | (566) | (1,740) | (566) |
| Taxes, contributions, duties and fines | (3,005) | (1,846) | (2,804) | (1,733) |
| Rent of properties | (13,546) | (28,693) | (12,845) | (28,163) |
| Provision for contingencies | (2,550) | (1,547) | (2,550) | (1,547) |
| General | (7,290) | (8,708) | (6,293) | (7,371) |
| **Total operating expenses** | **(126,574)** | **(125,044)** | **(118,193)** | **(114,236)** |
| Sales | (35,305) | (22,281) | (30,302) | (15,962) |
| Research and development | (12,245) | (13,592) | (12,245) | (13,592) |
| **Total commercial expenses** | **(47,550)** | **(35,873)** | **(42,547)** | **(29,554)** |
| General and administrative | (79,024) | (89,171) | (75,646) | (84,682) |
| **Total** | **(126,574)** | **(125,044)** | **(118,193)** | **(114,236)** |

# 25 Net financial expenses

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Foreign exchange asset | - | 12,784 | - | 12,222 |
| Interest earned | 563 | 321 | 410 | 187 |
| Discounts obtained | 44 | 53 | 43 | 52 |
| **Total financial income** | **607** | **13,158** | **453** | **12,461** |
| Foreign exchange variation liability | (1,460) | - | (1,267) | - |
| Interest paid | (11,782) | (19,386) | (11,770) | (19,035) |
| Loss from SWAP operations | (3,724) | (3,685) | (3,724) | (3,685) |
| Loss from MtM operations | 3,157 | (7,778) | 3,157 | (7,778) |
| Tax on financial operations (IOF) | (1,249) | (2,045) | (1,249) | (2,045) |
| Bank commissions and expenses | (757) | (960) | (662) | (891) |
| Other | (470) | (1,124) | (470) | (1,120) |
| Discounts granted | (168) | (414) | (140) | (414) |
| **Total financial expenses** | **(16,453)** | **(35,392)** | **(16,125)** | **(34,968)** |
| **Net financial expenses** | **(15,846)** | **(22,234)** | **(15,672)** | **(22,507)** |

# 26 Financial instruments

The financial instruments of the Company and its subsidiaries are substantially the same, therefore the Company is presenting only consolidated information.

## a. Accounting classification and fair values

The table below demonstrates the carrying and fair values of financial assets and liabilities, including their fair value hierarchy. It does not include information on the fair value of financial assets and liabilities not measured at fair value when the book value is a reasonable approximation of fair value.

| | Consolidated – December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Fair value | | | |
| | **Measured at fair value through profit or loss** | **Loans and Receivables** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Cash and cash equivalents | 4,012 | 9,163 | 13,175 | 9,163 | 4,012 | - | 13,175 |
| Trade accounts receivable | - | 104,111 | 104,111 | - | 104,111 | - | 104,111 |
| Other credits | - | 3,011 | 3,011 | - | 3,011 | - | 3,011 |
| | 4,012 | 116,285 | 120,297 | 9,163 | 111,134 | - | 120,297 |

| | Measured at fair value through profit or loss | Liabilities at amortized cost | Total | Fair value Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|---|
| Suppliers | - | 75,853 | 75,853 | - | 75,853 | - | 75,853 |
| Loans and financing | - | 102,830 | 102,830 | 102,830 | - | - | 102,830 |
| Future exchange contracts (SWAP) | 1,087 | - | 1,087 | - | 1,087 | - | 1,087 |
| Other accounts payable | 5,507 | - | 5,507 | - | 5,507 | - | 5,507 |
| | 6,594 | 178,683 | 185,277 | 102,830 | 82,447 | - | 185,277 |

