

# **Financial Statements**

## **Aché Laboratórios Farmacêuticos S.A. and subsidiaries**

December 31, 2018  
with Independent Auditor's Report



Building a better  
working world

**São Paulo, March 27, 2019**

**Dear Shareholders,**

Aché Laboratórios Farmacêuticos S.A. management, in compliance with legal and statutory provisions, submit its Management Report and the related Individual and Consolidated Financial Statements, accompanied by an independent auditor's report for the year ended December 31, 2018 for your appreciation. All comparisons in this report consider consolidated data in relation to the same period in 2017, in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS), established by the International Accounting Standards Board (IASB).

### **Message from management**

The year 2018 was marked by a slow recovery in Brazilian economy, substantially impacted by high unemployment rate, low investment level, the trucking strike, unstable financial market amidst electoral uncertainties, and trade conflicts between the United States and China, which contributed to an increase in the cost of raw material. This scenario strongly impacted some economic segments, leading to cancellations and postponement of investments, as well as layoffs, with a view to realigning supply to falling demand levels.

For Aché, despite the strong increase in competitiveness, these factors did not change the investment plans in innovation, increase in productive capacity and technology. Relying on a sustainable business, the jobs were kept and strategic positions were filled by new hires. To support the expected growth over the coming years, Aché invests in a new industrial complex in Cabo de Santo Agostinho, Pernambuco state, in addition to two new warehouses for finished products, which will be inaugurated in Guarulhos (Sao Paulo state) and in Pernambuco as early as 2019.

Committed to bringing more life to people, Aché launched 17 new products, expanding its diversified portfolio, synonymous with quality, safety and effectiveness. Additionally, the Company invested in the expansion of its pipeline with 153 projects

Seeking to improve the value proposition for all stakeholders, Aché, through the capillarity of its Sales Force, has increasingly approached health care professionals with personal and virtual medical visits. For sales outlets and distributors, the commercial area has been revitalized in order to service each customer profile in a more customized fashion, ensuring that the portfolio is available to an increasing number of people in all parts of Brazil. In year 2018, Aché expanded its distribution network, reaching 72 thousand points of sale throughout Brazil.

The Company exported its medicines to 26 countries, launching 8 new products

In 2019, Aché remains committed to its business progress and to adding value for customers, health care professionals, suppliers, employees, shareholders and the whole society, also with the goal of continuing to grow alongside Brazilians, contributing to their health, well-being and quality of life.

## Aché increases its Net Revenue by 7.3%, EBITDA by 7.9% and Net Income by 7.5% in 2018

### Highlights

- ✓ **Net Revenue of R\$3.2 billion**, a 7.3% increase compared with 2017
- ✓ **EBITDA of R\$939.2 million**, with a 29.5% margin
- ✓ **Net Income of R\$607.5 million and Earnings per Share of R\$9.5 for the year**, a 7.5% increase compared with 2017
- ✓ **Net leverage of 0.15 x EBITDA**

### Major Financial Indicators - Consolidated

(R\$ million)	4Q17	4Q18	Var (%)	2017	2018	Var (%)
<b>Net revenue</b>	936.4	883.7	-5.6%	2.967.9	3.183.2	7.3%
<b>Gross profit</b>	677.6	627.4	-7.4%	2.133.7	2.243.8	5.2%
<i>% Net revenue</i>	<i>72.4%</i>	<i>71.0%</i>	<i>-1.4 p.p</i>	<i>71.9%</i>	<i>70.5%</i>	<i>-1.4 p.p</i>
<b>EBITDA</b>	329.9	287.6	-12.8%	870.4	939.2	7.9%
<i>% Net revenue</i>	<i>35.2%</i>	<i>32.5%</i>	<i>-2.7 p.p</i>	<i>29.3%</i>	<i>29.5%</i>	<i>0.2 p.p</i>
<b>Net Income</b>	235.0	204.6	-12.9%	565.3	607.5	7.5%
<i>% Net revenue</i>	<i>25.1%</i>	<i>23.2%</i>	<i>-1.9 p.p</i>	<i>19.0%</i>	<i>19.1%</i>	<i>0.1 p.p</i>
<b>Earnings per share</b>	3.7	3.2		8.8	9.5	

Source: Company's Financial Information.

## Business profile

Aché has a well-known solid brand in the Brazilian pharmaceutical industry, established throughout its 52 years of operation. Its diversified product portfolio, which caters to 145 all therapeutic classes, its leadership in the Prescription drug segment, and its share in other fast-growing segments such as Over-the-Counter (OTC) Medicines, Generic Medicines and Dermocosmetics support its strong business profile.

It is among the three largest pharmaceutical corporations in Brazil and has one of the largest sales forces in the domestic market. This represents an important range for the wide dissemination of products and delivery of scientific knowledge to the medical community, resulting in a significant value offering to the end customers.



Aché has 4,700 employees, and attentive to the diversity matter, already has 52% of women as part of its workforce. Of these, more than 2,500 people are dedicated to building relationships with health care professionals and points of sale in personal and virtual visits. Aché has a broad and diversified portfolio of 358 brands, 871 drug names, and 145 drug classes in the following segments: prescription, generic, and over the counter (OTC) medications, dermocosmetics, skincare medications, nutraceuticals, probiotics and biotechnology, available in multiple channels (Trade, Government and Private). In 2018, it was present in 72 thousand points of sale and 2 thousand private institutions.

The industrial plants are located in the cities of São Paulo and Guarulhos, in the state of São Paulo (SP); Londrina, in the state of Paraná (PR) (Nortis company); and Anápolis, in the state of Goiás (GO) (Melcon company, where Aché holds 50% interest). It also holds a 25% interest in Bionovis (a joint venture) located in Valinhos (SP), with three other national pharmaceutical industries, which is dedicated to the research and development of biotechnological drugs.





With a diversified portfolio comprising industry-proven products and new products that already represent more than 18% of Net Revenue, Aché serves several drug classes and currently its main product does not account for more than 5% of the Company's Net Revenue.

Recognizing the importance of developing innovative products with proven effectiveness and safety, focusing on unmet needs and pathologies that spread the most in Brazil and in the world alike, Aché annually invests 10% of its Ebitda in research, development and innovation, including its own resources and professional training with external funding, in partnerships with international entities and with development institutions such as the Financing Agency for Studies and Projects (FINEP) and the Brazilian Development Bank (BNDES).

### **New Aché Factory - Pernambuco/Suape**

The new industrial plant is strategically located in Cabo de Santo Agostinho, state of Pernambuco (PE), which has a strong growth in the pharmaceutical market, accounts for 18% of consumption and allows Aché to be closer to clients in the region and further expanding the borders to reach a larger number of customers.

This plant will produce solid medicines and rely on a modern vertical distribution center, strictly following all the standards and technical recommendations of ANVISA (National Health Surveillance Agency), FDA (Food and Drugs Administration) and EMA (European Medicines Agency).

The plant complies with the concepts, principles and techniques of the WCM (World Class Manufacturing) and is being designed and built under environmental sustainability criteria, according to the guidelines of the GBC (Green Building Council) to obtain a LEED (Leadership in Energy and Environmental Design) certification.

The unit expands over 250 thousand sqm, has an installed production capacity of 700 million units of medicines per year, and will generate more than 3 thousand direct and indirect jobs. The total estimated investment from 2018 to 2020 will be R\$ 650 million, supported by financing from BNDES (R\$ 323 million) and Banco do Nordeste (R\$ 324 million). The plant will be fully operational in 2021.

Logistics facilities such as the Suape Industrial Port Complex will boost exports of finished products and imports of raw materials.



### **Corporate Restructuring - Merger of Biosintética**

In line with its strategic plan of continuous growth and expansion, Management merged Biosintética Farmacêutica Ltda. into Aché Laboratórios in July 2018, for the purpose of rationalizing and consolidating the administrative activities, as well as winning operational gains and synergy, further strengthening Corporate Governance.

### **Bionovis**

Together with three other major national pharmaceutical companies, Aché is a shareholder of Bionovis, a joint venture focused on the research and development of biotechnology drugs (obtained by growing genetically modified cells in bioreactors) for the treatment of complex diseases, generating opportunities for the country to internalize a technological and strategic base to carry out research, development and production in pharmaceutical biotechnology.

Bionovis' industrial plant is being built in Valinhos, São Paulo, and, in the second half of 2020, it is expected to produce the first high-complexity biopharmaceutical product, suitable for the treatment of autoimmune diseases.

In partnership with the biotechnology unit of the *Instituto Oswaldo Cruz* Foundation (Bio-Manguinhos), it will transfer the technology of one product for the treatment of multiple sclerosis to Merck and of another product for autoimmune diseases to Janssen-Cilag. Bionovis is also responsible for importing, storing and distributing these two Biopharmaceuticals, which will be supplied to the Ministry of Health for use in the Unified Health System (SUS).

## Awards and Accolades

As a result of an integrated effort towards the same purpose and a strong capacity of accomplishment of its employees, Aché won 28 awards in different areas in the year 2018.

### Growth

- 🏆 Estadão Empresa Mais
- 🏆 Época Negócios 360º
- 🏆 Melhores & Maiores
- 🏆 Melhores da Dinheiro
- 🏆 Valor 1000

### Innovation

- 🏆 Valor Inovação (*Valor Innovation*)
- 🏆 As 100+ Inovadoras no uso de TI (The 100+ Innovators in the use of IT)

### Operational Excellence

- 🏆 *Lupa de Ouro*, with 16 awards

### Customer Focus

- 🏆 Melhores Empresas em satisfação dos clientes (Best Companies in customer satisfaction)
- 🏆 Prêmio Consumidor Moderno (Modern Consumer Award)
- 🏆 Época Reclama Aqui (*Época* magazine award)
- 🏆 Prêmio Abrafarma *Abrafarma* Award

### Sustainability

- 🏆 PNQV Award

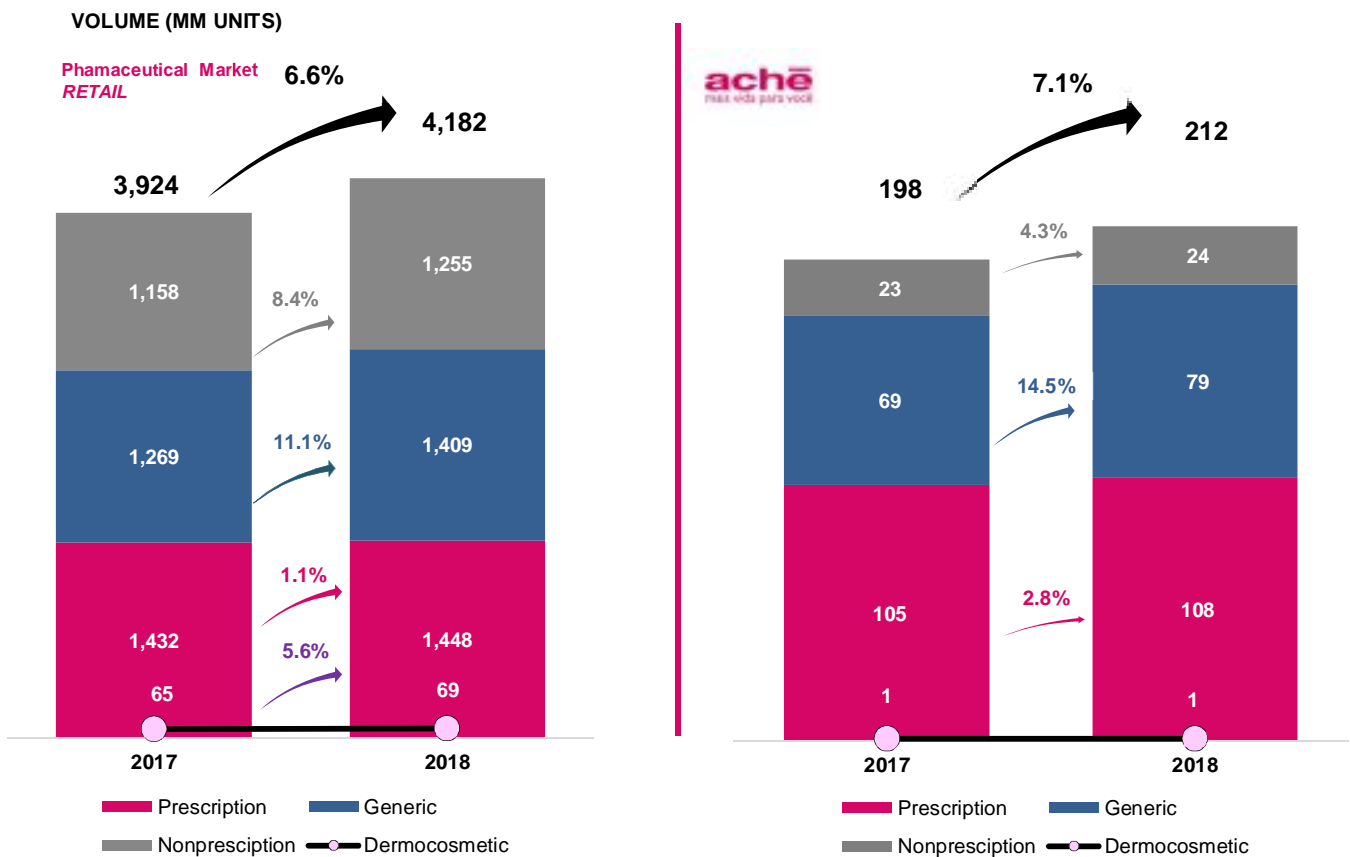
### Analysis of results

Aché grew 7.3% when compared to the previous year, with Net Revenue of R\$ 3,183.2 billion, and Ebitda of R\$ 939.2 million, with a 29.5% margin, which demonstrates the sustainability of the business and the assertiveness of the Strategic Planning based on the pillars Growth, Innovation, Operational Excellence, Customer Focus and Sustainability.

## Aché Performance vs. Retail Pharmaceutical Market Performance (PPP Methodology)

According to data from IQVIA (former IMS), the main auditor of the pharmaceutical industry, Aché was among the three largest retail corporations in 2018 in demand for PPP (Gross Demand at factory price net of average discount with no tax deduction), having risen a position in the ranking comparatively with 2017.

In number of units sold, Aché recorded a 7.1% growth in 2018, overcoming the 6.6% expansion of the Pharmaceutical Industry. In Prescription drugs, which is the Company's core business, it grew 2.8% against 1.1% of the Pharmaceutical Industry, reflecting the volume of differentiated product launched in recent years, in addition to established brands that have a high market share.



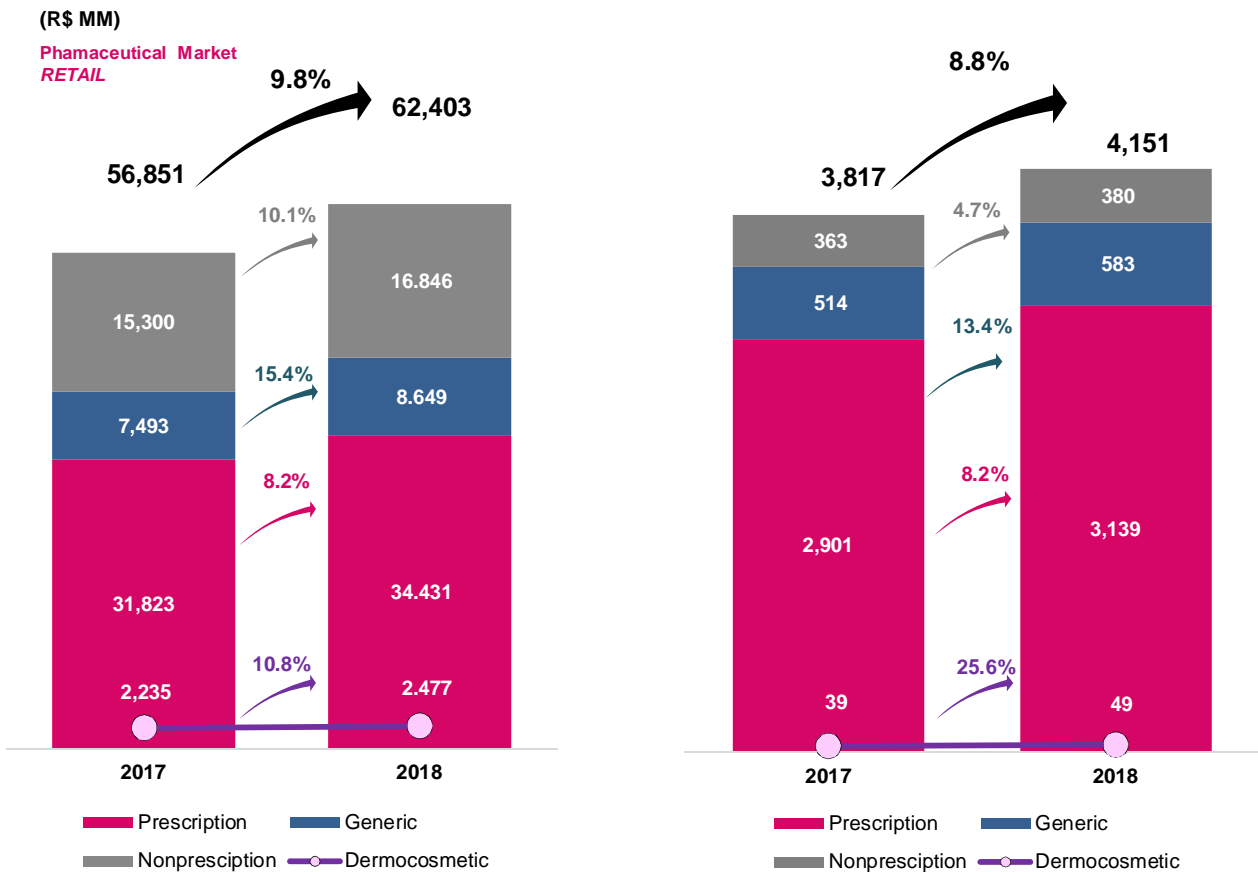
Source: IQVIA PPP 2018.

