

Financial Statements

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

December 31, 2016
with Independent Auditor's Report



**Building a better
working world**

São Paulo, March 14, 2017

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, 2016 for your appreciation. All comparisons in this report consider consolidated data in relation to the same period in 2015, 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

Even facing an adverse macroeconomic scenario, the Company continued its planned investments in accordance with the guidelines established in its Strategic Planning, making progress in its five pillars, to wit: growth, innovation, operational excellence, focus on customer and sustainability.

The Company ended 2016 with Net Revenue of R\$2.7 billion - a 15.1% increase compared with prior year - and adjusted EBITDA of R\$823.2 million, representing a 14.9% increase. Aché's financial soundness, demonstrated by its strong cash generation, enabled the launch of 27 products, complementing its already diversified portfolio and reaffirming its leadership in the segment of prescription medicines.

The Company's conservative financial strategy, which maintains its non-leveraged capital structure and adequate liquidity profile, associated with the resilience of the pharmaceutical segment and with Aché business fundamentals, permitted the Company's ratings to reach up to two notes above Sovereign. In 2016, Standard & Poor's maintained the ratings in the Investment Grade (BBB- in foreign currency and brAAA in local currency), while Fitch Ratings maintained rating BB + in foreign currency and AAA (bra) in local currency.

Throughout the year, Aché consolidated the Innovation Center and the Design and Molecular Synthesis Laboratory and was the first Brazilian laboratory to participate in the Structural Genomics Consortium (SGC), an international partnership among universities, governments and industries to accelerate the development of new innovative medicines.



Prospects for the pharmaceutical sector indicate the incremental innovation and nanotechnology as the areas that will demand more investment in coming years. Accordingly, Aché, in partnership with the Swiss company Ferring Pharmaceuticals, created in 2016 the Nanotechnology Innovation Laboratory Enterprise (NILE), a technology institute to explore nanotechnology.

Investments in operational excellence took the indicator of losses with inventory obsolescence to its historical low and ensured the products' full availability in the sales channel.

In line with its targeted growth for coming years, the Company announced the construction of a pharmaceutical plant in the metropolitan area of Recife, which will increase its installed capacity upon its full operation.

The *Cuidados pela Vida (CPV)* Program, created in 2009, is one of Aché's main tools in building a close and lasting relationship with consumers. In 2016, this program reached more than 5 million registered patients, with 26 thousand licensed drugstores in approximately 2 thousand cities, boosting the access and providing continuity to the treatment of thousands of people.

Focused on the medical profession, Aché innovated the technical approach through a multichannel strategy, bringing scientific knowledge to a broader base of health professionals, strengthening its leadership in medical prescription generation for the tenth consecutive year.

The value proposition in the point of sale (POS), which already existed for qualification and training sessions, was expanded with the launch of Integra Aché platform on the National Customer Day with three portals: *Cresça com Aché*; *Compre com Aché*; and *Cliente Aché*. In a few months, they obtained more than 20 thousand registrations.

In line with its 50-year trajectory, Aché will continue its mission of continuously developing innovative products and services to meet the expectations of health professionals and bring more life to people, wherever they may be, as well as growing on a sustainable basis, generating and sharing value with the society and shareholders, respecting people and the environment.



Aché increases its Net Revenue by 15.1%, Adjusted EBITDA by 14.9% and Net Income by 15.2% in 2016

Highlights - Financial Performance

- ü **Net Revenue of R\$2.7 billion**, a 15.1% increase compared with 2015.
- ü **Adjusted EBITDA of R\$823.2 million**, with a margin of 30.6%.
- ü **Net Income of R\$544.6 million and Earnings per Share of R\$8.5 for the year**, with a 15.2% increase compared with 2015.
- ü **Net leverage of 0.05 vs. Total Adjusted EBITDA** accumulated in 12 months.

Significant Financial Indicators - Consolidated

(R\$ million)	4Q15	4Q16	Var (%)	2015	2016	Var (%)
Net Revenue	658.6	813.1	23.5%	2,332.9	2,686.3	15.1%
Gross Profit	460.2	574.0	24.7%	1,721.9	1,894.5	10.0%
<i>% Net Revenue</i>	<i>69.9%</i>	<i>70.6%</i>	<i>0.7 p.p.</i>	<i>73.8%</i>	<i>70.5%</i>	<i>-3.3 p.p.</i>
EBITDA	162.3	324.5	100.0%	682.1	814.1	19.4%
<i>% Net Revenue</i>	<i>24.6%</i>	<i>39.9%</i>	<i>15.3 p.p.</i>	<i>29.2%</i>	<i>30.3%</i>	<i>1.1 p.p.</i>
EBITDA (adjusted)	153.4	289.2	88.5%	716.5	823.2	14.9%
<i>% Net Revenue</i>	<i>23.3%</i>	<i>35.6%</i>	<i>12.3 p.p.</i>	<i>30.7%</i>	<i>30.6%</i>	<i>-0.1 p.p.</i>
Net Income	125.8	231.5	84.0%	472.8	544.6	15.2%
<i>% Net Revenue</i>	<i>19.1%</i>	<i>28.5%</i>	<i>9.4 p.p.</i>	<i>20.3%</i>	<i>20.3%</i>	<i>0.0 p.p.</i>
Earnings per Share	2.0	3.6	84.0%	7.4	8.5	15.2%

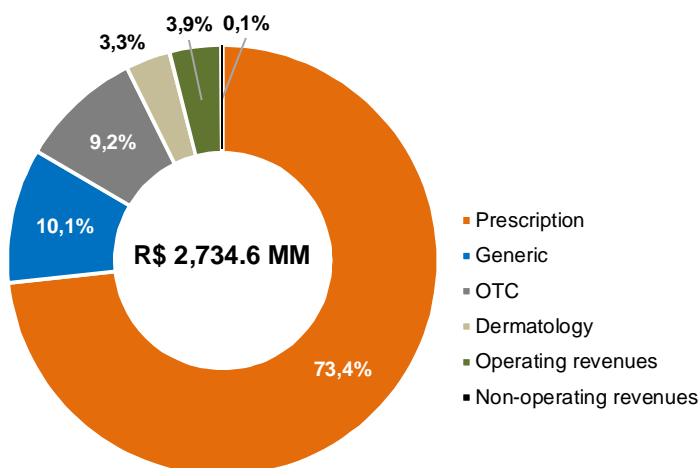
Source: Company's Financial Information.

Business profile

For 50 years, Aché has been operating in the Brazilian pharmaceutical industry, generating and sharing value with different audiences, which makes its brands to be recognized and respected by consumers and health professionals, leading to confidence, health, quality of life and well-being to the population.

Established in Brazil and worldwide, Aché exports to countries in the Americas, Africa and Japan and operates in the segments of prescription medicines, nonprescription medicines, generic prescription medicines and dermatology. Its portfolio is represented by 326 brands in 804 presentations, covering more than 25 medical specialties and 142 therapeutic classes.

Interest held in Adjusted Net Revenue per Business Unit



Portfolio



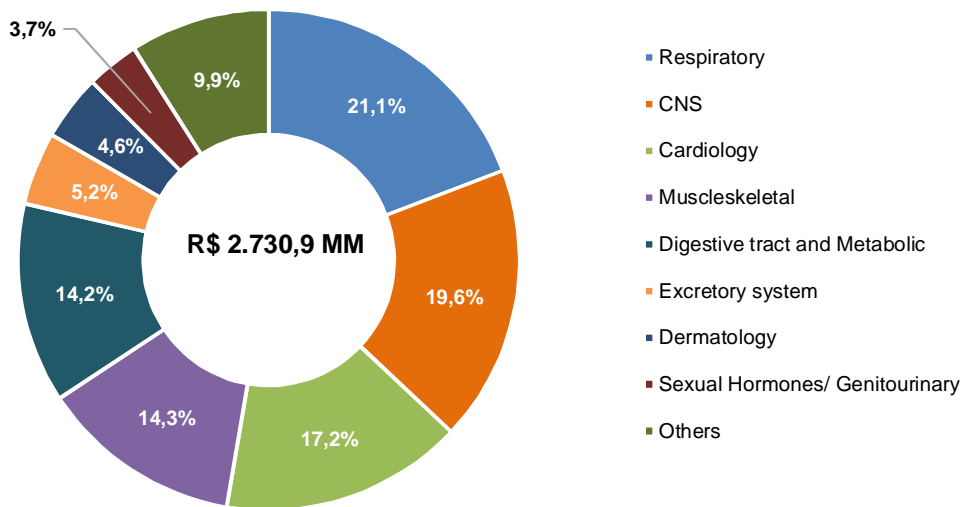
Source: Company's Managerial Information This comprises addition of R\$55.4 million referring to *Brasil Maior* plan - Payroll tax relief (considered sales taxes in books and allocated as INSS on payroll to memorandum accounts); addition of R\$4.4 million referring to cut-off; and deduction of R\$11.5 million referring to intercompany eliminations.

Aché has four manufacturing plants - Aché (Guarulhos-SP), Biosintética (São Paulo), 50% interest in Melcon Indústria Farmacêutica (Anápolis-GO) and the newly acquired Nortis (Londrina-PR). The Company also holds 25% interest in Bionovis Brasil, a company engaged in the research and development of biotechnological medicines through a joint venture with three other national pharmaceutical companies.



The Company develops innovative products with proven effectiveness and safety, combining investment and know-how in research, development and innovation, focusing on unmet needs. Thus, it balances the offer of the best health solutions to its business partners, doctors, consumers, points of sale, community and suppliers, generating value to all.

Interest held in Adjusted Net Revenue per Therapeutic Class



Source: Company's Managerial Information. Not considering R\$3.7 million related to Non-Operating Revenue.

To achieve its objectives and create opportunities for a better life, in harmony with economic growth, environmental preservation and social development, Aché counts on more than 4,500 employees who form the Aché Generation. The Forces of Generation of Demand and Sales ensure permanent contact with different health professionals and with the main points of sales in Brazil.