**Consolidated – December 31, 2016**

| | Measured at fair value through profit or loss | Loans and Receivables | Total | Fair value Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 2,418 | 7,781 | 10,199 | 7,781 | 2,418 | - | 10,199 |
| Trade accounts receivable | - | 98,721 | 98,721 | - | 98,721 | - | 98,721 |
| Other credits | - | 3,760 | 3,760 | - | 3,760 | - | 3,760 |
| Loans receivable – related parties | - | 1,462 | 1,462 | - | 1,462 | - | 1,462 |
| | **2,418** | **111,724** | **114,142** | **7,781** | **106,361** | **-** | **114,142** |

| | Measured at fair value through profit or loss | Liabilities at amortized cost | Total | Fair value Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|---|
| Suppliers | - | 45,998 | 45,998 | - | 45,998 | - | 45,998 |
| Loans and financing | - | 137,661 | 137,661 | 137,661 | - | - | 137,661 |
| Future exchange contracts (SWAP) | 4,244 | - | 4,244 | - | 4,244 | - | 4,244 |
| Other accounts payable | 7,535 | 321 | 7,856 | 321 | 7,535 | - | 7,856 |
| | **11,779** | **183,980** | **195,759** | **137,982** | **57,777** | **-** | **195,759** |

## b. Fair value measurement

### *Valuation techniques and non-observable significant inputs*

The table below presents the valuation technique used in the fair value measurement of Level 2, as well as non-observable significant inputs used.

*Financial instruments measured at fair value*

| Type | Valuation technique | *Non-observable significant inputs* | Relation between significant non-observable inputs and measurement at fair value |
|---|---|---|---|
| Forward exchange agreements and interest rate swaps | Market comparison technique: Fair values are based on brokerage firms' quotations. Similar contracts are negotiated in active markets and quotations reflect current transactions with similar instruments. | Not applicable. | Not applicable |

## c. Financial risk management

The Group is exposed to the following risks resulting from financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

### (i) Credit risks

Credit risk is the risk of the Group to incur financial losses if a client or counterparty in a financial instrument fails to perform their contractual obligations. Such risk is mainly due to trade accounts receivable, and of Group's financial instruments.

The book value of financial assets represent the maximum credit exposure.

***Trade and other receivables***

The Group's exposure to credit risks is influenced mainly by the individual characteristics of each client. However, Management also considers factors that may influence credit risk of its client portfolio, including the risk of non-payment of the industry and country in which client operates.

As at December 31, 2017 and 2016 the maximum exposure to credit risk was as follows:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Cash and cash equivalents | 13,175 | 10,199 | 5,163 | 1,764 |
| Clients | 104,111 | 98,721 | 101,971 | 97,453 |
| Other credits | 3,011 | 3,760 | 2,361 | 3,120 |
| **Total** | **120,297** | **112,680** | **109,495** | **102,337** |

### *Cash and cash equivalents*

The Group held "cash and cash equivalents" in the amount of R$ 13,175 as at December 31, 2017 (R$ 10,199 in 2016).

## (ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation

The Group monitors expected level of cash receipts from "Trade accounts receivable and other receivables" together with expected cash disbursements related to "Trade accounts payable and other accounts payable"

### *Exposure to liquidity risk*

Contract maturities of financial liabilities on the reporting date are demonstrated below.

| | **Consolidated - 2017** | | | |
|---|---|---|---|---|
| | **Up to 1 year** | **Up to 2 years** | **Total accounting** | **Total with contractual flow** |
| Suppliers | 75,853 | | 75,853 | 75,853 |
| Loans and financing | 102,979 | 938 | 103,917 | 118,985 |
| Other payables | 5,507 | | 5,507 | 5,507 |
| **Total** | **184,339** | **938** | **185,277** | **200,345** |

| | **Consolidated - 2016** | | | |
|---|---|---|---|---|
| | **Up to 1 year** | **Up to 2 years** | **Total accounting** | **Total with contractual flow** |
| Suppliers | 45,998 | - | 45,998 | 45,998 |
| Loans and financing | 108,198 | 33,707 | 141,905 | 166,029 |
| Other payables | 7,856 | - | 7,856 | 7,856 |
| **Total** | **162,052** | **33,707** | **195,759** | **219,883** |