The calculation of the size of the Pharmaceutical Market uses the database of IQVIA, the main consulting firm in the industry, according to the PPP (Pharmacy Purchase Price) methodology, which considers the average discount for each product name, applied on the Gross Demand on the factory price list (excluding tax deductions).

In net demand (PPP), Aché increased 8.8% growing in line with the market in Prescription and accelerating ahead of the market in Dermocosmetics and Generic Drugs.



The presence of the Aché brand throughout Brazil, product launches, investments and proximity to the stakeholders are some of the aspects that support the growth of the Business Segments.



Source: IQVIA PPP 2018.

The calculation of the size of the Pharmaceutical Market uses the database of IQVIA, the main consulting firm in the industry, according to the PPP (Pharmacy Purchase Price) methodology, which considers the average discount for each product name, applied on the Gross Demand on the factory price list (excluding tax deductions).

## **Prescription Drugs Business Unit (BU)**

In 2018, as a result of the high capillarity of the sales and demand creation teams, together with the diversification and continuous portfolio updates through investments in innovation, the Company reported a 6.74% share of the prescription drugs segment, according to Close-up International, securing market leadership.

For its main business segment, representing 75.6% of the total Net Demand, Aché recorded net demand of R\$ 3,139 million, up 8.2% over the previous year, and 108 million units, up 2.8% over the same previous year period.

In 2018, the Prescription Drug Segment consistently maintained renewal of its portfolio, delivering 5 new products to the Brazilian market throughout the year: Lutics, Zyad, Proteña, Urcip, Provance.

## **Generic Prescription Drugs BU**

Aché Generic Drugs follow the same quality standard as the brand-name products, and their production complies with quality control and excellence standards. They are available at most Brazilian points of sale through the Biosintética brand.



According to IQVIA data, the generic drug industry grew 11.1% in volume of demanded units in 2018, when compared to the previous year, while Aché grew 14.5% in the same period, reaching a demand of 79 million units and R\$ 583 million, up 13.4% and representing 14.0% of the Company's total Net Demand.

The Company launched 5 Generic drugs during the course of 2018: Cilostazol, Ketoprofen, Tadalafil, Albendazole and Omeprazol.

With a wide range of molecules that serve the various medical specialties, Aché offers the population quality products at competitive prices.

## **Over-the-Counter (OTC) Drugs BU**

In the over-the-counter (OTC) medicines segment, Aché demand was R\$380 million, up 4.7% from the previous year. This accounts for 9.2% of total Net Demand and 24 million units, up 4.3% over the same last year period. In addition to maintaining visits to doctors' offices, the OTC BU invested in actions to increase consumer brand awareness throughout 2018 using point-of-sale and media initiatives.

## **Dermocosmetics BU**

The Company's pharmaceutical DNA, which values science, innovation and effectiveness, inspired the development of formulations with therapeutic rationale so that the products could become true allies of dermatologists' prescriptions, supporting the treatment of the main complaints brought to doctors. The **Profuse** brand has lines for clearing, photo protection, anti-wrinkle, oily skin, moisturizing and sensitized skin.



In the Dermocosmetics segment, Aché grew above the market, with a R\$49 million demand in 2018, up 25.6% over the previous year, representing 1.2% of Net Demand, while the Pharmaceutical Market grew 10.8% compared to 2017, reflecting the intensified relationship with dermatologists, thought leaders and other healthcare professionals, as well as the continuous portfolio renewal.

**Skincare Medications:** With well-established brands in the market such as Adinos and Candicort, Aché has products for the skin, which is the organ that most protects the body and is important for protection of internal tissues and organs. It is subject to inflammations (dermatitis) and/or infections (mycosis). Skincare medications are part of the results from the prescription drug segment of the Company and of the Pharmaceutical Market as a whole.

**Launches:** In 2018, seven new products were launched: Semblé Fort, Semblé Collagen, Semblé Reverse, Clair, Profuse Nutrel Cidra, Puriance (tube), Kit's Profuse.

## **Economic and Financial Performance**

In 2018, the Company's Net Revenue grew 7.3% when compared to the previous year, totaling R\$3,183.2 billion. This increase results mainly from a growth in sales volume, a higher added-value mix and launches, in conjunction with Company investments. A strong, broad and diversified portfolio contributes to the Company's revenues in a sustainable way.

## Consolidated Profit or Loss

(R\$ million)	4Q17	on NR	4Q18	on NR	2017	on NR	2018	on NR
Net revenue	936.4	-	883.7	-	2.967.9	-	3.183.2	-
<b>Gross profit</b>	<b>677.6</b>	<b>72.4%</b>	<b>627.4</b>	<b>71.0%</b>	<b>2.133.7</b>	<b>71.9%</b>	<b>2.243.8</b>	<b>70.5%</b>
Selling and administrative expenses	(373.0)	-39.8%	(352.3)	-39.9%	(1.281.2)	-43.2%	(1.308.6)	-41.1%
Other operating expenses	10.9	1.2%	(5.5)	-0.6%	(38.2)	-1.3%	(64.3)	-2.0%
<b>Operating income (EBIT)</b>	<b>315.5</b>	<b>33.7%</b>	<b>269.6</b>	<b>30.5%</b>	<b>814.3</b>	<b>27.4%</b>	<b>870.9</b>	<b>27.4%</b>
Finance income/costs, net	(5.9)	-0.6%	(11.0)	-1.2%	(19.6)	-0.7%	(39.9)	-1.3%
<b>Income before income and social contribution taxes (IRPJ and CSLL)</b>	<b>309.6</b>	<b>33.1%</b>	<b>258.6</b>	<b>29.3%</b>	<b>794.7</b>	<b>26.8%</b>	<b>831.0</b>	<b>26.1%</b>
<b>Net Income</b>	<b>235.0</b>	<b>25.1%</b>	<b>204.6</b>	<b>23.2%</b>	<b>565.3</b>	<b>19.0%</b>	<b>607.5</b>	<b>19.1%</b>
<b>EBITDA</b>	<b>329.9</b>	<b>35.2%</b>	<b>287.6</b>	<b>32.5%</b>	<b>870.4</b>	<b>29.3%</b>	<b>939.2</b>	<b>29.5%</b>
<b>Earnings per share</b>	<b>3.7</b>		<b>3.2</b>		<b>8.8</b>		<b>9.5</b>	

Source: Company's Financial Information.

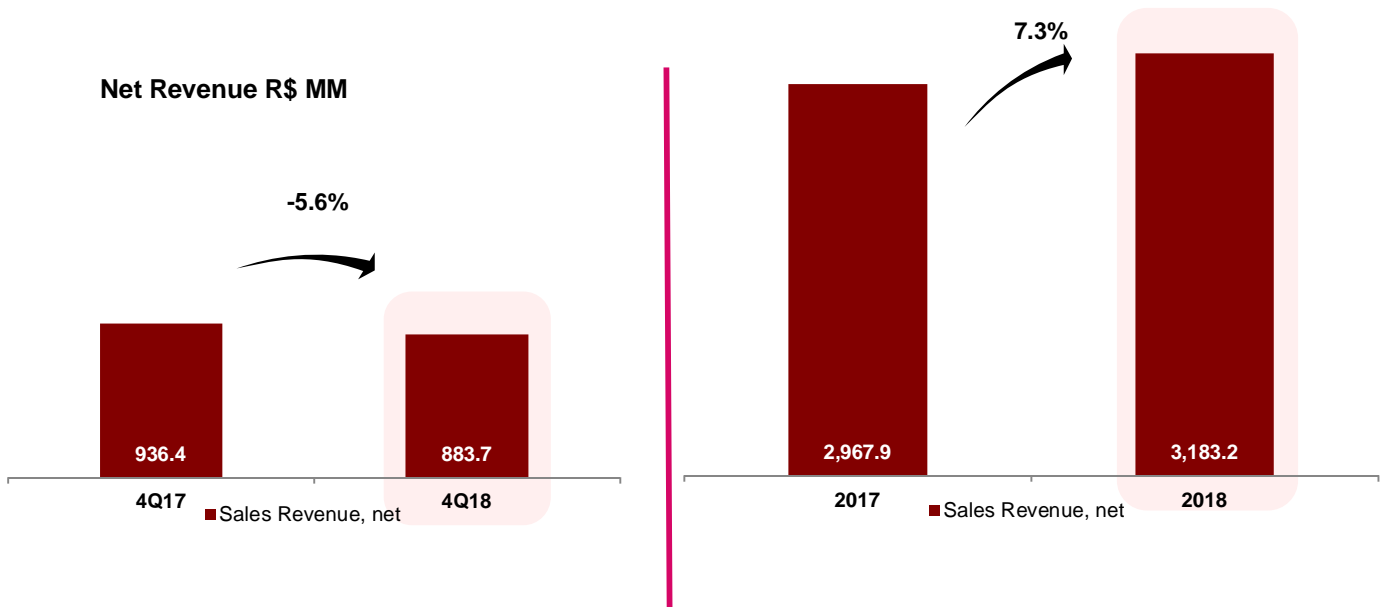
## Rating Agencies

Ratings	Global Scale		Nationwide
	Local Currency	Foreign currency	Nationwide
Fitch Ratings (Prospect)	Long Term <b>BBB (Stable)</b>	Long Term <b>BB (Stable)</b>	Long Term <b>AAA (bra) (Stable)</b>
Standard and Poor's (Prospect)	<b>BB+ (Stable)</b>	<b>BB+ (Stable)</b>	<b>(br)AAA (Stable)</b>

The Company's strong position in the Prescription Drugs market and the conservative financial strategy, which maintains its non-leveraged capital structure and adequate liquidity profile, associated with the resilience of the pharmaceutical segment and with its strong position as a leader in the Prescription Drugs Segment allowed the Company to keep its rating above Sovereign.

## Net revenue

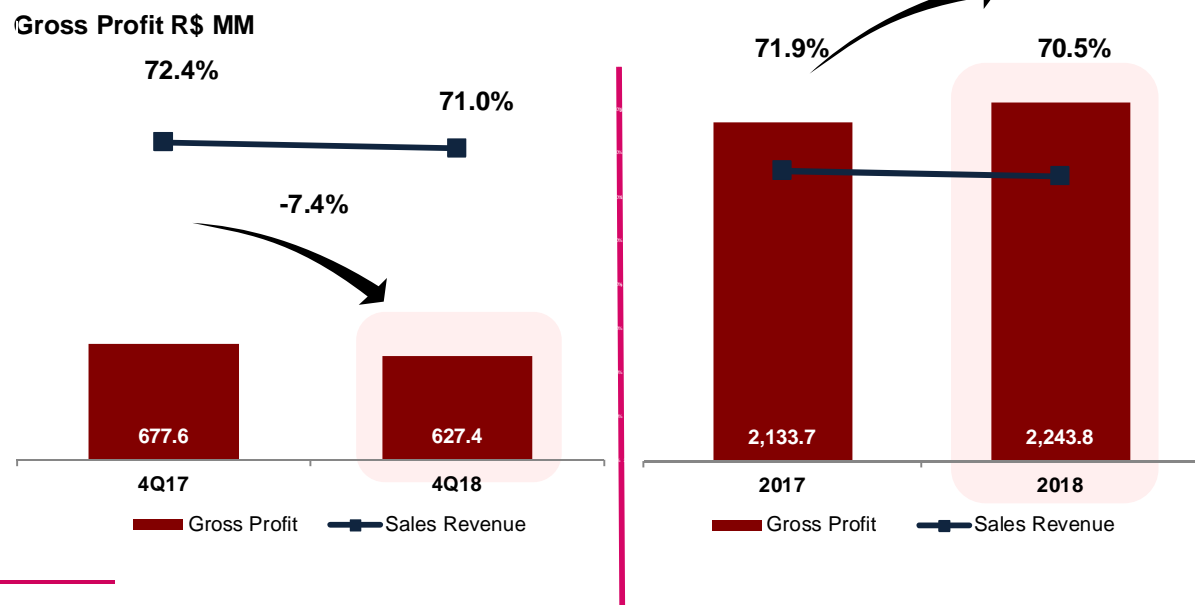
Net revenue grew 7.3% in relation to 2017, totaling R\$3,183.2 billion.



Source: Company's Financial Information.

## Gross profit

In 2018, Gross Profit was R\$2,243.8 billion, 5.2% higher than the previous year, reaching a margin of 70.5% on Net Revenue.



Source: Company's Financial Information.

## Selling, general and administrative expenses

(R\$ million)	4Q17	on NR	4Q18	on NR	2017	on NR	2018	on NR
Selling expenses	261.5	27.9%	264.0	29.9%	976.1	32.9%	1,051.5	33.0%
Allowance for doubtful accounts	1.9	0.2%	0.7	0.1%	2.8	0.1%	1.5	-
Freight expenses	19.1	2.0%	18.6	2.1%	69.2	2.3%	79.1	2.5%
General and administrative expenses	70.0	7.5%	79.0	8.9%	172.6	5.8%	189.0	5.9%
<b>Operating expenses</b>	<b>352.5</b>	<b>37.6%</b>	<b>362.3</b>	<b>41.0%</b>	<b>1,220.7</b>	<b>41.1%</b>	<b>1,321.1</b>	<b>41.4%</b>

(R\$ million)	4Q17	on NR	4Q18	on NR	2017	on NR	2018	on NR
Provisions for (reversals of) contingencies	20.5	2.2%	(10.0)	-1.1%	60.5	2.0%	(12.5)	-0.4%
<b>Other operating expenses (income)</b>	<b>20.5</b>	<b>2.2%</b>	<b>(10.0)</b>	<b>-1.1%</b>	<b>60.5</b>	<b>2.0%</b>	<b>(12.5)</b>	<b>-0.4%</b>

	4Q17	on NR	4Q18	on NR	2017	on NR	2018	on NR
<b>Selling and administrative expenses</b>	<b>373.0</b>	<b>39.8%</b>	<b>352.3</b>	<b>39.9%</b>	<b>1,281.2</b>	<b>43.1%</b>	<b>1,308.6</b>	<b>41.0%</b>

Source: Company's Financial Information.

## Operating expenses

Selling Expenses represented 33.0% of Net Revenue, an increase of 0.1 percentage point when compared to the previous year, in line with the increase in Net Revenue, and reflected by the marketing investments and promotional efforts. General and Administrative Expenses represented 5.9% of Net Revenue (a R\$16.4 million increase), due to expenses on infrastructure and systems development related to the Company's strategic projects.

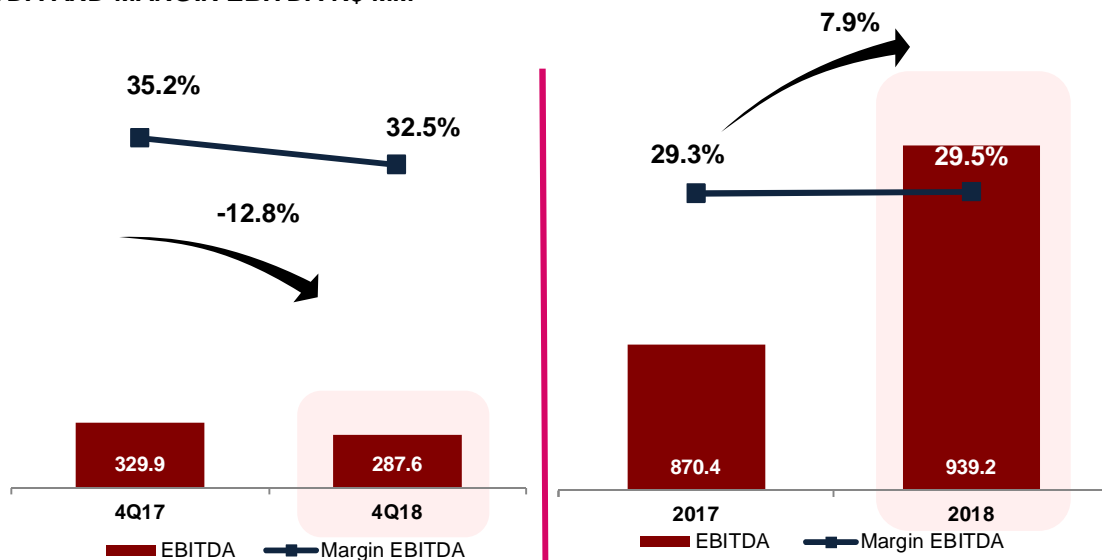
## EBITDA

Accumulated EBITDA (earnings before interest, taxes, depreciation and amortization) was R\$939.2 million, up 7.9% from the same prior year period, and EBITDA margin was 29.5% in year 2018.

EBITDA (R\$ million)	4Q17	4Q18	Var (%)	2017	2018	Var (%)
Net Income	235.0	204.6	-12.9%	565.3	607.5	7.5%
Provision for income and social contribution taxes	73.6	54.0	-26.6%	228.2	223.1	-2.2%
Finance income/costs, net	5.9	11.0	86.4%	19.6	39.9	103.6%
Depreciation and amortization	15.4	18.0	16.9%	57.3	68.7	19.9%
<b>EBITDA</b>	<b>329.9</b>	<b>287.6</b>	<b>-12.8%</b>	<b>870.4</b>	<b>939.2</b>	<b>7.9%</b>

Source: Company's Financial Information.

### EBITDA AND MARGIN EBITDA R\$ MM



Source: Company's Financial Information.

By efficiently managing the portfolio, adding innovative products that add value to the broad pipeline, Achē has been evolving, reflecting an ever-increasing EBITDA, which enables continuous investments in people, technology, quality, innovation and operational excellence.