Cities covered by Medical detailing	1.883	
POS visited - RX	17.786	
POS and institutions visited Sales Area	21.012	
Doctors detailed - RX	161.292	
Doctors detailed Sales Area	4.081	

Awards and Recognitions



Estadão Empresas Mais Award - this is awarded by newspaper *O Estado de São Paulo*, in partnership with *Fundação Instituto de Administração (FIA)*, which for the second consecutive year elected Aché as the company in the industry that contributes most to the country's economy and health development.

16º Prêmio ABRE - promoted by the *Associação Brasileira de Embalagem* - ABRE (Brazilian Packaging Association), which elected Aché as the Company of the Year, reaffirming the strategic design of its packaging materials. In addition to Gold in the main category, Aché was recognized in three other categories: *Família Profuse e Ensolei*, *Inellare Zero Pocket* and *Densifiant Fondant Creme*.



Prêmio Melhores Empresas em Satisfação do Cliente - MESC (Best Companies in Customer Satisfaction Award) - awarded by MESC Institute, which recognized Aché as one of the 15 best companies in this area of the pharmaceutical industry in 2016.

Prêmio Melhores Empresas do País (Best Companies in the Country Award) - Aché was recognized as the Number One in the pharmaceutical sector in terms of Financial Performance and Social and Environmental Responsibility by *Anuário Época Negócios 360º* of *Época Negócios* magazine. The Company ranked 24th among the 300 best companies in Brazil, climbing 225 positions compared with 2014.



Prêmio Valor Inovação 2016 (Value Innovation Award 2016) - awarded by *Valor Econômico* newspaper, in partnership with Strategy& consulting team of PwC, whereby Aché was the first place winner in the Pharmaceutical and Life Sciences category for the second consecutive year and also recognized for its leadership in the Pharmaceutical segment. The Company also ranked 17th in the list of the country's 100 most innovative companies.

Lupa de Ouro (Golden Magnifying Glass Award) - an award organized by *Sindicato das Indústrias de Produtos Farmacêuticos no Estado de São Paulo (Sindusfarma)*, which in its 40th edition recognized Aché with 12 trophies, having won in three categories: Gastrointestinal and Vitamins, by Adipept's marketing campaign; Pain and Inflammation, with the highlight campaign for the Revange medication; and Respiratory System with the product Montclair.



Empresas que mais Respeitam o Consumidor (Companies that Most Respect Consumers Award) - awarded by *Consumidor Moderno* magazine, in partnership with *Shopper Experience*, whereby Aché was elected the pharmaceutical that most respects consumers.

Regulatory environment

Aché's management and compliance structure is able to monitor the progress of legislation and respond to the demands of government bodies and agencies, such as the Ministry of Health and the Brazilian National Health Surveillance Agency (ANVISA).

Certifications earned in 2016



Compliance with legislation is evidenced in the certifications of the plants in the city Guarulhos and Biosintética, which obtained the *Certificado de Boas Práticas de Fabricação (CBPF)* (Good Manufacturing Practices Certificate) in 2016, which certifies the quality of the processes to operate in the market.



Approval by Digemid (*Dirección General de Medicamentos Insumos y Drogas*), a Peruvian health agency that certified Guarulhos plant in two categories: good manufacturing practices and good quality control practices. This certification is valid for five years.

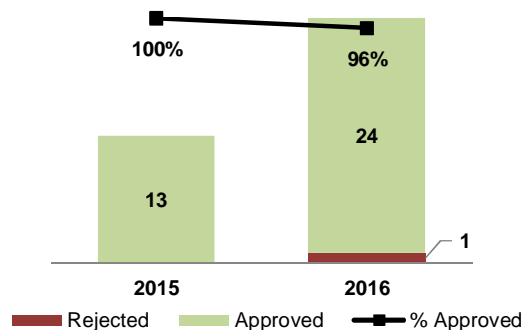


The plants were still certified by *Instituto Nacional de Vigilancia de Medicamentos y Alimentos (INVIMA)*, a regulatory agency of Colombia.

Aché's packaging provides all the necessary information on the medicine, according to provisions set forth by legislation. In the pharmaceutical segment, Aché pioneered in using the Braille system in its packaging materials since 1996 and in offering the package insert in audio.



In the last two years, the Company has been awarded 37 medicine registrations, with an average approval index of 98% at Anvisa.



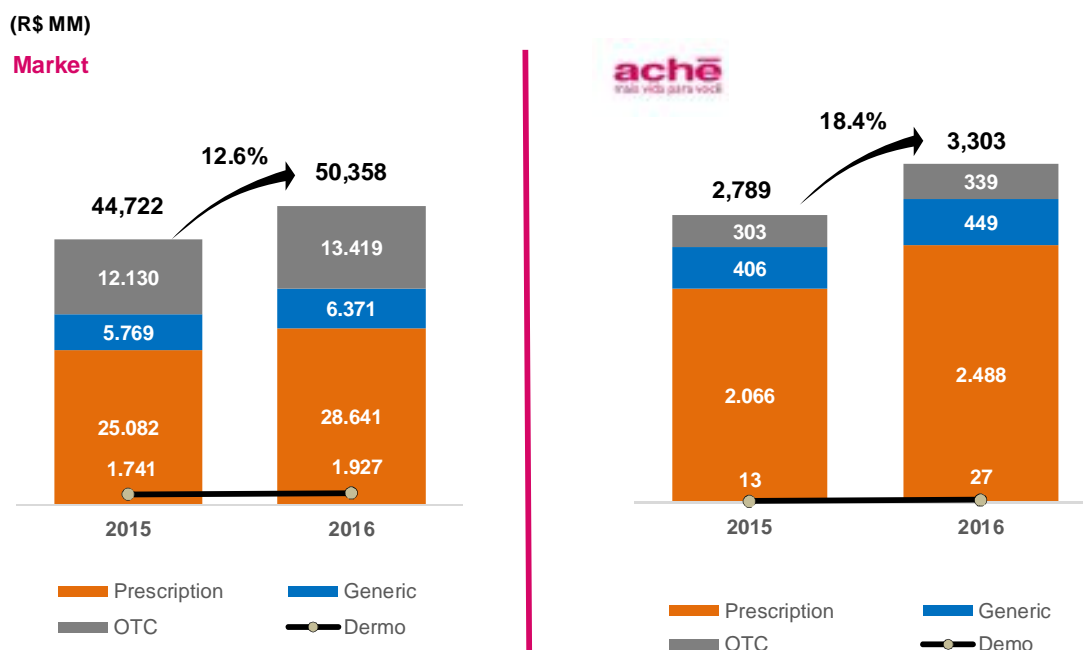
Source: I-Helps Anvisa.

Analysis of results

Aché Development vs. Total Pharmaceutical Market (PPP Methodology)

To calculate the size of the Total Pharmaceutical Market (TPM), the database of IMS Health Brasil is used, which is the main consulting firm in the industry, according to the Pharmacy Purchase Price (PPP) methodology, which considers the average discount for each presentation of products applied on Gross Revenue based on the factory price.

In 2016, Aché recorded progress of 18.4% compared to a 12.6% growth in the Brazilian Pharmaceutical Market.



Source: IMS PPP¹ 2016.

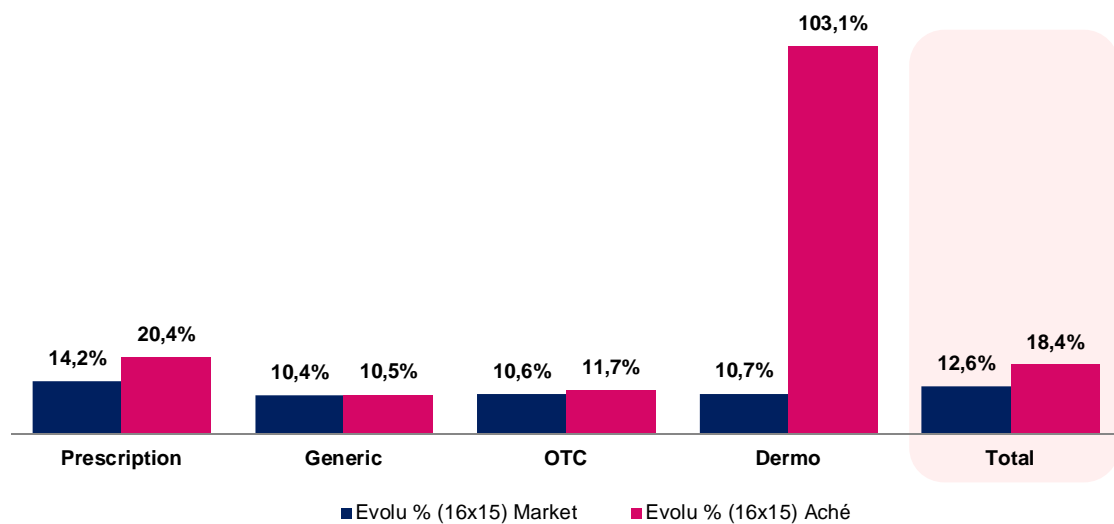
Aché grew above the market in all segments in which it operates. The prescription medicine market, which accounts for 56.9% of the TPM and 75.3% of the Company's business, increased by 14.2%, while Aché recorded an increase by 20.4% compared with the same period in 2015.

The generic prescription medicine market, which accounts for 12.7% of the TPM and 13.6% of the Company's business, increased by 10.4%, while Aché recorded an increase by 10.5% compared with the same period in 2015.

In the segment of Nonprescription Medicines, which accounts for 26.6% of the TPM and 10.3% of the Company's business, the market increased by 10.6%, while Aché recorded an increase by 11.7% compared with the same period in 2015.