## (iii) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group uses derivatives to manage market risks.

### *Foreign exchange risk*

The Group is exposed to foreign exchange risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are nominated, and the respective functional currencies of the Group companies. The functional currencies of the Group companies are primarily the Brazilian Real (R$), the Colombian Peso (COP) and Uruguayan Pesos (UYU). The currencies in which the transactions of the Group are primarily denominated are: R$, USD, Colombian Peso (COP) and Uruguayan Peso (UYU).

In general, loans are denominated in currencies equal to the cash flows generated by the Group's commercial operations, mainly in Brazilian Reais, but also in USD.

In relation to other monetary assets and liabilities denominated in foreign currency, the Group's policy is to guarantee that its net exposure is maintained at an acceptable level, through purchase or sale of foreign currencies in cash, when necessary, to cover short-term mismatches.

### *Exposure to foreign exchange risk*

A summary of the Group's exposure to foreign exchange risk, as reported to Management, is as follows:

| | **Consolidated - 2017** | | **Consolidated - 2016** | |
|---|---|---|---|---|
| | **USD thousand** | **Brazilian Reais** | **USD thousand** | **Brazilian Reais** |
| Trade receivables | 3,615 | 11,958 | 3,115 | 10,150 |
| Suppliers (a) | (13,076) | (43,256) | (11,404) | (37,865) |
| Loans and financing | (6,543) | (21,644) | (20,415) | (66,533) |
| Net exposure of expected transactions | **(16,004)** | **(52,942)** | **(28,704)** | **(94,248)** |
| Future exchange contracts | 4,666 | 15,435 | 15,545 | 50,663 |
| Net exposure | **(11,338)** | **(37,507)** | **(13,159)** | **(43,585)** |

(h) The Company and its subsidiaries have R $ 67,795 in foreign suppliers as at December 31, 2017, (R$ 37,865 as at December 31, 2016), as described in note 18, however of this amount R$ 66,904 as at December 31, 2017 (R$ 37,168 as at December 31, 2016) represents operations denominated in US Dollars and R $ 891 as at December 31, 2017 (R% 697 as at December 31, 2016) operations made in Colombian Peso (COP), considering that transaction carried out in Colombian Peso (COP) is not significant, we did not present the corresponding amount in original currency, and did not conduct a sensitivity analysis.

### *Sensitivity analysis for foreign exchange risk*

A reasonable appreciation (devaluation) of US dollar against all other currencies on December 31 would have affected measurement of financial instruments denominated in foreign currency as well as shareholders' equity and income by amounts demonstrated below. This analysis considers that all other variables, especially interest rates, remain constant and ignores any impact from expected sales and purchases.

For the purposes of sensitivity analysis, the probable scenario adopted was rates of R$ 3.3080, R$ 3.2591, which refer to the US Dollar conversion rates to Brazilian Reais as at December 31, 2017 and 2016, respectively . For possible scenario, the rates used were R$ 4.135, R$ 4.0738 considering a 25% increase and for the remote scenario, and the rates used were R$ 4.962, R$5.8886 considering a 50% increase.

| | **Consolidated - 2017** | | | |
|---|---|---|---|---|
| **Operation** | **Exposure in R$** | **Probable scenario** | **Scenario I (25%)** | **Scenario II (50%)** |
| Trade accounts receivable | 11,958 | (309) | (386) | (464) |
| Suppliers | (43,256) | 1,010 | 1,263 | 1,515 |
| Future exchange contracts (SWAP) | 15,435 | 1,087 | 1,359 | 1,631 |
| Loans and financing | (21,644) | 962 | 1,203 | 1,443 |

| | **Consolidated - 2016** | | | |
|---|---|---|---|---|
| **Operation** | **Exposure in R$** | **Probable scenario** | **Scenario I (25%)** | **Scenario II (50%)** |
| Trade accounts receivable | 10,150 | 765 | 956 | 1,148 |
| Suppliers | (37,865) | 1,887 | 2,359 | 2,831 |
| Future exchange contracts (SWAP) | 50,663 | 4,244 | 5,305 | 6,366 |
| Loans and financing | (66,533) | 9,829 | 12,286 | 14,744 |