### Finance income (costs)

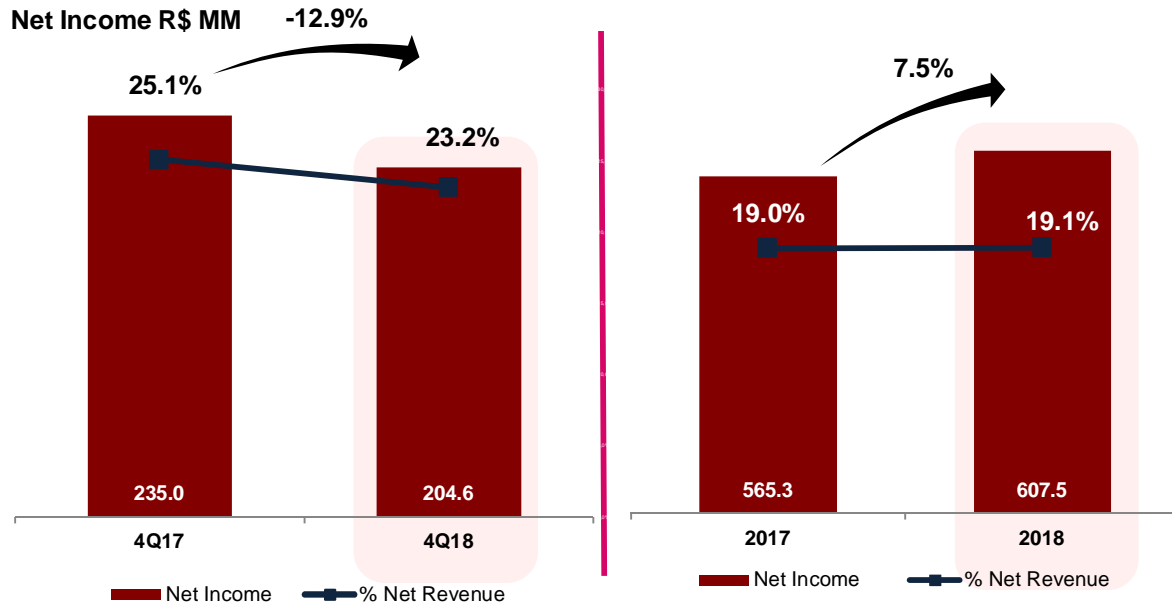
Finance income and costs, net for 2018 totaled R\$39.9 million, with an increase of R\$20.3 million compared to prior year.

(R\$ million)	4Q17	on NR	4Q18	on NR	2017	on NR	2018	on NR
Finance income (cost)	(6.8)	-0.7%	(15.2)	-1.7%	(20.3)	-0.7%	(29.9)	-0.9%
Foreign exchange differences	0.9	0.1%	4.2	0.5%	0.7	-	(10.0)	-0.3%
<b>Finance income (costs)</b>	<b>(5.9)</b>	<b>-0.6%</b>	<b>(11.0)</b>	<b>-1.2%</b>	<b>(19.6)</b>	<b>-0.7%</b>	<b>(39.9)</b>	<b>-1.2%</b>

Source: Company's Financial Information.

## Net Income

Net Income for 2018 was R\$607.5 million, up 7.5% from the previous year. In 4Q17, with 19.1% profitability on Net Revenue.



Source: Company's Financial Information.

## Net debt

The Company closed the year 2018 with a net debt of R\$137.6 million. The gross debt totals R\$383.1 million and has a long-term characteristic.

(R\$ million)	Balance at Dec/17	Balance at Dec/18	Var (%)
<b>Loans and financing</b>			
Current	43.1	45.5	5.6%
Noncurrent	131.5	337.6	156.7%
<b>Gross Debt</b>	<b>174.6</b>	<b>383.1</b>	<b>119.4%</b>
Cash and cash equivalents	169.0	245.5	45.3%
<b>Net debt</b>	<b>5.6</b>	<b>137.6</b>	

Source: Company's Financial Information.



The change in net debt substantially refers to the construction of the new plant located in Suape, a region of Pernambuco state.

## Leverage Ratio

(R\$ million)	Balance at Dec/17	Balance at Dec/18
<b>Net debt</b>	<b>5.6</b>	<b>137.6</b>
Loan/Financing	174.6	383.1
Cash and cash equivalents	169.0	245.5
<b>(/) EBITDA</b>	<b>870.4</b>	<b>939.2</b>
<b>Debt ratio</b>	<b>0.01</b>	<b>0.15</b>

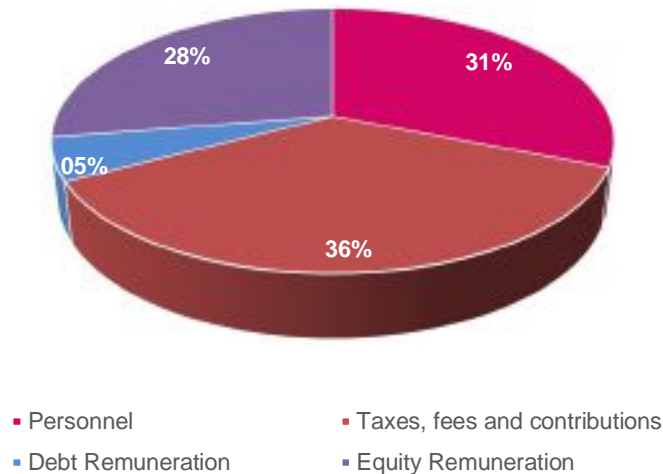
Source: Company's Financial Information.

## Statement of value added

Value added, which is an indicator of the wealth added to the Company in its economic activity, totaled R\$2,206.3 billion. The complete statement is part of the financial statements.

(R\$ million)	2017	2018
Revenues	3,516.3	3,691.1
Gross value added	2,129.7	2,248.0
Total value added to be distributed	<b>2,100.2</b>	<b>2,206.3</b>
<b>Economic value distributed</b>		
Employees' salaries and benefits	664.8	685.7
Government payments (taxes)	782.4	798.1
Debt remuneration	87.7	115.1
Equity remuneration	565.3	607.5
<b>Distribution of value added</b>	<b>2,100.2</b>	<b>2,206.3</b>

### Statements of value added



Source: Company's Financial Information.

## Investments

### Research, Development and Innovation (RDI)

The intellectual capital that demonstrates the Company's ability to generate innovation is one of the main drivers of the company's business growth strategy.

We believe in innovation as a preponderant element for achieving globalization goals; we have increasingly sought to work innovation from a global perspective, taking into account the needs and demands simultaneously in Brazil and in other parts of the world.

Our investment in innovation, research and development has, among others, the purpose of bringing more life to people in general, improving their lives wherever they may be.

Aché has 21 projects in its Radical Innovation portfolio, that is; new pharmaceutical assets in the world, including 5 in the Development phase and 16 in the Discovery phase (Proof of Concept). These projects focus on highly relevant therapeutic indications. The innovation generated by Aché are protected by patent applications in Brazil and in countries with great market potential.

In 2018, investments in R&DI totaled R\$81.7 million.



The pipeline of Incremental Innovation has projects that respond to the unmet needs of consumers and physicians, promoting incremental improvements, such as new associations, formulations and therapeutic indications, new technological platforms based on nanotechnology, and application of pharmaceutical technology in existing molecules.

## Social Investment

Aché actively contributes to the transformation of society and follows its investment journey with its own resources or incentive laws.

In 2018, R\$ 12.3 million were invested in social projects that contribute to promoting health, supporting social development, fostering sports and facilitating access to culture.

Thousands of people are impacted by these initiatives fully aligned with our values: boldness, innovation, respect, excellence and sustainability. So we fulfill our purpose of bringing more life to people, wherever they may be.

## Property, plant and equipment

In 2018, investments with property, plant and equipment totaled R\$205.7 million, including R\$109.2 million allocated to the new plant and the modern vertical distribution center in the Suape region of Pernambuco.

## Dividends and Interest on Equity (IOE)

The Company's Articles of Incorporation ensure mandatory minimum dividend of 25% of the net income for each year, less a legal reserve of 5% of net income, and allow dividend payment based on semiannual or interim statements of financial position.

(R\$ million)	2017	2018
Net Income	565.3	607.5
<b>Mandatory minimum dividend - statutory</b>	<b>141.3</b>	<b>151.9</b>
(-) IOE - Interest on equity	(60.6)	(69.9)
(-) Prepaid dividend	(84.0)	(11.3)
Dividends paid	(382.5)	-
Realization of reserves	2.0	2.0
<b>Net mandatory minimum dividend - statutory</b>	<b>40.2</b>	<b>70.7</b>
<b>Dividends to be approved in Annual Genral Meeting</b>	<b>-</b>	<b>455.6</b>



## **Acknowledgments**

We thank our shareholders for their confidence, our employees for their commitment, our customers and consumers for their preference, and our suppliers and partners for their support.

## **The Management**

# **Aché Laboratórios Farmacêuticos S.A. and subsidiaries**

## **Financial Statements**

December 31, 2018

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**A free translation from Portuguese into English of Independent Auditor's Report on Individual and Consolidated Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board (IASB)**

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## **Independent auditor's report on individual and consolidated financial statements**

The Shareholders, Board of Directors and Officers

**Aché Laboratórios Farmacêuticos S.A.**

São Paulo – SP

### **Opinion**

We have audited the accompanying individual and consolidated financial statements of Aché Laboratórios Farmacêuticos S.A. ("Company"), identified as Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2018, and the statements of profit or loss, of comprehensive income, of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of the Company as at December 31, 2018, and its individual and consolidated financial performance and 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 Auditor's responsibilities for the audit of the individual and consolidated financial statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, and the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC) 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.



## **Other matters**

### Statements of value added

The individual and consolidated statements of value added for the year ended December 31, 2018, prepared under the responsibility of Company's management, and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by CPC 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned accounting pronouncement, and are consistent in relation to the overall individual and consolidated financial statements.

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

Management is responsible for such other information, which comprise 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 Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of management and those charged with governance for the individual and consolidated financial statements**

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements 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), 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 subsidiaries or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

- Identify and assess 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 the risk of not detecting 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 and its subsidiaries' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast substantial doubt as to the Company's and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the 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 consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

São Paulo, March 27, 2019.

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC-2SP034519/O-6



Douglas Travaglia Lopes Ferreira  
Accountant CRC-1SP218313/O-4

A free translation from Portuguese into English of Individual and Consolidated Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board (IASB)

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of financial position  
December 31, 2018 and 2017  
(In thousands of reais – R\$)

	Note	Individual		Consolidated	
		12/31/2018	12/31/2017	12/31/2018	12/31/2017
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	3	<b>239,405</b>	107,506	<b>245,471</b>	168,964
Trade accounts receivable	4	<b>613,926</b>	459,461	<b>582,310</b>	660,668
Inventories	5	<b>547,557</b>	290,612	<b>551,648</b>	411,569
Taxes and social contributions recoverable		<b>40,981</b>	6,755	<b>44,067</b>	50,718
Related parties	14	<b>300</b>	58,313	-	-
Prepaid expenses		<b>79,161</b>	75,161	<b>80,578</b>	82,232
Other receivables		<b>9,828</b>	14,248	<b>9,854</b>	20,755
<b>Total current assets</b>		<b>1,531,158</b>	1,012,056	<b>1,513,928</b>	1,394,906
<b>Noncurrent assets</b>					
Short-term investments		-	-	<b>30</b>	30
Judicial deposits	17	<b>119,486</b>	103,956	<b>119,486</b>	109,093
Taxes and social contributions recoverable		<b>10,138</b>	5,617	<b>10,458</b>	9,457
Deferred income and social contribution taxes	6	-	1,223	-	-
Investments	8	<b>66,858</b>	546,186	<b>11,563</b>	6,186
Property, plant and equipment	9	<b>996,013</b>	664,667	<b>1,027,036</b>	884,561
Intangible assets	10	<b>279,493</b>	72,017	<b>318,044</b>	317,520
Other receivables		<b>8,941</b>	6,741	<b>8,977</b>	6,789
<b>Total noncurrent assets</b>		<b>1,480,929</b>	1,400,407	<b>1,495,594</b>	1,333,636
<b>Total assets</b>		<b>3,012,087</b>	2,412,463	<b>3,009,522</b>	2,728,542

	Note	Individual		Consolidated	
		12/31/2018	12/31/2017	12/31/2018	12/31/2017
Liabilities and equity					
Current liabilities					
Loans and financing	11	<b>42,592</b>	35,603	<b>45,483</b>	43,146
Trade accounts payable	12	<b>225,063</b>	142,952	<b>224,721</b>	190,623
Tax liabilities	13	<b>92,873</b>	108,965	<b>93,279</b>	179,217
Labor and social security liabilities	15	<b>104,070</b>	70,245	<b>105,237</b>	102,268
Related parties	14	<b>110,909</b>	-	<b>111,209</b>	-
Accounts payable		<b>36,915</b>	29,561	<b>39,809</b>	42,666
Other liabilities	16	<b>74,861</b>	38,809	<b>74,864</b>	65,185
Total current liabilities		<b>687,283</b>	426,135	<b>694,602</b>	623,105
Noncurrent liabilities					
Loans and financing	11	<b>327,821</b>	107,121	<b>337,580</b>	131,492
Deferred income and social contribution taxes	6	<b>42,220</b>	-	<b>42,220</b>	46,858
Provision for tax, civil, and labor contingencies	17	<b>295,031</b>	268,671	<b>295,084</b>	305,480
Provision for investment loss	8	<b>30,666</b>	29,066	-	-
Other liabilities	18	<b>80,310</b>	65,634	<b>82,452</b>	97,097
Total noncurrent liabilities		<b>776,048</b>	470,492	<b>757,336</b>	580,927
Equity					
Capital	20	<b>440,959</b>	440,959	<b>440,959</b>	440,959
Capital reserves	20	<b>174,212</b>	174,212	<b>174,212</b>	174,212
Revaluation reserve	20	<b>3,190</b>	3,650	<b>3,190</b>	3,650
Equity adjustment	20	<b>129,185</b>	130,743	<b>129,185</b>	130,743
Income reserves	20	<b>801,210</b>	766,272	<b>801,210</b>	766,272
Total equity attributable to controlling shareholders		<b>1,548,756</b>	1,515,836	<b>1,548,756</b>	1,515,836
Noncontrolling interests in subsidiaries' equity		-	-	<b>8,828</b>	8,674
Total equity		<b>1,548,756</b>	1,515,836	<b>1,557,584</b>	1,524,510
Total liabilities and equity		<b>3,012,087</b>	2,412,463	<b>3,009,522</b>	2,728,542

See accompanying notes.

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of profit or loss

December 31, 2018 and 2017

(In thousands of reais - R\$, except earnings per share)

	Note	Individual		Consolidated	
		12/31/2018	12/31/2017	12/31/2018	12/31/2017
Operating revenue, net	21	<b>2,821,879</b>	2,212,976	<b>3,183,190</b>	2,967,912
Cost of sales	22	<b>(846,598)</b>	(614,584)	<b>(939,348)</b>	(834,201)
Gross profit		<b>1,975,281</b>	1,598,392	<b>2,243,842</b>	2,133,711
Operating income (expenses)					
Selling expenses	22	<b>(1,053,461)</b>	(863,308)	<b>(1,132,169)</b>	(1,048,088)
General and administrative expenses	22	<b>(152,696)</b>	(191,006)	<b>(176,509)</b>	(233,141)
Employee and management profit sharing	27	<b>(47,010)</b>	(32,461)	<b>(56,581)</b>	(55,941)
Equity pickup	8	<b>107,571</b>	188,460	<b>5,377</b>	2,355
Other operating income (expenses), net	23	<b>(14,079)</b>	14,162	<b>(13,066)</b>	15,411
Operating income before finance income (costs)		<b>815,606</b>	714,239	<b>870,894</b>	814,307
Finance income (costs)					
Finance income	24	<b>19,533</b>	19,497	<b>21,593</b>	25,440
Finance costs	24	<b>(45,392)</b>	(36,667)	<b>(51,463)</b>	(45,713)
Foreign exchange differences, net	24	<b>(7,210)</b>	1,004	<b>(10,008)</b>	717
Income before income and social contribution taxes		<b>782,537</b>	698,073	<b>831,016</b>	794,751
Income and social contribution taxes					
Current	7	<b>(172,330)</b>	(165,699)	<b>(227,681)</b>	(255,473)
Deferred	7	<b>(2,687)</b>	32,891	<b>4,639</b>	27,137
Net income for the year		<b>607,520</b>	565,265	<b>607,974</b>	566,415
Attributable to					
Controlling interests		<b>607,520</b>	565,265	<b>607,520</b>	565,265
Noncontrolling interests		-	-	<b>454</b>	1,150
Earnings per share for the year - R\$					
Basic earnings per share	28	<b>9.51</b>	8.85	<b>9.51</b>	8.85

See accompanying notes.

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of comprehensive income (loss)  
December 31, 2018 and 2017  
(In thousands of reais – R\$)

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Net income for the year	<b>607,520</b>	565,265	<b>607,974</b>	566,415
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	<b>607,520</b>	565,265	<b>607,974</b>	566,415
Attributable to:				
Controlling interests	<b>607,520</b>	565,265	<b>607,520</b>	565,265
Noncontrolling interests	-	-	<b>454</b>	1,150
	<b>607,520</b>	565,265	<b>607,974</b>	566,415

See accompanying notes.