In the Dermocosmetics segment, which accounts for 3.8% of the TPM and 0.8% of the Company's business, the market increased by 10.7%, while Aché recorded an increase by 103.1% compared with the same period in 2015, driven by the maturation of the Profuse Line launched in 2011 and by the expansion of the portfolio in recent years.

Progress by segment - Aché vs. TPM



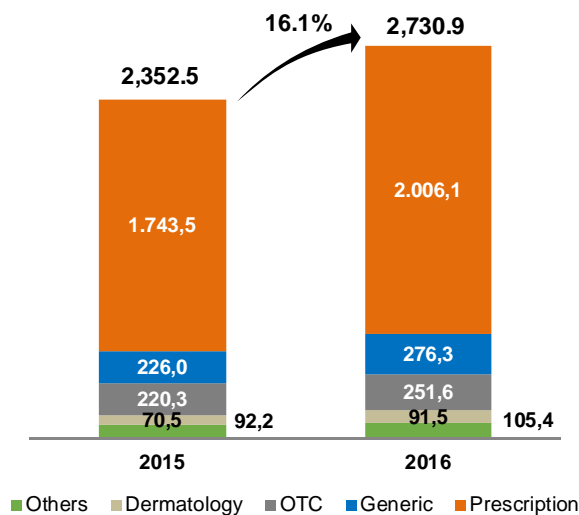
Source: IMS PPP 2016.

Aché's development by segment

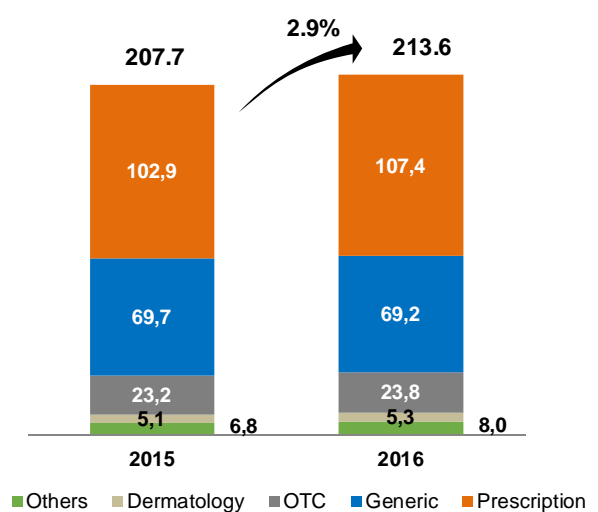
Consolidated

Based on the Company's managerial information that takes into consideration the consolidated P&L between Aché and Biosintética, an increase by 16.1% was determined in Net Revenue. In volume, the growth recorded was 2.9% compared with prior year.

Adjusted Net Revenue - R\$ Million



Volume - Millions of Units



Source: Company's Managerial Information. Not considering Non-Operating Revenue.

Prescription Medicine Business Unit

For the tenth consecutive year, the Company maintained its leadership in medical prescription generation, with 6.34% market share, according to Close-Up International, one of the main auditing and reporting companies in the prescription market.

In 2016, the Prescription Unit recorded total Net Revenue of R\$2.0 billion, exceeding by 15.1% P&L for prior year. This result was substantially obtained due to the high capillarity of operations of forces of generation of demand and sales, as well as the portfolio diversification, powered by continuous investment in innovation - one of the main drivers of the business.



Six new products were launched throughout the year. Strengthening the Central Nervous System specialty, Dual product reaches the market, an antidepressant medicine indicated for the treatment of major depressive disorder (MDD), generalized anxiety disorder (GAD) and also for chronic pain cases, such as fibromyalgia, diabetic neuropathic pain and chronic lumbar pain.

The Company innovated by launching the Sany D product that brings vitamin D into high dosage pills. This product is indicated for the treatment of insufficiency and deficiency of vitamin D, preventing and assisting the care with osteoporosis, pre and post-menopausal and falls and fractures in the elderly.



Indication:

Diarrhea

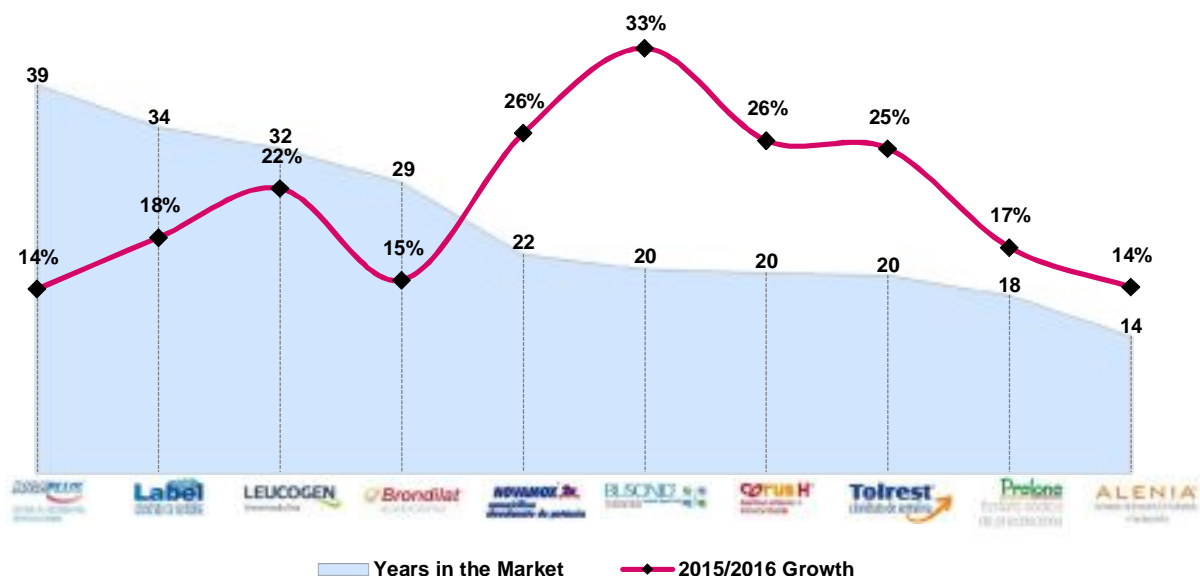
Endometriosis

Irritable bowel syndrome

Osteoarthritis

Aligned with the launch of new products, the excellence in the management of the current portfolio is demonstrated by the growth of products established in the market.

Growth and Time in the Market



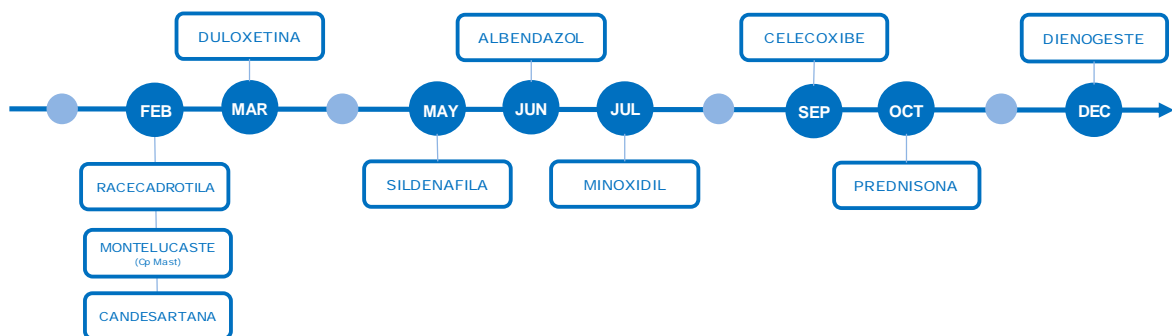
Source: Company's Managerial Information.

Generic Prescription Medicine Business Unit

Genérico
Biosintética
você pode confiar

Operating in a competitive segment, Aché's generics prescription medicines are present in most points of sale in the country through Biosintética brand. With a wide range of molecules that serve the various medical specialties, Aché offers to the population quality products with competitive prices.

The Company launched ten products in the year and reached R\$276.3 million in Net Revenue, 22.3% higher compared with prior year.



Nonprescription Medicine Business Unit

The Nonprescription Medicine unit reached R\$251.6 million in Net Revenue, 14.2% higher compared with the same prior-year period.

By leveraging its operation in the Nutraceuticals segment and expanding its portfolio with differentiated and pioneering products, the Company acquired Tiaraju, located in Santo Ângelo, Rio Grande do Sul state. This acquisition expands the experience in the phytomedicines and functional foods market, increasing the portfolio with 12 new products and with proven quality for Brazilians.

To reinforce the portfolio in this segment, in 2016 Aché brought to the market four launches.



Indication:

Vitamin and mineral supplements for children

Calcium replacement

Vitamin D replacement

Anti-inflammatory

Products established in the market such as Sorine, Dorilax, Carnabol, Transpulmin and Decongex prove their strength by the performance obtained for decades.

Growth and Time in the Market



Source: Company's Managerial Information.

Dermatology Business Unit

The Dermatology unit includes the Dermocosmetics and Derma medicine franchises, and generated R\$91.5 million in Net Revenue in 2016, 29.7% higher compared with prior year.



Aché's own Dermocosmetics brand was recognized in various prizes for its new packaging material design, which combines science and technology of products with the glamor and sophistication of the dermocosmetics category, bringing an innovative and outstanding positioning in the market.

Profuse line was recognized by one of the most rigorous academies of dermatology in the world, the European Academy of Dermatology and Venereology (EADV). The scientific studies of *Profuse Água Dermatológica*, *Ensolei AOX* and *Densifiant Olhos* were approved by this academy.