As at December 31, 2017 the Company has a loan in US dollars in the amount of USD 4,666, (USD 15,545 in 2016), equivalent to R$ 15,435 (R$ 50,663 in 2016), protected by a SWAP operation.

### *Income (loss) from derivative financial instruments*

| **Derivative financial instruments** | **2017** | **2016** |
|---|---|---|
| Net income from SWAP operations | - | - |
| Net loss from SWAP operations | (868) | (3,685) |
| Net MtM effect from SWAP operations | (3,157) | (7,778) |
| Total | (4,025) | (11,463) |

As at December 31, 2016 the outstanding derivatives related to SWAP contracts with Banco Itaú with maturity for April 30, 2018 totaled USD 9,517 and with Banco HSBC with maturity for June 07, 2018 totaled USD 4,960.

The fair value of derivative financial instruments is calculated using the discounted cash flow method using BM&F projection curves

### *Outstanding derivatives*

| | Base value | | | Fair value | |
|---|---|---|---|---|---|
| **Derivatives** | **USD** | **Brazilian Reais** | **Maturity** | **USD** | **Brazilian Reais** |
| Acquired position (USD) | 215 | 713 | 04/30/2018 | (215) | (713) |
| Acquired position (USD) | 113 | 375 | 06/07/2018 | (113) | (375) |

| **Maturity** | **Notional in USD** | **Average rate** | **MtM** |
|---|---|---|---|
| 04/30/2018 | 215 | 3.308 | 713 |
| 06/07/2018 | 113 | 3.308 | 375 |
| **Total** | **329** | | **1.087** |

The liability side of the financial instruments is recognized as short-term loans and financing and the gain or loss in the net financial result group.

*Sensitivity analysis of the interest rate variation*
The Company and its subsidiaries make sensitivity analysis of the main risks to which its financial instruments are exposed. For the sensitivity analysis of interest rate variations, Management adopted, for the probable scenario, the same rates used on statement of financial position date. Scenarios II and III were estimated as an additional valuation of 25% and 50%, respectively, of the rates in the probable scenario.

The table below demonstrates eventual impacts to profit and loss under the hypothesis of the respective scenarios presented:

| | Consolidated - 2017 | | | |
|---|---|---|---|---|
| **Operation** | **Exposure in R$** | **Probable scenario** | **Scenario I (25%)** | **Scenario II (50%)** |
| Financial investments | 4,012 | 81 | 101 | 121 |
| Loans and financing | (103,917) | (10,366) | (12,958) | (15,549) |

| | Consolidated - 2016 | | | |
|---|---|---|---|---|
| **Operation** | **Exposure in R$** | **Probable scenario** | **Scenario I (25%)** | **Scenario II (50%)** |
| Financial investments | 2,418 | 145 | 181 | 218 |
| Loans and financing | (141,905) | (16,877) | (21,096) | (25,316) |

## 27 Firm commitments

The Company has construction contracts entered into with third parties, companies specialized in engineering and civil construction, to carry out works to build a warehouse for the storage of raw materials, as per Note 14, which is expected to be completed in the second half of 2018.

## 28 Leases

The Company is a lessee of vehicles under the form financial leases, with the option of purchase stipulated in the respective contracts. The contracts have a validity of between 2 and 3 years and total R$ 818.

On January 27, 2018 the Company entered into a new financial lease contract for a refrigerated truck on a 3 year term, in the total amount of R$ 247.

* * *

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