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

### Statements of changes in equity

December 31, 2018 and 2017

(In thousands of reais – R\$)

	Capital reserves			Revaluation reserve	Equity adjustment			Income reserves			Retained earnings	Total attributed to controlling interests	Controlling interests in subsidiaries' equity	Total	
	Capital	Special goodwill reserve	Share premium reserve		Own assets	Subsidiaries' assets	Legal reserve	Tax incentive reserve	Reserve for new products and R&D	Reserve for investments in PPE					Unpaid profits reserve
Balances at December 31, 2016	440,959	167,767	6,445	4,117	122,981	9,320	43,807	982	110,426	131,190	410,412	-	1,448,406	7,524	1,455,930
Realization of revaluation reserve	-	-	-	(467)	-	-	-	-	-	-	-	467	-	-	-
Realization of adjustments to deemed cost	-	-	-	-	(1,354)	(204)	-	-	-	-	-	1,558	-	-	-
Net income for the year	-	-	-	-	-	-	-	-	-	-	-	565,265	565,265	1,150	566,415
Dividends for year 2016 as per AGM held on Apr 28, 2017	-	-	-	-	-	-	-	-	-	-	(353,265)	-	(353,265)	-	(353,265)
Interest on equity according to the SGM held on Dec 14, 2017	-	-	-	-	-	-	-	-	-	-	-	(60,570)	(60,570)	-	(60,570)
Prepayment of dividends for year 2017 approved at the SGM held on Dec 21, 2017	-	-	-	-	-	-	-	-	-	-	-	(84,000)	(84,000)	-	(84,000)
Allocation of profit to PPE reserve as per AGM held on Apr 28, 2017	-	-	-	-	-	-	-	-	-	57,147	(57,147)	-	-	-	-
Transfer to income reserves	-	-	-	-	-	-	-	-	-	-	420,695	(420,695)	-	-	-
Transfer from Reserve for new products to PPE reserve as per AGM held on Apr 28, 2017	-	-	-	-	-	-	-	-	(17,073)	17,073	-	-	-	-	-
Realization of reserves	-	-	-	-	-	-	-	-	-	-	2,025	(2,025)	-	-	-
Balances at December 31, 2017	440,959	167,767	6,445	3,650	121,627	9,116	43,807	982	93,353	205,410	422,720	-	1,515,836	8,674	1,524,510
Balances at December 31, 2017	<b>440,959</b>	<b>167,767</b>	<b>6,445</b>	<b>3,650</b>	<b>121,627</b>	<b>9,116</b>	<b>43,807</b>	<b>982</b>	<b>93,353</b>	<b>205,410</b>	<b>422,720</b>	<b>-</b>	<b>1,515,836</b>	<b>8,674</b>	<b>1,524,510</b>
Realization of revaluation reserve	-	-	-	(460)	-	-	-	-	-	-	-	460	-	-	-
Realization of adjustments to deemed cost	-	-	-	-	(1,558)	(9,116)	-	-	-	-	-	10,674	-	-	-
Valuation adjustment merged from Biosintética	-	-	-	-	9,116	-	-	-	-	-	-	(9,116)	-	-	-
Dividends - Melcon	-	-	-	-	-	-	-	-	-	-	-	-	-	(300)	(300)
Dividends for year 2017 as per AC held on Mar 20, 2018	-	-	-	-	-	-	-	-	-	-	(422,720)	-	(422,720)	-	(422,720)
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	607,520	607,520	454	607,974
Transfer to income reserves	-	-	-	-	-	-	-	-	-	-	455,640	(455,640)	-	-	-
Realization of reserves	-	-	-	-	-	-	-	-	-	-	2,018	(2,018)	-	-	-
Interest on equity according to the SGM held on Feb 8, 2018	-	-	-	-	-	-	-	-	-	-	-	(69,919)	(69,919)	-	(69,919)
Prepaid dividends	-	-	-	-	-	-	-	-	-	-	-	(11,272)	(11,272)	-	(11,272)
Mandatory minimum dividends	-	-	-	-	-	-	-	-	-	-	-	(70,689)	(70,689)	-	(70,689)
Balances at December 31, 2018	<b>440,959</b>	<b>167,767</b>	<b>6,445</b>	<b>3,190</b>	<b>129,185</b>	<b>-</b>	<b>43,807</b>	<b>982</b>	<b>93,353</b>	<b>205,410</b>	<b>457,658</b>	<b>-</b>	<b>1,548,756</b>	<b>8,828</b>	<b>1,557,584</b>

See accompanying notes.

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

### Cash flow statements

December 31, 2018 and 2017

(In thousands of reais – R\$)

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Cash flow from operating activities				
Income before income and social contribution taxes				
	<b>782,537</b>	698,073	<b>831,016</b>	794,751
Adjustments to reconcile income before income and social contribution taxes to net cash from operating activities:				
Depreciation and amortization	<b>58,509</b>	41,084	<b>68,680</b>	57,305
Loss on disposal of property, plant and equipment items	<b>184</b>	2,377	<b>350</b>	2,480
Provisions for tax, civil and labor contingencies	<b>15,907</b>	73,012	<b>16,495</b>	76,630
Provision for inventory losses	<b>36,124</b>	14,665	<b>41,353</b>	26,976
Equity pickup	<b>(107,571)</b>	(188,460)	<b>(5,377)</b>	(2,355)
Other provisions	<b>(7,908)</b>	72,145	<b>(4,966)</b>	64,978
Accrued interest, and monetary and exchange differences	<b>15,429</b>	11,333	<b>18,236</b>	13,398
Allowance for doubtful accounts	<b>1,470</b>	328	<b>1,683</b>	1,081
Other	<b>121</b>	-	<b>150</b>	(940)
	<b>794,802</b>	724,557	<b>967,620</b>	1,034,304
(Increase) decrease in operating assets:				
Trade accounts receivable	<b>58,891</b>	(125,738)	<b>76,675</b>	(152,104)
Inventories	<b>(143,983)</b>	(56,078)	<b>(181,432)</b>	(59,345)
Taxes and social contributions recoverable	<b>(18,649)</b>	571	<b>(26,650)</b>	(13,970)
Prepaid expenses and other receivables	<b>2,392</b>	(1,170)	<b>(26)</b>	2,511
Increase (decrease) in operating liabilities:				
Trade accounts payable	<b>36,637</b>	67,088	<b>34,098</b>	90,389
Labor and social security liabilities	<b>7,381</b>	22,730	<b>2,969</b>	27,769
Taxes and contributions payable	<b>3,376</b>	(10,373)	<b>(1,758)</b>	(13,392)
Income and social contribution taxes paid	<b>(203,643)</b>	(123,279)	<b>(279,710)</b>	(212,040)
Provision for tax, civil and labor contingencies paid	<b>(26,639)</b>	(8,492)	<b>(26,891)</b>	(12,128)
Other liabilities	<b>(1,477)</b>	16,853	<b>(2,857)</b>	15,286
Net cash from operating activities	<b>509,088</b>	506,669	<b>562,038</b>	707,280
Cash flow from investing activities				
Dividends received	<b>85,400</b>	150,012	-	-
Capital increase in subsidiaries	<b>(481)</b>	(10,773)	-	-
Acquisition of PPE and intangible assets	<b>(109,327)</b>	(68,756)	<b>(128,978)</b>	(99,227)
Advances on PPE items	<b>(40,998)</b>	(14,633)	<b>(83,051)</b>	(19,107)
Long-term investments	-	-	-	(30)
Cash from merger of Biosintética	<b>10,219</b>	-	-	-
Net cash from (used in) investing activities	<b>(55,187)</b>	55,850	<b>(212,029)</b>	(118,364)
Cash flow from financing activities				
Loans and financing taken out	<b>188,996</b>	54,257	<b>244,526</b>	68,019
Interest paid on loans and financing	<b>(9,831)</b>	(46,011)	<b>(11,052)</b>	(12,730)
Repayment of loans and financing	<b>(37,476)</b>	(10,845)	<b>(43,285)</b>	(59,486)
Dividends and Interest on Equity (IOE) paid	<b>(463,691)</b>	(550,142)	<b>(463,691)</b>	(550,154)
Net cash (used by) financing activities	<b>(322,002)</b>	(552,741)	<b>(273,502)</b>	(554,351)
Increase in cash and cash equivalents	<b>131,899</b>	9,778	<b>76,507</b>	34,565
Cash and cash equivalents at beginning of year	<b>107,506</b>	97,728	<b>168,964</b>	134,399
Cash and cash equivalents at end of year	<b>239,405</b>	107,506	<b>245,471</b>	168,964
Increase in cash and cash equivalents	<b>131,899</b>	9,778	<b>76,507</b>	34,565

See accompanying notes.

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of value added  
December 31, 2018 and 2017  
(In thousands of reais – R\$)

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Revenues				
Sales of goods, products and services	3,256,559	2,656,479	3,651,182	3,474,466
Allowance for doubtful accounts	(341)	(327)	(554)	(1,078)
Other revenues	39,206	39,511	40,513	42,907
	<b>3,295,424</b>	<b>2,695,663</b>	<b>3,691,141</b>	<b>3,516,295</b>
Inputs acquired from third parties				
Raw materials consumed	676,049	460,600	717,696	602,679
Cost of sales and services	19,450	34,876	30,682	42,998
Materials, energy, third-party services and other expenses	627,950	607,676	694,885	737,444
Impairment of assets	1,988	5,187	(123)	3,464
	<b>1,325,437</b>	<b>1,108,339</b>	<b>1,443,140</b>	<b>1,386,585</b>
Gross value added	<b>1,969,987</b>	<b>1,587,324</b>	<b>2,248,001</b>	<b>2,129,710</b>
Depreciation and amortization	(58,509)	(41,084)	(68,680)	(57,305)
Net value added produced by the Company	<b>1,911,478</b>	<b>1,546,240</b>	<b>2,179,321</b>	<b>2,072,405</b>
Value added received in transfer				
Equity pickup	107,571	188,460	5,377	2,355
Finance income	19,532	19,497	21,594	25,440
	<b>127,103</b>	<b>207,957</b>	<b>26,971</b>	<b>27,795</b>
Total value added to be distributed	<b>2,038,581</b>	<b>1,754,197</b>	<b>2,206,292</b>	<b>2,100,200</b>
Distribution of value added	<b>2,038,581</b>	<b>1,754,197</b>	<b>2,206,292</b>	<b>2,100,200</b>
Personnel	618,994	517,740	685,659	664,757
Direct compensation	509,487	434,440	563,977	556,157
Benefits	76,713	54,695	85,957	73,178
Unemployment Compensation Fund (FGTS)	32,794	28,605	35,725	35,422
Taxes, fees and contributions	708,646	601,903	798,051	782,442
Federal	422,298	367,573	474,960	480,728
State	279,227	229,584	314,943	294,584
Local	4,135	3,375	4,689	4,433
Other taxes	2,986	1,371	3,459	2,697
Debt remuneration	103,421	69,289	115,062	87,736
Interest	52,602	35,663	61,471	44,995
Rent	50,819	33,626	53,137	41,591
Noncontrolling interests	-	-	454	1,150
Equity remuneration	607,520	565,265	607,520	565,265
Interest on Equity (IOE) paid	151,880	144,570	151,880	144,570
Retained earnings for the period	455,640	420,695	455,640	420,695

See accompanying notes.



## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements

December 31, 2018 and 2017

(In thousands of reais - R\$, unless otherwise stated)

### 1. Operations

Aché Laboratórios Farmacêuticos S.A. ("Company") is a privately-held corporation headquartered in the capital city of São Paulo, São Paulo state, engaged in the manufacturing, sale, import and export of pharmaceutical products for human consumption and operating in the main pharmaceutical segments, such as respiratory, muscular-skeletal, female health, central nervous system, cardiology, dermatology, vitamins, oncology and cosmetics, through its prescription, hospital, generic and over-the-counter medicine business units.

The Company holds ownership interests in the following companies:

Business name	Core activity	Country	Interest	12/31/2018	12/31/2017
Aché International Ltd.	(a) Maintenance of partnerships with other international companies for the technical and operational development of its products.	British Virgin Islands	Direct	100%	100%
Biosintética Farmacêutica Ltda. ("Biosintética")	(b) Manufacturing, trade, import and export of pharmaceutical products for human consumption; operations in the main pharmaceutical segments.	Brazil	Direct	-	99.99%
Indústria Farmacêutica Melcon do Brasil S.A. ("Melcon")	(c) Manufacturing, trade, import and export of hormones.	Brazil	Direct	50%	50%
Labofarma Produtos Farmacêuticos Ltda. ("Labofarma")	Distribution and sale of medicines.	Brazil	Direct	99.99%	99.99%
Bionovis S.A. ("Bionovis")	Research, development, production, distribution and sale of biotechnological medicines.	Brazil	Jointly owned subsidiary	25%	25%
Nortis Farmacêutica Ltda. ("Nortis")	(d) Manufacturing of cephalosporin antibiotics for human consumption, non-prescription drugs and nutraceuticals.	Brazil	Direct	100%	100%
Laboratório Químico Farmacêutico Tiaraju Ltda/ ("Tiaraju")	(e) Holder of registrations of phytomedications and functional foods.	Brazil	Direct	100%	100%

(a) Aché International Ltd. remained inactive in 2018, meaning that there were no financial, accounting and corporate movements.

(b) Subsidiary Biosintética was merged into the Company on July 1, 2018. Please see Note 1.2.

(c) The Company, even not being the controlling interest in Indústria Farmacêutica Melcon do Brasil S.A. ownership structure, is the parent company of the investee since it has existing rights that give it the current ability to direct the activities that significantly affect its returns; accordingly, the Company adopts the criterion of total consolidation of the investee and records noncontrolling interests in the consolidated statement of financial position separately from the equity of controlling interests.

(d) On March 14, 2016, Aché acquired Nortis, a pharmaceutical company founded in 2002, specializing in the manufacture of cephalosporin antibiotics and the sale of functional foods.

(e) On March 4, 2016, Aché acquired 12 phytomedicine registrations from Laboratório Químico Farmacêutico Tiaraju Ltda, in the total amount of R\$7,500. Aché recognized 10 of these registrations that are classified under intangible assets in the amount of R\$3,500, under CPC 04 (R1). The remaining balance of R\$4,000 will be included in intangible assets after the approval of registrations by the National Health Surveillance Agency (Anvisa).

## **Aché Laboratórios Farmacêuticos S.A. and subsidiaries**

Notes to individual and consolidated financial statements  
December 31, 2018 and 2017  
(In thousands of reais - R\$, unless otherwise stated)

### **1. Operations (Continued)**

#### **1.1. Significant strategic investment**

##### New Aché Factory - Pernambuco

According to the Board Meeting (RCA) held on September 20, 2016, the construction of a new industrial complex was approved to support the expected growth over the coming years, which will strengthen the Company's operations and generate more than 3 thousand direct jobs and indirect in the North and Northeast regions. With total investments estimated at R\$ 500 million, the new plant is located on a 250 thousand sqm site in Suape, Pernambuco state (PE), where there are logistic facilities, including a port that will boost the exports of products and the imports of raw materials. The pharmaceutical industry has grown significantly in this region.

#### **1.2. Corporate restructuring**

##### Merger of Biosintética Farmacêutica Ltda.

According to the Special General Meeting (SGM) held on July 13, 2018, the Letter of Intent was approved for the merger of Biosintética Farmacêutica Ltda. into the Company, for the purpose of rationalizing and consolidating the administrative activities, as well as winning operational gains and synergy. The appraisal report on the net assets of the merged company was determined based on the accounting books as at July 1, 2018 and was issued on July 10, 2018 by an independent company.

The effects of said merger are shown below. The figures in the Merged column refer to the merged net assets as at July 1, 2018:

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements  
December 31, 2018 and 2017  
(In thousands of reais - R\$, unless otherwise stated)

### 1. Operations (Continued)

#### 1.2. Corporate restructuring (Continued)

#### Statements of financial position as at December 31, 2018

	Company before merger	Merged net assets	Company after merger
	12/31/2018	7/1/2018	12/31/2018
Assets			
Current assets			
Cash and cash equivalents	229,186	10,219	239,405
Trade accounts receivable	399,101	214,825	613,926
Inventories	398,471	149,086	547,557
Taxes and social contributions recoverable	(8,538)	49,519	40,981
Dividends receivable	300	-	300
Prepaid expenses	73,224	5,937	79,161
Other receivables	4,728	5,100	9,828
Total current assets	<u>1,096,472</u>	<u>434,686</u>	<u>1,531,158</u>
Noncurrent assets			
Judicial deposits	113,740	5,746	119,486
Taxes and social contributions recoverable	7,819	2,319	10,138
Investments	463,088	148	66,858
Property, plant and equipment	755,463	240,550	996,013
Intangible assets	72,853	206,640	279,493
Other receivables	6,019	2,922	8,941
Total noncurrent assets	<u>1,418,982</u>	<u>458,325</u>	<u>1,480,929</u>
Total assets	<u>2,515,454</u>	<u>893,011</u>	<u>3,012,087</u>

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements

December 31, 2018 and 2017

(In thousands of reais - R\$, unless otherwise stated)

	<b>Company before merger</b>	<b>Merged net assets</b>	<b>Company after merger</b>
	<b>12/31/2018</b>	<b>7/1/2018</b>	<b>12/31/2018</b>
Liabilities and equity			
Current liabilities			
Loans and financing	37,119	5,473	42,592
Trade accounts payable	179,589	45,474	225,063
Tax liabilities	49,410	43,463	92,873
Labor and social security liabilities	77,626	26,444	104,070
Dividends and IOE payable	(54,459)	165,368	110,909
Accounts payable	28,084	8,831	36,915
Other liabilities	39,266	35,595	74,861
<b>Total current liabilities</b>	<b>356,635</b>	<b>330,648</b>	<b>687,283</b>
Noncurrent liabilities			
Loans and financing	262,723	65,098	327,821
Deferred income and social contribution taxes	1,465	40,755	42,220
Provision for tax, civil, and labor contingencies	257,939	37,092	295,031
Provision for investment loss	30,666	-	30,666
Other liabilities	57,270	23,040	80,310
<b>Total noncurrent liabilities</b>	<b>610,063</b>	<b>165,985</b>	<b>776,048</b>
Equity			
Capital	440,959	55,714	440,959
Capital reserves	174,212	204,755	174,212
Revaluation reserve	3,190	7,205	3,190
Equity adjustment	129,185	21,123	129,185
Income reserves	801,210	107,581	801,210
<b>Total attributable to controlling interests</b>	<b>1,548,756</b>	<b>396,378</b>	<b>1,548,756</b>
Noncontrolling interests in subsidiaries' equity	-	-	-
<b>Total equity</b>	<b>1,548,756</b>	<b>396,378</b>	<b>1,548,756</b>
<b>Total liabilities and equity</b>	<b>2,515,454</b>	<b>893,011</b>	<b>3,012,087</b>

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements

December 31, 2018 and 2017

(In thousands of reais - R\$, unless otherwise stated)

### Statements of profit and loss for the 12-month period ended December 31, 2018

	Company before merger	Merged net assets	Company after merger
	12/31/2018	7/1/2018	12/31/2018
Operating revenue, net	2,310,301	511,578	2,821,879
Cost of sales	(666,523)	(180,075)	(846,598)
Gross profit	<u>1,643,778</u>	<u>331,503</u>	<u>1,975,281</u>
Total operating expenses	(1,019,561)	(140,114)	(1,159,675)
Operating income before finance income (costs)	624,217	191,389	815,606
Total finance income (costs)	(29,480)	(3,589)	(33,069)
Income before income and social contribution taxes	<u>594,737</u>	<u>187,800</u>	<u>782,537</u>
Income and social contribution taxes	(126,311)	(48,706)	(175,017)
Net income for the period	<u>468,426</u>	<u>139,094</u>	<u>607,520</u>
Attributable to			
Controlling interests	468,426	139,094	607,520
Noncontrolling interests	-	-	-
Earnings per share for the year - R\$			
Basic earnings per share	<u>7.33</u>	<u>2.18</u>	<u>9.51</u>

### Cash flow statements for the 12-month period ended December 31, 2018

	Company before merger	Merged net assets	Company after merger
	12/31/2018	7/1/2018	12/31/2018
Net income before income and social contribution taxes	782,537	151,352	782,537
Adjusted net income (loss)	<u>794,802</u>	<u>169,163</u>	<u>1,155,249</u>
Net cash from operating activities	<u>509,088</u>	<u>45,511</u>	<u>570,265</u>
Net cash used in investing activities	(55,187)	(60,209)	(116,364)
Net cash used in financing activities	<u>(322,002)</u>	<u>(34,520)</u>	<u>(322,002)</u>
Net increase (decrease) in cash and cash equivalents	131,899	(49,218)	131,899
Cash, banks and short-term investments at beginning of period	<u>107,506</u>	<u>59,437</u>	<u>107,506</u>
Cash, banks and short-term investments at end of period	239,405	10,219	239,405
Net increase (decrease) in cash and cash equivalents	<u>131,899</u>	<u>(49,218)</u>	<u>131,899</u>

## **Aché Laboratórios Farmacêuticos S.A. and subsidiaries**

Notes to individual and consolidated financial statements  
December 31, 2018 and 2017  
(In thousands of reais - R\$, unless otherwise stated)

### **2. Basis of preparation and summary of significant accounting practices**

These individual and consolidated condensed financial statements were approved for disclosure at the Board of Directors' Meeting held on March 27, 2019.