Five new Dermocosmetics products were launched in 2016:

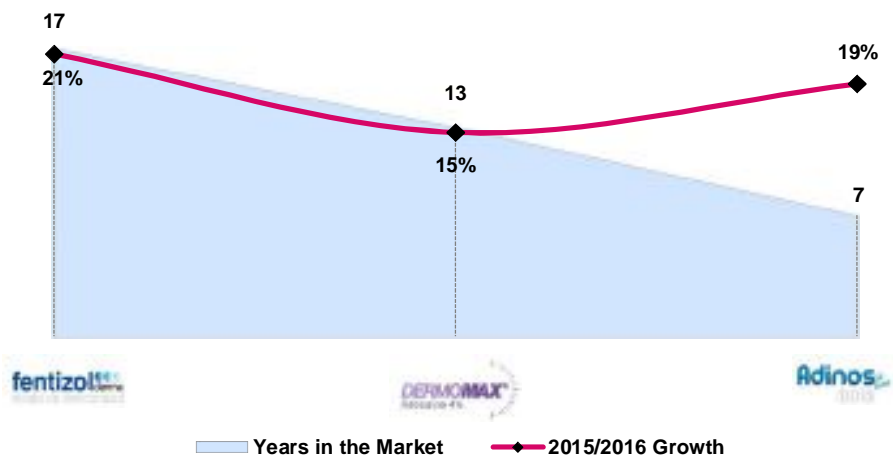
	DENSIFIANT	PROFUSE água dermatológica	CLAIR	ENSOLEI COMPACTCOLOR	PROFUSE ACHE LABORATORIOS 7 kits
Indication:	Anti-ageing	Multifunctional properties for facial and body skin	Skin whitening	Sun protection, oil control and skin uniformity	Dermocosmetics kit

In the Dermatology segment, three important products were launched in the last 18 months: *Pant*, *Resist* and *Untral*, the last two are exclusive, without competitors in the market.

	PANT minoxidil	resist doleçosa de laranja	UNTRAL
Indication:	Hair loss	Herpes simplex	Splitting of the fingernails

Aligned with the launch of new products, the excellence in the management of the current portfolio is demonstrated by the growth of products established in the market.

Growth and Time in the Market



Source: Company's Managerial Information.

Economic and Financial Performance

Consolidated profit or loss

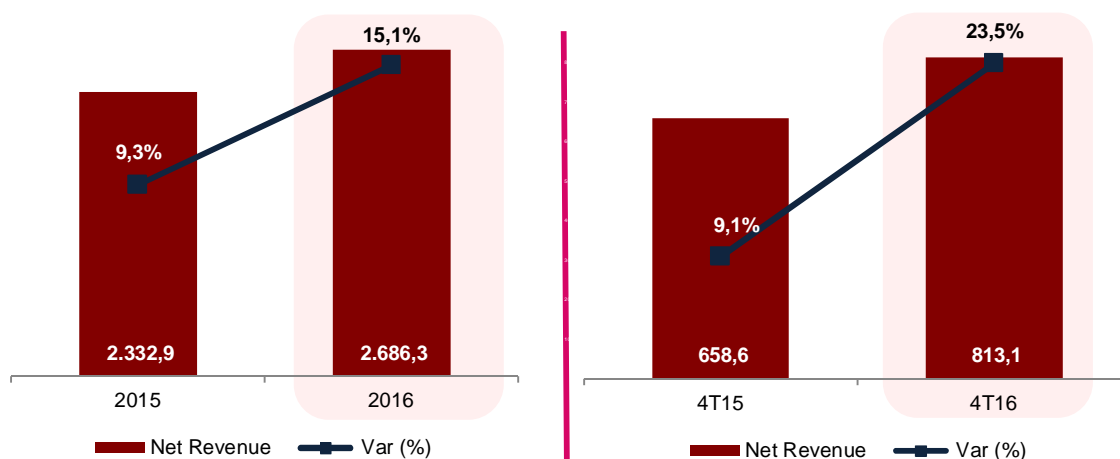
(R\$ million)	4Q15	s / NR	4Q16	s / NR	2015	s / NR	2016	s / NR
Net revenue	658.6		813.1		2,332.9		2,686.3	
Gross profit	460.2	69.9%	574.0	70.6%	1,721.9	73.8%	1,894.5	70.5%
Selling and administrative expenses	(281.0)	-42.7%	(254.4)	-31.3%	(1,025.9)	-44.0%	(1,090.9)	-40.6%
Other operating expenses	(24.0)	-3.6%	(7.7)	-0.9%	(47.7)	-2.0%	(33.8)	-1.3%
Operating income (EBIT)	155.2	23.6%	311.9	38.4%	648.3	27.8%	769.8	28.7%
Financial income (expenses), net	5.6	0.9%	(13.7)	-1.7%	5.7	0.2%	(35.6)	-1.3%
Income before income and social contribution taxes (IRPJ and CSLL)	160.8	24.4%	298.2	36.7%	654.0	28.0%	734.2	27.3%
EBITDA	162.3	24.6%	324.5	39.9%	682.1	29.2%	814.1	30.3%
EBITDA (adjusted)	153.4	23.3%	289.2	35.6%	716.5	30.7%	823.2	30.6%
Net income	125.8	19.1%	231.5	28.5%	472.8	20.3%	544.6	20.3%
Earnings per share	2.0	0.3%	3.6	0.4%	7.4	0.3%	8.5	0.3%

Source: Company's Accounting Information.

Net sales revenue

Net sales revenue increased by 15.1% in relation to 2015, reaching R\$2,686.3 billion. In 4Q16, net revenue amounted to R\$813.1 million, 23.5% higher in comparison with same prior-year quarter.

Net Revenue R\$ MM

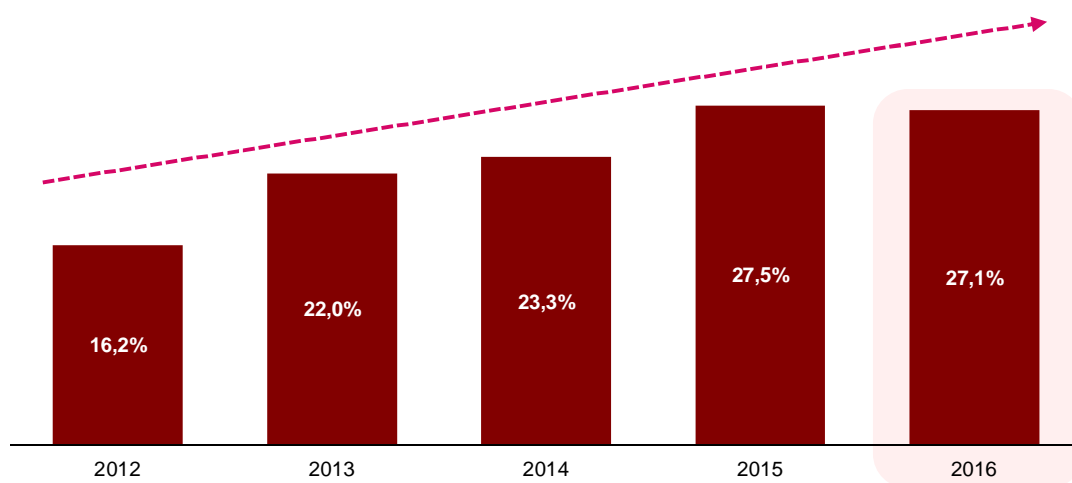


Source: Company's Accounting Information.

A strong, expanded and diversified portfolio contributes to the Company's revenues in a sustainable way. In 2016, the product with the highest net revenue represented only 4.6% of total revenues, thus demonstrating its portfolio low concentration.

Launches are critical to making a company less vulnerable in the market since it makes it less dependent on certain products.

Contribution New launches in Adjusted Net Sales (in last 5 years)

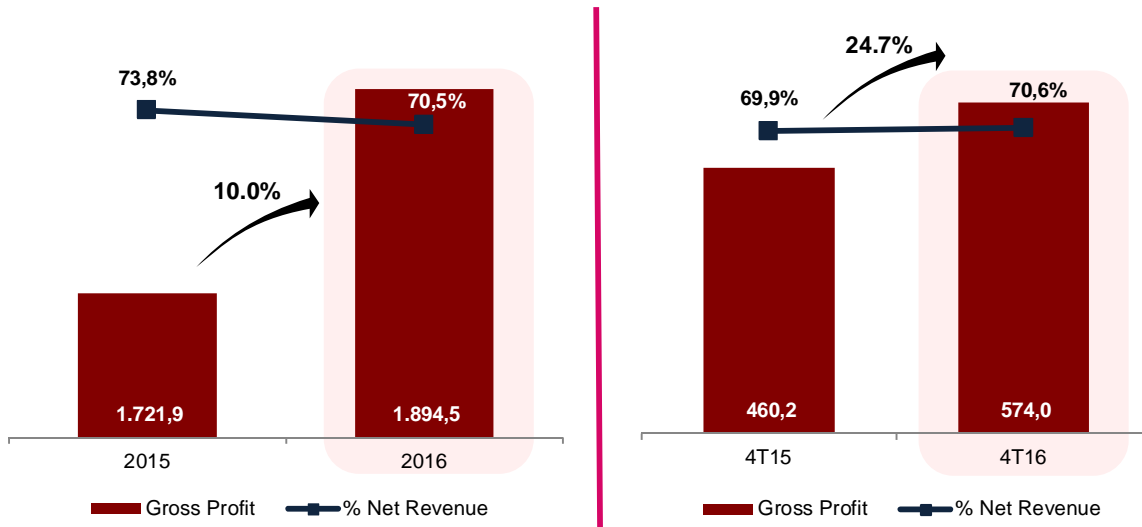


Source: Company's Managerial Information.

Gross profit

In 2016, gross profit amounted to R\$1,894.5 million, 10% higher in comparison with the same period in 2015.

Gross profit R\$ MM



Source: Company's Accounting Information.

Selling expenses

In the 4Q16, selling expenses amounted to R\$219.1 million, 26.9% of net revenue, in comparison with the same prior-year period. In 2016, selling expenses totaled R\$942.8 million, 35.1% of selling expenses.