The individual and consolidated financial statements were prepared in accordance with accounting practices adopted in Brazil, which comprise the provisions set forth in corporation law as provided for by Law No. 6404/76, as amended by Law No. 11638/07, Law No. 11941/09 and Law No. 12973/14 , and the accounting pronouncements, interpretations and guidance issued by the Brazilian Financial Accounting Standards Board (CPC) and the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB).

The individual and consolidated financial statements were prepared based on historical cost, except for certain financial instruments measured at their fair values when so required in the standards.

The preparation of individual and consolidated require the use of accounting estimates based on both objective and subjective factors, in line with management's judgment for determining the appropriate amounts to be recorded in the individual and consolidated financial statements. Areas considered significant and requiring a higher level of judgment include: deferred income and social contribution taxes, provision for tax, civil and labor risks, allowance for doubtful accounts, provision for inventory losses and impairment of assets.

The significant accounting policies adopted by the Company are described in the specific notes, related to the presented items. Those generally applicable in different aspects of the financial statements are described below.

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements  
December 31, 2018 and 2017  
(In thousands of reais - R\$, unless otherwise stated)

### 2. Basis of preparation and summary of significant accounting practices (Continued)

#### a) Functional and reporting currency

For purposes of the consolidated financial statements, P&L and statement of financial position balances of each company are translated into reais, which is the functional and reporting currency of the Company's financial statements.

#### *Foreign currency transactions and balances*

Transactions in foreign currency are translated into the Company's functional currency using the exchange rates prevailing on the transaction dates and the exchange rate prevailing on the statement of financial position dates. Exchange gains and losses arising from the settlement of these transactions and the translation of monetary assets and liabilities denominated in foreign currency are recognized in the statement of profit or loss for the year.

#### b) Valuation of the recoverable value of the assets (except goodwill)

The Company and its subsidiaries review the net book value of assets in order to evaluate events or changes in economic, operating or technological circumstances that may indicate deterioration or impairment. If such evidence is identified and the net book value exceeds recoverable value, a provision for impairment is set up adjusting net book value to recoverable value.

#### c) Financial instruments

The Company classifies its financial assets and liabilities at the time of initial recognition under the following categories:

#### *Financial assets*

- Loans and receivables: these refer to non-derivative financial assets with fixed or determinable payments that are not traded in an active market. After the initial recognition, such financial assets are measured at amortized cost using the effective interest rate method, less impairment. At December 31, 2018 and 2017, the financial assets of the Company and its subsidiaries mainly refer to the following balances: cash and cash equivalents, short-term investments, trade accounts receivable and transactions with related parties.

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements

December 31, 2018 and 2017

(In thousands of reais - R\$, unless otherwise stated)

### 2. Basis of preparation and summary of significant accounting practices (Continued)

#### c) Financial instruments (Continued)

##### *Financial assets* (Continued)

- Investments held to maturity: non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has expressed the intention and financial ability to hold them to maturity. After the initial evaluation, these assets are measured at amortized cost using the effective interest rate method, less impairment losses. As of December 31, 2018 and 2017, the Company and its subsidiaries had no financial assets in this classification.
- Financial assets at fair value through profit or loss are stated in the statement of financial position at fair value, and their corresponding gains or losses are recognized in the statement of profit or loss. As of December 31, 2018 and 2017, the Company and its subsidiaries had no financial assets in this classification.

##### *Financial liabilities*

- Financial liabilities measured at fair value through profit or loss: are classified under this denomination when they are held for trading or designated at fair value through profit or loss. As of December 31, 2018 and 2017, the Company and its subsidiaries had no financial liabilities in this classification.
- Other financial liabilities: at December 31, 2018 and 2017, these are represented by loans and financing and balances payable to suppliers, which are measured at amortized cost using the effective interest rate method.

#### d) Statement of Value Added

The statement of value added is not required by IFRS and is presented as supplementary information in compliance with Brazilian corporation law. Its purpose is to disclose the wealth created by the Company in the year as well as to demonstrate its distribution among the various agents.



## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements  
December 31, 2018 and 2017  
(In thousands of reais - R\$, unless otherwise stated)

### 2. Basis of preparation and summary of significant accounting practices (Continued)

#### 2.2. New standards, amendments to and interpretations of standards

The following new standards were approved and issued by the IASB, which are not yet in force or have not been early adopted by the Company, since early adoption is not allowed in Brazil, and management is currently assessing the future impacts of their adoption.

IFRS 9 - Financial Instruments (Effective from Jan 1, 2018)	The purpose of IFRS 9 is to ultimately replace IAS 39. The main changes include: (i) all financial assets must be initially recognized at fair value; (ii) the standard classifies all financial assets into two categories: amortized cost and fair value; and (iii) the concept of embedded derivatives was eliminated.
IFRS 15 Revenue from Contracts with Customers (Effective from Jan 1, 2018)	Intended to make financial information more comparable and to provide a new model for recognizing revenues and more detailed requirements for multi-obligation contracts. This replaces IAS 11 and IAS 18 standards as well as their interpretation.
IFRS 16 Leases (Effective from Jan 1, 2019)	This is intended to unify the lease accounting model, requiring lessees to recognize all lease agreements as assets or liabilities, unless the lease arrangement has a maturity period of twelve months or an immaterial value.
IFRS 17 Insurance Contracts (Effective from Jan 1, 2021)	This standard applies to all types of insurance contracts (i.e. life, non-life, direct insurance and reinsurance), regardless of the type of entities that issue them, as well as certain guarantees and financial instruments with characteristics of discretionary participation. The standard is applicable as of January 1, 2021.

The adoption of IFRS 9 and IFRS 15 did not have significant impacts on the individual and consolidated financial statements for the year.

#### IFRS 16 - Leases - CPC 06 (R2)

This standard becomes effective on January 1, 2019 and requires lessees to recognize a liability to make future lease payments and a right-of-use asset for lease agreements with a lease term of more than twelve (12) months and whose contract value is material according to the practical expedient in IFRS 16.

The criteria for recognizing and measuring leases in the lessors' financial statements remain substantially unchanged.

Management assessed the impacts of the new standard and estimated a net present value of liabilities between R\$96 million and R\$120 million (actual discount rate and nominal discount rate), recognized in assets as right of use, matched with a liability recorded as Lease liability. The main effect refers to fleet and property leases. The amortization of right-of-use

## **Aché Laboratórios Farmacêuticos S.A. and subsidiaries**

Notes to individual and consolidated financial statements

December 31, 2018 and 2017

(In thousands of reais - R\$, unless otherwise stated)

assets and the recognition of interest costs on the lease liability in the statement of profit and loss will replace the amounts recognized as lease expenses in accordance with current lease standards.

Now, we understand that the potential effect is the recognition of an amount close to this as an asset and as a liability, with a higher expense allocation at the beginning and lesser at the end, when compared to the current accounting for lease expenses.

Given the complexity of this new pronouncement, certain topics are still under discussion in the market. Thus, the amounts stated above may change until the initial adoption in the first quarter of 2019.

### **IFRIC 23 - Uncertainty over income tax treatments (ICPC 22 - Uncertainty over income tax treatments)**

The new interpretation establishes requirements for recognition and measurement in cases where the Company has defined, when calculating income taxes (income and social contribution taxes), the use of uncertain tax treatments that may be challenged by the tax authorities.

Where some tax treatments are uncertain, the Company should define if it is considered probable that the taxation authorities will accept their separate reporting; if it is not considered probable that the tax authorities will accept the treatment, a contingency should be recorded.

Management has been evaluating the impacts of the new standard as of its effective date.

#### **2.4. Significant accounting judgments, estimates and assumptions**

Management must make judgments and develop estimates regarding the book values of assets and liabilities which are not easily obtained from other sources. The estimates and associated assumptions are based on historical experience and other factors deemed significant. The actual results may differ from such estimates.

The estimated and underlying assumptions are reviewed continuously. The effects of revisions to accounting estimates are recognized over the period in which the estimates are reviewed.

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements

December 31, 2018 and 2017

(In thousands of reais - R\$, unless otherwise stated)

### 3. Cash and cash equivalents

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Cash and banks	467	14,225	6,123	24,630
Short-term investments	238,938	93,281	239,348	144,334
	<b>239,405</b>	<b>107,506</b>	<b>245,471</b>	<b>168,964</b>

Short-term investments mainly comprise Repurchase Agreements with various financial institutions, with yield ranging from 95.00% to 100.30% (98.00% to 100.00% in 2017) of the Interbank Deposit Certificate (CDI) rate, and are classified under “Cash and cash equivalents” because they are considered immediately redeemable financial assets and subject to an insignificant risk of change in value.

### 4. Trade accounts receivable

Accounts receivable are recorded at the nominal value of the securities and deducted from the allowance for doubtful accounts.

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Domestic	581,997	442,103	586,807	663,791
Foreign (Note 18)	1,521	582	1,521	2,341
Related parties (Note 14)	36,096	19,533	-	-
Allowance for doubtful accounts (b)	(5,688)	(2,757)	(6,018)	(5,464)
	<b>613,926</b>	<b>459,461</b>	<b>582,310</b>	<b>660,668</b>

#### a) Accounts receivable by aging list

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Falling due	551,380	442,471	518,839	637,656
Overdue:				
From 1 to 60 days	58,917	14,787	59,652	20,710
From 61 to 120 days	3,231	1,920	3,317	2,252
From 121 to 180 days	398	283	502	50
Above 180 days	5,688	2,757	6,018	5,464
	<b>619,614</b>	<b>462,218</b>	<b>588,328</b>	<b>666,132</b>

The maximum exposure to credit risk at the date of the financial statements is the book value of each maturity age range as shown on the table above.

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements  
December 31, 2018 and 2017  
(In thousands of reais - R\$, unless otherwise stated)

### 4. Trade accounts receivable (Continued)

#### *Changes in the allowance for doubtful accounts*

#### b) Allowance for doubtful accounts

The allowance for doubtful accounts is estimated considering receivables overdue above 180 days and for which collection suits have been filed, and balances of specific customers which present risk of realization.

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Balance at beginning of year	<b>(2,757)</b>	(2,430)	<b>(5,464)</b>	(4,386)
Merged assets of Biosintética (a)	<b>(2,590)</b>	-	-	-
Additions	<b>(4,339)</b>	(1,595)	<b>(4,933)</b>	(3,530)
Write-downs (effective losses)	<b>1,129</b>	1	<b>1,129</b>	3
Reversals due to amounts received	<b>2,869</b>	1,267	<b>3,250</b>	2,449
Balance at end of year	<b>(5,688)</b>	(2,757)	<b>(6,018)</b>	(5,464)

(a) Merged balances of Biosintética, previously disclosed in the Consolidated figures.

### 5. Inventories

These are recorded at the lower of the average cost and net realizable value, adjusted by provision for losses, when applicable.

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Finished products	<b>229,428</b>	115,069	<b>229,675</b>	167,692
Work-in-process	<b>79,788</b>	48,794	<b>81,061</b>	72,561
Raw materials	<b>248,361</b>	114,804	<b>251,023</b>	157,837
Advances to suppliers	<b>20,907</b>	18,508	<b>20,907</b>	31,393
Provision for inventory losses	<b>(30,927)</b>	(6,563)	<b>(31,018)</b>	(17,914)
	<b>547,557</b>	290,612	<b>551,648</b>	411,569

Unrealized profits from the purchase of finished products among the group companies are eliminated upon consolidation. At December 31, 2018, unrealized profits on the Company's inventories, net of taxes, was R\$1,482 (R\$1,116 at December 31, 2017).

The Company expects its inventories to be realized in less than 12 months.

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements

December 31, 2018 and 2017

(In thousands of reais - R\$, unless otherwise stated)

### 5. Inventories (Continued)

#### a) Changes in provision for inventory losses

The estimate for the valuation of the provision for inventory losses is reviewed monthly and takes into account, among other aspects, the maturity date of the products as well as products blocked due to quality deviations.

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Balance at beginning of year	<b>(6,563)</b>	(10,449)	<b>(17,914)</b>	(25,422)
Merged assets of Biosintética (a)	<b>(9,677)</b>	-	-	-
Additions	<b>(43,433)</b>	(18,146)	<b>(51,469)</b>	(35,981)
Reversals	<b>7,309</b>	3,481	<b>10,116</b>	9,005
Write-downs (effective losses)	<b>21,437</b>	18,551	<b>28,249</b>	34,484
Balance at end of year	<b>(30,927)</b>	(6,563)	<b>(31,018)</b>	(17,914)

(a) Merged balances of Biosintética as at July 1, 2018, previously disclosed in the Consolidated figures.

### 6. Deferred income and social contribution taxes

The balances of deferred tax assets and liabilities are as follows:

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Assets				
Deferred income and social contribution taxes				
on:				
Temporarily nondeductible provisions:				
Provision for tax, civil, and labor contingencies	<b>100,311</b>	91,348	<b>100,328</b>	103,863
Profit sharing	<b>26,457</b>	9,284	<b>26,457</b>	25,072
Allowance for doubtful accounts	<b>1,934</b>	937	<b>2,046</b>	1,812
Provision for inventory losses	<b>10,619</b>	2,305	<b>10,650</b>	6,158
Provision for fleet maintenance	<b>4,429</b>	2,718	<b>4,430</b>	3,332
Provision for customer bonus	<b>25,162</b>	13,042	<b>25,162</b>	23,575
Unrealized profit	<b>504</b>	380	<b>504</b>	380
Provision for hedge transactions	<b>110</b>	-	<b>110</b>	-
Other	<b>5,628</b>	5,980	<b>5,629</b>	7,105
	<b>175,154</b>	125,994	<b>175,316</b>	171,297

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

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### 6. Deferred income and social contribution taxes (Continued)

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Liabilities				
Deferred income and social contribution taxes on:				
Revaluation of assets	5,224	1,756	5,224	5,511
Deemed cost attributable to PPE and difference between useful life vs. tax depreciation rate	84,969	71,581	84,969	84,297
Goodwill amortized	73,471	4,420	73,472	73,760
Borrowing costs	11,418	10,543	11,418	10,543
Monetary restatement of judicial deposits	16,514	16,379	16,514	16,379
Depreciation	25,177	19,944	25,177	25,676
Other	601	148	762	1,989
	<b>217,374</b>	<b>124,771</b>	<b>217,536</b>	<b>218,155</b>
Balance of deferred income and social contribution tax assets (liabilities)	<b>(42,220)</b>	1,223	<b>(42,220)</b>	(46,858)

Deferred tax assets arising from temporary differences will be realized as they are settled or realized within 10 years. The period of settlement or realization of such differences is inaccurate and related to several factors that are not under the management control. Based on projections of future taxable profit, management expects tax credits will be realized as follows:

	Individual	Consolidated
2019	54,952	54,984
2020	11,640	11,640
2021	6,363	6,476
From 2022 onwards	102,199	102,216
	<b>175,154</b>	<b>175,316</b>

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

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### 7. Reconciliation of income and social contribution tax expense

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Income before income and social contribution taxes	<b>782,537</b>	698,073	<b>831,016</b>	794,751
Nominal income and social contribution tax expense - 34%	<b>(266,063)</b>	(237,345)	<b>(282,545)</b>	(270,215)
<b>Reconciliation of income and social contribution tax expense at effective rate:</b>				
Equity pickup	<b>36,698</b>	63,614	<b>1,828</b>	801
Tax benefit from technology research and development of technology innovation	<b>24,130</b>	18,158	<b>26,208</b>	19,769
Interest on equity	<b>23,773</b>	20,594	<b>23,773</b>	20,594
Nondeductible fines	<b>(1,084)</b>	(195)	<b>(1,103)</b>	(288)
Nondeductible donations	<b>(2,720)</b>	(1,742)	<b>(3,351)</b>	(2,849)
'Citizen maternity' allowance	<b>(534)</b>	(363)	<b>(555)</b>	(419)
Tax incentives	<b>8,688</b>	7,481	<b>10,852</b>	10,869
Accelerated depreciation (Brazil's Tax Relief Law)	-	(5,026)	-	(7,407)
Other	<b>2,095</b>	2,016	<b>1,851</b>	809
Effective income and social contribution tax expense	<b>(175,017)</b>	(132,808)	<b>(223,042)</b>	(228,336)
Current	<b>(172,330)</b>	(165,699)	<b>(227,681)</b>	(255,473)
Deferred	<b>(2,687)</b>	32,891	<b>4,639</b>	27,137
Effective rate	<b>22%</b>	19%	<b>27%</b>	29%

### 8. Investments

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Subsidiaries (a)	<b>28,459</b>	507,787	<b>11,563</b>	6,186
Goodwill - Asta Médica	<b>11,446</b>	11,446	-	-
Goodwill - Melcon	<b>17,533</b>	17,533	-	-
Goodwill - Nortis	<b>9,420</b>	9,420	-	-
	<b>66,858</b>	546,186	<b>11,563</b>	6,186

(a) The significant decrease in the value of investments in subsidiaries was due to the merger of Biosintética.

Goodwill is classified as part of the investments that gave rise to it, since it is part of the investment acquired. In the consolidated statement of financial position, goodwill is reclassified to intangible assets as it refers to the expected profitability of each subsidiary acquired.

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

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### 8. Investments (Continued)

Individual	Information on Subsidiaries				P&L for the period	12/31/2018		12/31/2017	
	Total assets	Total liabilities	Total equity	Unrealized profit		Investment balance	Equity pickup	Investment balance	Equity pickup
Biosintética (a)	-	-	-	80	103,338	-	103,418	485,262	193,564
Melcon	37,478	19,822	17,656	(160)	908	7,638	294	7,644	819
Bionovis (b)	312,551	266,299	46,252	-	21,507	11,563	5,377	6,186	2,869
Nortis	10,054	796	9,258	-	563	9,258	563	8,695	(4,042)
Other	-	-	-	-	-	-	-	-	(2,110)
						<b>28,459</b>	<b>109,652</b>	507,787	191,100
<b>Provision for investment loss</b>									
Labofarma	5,880	36,260	(30,380)	(286)	(1,795)	<b>(30,666)</b>	<b>(2,081)</b>	(29,066)	(2,640)
						<b>(2,207)</b>	<b>107,571</b>	478,721	188,460

(a) The investment balance of subsidiary Biosintética was written off after its merger into Aché in July 2018, plus the amounts of Biosintética's share in Raposo Participações Ltda. (a holding company that is an indirect subsidiary through a 99.99% interest).

(b) As described in Note 1, the Company has an interest in the joint venture Bionovis.

The equity interest percentages are disclosed in Note 1.



## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

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### 8. Investments (Continued)

#### Changes in investments in subsidiaries and joint ventures

<b>Subsidiaries and joint ventures</b>	<b>12/31/2017</b>	<b>Equity pickup</b>	<b>Investment written off due to merger</b>	<b>Capital increase</b>	<b>Dividends</b>	<b>12/31/2018</b>
Biosintética	485,262	103,418	(396,225)	-	(192,455)	-
Melcon	7,644	294	-	-	(300)	7,638
Bionovis	6,186	5,377	-	-	-	11,563
Nortis	8,695	563	-	-	-	9,258
	507,787	109,652	(396,225)	-	(192,755)	28,459
Provision for loss on Investment - Labofarma	(29,066)	(2,081)	-	481	-	(30,666)
<b>Total</b>	<b>478,721</b>	<b>107,571</b>	<b>(396,225)</b>	<b>481</b>	<b>(192,755)</b>	<b>(2,207)</b>

The activities of subsidiaries and joint ventures are described in Note 1.

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

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### 9. Property, plant and equipment

Property, plant and equipment is measured at historical cost, less accumulated depreciation on a straight-line basis and accumulated impairment losses.

		Individual					
		12/31/2018			12/31/2017		
Useful life (years)		Accumulated			Accumulated		
		Cost	depreciation	Net amount	Cost	depreciation	Net amount
	Land	120,501	-	120,501	82,774	-	82,774
	Buildings	522,425	(158,018)	364,407	490,738	(139,014)	351,724
	Facilities	99,659	(53,510)	46,149	60,043	(38,677)	21,366
	Machinery and equipment	433,841	(212,711)	221,130	269,381	(127,531)	141,850
	Furniture and fixtures	17,555	(10,560)	6,995	14,139	(9,267)	4,872
	Vehicles	2,587	(2,573)	14	2,074	(2,032)	42
	IT equipment	54,962	(31,707)	23,255	28,968	(18,612)	10,356
	Molds and dies/other	34,007	(19,568)	14,439	22,155	(12,687)	9,468
		<b>1,285,537</b>	<b>(488,647)</b>	<b>796,890</b>	<b>970,272</b>	<b>(347,820)</b>	<b>622,452</b>
	Advances	54,344	-	54,344	10,310	-	10,310
	Construction in progress	144,779	-	144,779	31,905	-	31,905
		<b>1,484,660</b>	<b>(488,647)</b>	<b>996,013</b>	<b>1,012,487</b>	<b>(347,820)</b>	<b>664,667</b>
		Consolidated					
		12/31/2018			12/31/2017		
Useful life (years)		Accumulated			Accumulated		
		Cost	depreciation	Net amount	Cost	depreciation	Net amount
	Land	122,666	-	122,666	122,666	-	122,666
	Buildings	548,778	(163,806)	384,972	545,668	(153,489)	392,179
	Facilities	100,791	(54,239)	46,552	83,627	(47,851)	35,776
	Machinery and equipment	448,755	(220,394)	228,361	427,929	(194,004)	233,925
	Furniture and fixtures	18,369	(11,016)	7,353	17,321	(10,638)	6,683
	Vehicles	2,737	(2,713)	24	2,795	(2,674)	121
	IT equipment	55,577	(32,124)	23,453	38,515	(25,703)	12,812
	Molds and dies/other	34,013	(19,568)	14,445	32,017	(17,196)	14,821
		<b>1,331,686</b>	<b>(503,860)</b>	<b>827,826</b>	<b>1,270,538</b>	<b>(451,555)</b>	<b>818,983</b>
	Advances	54,344	-	54,344	12,890	-	12,890
	Construction in progress	144,866	-	144,866	52,688	-	52,688
		<b>1,530,896</b>	<b>(503,860)</b>	<b>1,027,036</b>	<b>1,336,116</b>	<b>(451,555)</b>	<b>884,561</b>

Changes in property, plant and equipment are as follows:

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements

December 31, 2018 and 2017

(In thousands of reais - R\$, unless otherwise stated)

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

	Individual - Cost					
	12/31/2017	Merged assets of Biosintética (a)	Acquisition	Write- offs	Transfers (b)	12/31/2018
	Land	82,774	37,727	-	-	-
Buildings	490,738	31,687	-	-	-	522,425
Facilities	60,043	23,616	2,786	(35)	13,249	99,659
Machinery and equipment	269,381	146,706	10,203	(1,774)	9,325	433,841
Furniture and fixtures	14,139	2,457	1,679	(720)	-	17,555
Vehicles	2,074	571	-	(58)	-	2,587
IT equipment	28,968	8,999	16,719	(20)	296	54,962
Molds and dies/other	22,155	10,010	1,587	-	255	34,007
Subtotal	970,272	261,773	32,974	(2,607)	23,125	1,285,537
Advances on PPE items	10,310	34,547	36,998	-	(27,511)	54,344
Construction in progress	31,905	42,590	74,014	-	(3,730)	144,779
<b>Total</b>	<b>1,012,487</b>	<b>338,910</b>	<b>143,986</b>	<b>(2,607)</b>	<b>(8,116)</b>	<b>1,484,660</b>

	Consolidated - Cost				
	12/31/2017	Acquisition	Write-offs	Transfers (b)	12/31/2018
Land	122,666	-	-	-	122,666
Buildings	545,668	31	-	3,079	548,778
Facilities	83,627	2,895	(52)	14,321	100,791
Machinery and equipment	427,929	12,212	(1,927)	10,541	448,755
Furniture and fixtures	17,321	1,778	(723)	(7)	18,369
Vehicles	2,795	-	(58)	-	2,737
IT equipment	38,515	16,785	(27)	304	55,577
Molds and dies/other	32,017	1,743	-	253	34,013
Subtotal	1,270,538	35,444	(2,787)	28,491	1,331,686
Advances on PPE items	12,890	79,051	-	(37,597)	54,344
Construction in progress	52,688	91,188	-	990	144,866
<b>Total</b>	<b>1,336,116</b>	<b>205,683</b>	<b>(2,787)</b>	<b>(8,116)</b>	<b>1,530,896</b>

(a) Merged balances of Biosintética as at July 1, 2018, previously disclosed in the Consolidated figures.

(b) Certain items that had been classified as construction in progress were reclassified to intangible assets, according to their nature. See Note 10.

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

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

Changes in property, plant and equipment depreciation are as follows:

	Individual				
	12/31/2017	Merged assets of Biosintética (a)	Additions	Write-offs	12/31/2018
Buildings	(139,014)	(10,227)	(8,777)	-	(158,018)
Facilities	(38,677)	(9,440)	(5,428)	35	(53,510)
Machinery and equipment	(127,531)	(64,671)	(22,117)	1,608	(212,711)
Furniture and fixtures	(9,267)	(1,106)	(895)	708	(10,560)
Vehicles	(2,032)	(558)	(41)	58	(2,573)
IT equipment	(18,612)	(7,389)	(5,724)	18	(31,707)
Molds and dies/other	(12,687)	(4,969)	(1,912)	-	(19,568)
	<u>(347,820)</u>	<u>(98,360)</u>	<u>(44,894)</u>	<u>2,427</u>	<u>(488,647)</u>

	Consolidated			
	12/31/2017	Additions	Write-offs	12/31/2018
Buildings	(153,489)	(10,317)	-	(163,806)
Facilities	(47,851)	(6,430)	42	(54,239)
Machinery and equipment	(194,004)	(28,014)	1,624	(220,394)
Furniture and fixtures	(10,638)	(1,089)	710	(11,017)
Vehicles	(2,674)	(78)	39	(2,713)
IT equipment	(25,703)	(6,446)	26	(32,123)
Molds and dies/other	(17,196)	(2,372)	-	(19,568)
	<u>(451,555)</u>	<u>(54,746)</u>	<u>2,441</u>	<u>(503,860)</u>

(a) Merged balances of Biosintética as at July 1, 2018, previously disclosed in the Consolidated figures.

At the year ended December 31, 2018, there was no change in the useful lives of property, plant and equipment.

#### Assets pledged as collateral

The Company and its subsidiaries have property, plant and equipment items pledged as collateral for loans and financing, as well as listed in the defense of legal proceedings, as described in Note 11.

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### 10. Intangible assets

	Useful life (years)	Individual		Consolidated	
		12/31/2018	12/31/2017	12/31/2018	12/31/2017
Trademarks		<b>30,118</b>	28,223	<b>30,131</b>	30,131
CBPF - Nortis (a)	<b>3</b>	<b>707</b>	1,554	<b>707</b>	1,554
Software	<b>5</b>	<b>40,726</b>	42,240	<b>40,865</b>	43,494
Advances		<b>4,000</b>	-	<b>4,000</b>	-
Goodwill - Asta Médica Ltda. (b)		-	-	<b>11,446</b>	11,446
Goodwill - Biosintética (c)		<b>203,942</b>	-	<b>203,942</b>	203,942
Goodwill - Melcon (d)		-	-	<b>17,533</b>	17,533
Goodwill - Nortis (e)		-	-	<b>9,420</b>	9,420
<b>Total</b>		<b>279,493</b>	72,017	<b>318,044</b>	317,520

(a) Intangible assets arising from the acquisition of subsidiary Nortis in February 2016, related to the Good Manufacturing Practices Certificate (CBPF).

(b) Goodwill arising from the acquisition of subsidiary Asta Médica Ltda., merged into the Company in 2003, amortized through December 31, 2008 based on expected future profitability.

(c) Includes the goodwill of subsidiary Biosintética, merged in July 2018; goodwill arises from the downstream merger of the then parent company Delta Participações Ltda., on March 31, 2006, after which both companies became wholly-owned subsidiaries of the Company. Goodwill is based on expected future profitability.

(d) Goodwill arising from the acquisition of subsidiary Melcon in August 2010.

(e) Goodwill arising from the acquisition of subsidiary Nortis in August 2016.

Changes in intangible assets are as follows:

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Balance at beginning of year	<b>72,017</b>	46,846	<b>317,520</b>	283,211
Merged assets of Biosintética (a)	<b>206,640</b>	-	-	-
Advances	<b>4,000</b>	-	<b>4,000</b>	-
Additions	<b>2,339</b>	27,321	<b>2,346</b>	27,374
Write-offs	<b>(4)</b>	(8,372)	<b>(4)</b>	(8,417)
Amortization - software	<b>(13,615)</b>	(8,933)	<b>(13,934)</b>	(9,560)
PPE transfers (b)	<b>8,116</b>	15,155	<b>8,116</b>	15,475
Beginning balance - Nortis (c)	-	-	-	9,437
<b>Balance at end of year</b>	<b>279,493</b>	72,017	<b>318,044</b>	317,520

(a) Merged balances of Biosintética as at July 1, 2018, previously disclosed in the Consolidated figures.

(b) Reclassification of items previously classified as construction in progress.

(c) At December 31, 2017, Nortis is included in the Company's consolidated statements, and therefore, these amounts refer to the balance of December 31, 2016, when that company had not yet been consolidated. As of December 31, 2018, this balance is included in the opening balance of the year.

For the year ended December 31, 2018, there was no change in the useful lives of intangible assets as compared to the previous year.

## **Aché Laboratórios Farmacêuticos S.A. and subsidiaries**

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### **10. Intangible assets (Continued)**

#### Impairment test of goodwill based on expected future profitability

The impairment test of goodwill used the cash-generating unit (“CGU”) and the discounted cash flow method. The following assumptions were taken into consideration:

- Growth percentage of revenue from sale of medications aligned to the Company’s business plan;
- Projections of operational costs considering the operation growth and macroeconomic variables;
- Investment needs aligned with the Company’s business plan; and
- The discount rate for projected cash flows was 12% p.a. (11% p.a. in 2017).

The results of the impairment test conducted as of December 31, 2018 indicated no need for recording a provision for losses.

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### 11. Loans and financing

	Annual charges	Maturity	Individual		Consolidated		
			12/31/2018	12/31/2017	12/31/2018	12/31/2017	
Local currency:							
Working capital - Melcon	14.0% to 21.6%	2021	-	-	1,250	1,800	
FCO and FOMENTAR - Melcon	2.9% to 12.9%	2027	-	-	11,313	12,543	
FINAME - Aché	5.1%	2020	-	98	-	241	
FINAME - Melcon	3.5% to 6.5%	2021	-	-	87	131	
FINEP (a)	4%	2019	15,373	24,784	15,373	24,784	
Profarma - BNDES - Aché (b)	TJLP 6.4% to 7.5%	2026	205,104	34,584	205,104	34,584	
Profarma - BNDES - Aché (b)	TR IPCA 4.2% to 9.6%	2025	128,307	56,147	128,307	71,657	
Profarma - BNDES - Aché (c)	4.50%	2023	21,629	27,111	21,629	28,898	
<b>Total</b>			<b>370,413</b>	142,724	<b>383,063</b>	174,638	
Current			42,592	35,603	45,483	43,146	
Noncurrent			327,821	107,121	337,580	131,492	
<b>Total</b>			<b>370,413</b>	142,724	<b>383,063</b>	174,638	

- (a) The financing obtained from the Financing Agency for Studies and Projects (FINEP) is intended for the research and development of products and is collateralized by a bank guarantee.
- (b) Profarma Financing was obtained from BNDES for the construction and expansion of the industrial unit of Guarulhos - SP, for research and development of products, for the acquisition of Nortis Farmacêutica, a pharmaceutical company specialized in the manufacture of antibiotics, and for the construction of the manufacturing unit in Suape (PE). These financing arrangements provide for usual early maturity hypotheses when certain financial ratios are not performed. The main covenants of these financing contracts are: General Indebtedness equal to or lower than 0.75 and Total Net Debt/EBITDA equal to or lower than 3.0. At December 31, 2018, the Company is in compliance with these contractual covenants. This financing is guaranteed by the granting on mortgage of real estate, machinery and equipment owned by it, located in Guarulhos - SP.
- (c) The financing operations taken out from BNDES bank are set on undertaking Research and Development of Innovative Products according to a facility line subsidized by BNDES within the Profarma Inovação program, having as collateral the mortgage of Guarulhos property; the main contractual covenants are: General Indebtedness equal to or lower than 0.75 and Total Net Debt/EBITDA equal to or lower than 3.0. At December 31, 2018, the Company is in compliance with these contractual covenants.

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### 12. Trade accounts payable

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Domestic suppliers	<b>131,860</b>	73,718	<b>132,727</b>	95,328
Foreign suppliers	<b>77,049</b>	56,686	<b>77,049</b>	81,939
Debtor risk (a)	<b>14,945</b>	7,953	<b>14,945</b>	13,356
Related parties (Note 14)	<b>1,209</b>	4,595	-	-
	<b>225,063</b>	142,952	<b>224,721</b>	190,623

- a) (e) The Company and its subsidiaries have agreements entered into with only one first-tier financial institution to structure a transaction called "debtor risk" with its main suppliers. In this arrangement, the suppliers transfer the right to receive trade notes to the Bank, which will in turn become creditor of the transaction. This transaction did not change the deadlines, prices and conditions previously established when a complete analysis of suppliers by category was performed. Therefore, the Company and its subsidiaries state this transaction under the heading Trade accounts receivable.