(R\$ million)	4Q15	s / NR	4Q16	s / NR	2015	s / NR	2016	s / NR
Commercial expenses	188.1	28.6%	202.8	24.9%	768.7	33.0%	879.2	32.7%
Allowance for doubtful accounts	3.5	0.5%	0.3	0.0%	1.9	0.1%	0.9	0.0%
Freight	14.3	2.2%	16.0	2.0%	59.7	2.6%	62.7	2.3%
Selling expenses	205.9	31.3%	219.1	26.9%	830.3	35.6%	942.8	35.1%

Source: Company's Accounting Information.

General and administrative expenses

In 2016, general and administrative expenses totaled R\$148.1 million, equivalent to 5.5% of net revenue.

(R\$ million)	4Q15	s / NR	4Q16	s / NR	2015	s / NR	2016	s / NR
General and administrative expenses	64.5	9.8%	33.9	4.2%	164.5	7.1%	137.0	5.1%
Provision for inventory obsolescence	10.6	1.6%	1.4	0.2%	31.1	1.3%	11.1	0.4%
General and administrative expenses	75.1	11.4%	35.3	4.3%	195.6	8.4%	148.1	5.5%

Source: Company's Accounting Information.

Initiatives related to operational excellence provided a 64.3% reduction in losses with inventory obsolescence, leading this indicator to reach its historical low.

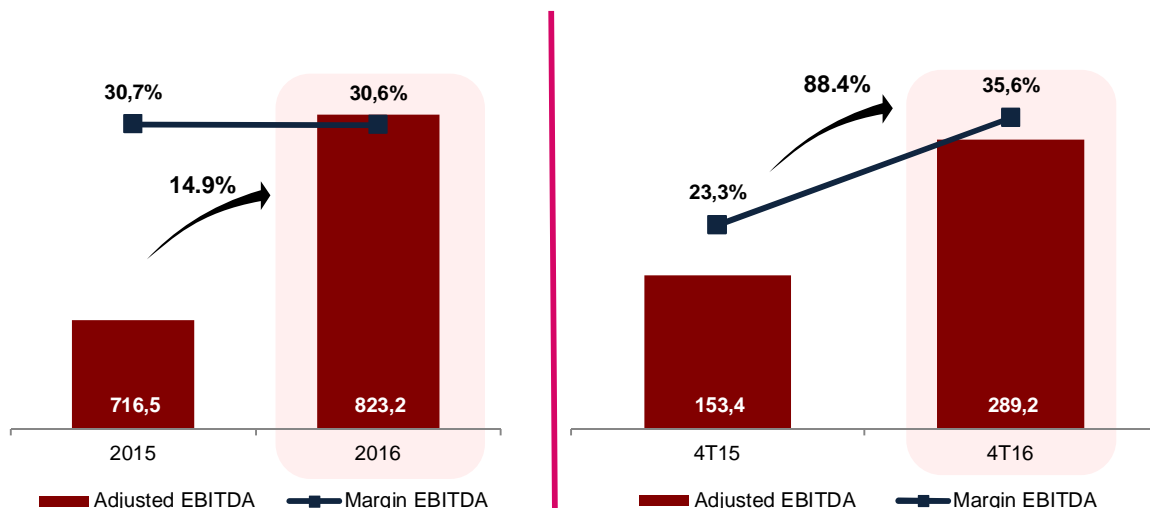
Adjusted EBITDA

YTD Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) amounted to R\$823.2 million, 14.9% higher in comparison with the prior year, and with an EBITDA margin of 30.6% in 2016 YTD.

Adjusted EBITDA (R\$ million)	4Q15	4Q16	Var (%)	2015	2016	Var (%)
Net income	125.8	231.5	84.0%	472.8	544.6	15.2%
Provision for income and social contribution taxes	34.2	67.3	96.8%	180.2	189.9	5.4%
Financial income (expenses), net	(5.6)	13.7	-344.6%	(5.7)	35.6	-723.9%
Depreciation and amortization	8.0	12.0	50.0%	34.7	44.0	26.8%
EBITDA	162.3	324.5	100.0%	682.1	814.1	19.4%
Non-recurring income/expenses	(8.8)	(35.3)	301.1%	34.4	9.1	-73.5%
Billed yet not delivered (cut-off)	(33.4)	(42.1)	26.0%	-	2.7	N/D
Provision for contingencies	29.1	(5.9)	-120.3%	39.4	(5.3)	-113.5%
Strategic projects	(1.9)	3.2	-268.4%	0.7	6.7	857.1%
Equity pickup	(7.9)	6.2	-178.5%	(12.8)	(2.8)	-78.1%
Other	5.3	3.3	-37.7%	7.1	7.8	9.9%
Adjusted EBITDA	153.5	289.2	88.4%	716.5	823.2	14.9%
Margin	23.3%	35.6%	12.3 p.p.	30.7%	30.6%	-0.1 p.p.

Source: Company's Accounting Information.

ADJUSTED EBITDA AND MARGIN R\$ M



Source: Company's Accounting Information.

Financial income (expenses)

Financial income and expenses, net for 2016 totaled R\$35.6 million, a R\$41.3 million decrease in comparison with the prior year.

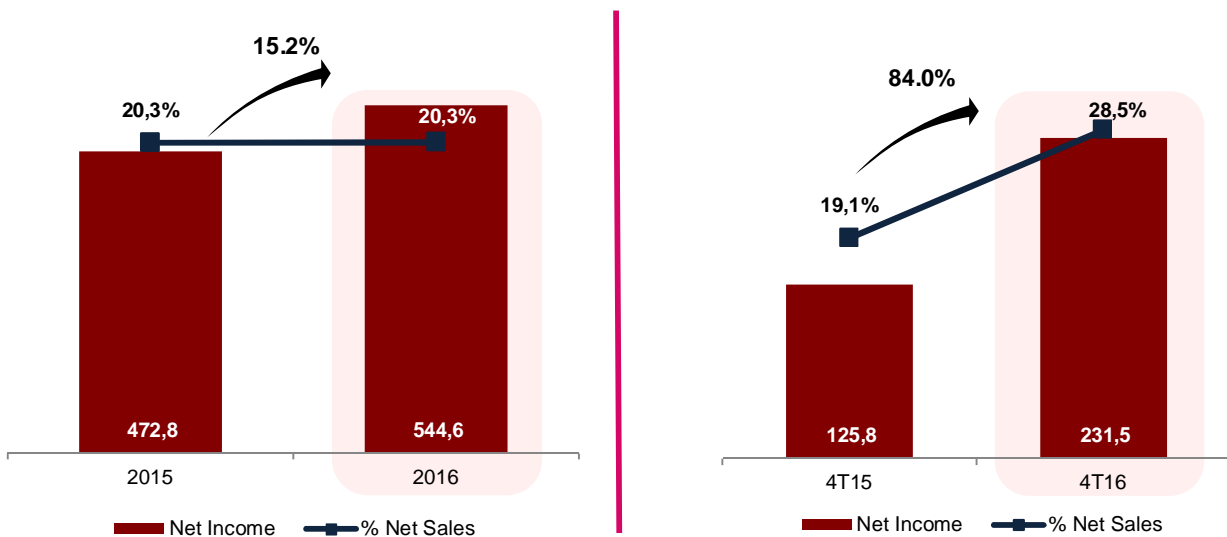
(R\$ million)	4Q15	s/ NR	4Q16	s/ NR	2015	s/ NR	2016	s/ NR
Financial income (expenses)	(1.1)	-0.2%	(13.9)	-1.7%	12.4	0.5%	(51.1)	-1.9%
Foreign exchange variation	1.3	0.2%	0.2	0.0%	(14.8)	-0.6%	15.5	0.6%
Present value adjustment (PVA)	5.4	0.9%	-	0.0%	8.1	0.3%	-	0.0%
Financial income (expenses)	5.6	0.9%	(13.7)	-1.7%	5.7	0.2%	(35.6)	-1.3%

Source: Company's Accounting Information.

Net income

In 2016, net revenue amounted to R\$544.6 million, 15.2% higher in comparison with same prior period. In 4Q16, net income of R\$231.5 million, equivalent to 28.5% of net revenue.

Net Income R\$ MM



Source: Company's Accounting Information.

Net Debt-to-Equity

The Company closed 2016 with net financial debt of R\$38.4 million. Gross debt totaled R\$172.8 million, with long-term principal.

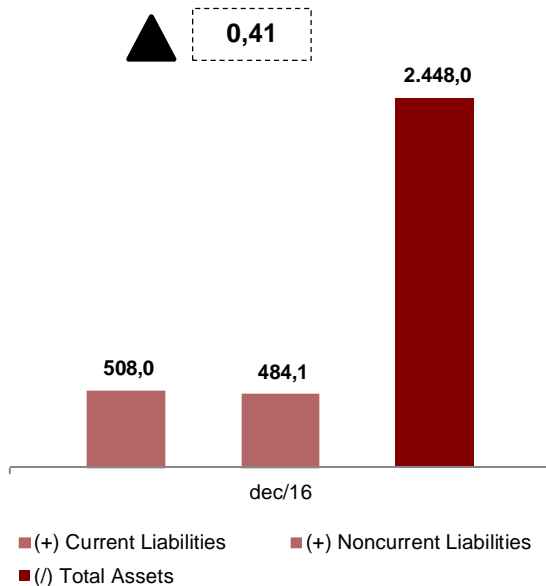
(R\$ million)	2015	2016	Var (%)
Loans and financing – current	33.8	44.2	30.8%
Loans and financing – long-term	159.2	128.6	-19.2%
Gross Debt	193.0	172.8	-10.5%
Cash and cash equivalents	228.6	134.4	-41.2%
Short-term investments – long term	9.3	-	-100.0%
Net Debt-to-Equity	(44.9)	38.4	-185.5%

Source: Company's Accounting Information.