### 13. Tax liabilities

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
State VAT (ICMS)	<b>17,436</b>	12,558	<b>17,704</b>	20,361
Corporate Income Tax (IRPJ)	<b>54,917</b>	70,001	<b>54,917</b>	117,448
Contribution Tax on Gross Revenue for Social Security Financing (COFINS)	<b>6,924</b>	6,544	<b>6,924</b>	6,544
Social Contribution Tax on Net Profit (CSLL)	<b>10,909</b>	17,843	<b>10,909</b>	32,557
Social Contribution Tax on Gross Revenue for Social Integration Program (PIS)	<b>1,453</b>	1,364	<b>1,453</b>	1,364
Other	<b>1,234</b>	655	<b>1,372</b>	943
	<b>92,873</b>	108,965	<b>93,279</b>	179,217



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### 14. Related parties

Related-party transactions and balances are as follows:

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Revenues:				
Sales to and manufacturing for Biosintética (a)	<b>74,665</b>	132,130	-	-
Sales to Melcon (b)	<b>1,165</b>	5,584	-	-
Sales to Labofarma (b)	<b>5,617</b>	5,389	-	-
Purchases:				
Purchases of products from Biosintética (a)	<b>12,120</b>	12,283	-	-
Purchase of products from Melcon	<b>14,511</b>	16,419	-	-
Purchase of products from Labofarma	-	46	-	-
Purchase of products from Nortis	<b>8,100</b>	3,367	-	-

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Current assets:				
Accounts receivable - Biosintética (c)	-	7,332	-	-
Accounts receivable - Labofarma (c) (Note 4)	<b>36,077</b>	9,789	-	-
Accounts receivable - Melcon (c) (Note 4)	<b>14</b>	2,408	-	-
Accounts receivable - Nortis (c) (Note 4)	<b>5</b>	4	-	-
Dividends receivable - Biosintética	-	58,313	-	-
Dividends receivable - Melcon	<b>300</b>	-	-	-
	<b>36,396</b>	77,846	-	-

Current liabilities:				
Trade accounts payable - Biosintética (c)	-	1,618	-	-
Trade accounts payable - Labofarma (c)	<b>77</b>	-	-	-
Trade accounts payable - Nortis (c)	<b>610</b>	852	-	-
Trade accounts payable - Melcon (c)	<b>522</b>	2,125	-	-
Dividends payable	<b>110,909</b>	-	<b>111,209</b>	-
Associação Brasileira de Assistência ao Deficiente Visual - Laramara	<b>97</b>	184	<b>138</b>	329
Total current liabilities	<b>112,215</b>	4,779	<b>111,347</b>	329

- a) Manufacturing of products and rendering of corporate services passed on to subsidiaries at the cost actually incurred in these services. The balances for 2018 were included for transactions from January 1, 2018 to June 30, 2018.
- b) Sales of products.
- c) Balance of trade accounts receivable and trade accounts payable related to trading transactions and reimbursement of common expenses among the companies.

The transactions with related parties are carried out under specific conditions agreed by the parties.

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### 14. Related parties (Continued)

#### Key management personnel compensation

Compensation of officers and Management of the Company and its subsidiaries is as follows:

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Overall management compensation and charges	<b>15,478</b>	9,419	<b>15,478</b>	17,878

### 15. Labor and social security liabilities

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Wages and salaries payable	-	11	<b>208</b>	270
Accrued vacation pay, 13th monthly salary and social charges	<b>22,837</b>	17,787	<b>23,415</b>	21,797
Social Security Tax (INSS) payable	<b>18,639</b>	16,252	<b>18,885</b>	20,096
Unemployment Compensation Fund (FGTS) payable	<b>6,015</b>	4,624	<b>6,072</b>	5,712
Profit sharing	<b>43,579</b>	21,256	<b>43,579</b>	41,311
Withholding Income Tax (IRRF) on payroll	<b>11,842</b>	9,691	<b>11,916</b>	11,857
Other	<b>1,158</b>	624	<b>1,162</b>	1,225
	<b>104,070</b>	70,245	<b>105,237</b>	102,268

### 16. Other liabilities

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Advanced receipts	<b>7,838</b>	1,333	<b>7,838</b>	1,667
Freight payable	<b>3,274</b>	3,111	<b>3,276</b>	4,780
Other provisions	<b>63,749</b>	34,365	<b>63,750</b>	58,738
	<b>74,861</b>	38,809	<b>74,864</b>	65,185

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### 17. Provision for tax, civil, and labor contingencies

The Company and its subsidiaries are parties to administrative and legal proceedings involving tax, labor and civil matters, which are at different court levels. Based on its assessment and supported by the opinions of its legal advisors, management recognized a provision for contingencies for which an unfavorable outcome was assessed as probable.

Breakdown of related provisions by nature is as follows:

	Individual						12/31/2018
	12/31/2017	Merged assets of Biosintética (d)	Additions	Reversals	Payments	Restatement	
Tax	111,770	8,197	9,311	(7,409)	(18,559)	2,886	<b>106,196</b>
Labor	126,631	17,379	63,060	(51,050)	(7,381)	12,699	<b>161,338</b>
Civil	9,073	2,322	3,034	(9,771)	(699)	650	<b>4,609</b>
Other litigation (a)	21,197	9,194	7,936	(15,969)	-	530	<b>22,888</b>
	<b>268,671</b>	<b>37,092</b>	<b>83,341</b>	<b>(84,199)</b>	<b>(26,639)</b>	<b>16,765</b>	<b>295,031</b>

	Consolidated					
	12/31/2017	Additions	Reversals	Payments	Restatement	12/31/2018
Tax	120,131	13,525	(12,009)	(18,559) (c)	3,108	<b>106,196</b>
Labor	143,914	36,593 (b)	(54,822)	(7,633)	13,290	<b>161,342</b>
Civil	11,044	3,334	(9,771)	(699)	701	<b>4,609</b>
Other litigation (a)	30,391	7,985	(15,969)	-	530	<b>22,937</b>
	<b>305,480</b>	<b>91,437</b>	<b>(92,571)</b>	<b>(26,891)</b>	<b>17,629</b>	<b>295,084</b>

- (a) Other litigation matters refer to other provisions for contingencies not related to administrative and / or judicial proceedings.
- (b) These refer to new diluted labor claims. The procedure adopted is to set up a provision for contingency on a suit-by-suit basis by reference to the history of decisions unfavorable to the Company and its subsidiaries. The calculations and risk assessment are prepared by outside lawyers retained for this purpose.
- (c) The Company enrolled with the PERT (Special Tax Settlement Program) on cash payment terms, with the respective rules established by Law No. 13496/2017. The payment refers to six tax claims in connection with PERT, which were selected by Management supported by the opinion of its outside lawyers.
- (d) Merged balances of Biosintética as at July 1, 2018, previously disclosed in the Consolidated figures.

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### 17. Provisions for tax, civil and labor contingencies (Continued)

The main administrative and judicial proceedings involving tax matters are as follows:

	<b>Consolidated</b>	
	<b>12/31/2018</b>	<b>12/31/2017</b>
Unemployment Compensation Fund (FGTS) (a)	<b>31,365</b>	31,451
PIS and COFINS (b)	<b>23,154</b>	25,489
IRPJ and CSLL (c)	<b>30,028</b>	45,368
Social Security (d)	<b>3,541</b>	3,030
ICMS (e)	<b>549</b>	3,690
Other (f)	<b>17,559</b>	11,103
	<b>106,196</b>	120,131

- (a) Contribution rate increase - challenge of the 0,5% increase in FGTS contribution, calculated on employee payroll, and the 10% increase in employment termination fine.
- (b) The main proceeding in respect of these contribution taxes is: (i) Administrative Proceeding referring to disallowance of credits related to fleet expenses.
- (c) The most relevant proceedings that challenge the aforementioned tax are: (i) lawsuit concerning monetary restatement in the statement of financial position, which generated equity pickup and subsequent exclusion from the Social Contribution tax base; (ii) Legal Proceeding discussing the amortization of goodwill on the merger of Delta Part for the years 2006-2009.
- (d) Required payment of a fine on the grounds that the company did not report in the GFIP form all the events triggering taxes and contributions to which it would be subject.
- (e) Tax Enforcement or Administrative Proceedings drawn up by the São Paulo, Espírito Santo and Minas Gerais State Departments addressing the collection of ICMS and ICMS-Tax Substitution (ST) taxation regime.
- (f) This amount includes: (i) lawyers' fees accrued as a result of success fees contracted; (ii) several actions discussing other taxes not listed above involving less significant amounts.

Management believes that the unfavorable outcome of its lawsuits, whether individually or in aggregate, will not have a material adverse effect on the Company's financial position or business.

#### Proceedings assessed as a risk of possible loss

As of December 31, 2018, the Company and its subsidiaries are parties to tax, civil and labor proceedings that are not accrued since they involve risk of loss classified by legal advisors and by management as possible. Contingent liabilities are represented as follows:

	<b>Consolidated</b>	
	<b>12/31/2018</b>	<b>12/31/2017</b>
Tax	<b>1,376,245</b>	1,167,906
Labor	<b>199,124</b>	112,664
Civil	<b>9,889</b>	8,712
	<b>1,585,258</b>	1,289,282

Concerning tax proceedings assessed as risk of possible loss, the matters are classified as follows:

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### 17. Provision for tax, civil, and labor contingencies (Continued)

#### Major proceedings assessed as a risk of possible loss

	<b>Consolidated</b>	
	<b>12/31/2018</b>	<b>12/31/2017</b>
PIS and COFINS (e)	<b>299,914</b>	244,328
IRPJ and CSLL (a) (b) (c) (d)	<b>1,042,637</b>	811,232
Social Security	<b>9,948</b>	5,600
ICMS	<b>12,747</b>	92,051
Other	<b>10,999</b>	14,695
	<b>1,376,245</b>	1,167,906

- (a) This is a tax assessment notice against Biosintética (merged company) to claim alleged IRPJ and CSLL debts from 2006 to 2009 (i) and 2010 to 2011 (ii) due to allegedly unfulfilled legal conditions to deduct the amortization charges of goodwill paid on the acquisition of Delta Participações Farmacêuticas S.A. Amounts involved: (i) R\$301,000 (R\$577,010 restated through December 31, 2018); and (ii) R\$112,409 (R\$129,043 restated through December 31, 2018). Status: (i) the discussion is currently under Tax Execution, against which an Appeal was lodged and is awaiting judgment; (ii) judgment an Appeal to the Higher Court of Justice (STJ) brought by the parties is awaited. The risk of loss in relation to the deduction of goodwill deduction has been assessed as possible, with a remote trend in respect of application of the increased fine; this remains at administrative level, the risk of loss is remote;
- (b) Tax Assessment Notice drawn against Magenta Participações LTDA amounting to R\$202,315 to require alleged debts of IRPJ and CSLL related to calendar years 2008 and 2009, concerning goodwill amortization charges after merging the split-off assets of Magenta Participações Ltda. With respect to the collection re. tax year 2009, management decided to join the Brazilian IRS Tax Recovery Program (REFIS). As for tax year 2008, whose amount was estimated at R\$ 107,928 at that time (R\$ 145,237 restated through December 31, 2018), the Company awaits a decision on the Appeal lodged. The Company believes that there are tenable ground for defense that deserve to be accepted;
- (c) A tax assessment notice was drawn claiming collection of IRPJ and CSLL for calendar year 2011, due to the deduction of expenses with payment of IOE calculated on previous bases, whose historical value is R\$ 44,639 (R\$ 51,092 restated through December 31, 2018). The Company filed an Appeal to the STJ, which was fully denied. Awaiting citation of the decision. Management assesses the case as possible loss;
- (d) PIS/COFINS payment requirement of the single-phase regime for the period 2011 to 2012, in the historical amount of R\$ 198,027 (R\$ 226,721 restated through December 31, 2018), mostly due to the PIS/COFINS deemed credit in accordance with article 3 of Law No. 10147/00. After presentation of the Objection, the case was converted into a diligence, which has not yet been completed.

The outside lawyers assess the case as a possible loss, which is why there is no recorded provision for these proceedings.

#### Judicial deposits

Changes in judicial deposits are as follows:

<b>Individual</b>	<b>12/31/2017</b>	<b>Merged assets of Biosintética (a)</b>	<b>Additions/ restatements</b>	<b>Reversals/ write-offs</b>	<b>12/31/2018</b>
Tax	76,739	-	2,213	-	<b>78,952</b>
Labor	24,651	5,746	7,195	(8,520)	<b>29,072</b>
Civil	2,566	-	9,663	(767)	<b>11,462</b>
	103,956	5,746	19,071	(9,287)	<b>119,486</b>

a) Merged balances of Biosintética as at July 1, 2018, previously disclosed in the Consolidated figures.

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### 17. Provision for tax, civil, and labor contingencies (Continued)

Judicial deposits (Continued)

Consolidated	12/31/2017	Additions/res tatements	Reversals/ write-offs	12/31/2018
Tax	76,739	2,213	-	<b>78,952</b>
Labor	29,788	7,804	(8,520)	<b>29,072</b>
Civil	2,566	9,663	(767)	<b>11,462</b>
	109,093	19,680	(9,287)	<b>119,486</b>

### 18. Other liabilities

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Provision for maintenance of rented vehicles	<b>13,027</b>	7,993	<b>13,028</b>	9,800
Profit sharing payable	<b>34,236</b>	6,052	<b>34,236</b>	32,430
Advanced receipts - strategic projects	<b>29,503</b>	48,045	<b>29,503</b>	49,517
Other accounts payable	<b>3,544</b>	3,544	<b>5,685</b>	5,350
	<b>80,310</b>	65,634	<b>82,452</b>	97,097

### 19. Financial instruments

#### a) Capital management

Company management manages Company funds in order to ensure business continuity and maximize funds available for research and development of new products, as well as provide return to shareholders.

From time to time, management reviews the capital structure and its ability to settle its liabilities, as well as monitors, on a timely basis, the days purchase outstanding in relation to the average term of inventory turnover. Necessary actions are promptly taken when these balances result in assets in excess of liabilities.

In line with other companies operating in the industry, the Company monitors capital based on its financial leverage ratio, which corresponds to the net debt divided by total capital.

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### 19. Financial instruments (Continued)

#### a) Capital management (Continued)

Net financial position at December 31, 2018 and December 31, 2017 is summarized as follows:

	<b>Consolidated</b>	
	<b>12/31/2018</b>	<b>12/31/2017</b>
Loans and financing (Note 11)	<b>383,063</b>	174,638
Cash and cash equivalents (Note 3)	<b>(245,471)</b>	(168,964)
Short-term investments - noncurrent assets	<b>(30)</b>	(30)
Derivatives	<b>1,215</b>	406
Net financial position – (assets) / liabilities	<b>138,777</b>	6,050

#### b) Financial instruments by category

	<b>Individual</b>		<b>Consolidated</b>	
	<b>Carrying amount and market value</b>		<b>Carrying amount and market value</b>	
	<b>12/31/2018</b>	<b>12/31/2017</b>	<b>12/31/2018</b>	<b>12/31/2017</b>
<b>Financial assets:</b>				
Cash and cash equivalents (Note 3)	<b>239,405</b>	107,506	<b>245,471</b>	168,964
Trade accounts receivable (Note 4)	<b>613,926</b>	459,461	<b>582,310</b>	660,668
Derivatives	<b>1,215</b>	406	<b>1,215</b>	406
Financial investments - noncurrent assets	-	-	<b>30</b>	30
Judicial deposits (Note 17)	<b>119,486</b>	103,956	<b>119,486</b>	109,093
<b>Financial liabilities:</b>				
Loans and financing (Note 11)	<b>370,413</b>	142,724	<b>383,063</b>	174,638
Trade accounts payable (Note 12)	<b>225,063</b>	142,952	<b>224,721</b>	190,623
Accounts payable	<b>36,915</b>	29,561	<b>39,809</b>	42,666

The balances of cash and cash equivalents (cash, banks and short-term investments), trade accounts receivable and trade accounts payable are equivalent to their market value as their maturities are close to the statement of financial position dates.

The balance of loans and financing is monetarily restated based on inflation indices and variable interests in view of market conditions and, therefore, the debt balance recorded at the statement of financial position dates approximates the market value.

However, since there is no active market for these instruments, differences could occur in the event of early settlement.

#### c) Risk management

The Company is exposed to market risks, including currency risk, interest rate risk, credit risk and liquidity risk.

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### c) Risk management (Continued)

#### c.1) Interest rate risk

The Company has agreements in reais at floating interest rates pegged to the Long-term interest rate (TJLP), plus 1.52% to 2.26% p.a. and a fixed rate of 4.5% p.a. A small portion of debt is restated by reference to the Extended Consumer Price Index (IPCA) and linked to the Referential Rate (TR) +1.52% p.a. to 2.26% p.a.

#### Sensitivity to interest rates

For the sensitivity analysis of interest rate on loans and short-term investments, the Company took into account the probable scenario with 25% and 50% increase in possible and remote scenarios, respectively. Amounts were calculated based on the remaining principal balance of the loan, pegged to the TJLP rate, and short-term investments at December 31, 2018. The impact on profit or loss could occur as follows:

#### c.1) Interest rate risk (Continued)

Individual	Risk factor	Average rate p.a.	Exposed amounts at 12/31/2018	Probable scenario		Possible scenario (25%)		Remote scenario (50%)	
				Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L
Short-term investments	CDI	6.40%	238,938	6.50%	15,531	4.88%	11,648	3.3%	7,765
Loans - domestic currency	TJLP	7.00%	(370,413)	7.00%	(14,357)	8.75%	(17,947)	10.50%	(21,536)
Gain (Loss)			(131,475)		1,174		(6,299)		(13,771)
Consolidated	Risk factor	Average rate p.a.	Exposed amounts at 12/31/2018	Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L
Short-term investments	CDI	6.40%	239,378	6.50%	15,560	4.88%	11,670	3.3%	7,780
Loans - domestic currency	TJLP	7.00%	(383,063)	7.00%	(14,357)	8.75%	(17,947)	10.50%	(21,536)
Gain (Loss)			(143,685)		1,203		(6,277)		(13,756)



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### 19. Financial instruments (Continued)

#### c) Risk management (Continued)

##### c.2) *Currency risk*

The Company reduces its exposure to exchange rate volatility by entering into forward (long) contracts of NDF dollars. At December 31, 2018, there are contracts to be settled in the amount of USD 16,512, or R\$63,281.

##### Sensitivity to derivatives

For calculating transactions in foreign currencies, possible and remote scenarios were taken into consideration to the decrease or increase in exchange rates by 25% and 50% respectively. The rates estimated by management are reflected in the probable scenario.

Gain or (loss) adjustments to transactions in foreign currency are as follows:

Sensitivity analysis of Derivatives (Currency term / NDF) - Adjustment (R\$ MM)

	Remote scenario -50%	Possible scenario -25%	Probable scenario	Possible scenario +25%	Remote scenario +50%
<b>Individual</b>	(31,496)	(15,603)	290	16,183	32,075
<b>Consolidated</b>	(31,496)	(15,603)	290	16,183	32,075
<b>Net impact individual/consolidated Loss/(Gain)</b>	(31,786)	(15,893)	-	15,893	31,786

Probable scenario, FOCUS Bulletin published as of 12/31/2018. The expected rate is R\$/US\$ 3.84.

Amounts payable denominated in foreign currencies (US dollars, euros, Swiss francs and pounds sterling) are exposed to risks related to foreign currency fluctuations. Total assets and liabilities subject to foreign exchange exposure and the corresponding currencies are as follows:

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements

December 31, 2018 and 2017

(In thousands of reais - R\$, unless otherwise stated)

### 19. Financial instruments (Continued)

#### c) Risk management (Continued)

##### c.2) *Currency risk* (Continued)

		Individual		Consolidated	
		12/31/2018	12/31/2017	12/31/2018	12/31/2017
In euros:	EUR				
Assets		4,327	1,738	4,327	1,801
Liabilities		(1,858)	(1,278)	(1,858)	(1,842)
Net exposure		2,469	460	2,469	(41)
In US dollars:	US\$				
Assets		807	574	807	1,127
Liabilities		(17,202)	(14,825)	(17,202)	(21,817)
Net exposure		(16,395)	(14,251)	(16,395)	(20,690)
In sterling pounds	GBP				
Assets		-	-	-	-
Liabilities		(28)	-	(28)	-
Net exposure		(28)	-	(28)	-
In Swiss francs:	CHF				
Assets		-	-	-	-
Liabilities		(440)	(875)	(440)	(875)
Net exposure		(440)	(875)	(440)	(875)
Accounts receivable - foreign currency - in R\$		1,519	687	1,519	2,381
Foreign exchange difference in R\$		2	(105)	2	(40)
<b>Balance of accounts receivable - in R\$ (a)</b>		<b>1,521</b>	<b>582</b>	<b>1,521</b>	<b>2,341</b>
Trade accounts payable - foreign currency - in R\$		(76,246)	(56,056)	(76,246)	(81,328)
Foreign exchange difference - trade accounts payable - in R\$		(480)	(630)	(480)	(611)
<b>Balance of trade accounts payable - in R\$ (b)</b>		<b>(76,726)</b>	<b>(56,686)</b>	<b>(76,726)</b>	<b>(81,939)</b>
Total advances to suppliers - foreign currency - in R\$ (c)		20,798	7,829	20,798	8,161
Variação cambial adiantamento fornecedor		(10)	527	(10)	488
Saldo Adiantamento Fornecedor		20,788	8,356	20,788	8,649
<b>Net exposure - (a-b+c) - foreign currency - in R\$</b>		<b>(54,417)</b>	<b>(47,748)</b>	<b>(54,417)</b>	<b>(70,949)</b>

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements

December 31, 2018 and 2017

(In thousands of reais - R\$, unless otherwise stated)

### 19. Financial instruments (Continued)

#### c) Risk management (Continued)

##### c.2) Currency risk (Continued)

##### Sensitivity to exchange rate

For calculating transactions in foreign currencies, possible and remote scenarios were taken into consideration to the decrease or increase in exchange rates by 25% and 50% respectively. The rates estimated by management are reflected in the probable scenario.

Gain or (loss) adjustments to transactions in foreign currency are as follows:

	Individual			Probable scenario		Possible scenario (+25%)		Remote scenario (+50%)	
	Risk factor	Average rate p.a.	Exposed amounts at 12/31/2018	Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L
Long position - USD	US\$	3.75	22,317	3.85	595	4.81	6,323	5.78	12,051
Short position - USD	US\$	3.75	(76,246)	3.85	(2,033)	4.81	(21,603)	5.78	(41,173)
Net exposure (loss)			(53,929)		(1,438)		(15,280)		(29,122)
	Consolidated			Probable scenario		Possible scenario (+25%)		Remote scenario (+50%)	
	Risk factor	Average rate p.a.	Exposed amounts at 12/31/2018	Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L
Long position - USD	US\$	3.75	22,317	3.85	595	4.81	6,323	5.78	12,051
Short position - USD	US\$	3.75	(76,246)	3.85	(2,033)	4.81	(21,603)	5.78	(41,173)
Net exposure (loss)			(53,929)		(1,438)		(15,280)		(29,122)

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements

December 31, 2018 and 2017

(In thousands of reais - R\$, unless otherwise stated)

### 19. Financial instruments (Continued)

#### c) Risk management (Continued)

##### c.3) *Liquidity risk*

Management monitors liquidity of the Company and its subsidiaries, considering the estimated cash flow and cash and cash equivalents. The aging list of financial liabilities taken out by the Company and its subsidiaries is as follows:

<b>Consolidated</b>	<b>Within 1 year</b>	<b>Up to 2 years</b>	<b>3 to 4 years</b>	<b>After 4 years</b>	<b>Total</b>
Trade accounts payable	224,721	-	-	-	224,721
Derivatives	323	-	-	-	323
Loans and financing	45,483	39,539	127,654	170,387	383,063

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements

December 31, 2018 and 2017

(In thousands of reais - R\$, unless otherwise stated)

### 20. Equity

#### a) Capital

At December 31, 2018 and 2017, capital amounted to R\$440,959, represented by 63,900,000 common shares, all registered and without par value, fully subscribed and paid up by three shareholders, each of which holds an equal interest of 33.33%.

#### b) Capital reserves

	<u>12/31/2018</u>	<u>12/31/2017</u>
Special goodwill reserve	<b>167,767</b>	167,767
Share premium reserve	<b>6,445</b>	6,445
	<u><b>174,212</b></u>	<u>174,212</u>

The share premium reserve refers to the matching entry of the goodwill absorbed by the Company in prior years, less the provision for maintenance of integrity of shareholders' equity, whose net effect corresponds to the tax benefit to be generated on its realization and recognized as deferred income tax asset.

#### c) Income reserves

	<u>Consolidated</u>	
	<u>12/31/2018</u>	<u>12/31/2017</u>
Legal reserve (a)	<b>43,807</b>	43,807
Reserve for new products, research and development and investments in property, plant and equipment (b)	<b>298,763</b>	298,763
Tax incentive reserve (c)	<b>982</b>	982
Unpaid profits reserve (d)	<b>457,658</b>	422,720
Total	<u><b>801,210</b></u>	<u>766,272</u>

a) This is set up at 5% of net income for each year, capped at 20% of the capital, except if the legal reserve plus capital reserve exceeds 30% of capital.

b) Recognized to cover expenditures for launching new products, expenditures on research and development and investments in property, plant and equipment under the terms of the Company's Articles of Incorporation.

c) Government grants are recognized in profit or loss on a systematic basis over the years in which the Company recognizes as expenses the related costs for which the grants are intended to offset and, subsequently, they are allocated to the tax incentive reserve, in equity.

d) The Annual General Meeting will approve distribution of profits and interest on equity related to 2018 in a subsequent period.

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements  
December 31, 2018 and 2017  
(In thousands of reais - R\$, unless otherwise stated)

### 20. Equity (Continued)

#### d) Dividends and Interest on Equity (IOE)

The Company's Articles of Incorporation ensure mandatory minimum dividend of 25% of the net income for each year, less a legal reserve of 5% of net income, and allow dividend payment based on semiannual or interim statements of financial position.

Changes in dividends and IOE are as follows:

<u>Dividends approved at the AGM held on March 20, 2018</u>	<b>422,720</b>
<u>Total dividend paid over 2018</u>	
Referring to 2017	382,500
Supplemental IOE referring to 2017	5,533
IOE paid referring to 2018	64,386
Prepaid dividend for 2018	11,272
Subtotal - dividends and/or IOE paid over 2018 (cash effect)	<b>463,691</b>
<u>Dividends payable</u>	
Mandatory minimum dividend – statutory (income for the year R\$607,520 x 25%)	151,880
IOE paid referring to 2017	(5,533)
IOE paid referring to 2018	(64,386)
Prepaid dividends paid for year 2018	(11,272)
Balance of mandatory minimum dividend	<b>70,689</b>
Balance of dividends referring to 2017	<b>40,220</b>
Balance of dividends payable for 2017 - Melcon	<b>300</b>
Balance of total dividends payable for 2017	<b>111,209</b>

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements  
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(In thousands of reais - R\$, unless otherwise stated)

### 20. Equity (Continued)

#### e) Equity adjustment

	<b>Individual</b>	
	<b>12/31/2018</b>	<b>12/31/2017</b>
Adjustments to deemed cost of PPE	<b>129,185</b>	121,627
Equity adjustment in subsidiaries' assets	-	9,116
<b>Total equity adjustment</b>	<b>129,185</b>	<b>130,743</b>

### 21. Operating revenue, net

	<b>Individual</b>		<b>Consolidated</b>	
	<b>12/31/2018</b>	<b>12/31/2017</b>	<b>12/31/2018</b>	<b>12/31/2017</b>
Gross sales revenue	<b>6,048,617</b>	3,601,941	<b>7,731,734</b>	6,977,158
Returns and other	<b>(144,680)</b>	(59,027)	<b>(94,575)</b>	(121,462)
Discounts	<b>(2,647,378)</b>	(886,435)	<b>(3,985,977)</b>	(3,381,230)
Subtotal - sales before taxes	<b>3,256,559</b>	2,656,479	<b>3,651,182</b>	3,474,466
Sales taxes	<b>(434,680)</b>	(443,503)	<b>(467,992)</b>	(506,554)
<b>Total</b>	<b>2,821,879</b>	2,212,976	<b>3,183,190</b>	2,967,912

### 22. Expenses by nature

	<b>Individual</b>		<b>Consolidated</b>	
	<b>12/31/2018</b>	<b>12/31/2017</b>	<b>12/31/2018</b>	<b>12/31/2017</b>
Raw materials consumed	<b>632,094</b>	455,423	<b>669,470</b>	581,711
Materials, energy, third-party services and other expenses	<b>648,317</b>	615,721	<b>729,272</b>	762,520
Personnel and taxes	<b>563,886</b>	482,283	<b>619,883</b>	605,257
Depreciation and amortization	<b>53,738</b>	38,972	<b>63,904</b>	54,423
Rent	<b>48,261</b>	33,584	<b>50,563</b>	41,526
Other taxes	<b>100,226</b>	32,383	<b>108,453</b>	54,593
Other selling and administrative expenses	<b>6,233</b>	10,532	<b>6,481</b>	15,400
	<b>2,052,755</b>	1,668,898	<b>2,248,026</b>	2,115,430
Cost of sales	<b>846,598</b>	614,584	<b>939,348</b>	834,201
Selling expenses	<b>1,053,461</b>	863,308	<b>1,132,169</b>	1,048,088
General and administrative expenses	<b>152,696</b>	191,006	<b>176,509</b>	233,141
<b>Total</b>	<b>2,052,755</b>	1,668,898	<b>2,248,026</b>	2,115,430

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements

December 31, 2018 and 2017

(In thousands of reais - R\$, unless otherwise stated)

### 23. Other operating income (expenses), net

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Resale of scrap	360	512	435	582
Recovery of expenses	754	543	1,349	6,504
Recovery of taxes	13,798	12,478	13,798	15,152
Receivables from commercial agreement	18,347	11,422	18,347	11,422
Other revenues	5,947	14,556	6,584	9,247
<b>Total other revenues</b>	<b>39,206</b>	<b>39,511</b>	<b>40,513</b>	<b>42,907</b>
Expenses with strategic projects	(47,785)	(21,715)	(49,067)	(23,656)
Gain (loss) on disposal of PPE items	(108)	(2,198)	(235)	(2,171)
Other expenses	(5,392)	(1,436)	(4,277)	(1,669)
<b>Total other expenses</b>	<b>(53,285)</b>	<b>(25,349)</b>	<b>(53,579)</b>	<b>(27,496)</b>
	<b>(14,079)</b>	<b>14,162</b>	<b>(13,066)</b>	<b>15,411</b>

### 24. Finance income (costs)

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Interest income	8,724	13,064	10,505	18,125
Monetary gains	3,365	3,065	3,399	3,098
Derivative income	7,249	2,174	7,248	2,654
Other finance income	195	1,194	441	1,563
<b>Total finance income</b>	<b>19,533</b>	<b>19,497</b>	<b>21,593</b>	<b>25,440</b>
Interest expenses	(13,187)	(12,515)	(16,170)	(16,349)
Monetary losses	(16,529)	(15,042)	(17,344)	(17,277)
Derivative costs	(7,050)	(4,227)	(7,051)	(5,709)
Sundry charges	(3,407)	(2,795)	(4,472)	(3,698)
Other finance costs	(5,219)	(2,088)	(6,426)	(2,680)
<b>Total finance costs</b>	<b>(45,392)</b>	<b>(36,667)</b>	<b>(51,463)</b>	<b>(45,713)</b>
Exchange losses	(30,599)	(7,750)	(36,380)	(10,973)
Exchange gains	23,389	8,754	26,372	11,690
Total foreign exchange difference, net	(7,210)	1,004	(10,008)	717
<b>Finance income/costs, net</b>	<b>(33,069)</b>	<b>(16,166)</b>	<b>(39,878)</b>	<b>(19,556)</b>



## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

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### 25. Supplementary pension plan

The Company sponsors a supplementary pension plan which covers all its employees. This plan is the so-called PGBL, similar to a 401(k)-type plan, administered by a private pension entity under a fully-funded system. The amount of the benefit is calculated based on the mathematical reserve for unvested benefits at the retirement date.

The pension plan offered includes the following benefits:

- Retirement by age transferrable to the spouse;
- Retirement to disability transferrable to the spouse;
- Survivors' pension transferrable to children under 21 years old.

The risk benefits (retirement due to disability and survivors' pension) were structured under a defined-contribution plan.

The Company does not have any liability in relation to technical risk related to survival during the capitalization period or mortality after a member begins to receive the benefit or disability risk during the capitalization period.

The Company's contributions to the supplementary pension plan for the year ended December 31, 2018 totaled R\$5,824 (R\$4,198 in 2017).

### 26. Insurance coverage

The Company adopts an insurance policy that considers risk concentration and its relevance, the nature of its activities and guidance from its insurance advisors. At December 31, 2018, the insurance coverage was taken out at the amounts indicated below, according to the insurance policies:

<b>Insurance lines</b>	<b>Amounts insured</b>
Property damage to PPE	425,000
Civil liability	100,000
Civil construction - Pernambuco Plant	345,896

The audit scope does not include an opinion on the reasonableness of insurance coverage.

## Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements

December 31, 2018 and 2017

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### 27. Employee and management profit sharing - consolidated

The Company and its subsidiaries include in their human resources policy a profit-sharing plan (PPR) and bonuses for officers, not covered by any other variable compensation programs offered by these companies. Goals and criteria for defining and distributing funds awarded are agreed to between the parties, with objectives of gains in productivity and competitiveness and motivation and involvement of participants. The PPR posted to consolidated P&L for the year ended December 31, 2018 amounted to R\$56,581 (R\$55,941 in 2017), as follows:

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Addition of provision for the year	47,116	33,870	56,692	61,076
Reversal of prior-years' provision	(106)	(1,409)	(111)	(5,135)
Employee and management profit sharing in P&L for the year	47,010	32,461	56,581	55,941

### 28. Earnings per share

	Individual		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Basic and diluted numerator				
Allocation of net income for the year to shareholders	607,520	565,265	607,520	565,265
Basic and diluted denominator				
Outstanding shares (in thousands) - Note 19	63,900	63,900	63,900	63,900
Basic and diluted earnings per share - R\$	9.51	8.85	9.51	8.85

### 29. Subsequent event

On December 21, 2018, Aché Group entered into a financing agreement with BNB - Banco do Nordeste do Brasil in the amount of R\$ 324.2 million, maturing in 14 years (6-year grace period and 8-year-term amortization), bearing fixed interest rate of the Constitutional Funds (TFC) + IPCA. This contract is secured by bank guarantee of 100% of the outstanding balance. Although the agreement was signed prior to the end of year as at December 31, 2018, no funds have been released until the date of issuance of these Financial Statements.

On October 30, 2017 Aché Laboratórios Farmacêuticos SA executed a credit facility agreement for investments with BNDES – Brazil's National Development Bank in the amount of R\$ 252.1 million, maturing in 9 years, Long-term Interest Rate (TJLP) + spread, on March 14, 2019, there was a release of funds in the net amount of R\$ 29.4 million.

This contract is secured by the mortgage of Guarulhos real property and the main covenants are as follows: EBITDA Margin equal to or greater than 0.18 and total net debt/EBITDA equal to or lower than 3.0. Management evaluated the indicators as of December 31, 2018 and all were met and it is expected to maintain compliance with these indicators in future years until the end of the loan agreement.

## **Aché Laboratórios Farmacêuticos S.A. and subsidiaries**

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The agreements mentioned above are intended to support the investments of the first and second phase of construction of the new drug factory, located in Suape Complex, in the municipality of Cabo de Santo Agostinho (PE).

### **Board of Directors**

Raul Calfat	Chairman
Geraldo José Carbone	Vice Chairman
Adalberto Panzenboeck Dellape Baptista	Director
Alexandre Gottlieb Lindenbojm	Director
Jonas de Campos Sialylys	Director
José Luiz Depiere	Director
José Rogério Luiz	Director
Luiz Antônio Martins Amarante	Director
Luiz Carlos Vaini	Director
Ricardo Panzenboeck Dellape Baptista	Director

### **Statutory Board**

Vânia de Azevedo Nogueira de Alcântara Machado	Chief Executive Officer
Francisco Luiz Malena	Director of Competitive Intelligence and Chief Administrative and Financial Officer
Adriano Alvim de Oliveira	Chief Operations Officer
Gabriela Mallmann	Chief Quality and Regulatory Matters Officer and PMO
Marcelo Neri	Chief Marketing and Demand Generation Officer
André Batista Corrêa Barreto	General Legal Counselor

### **Accountant**

Rodrigo Miranda Simões  
CRC-1SP250809/O-7