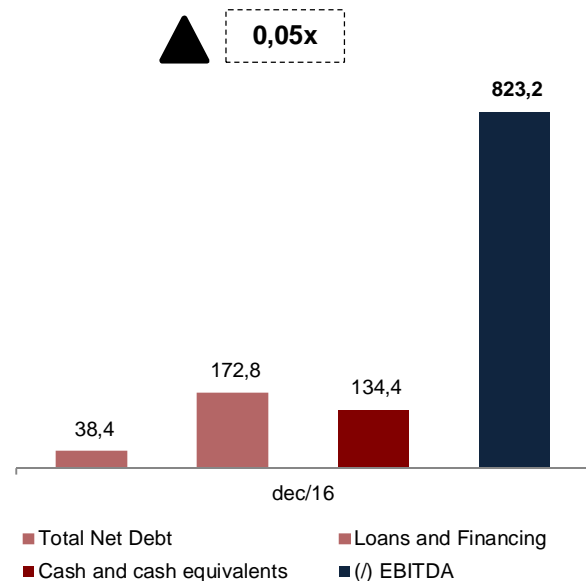
The Company's noncurrent debt has maturities to 2024.

Leverage ratio R\$ MM

Overall indebtedness



Total Net Debt / Adjusted Ebitda



Source: Company's Accounting Information.

Investments

Research, Development and Innovation (RDI)

Investments in RDI totaled R\$72.4 million in 2016.

Aché has 14 projects in its Radical Innovation portfolio, i.e., new pharmaceutical active items in the world, which are currently in distinct Development phases. These projects address highly-significant therapeutic indications and unmet needs. The Radical Innovation portfolio comprises new pharmaceutical active items related to functional foods, dermocosmetics, phototherapy and synthetic categories. Innovation projects generated by Aché are protected by patent applications in Brazil and in countries with great market potential.

In April 2016, Aché became the first Brazilian laboratory to join the Structural Genomics Consortium (SGC), an international partnership between universities, governments and industries to accelerate the development of new medicines. The purpose of the consortium, which began eleven years ago and is based at the universities of Toronto and Oxford, consists of bringing together large teams of scientists to perform the research first stage that allows the development of new drugs. Known the biological or preclinical stage, this is the phase where scientists identify new targets with pharmaceutical potential and begin testing them in cellular models and in animals.



The Company also has 134 projects under development in its Project Office - PMO, 35% of which differentiate from other products on the market.

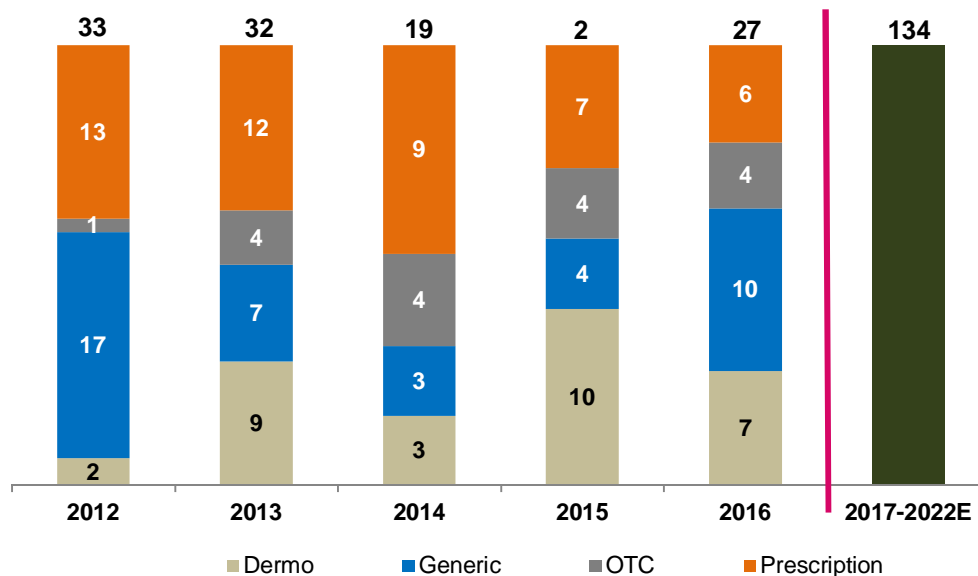


Through a collaboration agreement on Research and Development with the Swiss Company Ferring Pharmaceuticals, a global reference in the pharmaceutical area, a laboratory named Nanotechnology Innovation Laboratory Enterprise (NILE) will be built in 2017 at the Guarulhos Unit. The laboratory will be located in the Company's Incremental Innovation Center.

This partnership aims at developing technology platforms to improve the availability of medicines in the center, for example by transforming active ingredients that are now formulated into injectable products in formulations that could be administered orally more painlessly. Research in this area provides a reduction in adverse effects, increased patient adherence to treatment and convenience in dosing administration.



In the last 5 years, the Company has launched 28 products per year on average, making the Company increasingly competitive, expanding the range of options for treating pathologies and creating opportunities in various segments.



Source: Company's Managerial Information.

Property, plant and equipment

In 2016, investments in property, plant and equipment totaled R\$97.6 million, with special emphasis on the acquisition of new machinery and equipment in the amount of R\$55.5 million.

Growing North and Northeast

In December 2016, the Company announced a new manufacturing plant in Pernambuco (PE) state, which will allow Aché to reach out to customers in the North and Northeast regions. Approximately R\$500 million will be invested in the construction of a drug factory in an area of 250,000 sqm, as well as a Distribution Center in the metropolitan area in the city of Recife, which, when fully operational - scheduled for 2021, will increase the installed capacity in approximately 50%, which will provide the Company with the expected growth in 15 years, aligned with Strategic Planning.



The new plant operations in Pernambuco are expected to generate around 500 direct jobs in the state, in addition to approximately 2,500 indirect jobs. This initiative will support Aché upon expanding its performance in this up-and-coming and relevant region. In parallel with the economic growth, the arrival of Aché will generate positive social and environmental impact in the region through hiring, academic and scientific partnerships and other alliances that value the communities' needs.

Investment in Quality Control



In September 2016, a new Quality Control Laboratory was launched at Biosintética's plant. The laboratory has 32 employees and invested the amount of R\$14 million in the acquisition of 24 high-performance liquid chromatography (HPLC) equipment items. Accordingly, the laboratory will significantly increase speed and analytical development capability in line with legal standards for portfolio maintenance.

Expansion of production capacity

In April 2016, Aché acquired Nortis Farmacêutica, located in the city of Londrina, Paraná State.

Engaged in the production of cephalosporin antibiotics and sale of functional foods, Nortis, established in 2002, installed modern manufacturing facilities and achieved excellence in production of medicines, and produces approximately 20 million units of medicine every year.

Upon this acquisition, Aché expands its industrial and technological platform, its portfolio of nonprescription medicines, its production capacity and operational excellence, as well as expanding know-how through internalization of processes.



Dividends

Company management computed R\$544.6 million in profit or loss for the year, R\$123.4 million of which was allocated for payment of interest on equity, R\$12.8 was recorded in liabilities (R\$7.2 million in dividends and R\$5.6 million in interest on equity) as a supplement to mandatory minimum dividend of 25%, and R\$408.5 million await allocation by means of Annual General Meeting (AGM) resolution.

Acknowledgments

We thank our shareholders for their trust, 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, 2016

Contents

Independent auditor's report on individual and consolidated financial statements	1
Audited financial statements	
Statements of financial position.....	5
Income statements.....	7
Statements of comprehensive income	8
Statements of changes in equity	9
Cash flow statements.....	10
Statements of value added	11
Notes to the individual and consolidated financial statements	12



São Paulo Corporate Towers
Av. Presidente Juscelino Kubitschek, 1,909
Vila Nova Conceição
04543-011 - São Paulo - SP - Brasil

Tel: +55 11 2573-3000
ey.com.br

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

Independent auditor's report on individual and consolidated financial statements

The Shareholders, Board of Directors and Officers
Aché Laboratórios Farmacêuticos S.A. and subsidiaries
São Paulo - SP

Opinion

We have audited the accompanying individual and consolidated financial statements of Aché Laboratórios Farmacêuticos S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2016, and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting practices.

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 Aché Laboratórios Farmacêuticos S.A. as at December 31, 2016, its individual and consolidated financial performance and respective individual and consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and in accordance 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 described in the following section entitled "Auditor's responsibilities for the audit of individual and consolidated financial statements". We are independent of the Company and its subsidiaries and comply with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the 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 audit opinion.



Other matters

Statements of value added

The individual and consolidated statements of value added (SVA) for the year ended December 31, 2016, prepared under management's responsibility and presented as additional information by the IFRS, which do not require SVA presentation have been subject to auditing procedures performed in conjunction with the auditor of the financial statements of the Company. For the purposes of forming our opinion, we assessed whether these statements are reconciled with the financial statements, as applicable, and whether their form and content are in accordance with the criteria set forth in Accounting Pronouncement CPC 09 - Statement of Added Value. In our opinion, these statements of value added were properly prepared in all material respects, in accordance with criteria set forth in this Accounting Pronouncement and are consistent with the overall individual and consolidated financial statements.

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

Company management is responsible for such other information, which comprises the Management Report.

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

In connection with our audit of the individual and consolidated financial statements, our responsibility is to have the Management Report and, in so doing, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained during 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 in the Management Report, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of these individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal controls 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 other 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, either individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

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

- Identify and assess risks of material misstatements of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its 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 corresponding 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 14, 2017

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

A handwritten signature in blue ink, appearing to read 'Douglas Travaglia Lopes Ferreira', is written over a faint circular stamp or watermark.

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, 2016 and 2015
(In thousands of reais – R\$)

	Note	Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
Assets					
Current assets					
Cash and cash equivalents	3	97,728	162,631	134,399	228,616
Trade accounts receivable	4	334,051	305,195	509,645	449,789
Inventories	5	249,199	286,235	379,200	405,453
Income and social contribution taxes to be offset		7,415	4,942	35,745	26,236
Dividends receivable	14	59,324	25,174	-	-
Prepaid expenses		63,966	59,517	70,187	68,072
Other receivables		13,816	33,923	24,659	46,163
Total current assets		825,499	877,617	1,153,835	1,224,329
Noncurrent assets					
Short-term investments		-	-	-	9,272
Judicial deposits	16	115,660	130,156	121,529	133,894
Income and social contribution taxes to be offset		7,975	8,660	13,928	14,383
Investments	8	494,351	470,253	15,739	596
Property, plant and equipment	9	657,234	624,953	854,799	793,076
Intangible assets	10	46,846	39,741	283,211	275,977
Other receivables		5,494	10,122	5,005	9,779
Total noncurrent assets		1,327,560	1,283,885	1,294,211	1,236,977
Total assets		2,153,059	2,161,502	2,448,046	2,461,306

	Note	Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
Liabilities and equity					
Current liabilities					
Loans and financing	11	33,280	29,687	44,190	33,762
Trade accounts payable	12	75,864	140,650	100,234	180,177
Tax liabilities	13	79,366	108,258	152,645	169,893
Labor and social security liabilities	15	47,515	49,705	74,499	68,946
Dividends and IOE payable	14	52,304	61,521	52,318	61,521
Accounts payable		12,708	8,188	27,380	21,738
Other liabilities		19,185	20,497	56,711	55,455
Total current liabilities		320,222	418,506	507,977	591,492
Noncurrent liabilities					
Loans and financing	11	108,034	134,423	128,571	159,244
Deferred income and social contribution taxes	6	31,670	25,268	73,997	83,890
Provision for tax, civil and labor claims	16	204,151	197,490	240,978	227,620
Provision for investment losses	8	27,467	23,143	-	-
Other liabilities		13,109	15,967	40,593	44,410
Total noncurrent liabilities		384,431	396,291	484,139	515,164
Equity					
Capital		440,959	440,959	440,959	440,959
Capital reserves		174,212	174,212	174,212	174,212
Revaluation reserve		4,117	4,586	4,117	4,586
Equity adjustment		132,301	133,860	132,301	133,860
Income reserves		696,817	593,088	696,817	593,088
Total attributed to controlling interests		1,448,406	1,346,705	1,448,406	1,346,705
Noncontrolling interest in subsidiaries' equity		-	-	7,524	7,945
Total equity		1,448,406	1,346,705	1,455,930	1,354,650
Total liabilities and equity					
		2,153,059	2,161,502	2,448,046	2,461,306

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of operations

Years ended December 31, 2016 and 2015

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

	Note	Company (BR GAAP)		Consolidated (BR GAAP and IFRS)	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
Operating revenue, net	19	2,006,353	1,756,194	2,686,268	2,332,938
Cost of sales	20	(585,665)	(454,547)	(791,755)	(626,692)
Gross profit		1,420,688	1,301,647	1,894,513	1,706,246
Operating income (expenses)					
Selling expenses	20	(753,795)	(665,161)	(942,839)	(830,312)
General and administrative	20	(101,482)	(135,486)	(148,136)	(195,596)
Employee and management profit sharing	25	(24,351)	(24,276)	(44,033)	(47,763)
Equity pickup	8	145,477	121,922	2,830	12,774
Other operating income, net	21	2,817	(1,240)	7,410	3,002
Operating income before financial income (expenses)		689,354	597,406	769,745	648,351
Financial income (expenses)					
Financial income	22	14,732	29,286	22,163	50,296
Financial expenses	22	(54,458)	(24,958)	(73,184)	(29,780)
Foreign exchange variation, net	22	11,683	(14,024)	15,473	(14,779)
Income before income and social contribution taxes		661,311	587,710	734,197	654,088
Income and social contribution taxes (IRPJ/CSLL)					
Current	7	(110,488)	(124,993)	(200,061)	(201,222)
Deferred	7	(6,176)	10,094	10,118	21,031
Net income for the year		544,647	472,811	544,254	473,897
Attributable to					
Controlling interest		544,647	472,811	544,647	472,811
Noncontrolling interest		-	-	(393)	1,086
Earnings per share for the period – R\$					
Basic	26	8.52	7.40	8.52	7.40

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of comprehensive income (loss)
 Years ended December 31, 2016 and 2015
 (In thousands of reais – R\$)

	Company (BR GAAP)		Consolidated (BR GAAP and IFRS)	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Net income for the year	544,647	472,811	544,254	473,897
Other comprehensive income	-	-	-	-
Total comprehensive income (loss) for the year	544,647	472,811	544,254	473,897
Attributable to:				
Controlling interest	544,647	472,811	544,647	472,811
Noncontrolling interest	-	-	(393)	1,086
	544,647	472,811	544,254	473,897

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of changes in equity
Years ended December 31, 2016 and 2015
(In thousands of reais – R\$)

	Capital reserves			Equity adjustment				Income reserves					Retained earnings	Total attributed to controlling interests	Noncontrolling interest in subsidiaries' equity	Total
	Capital	Special goodwill reserve	Share premium reserve	Revaluation reserve	On own assets	On subsidiaries' assets	Legal reserve	Tax incentive reserve	Reserve for new products and R&D	Reserve for investments in PP&E	Unpaid income reserve	Reserve for additional dividends proposed				
Balances at December 31, 2014	440,959	167,767	6,445	5,057	125,693	9,728	43,807	618	88,963	103,060	-	141,718	-	1,133,815	7,041	1,140,856
Realization of revaluation reserve	-	-	-	(471)	-	-	-	-	-	-	-	-	471	-	-	-
Realization of adjustments to deemed cost	-	-	-	-	(1,357)	(204)	-	-	-	-	-	-	1,561	-	-	-
Tax incentive reserve	-	-	-	-	-	-	264	-	-	-	-	-	(264)	-	-	-
Net income for the year	-	-	-	-	-	-	-	-	-	-	-	-	472,811	472,811	1,086	473,897
Dividend payment – Melcon	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(182)	(182)
Prepayment of dividend as per SGM held on November 17, 2015	-	-	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)	-	(10,000)
Prepayment of dividend as per SGM held on June 18, 2015	-	-	-	-	-	-	-	-	-	-	-	-	(46,682)	(46,682)	-	(46,682)
Supplement of statutory mandatory minimum dividend	-	-	-	-	-	-	-	-	-	-	-	-	(61,521)	(61,521)	-	(61,521)
Transfer to income reserves	-	-	-	-	-	-	-	-	-	-	356,376	(141,718)	(356,376)	(141,718)	-	(141,718)
Balances at December 31, 2015	440,959	167,767	6,445	4,586	124,336	9,524	43,807	882	88,963	103,060	356,376	-	-	1,346,705	7,945	1,354,650
Realization of revaluation reserve	-	-	-	(469)	-	-	-	-	-	-	-	-	469	-	-	-
Realization of adjustments to deemed cost	-	-	-	-	(1,355)	(204)	-	-	-	-	-	-	1,559	-	-	-
Tax incentive reserve	-	-	-	-	-	-	100	-	-	-	-	-	(100)	-	-	-
Net income for the year	-	-	-	-	-	-	-	-	-	-	-	-	544,647	544,647	(409)	544,238
Income allocation to research and development reserve according to AGM on April 18, 2016	-	-	-	-	-	-	-	-	21,463	-	(21,463)	-	-	-	-	-
Income allocation to PP&E reserve according to AGM on April 18, 2016	-	-	-	-	-	-	-	-	-	28,130	(28,130)	-	-	-	-	-
Payment of dividends according to AGM on April 18, 2016	-	-	-	-	-	-	-	-	-	-	(306,783)	-	-	(306,783)	-	(306,783)
Transfer of income reserve to noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(12)	(12)
Interest on equity according to Special General meeting (SGM) on February 4, 2016	-	-	-	-	-	-	-	-	-	-	-	-	(60,088)	(60,088)	-	(60,088)
Interest on equity according to SGM on February 4, 2016	-	-	-	-	-	-	-	-	-	-	-	-	(63,270)	(63,270)	-	(63,270)
Supplement of IOE for 2016	-	-	-	-	-	-	-	-	-	-	-	-	(5,572)	(5,572)	-	(5,572)
Transfer to income reserves	-	-	-	-	-	-	-	-	-	-	408,484	-	(408,484)	-	-	-
Supplement of statutory mandatory minimum dividend	-	-	-	-	-	-	-	-	-	-	-	-	(7,233)	(7,233)	-	(7,233)
Realization of reserves	-	-	-	-	-	-	-	-	-	-	1,928	-	(1,928)	-	-	-
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

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Cash flow statements

Years ended December 31, 2016 and 2015

(In thousands of reais – R\$)

	Company (BR GAAP)		Consolidated (BR GAAP and IFRS)	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Cash flow from operating activities				
Net income before income and social contribution taxes	661,311	587,710	734,197	654,088
Adjustments to reconcile pre-tax income to net cash generated by operating activities:				
Depreciation and amortization	32,142	25,490	44,029	34,750
Loss on disposal of property, plant and equipment items	72	3,031	128	3,679
Provisions for tax, civil and labor claims	17,580	46,109	24,390	57,845
Provision for inventory losses	7,873	(4,091)	11,045	698
Equity pickup	(145,477)	(121,922)	(2,830)	(12,774)
Unearned income	-	-	-	15,686
Other provisions	(4,170)	7,313	(2,562)	32,786
Accrued interest, and monetary and exchange variations	10,591	10,461	6,616	4,261
Allowance for doubtful accounts	6,067	(1,136)	7,743	765
Other	369	-	349	-
	586,358	552,965	822,121	791,784
(Increase) decrease in operating assets:				
Trade accounts receivable	(34,923)	(112,368)	(67,599)	(142,719)
Inventories	29,163	(114,534)	15,208	(139,554)
Income and social contribution taxes to be offset	(12,108)	(26,259)	(24,896)	(40,804)
Related parties – receivables	(11,591)	-	(11,591)	-
Prepaid expenses and other receivables	34,782	(40,180)	36,528	(38,829)
Increase (decrease) in operating liabilities:				
Trade accounts payable	(64,786)	95,425	(79,943)	121,245
Labor and social security liabilities	(2,190)	5,258	5,553	11,504
Taxes payable	(267)	13,977	(885)	13,611
Income and social contribution taxes paid	(129,240)	(105,045)	(201,064)	(181,350)
Provision for tax, civil and labor contingencies paid	(10,919)	(8,339)	(11,032)	(8,598)
Interest paid on loans and financing	(8,635)	(9,582)	(10,718)	(12,396)
Other liabilities	5,940	(4,363)	7,062	(3,833)
Net cash generated by operating activities	381,584	246,955	479,729	370,061
Cash flow from investing activities				
Dividend received from subsidiaries	103,847	70,182	-	-
Acquisition of subsidiaries	(1,200)	-	(1,200)	-
Capital increase in subsidiaries	(617)	(3,500)	(617)	(3,500)
Acquisition of property, plant and equipment and intangible assets	(68,492)	(94,503)	(107,793)	(145,685)
Advances for property, plant and equipment	(3,109)	-	(5,301)	-
Long-term investments	-	-	9,272	(870)
Net cash generated by (used in) investing activities	30,429	(27,821)	(105,639)	(150,055)
Cash flow from financing activities				
Loans and financing raised	4,625	39,743	18,730	45,631
Repayment of loans and financing	(29,377)	(28,622)	(34,873)	(29,398)
Dividend paid	(452,164)	(298,400)	(452,164)	(298,745)
Net cash used in financing activities	(476,916)	(287,279)	(468,307)	(282,512)
Decrease in cash and cash equivalents	(64,903)	(68,145)	(94,217)	(62,506)
Cash and cash equivalents at beginning of period	162,631	230,776	228,616	291,122
Cash and cash equivalents at end of period	97,728	162,631	134,399	228,616
Decrease in cash and cash equivalents	(64,903)	(68,145)	(94,217)	(62,506)

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Statements of value added
Years ended December 31, 2016 and 2015
(In thousands of reais – R\$)

	Company (BR GAAP)		Consolidated (BR GAAP and IFRS)	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Turnover				
Sales of goods, products and services	2,393,450	2,073,419	3,120,106	2,695,725
Allowance for doubtful accounts	807	2,734	1,249	3,293
Other turnover	11,768	4,818	16,122	6,525
	2,406,025	2,080,971	3,137,477	2,705,543
Bought-in inputs				
Raw materials consumed	488,338	377,334	639,268	505,089
Cost of sales and services	6,754	3,957	10,368	7,282
Bought-in materials, energy and services and others	443,101	462,762	560,220	592,249
Impairment of assets	4,688	(5,242)	7,394	(1,102)
	942,881	838,811	1,217,250	1,103,518
Gross value added	1,463,144	1,242,160	1,920,227	1,602,025
Depreciation and amortization	(32,142)	(25,490)	(44,029)	(34,750)
Value added generated by the Company	1,431,002	1,216,670	1,876,198	1,567,275
Value added received in transfer				
Equity pickup	145,477	121,922	2,830	12,774
Financial turnover	14,732	29,286	22,163	50,296
	160,209	151,208	24,993	63,070
Total value added payable	1,591,211	1,367,878	1,901,191	1,630,345
Payment of value added	1,591,211	1,367,878	1,901,191	1,630,345
Personnel	444,703	373,686	585,706	500,887
Direct compensation	371,856	318,226	490,418	426,554
Benefits	47,466	33,937	62,835	46,619
Unemployment Compensation Fund (FGTS)	25,381	21,523	32,453	27,714
Taxes, charges and contributions	527,306	451,470	671,858	571,328
Federal	323,325	268,082	409,119	339,151
State	199,433	179,097	256,633	226,525
Other taxes	4,548	4,291	6,106	5,652
Debt remuneration	74,555	69,911	98,980	85,319
Interest	42,775	38,982	57,711	44,561
Leases	31,780	30,929	41,662	39,672
Noncontrolling interests			(393)	1,086
Equity remuneration	544,647	472,811	544,647	472,811
Dividend and interest on equity paid	136,163	56,682	136,163	56,682
Retained profits for the year	408,484	416,129	408,484	416,129

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements

December 31, 2016

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

1. Operations

Aché Laboratórios Farmacêuticos S.A. ("Company") is a privately-held corporation headquartered in the 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 nonprescription medicine business units.

In December 2016, the Company announced the expansion of its industrial operations and distribution in Pernambuco State, which will allow Aché to reach out to customers in the North and Northeast regions. Approximately R\$500 million will be invested in the construction of a drug factory in an area of 250,000 sqm, as well as a Distribution Center in the metropolitan area in the city of Recife, which, when fully operational - scheduled for 2021, will increase installed capacity in approximately 50 %.

The Company holds ownership interest in the following companies:

Denominator	Main activity	Country	Ownership interest	12/31/2016	12/31/2015
Aché International Ltda	Maintenance of partnerships with other international companies for technical and operational development of their products.	British Virgin Islands	Direct	100%	100%
Biosintética Farmacêutica Ltda	The manufacturing, sale, import and export of pharmaceutical products for human consumption and operations in the main pharmaceutical segments	Brazil	Direct	99.99%	99.99%
Indústria Farmacêutica Melcon do Brasil S.A	(a) Manufacturing, sale, import and export of hormones	Brazil	Direct	50%	50%
Labofarma Produtos Farmacêuticos Ltda	Distribution and sale of medicines	Brazil	Direct	99.99%	99.99%
Raposo Participações Ltda.	(b) Non-financial institution holding	Brazil	Indirect	99.99%	99.99%
Bionovis S.A.	Research, development, production, distribution and sale of biotechnological medicines	Brazil	Jointly-controlled	25%	25%
Nortis Farmacêutica Ltda.	(c) Manufacturing of cephalosporin antibiotics for human consumption, nutraceuticals and nonprescription medicines	Brazil	Direct	100.00%	-
Laboratório Químico Farmacêutico Tiaraju	(d) Manufacturing of functional foods	Brazil	Direct	100.00%	-

(a) Although the Company is not the controlling shareholder of Indústria Farmacêutica Melcon do Brasil S.A., it is a controlling shareholder of the investee, as it holds rights that enables it to govern activities that significantly affect its returns. Accordingly, the Company adopts the criterion to fully consolidate the investee, and identifies non-controlling interest in the consolidated balance sheet, separately from controlling interest.

(b) Biosintética holds a 99.99% interest in its subsidiary Raposo.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

1. Operations (Continued)

- (c) On March 14, 2016, Aché acquired the pharmaceutical company "Nortis", a laboratory specialized in the manufacture of cephalosporin antibiotics and in marketing functional foods. "Nortis", established in 2002, is a company with modern manufacturing facilities installed, achieved excellence in drug production, has continuously invested in technology and produces 20 million units per year. At December 31, 2016, due to the immateriality of the equity balances of Nortis, the Company opted for consolidation in a subsequent period.
- (d) On March 4, 2016, Aché acquired Laboratório Químico Farmacêutico Tiaraju Ltda, established in 1991, which has extensive experience in phytomedicines and functional foods market. As a result of this acquisition, Aché will incorporate registrations of 12 phytomedicine products. At December 31, 2016, due to the immateriality of the equity balances of Tiaraju, the Company opted for consolidation in a subsequent period.

2. Basis of preparation and summary of significant accounting practices

The Company financial statements were authorized to be issued by the Board of Directors on March 14, 2017.

The Company's financial statements were prepared in accordance with accounting practices adopted in Brazil, which comprise the provisions contained in Brazilian Corporation Law, under Law No. 6404/76, as amended by Laws No. 11638/07, No. 11941/09 and No. 12973/14, and 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).

These financial statements were prepared using the historical cost, except for certain financial instruments measured at their fair values, whenever required by standards.

Financial statement preparation required the use of accounting estimates, which are based on both objective and subjective factors, and on management's judgment for the determination of the appropriate amounts to be recorded in the financial statements. Areas considered significant and that require higher level of judgment include: deferred income and social contribution taxes, provision for tax, civil and labor claims, allowance for doubtful accounts, provision for inventory losses and impairment of assets.

Significant accounting practices adopted by the Company are described in specific notes, related to the items presented. Those applicable, in general, to different aspects of the financial statements are described below.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

(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 the purposes of the consolidated financial statements, profit or loss and statement of financial position balances of each company were translated into reais, which is the functional and reporting currency of the Company's financial statements.

Transactions and balances in foreign currency

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

b) Testing assets for impairment (except for goodwill)

The Company and its subsidiaries review the net carrying amount of their assets with a view to determining whether there are any events or changes in economic, operating, or technological circumstances that may indicate deterioration or impairment loss. When such evidence is identified and net carrying amount exceeds recoverable amount, a provision for impairment is set up to adjust the net carrying amount to the recoverable amount.

c) Financial instruments

The Company classifies its financial assets and liabilities, upon initial recognition, into the following categories:

Financial assets

- Loans and receivables: these are nonderivative financial assets with fixed or determinable payments which, however, are not quoted in an active market. After initially measured, those financial assets are recorded at amortized cost, under the effective interest method, less impairment losses. At December 31, 2016 and 2015, for the Company and its subsidiaries, these comprise: cash and cash equivalents, short-term investments, trade accounts receivables and related-party receivables.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

(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: nonderivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company expressly intends and is financially able to hold them to maturity. After initial recognition, those assets are measured at amortized cost under the effective interest method, less impairment losses. At December 31, 2016 and 2015, the Company and its subsidiaries had no financial assets under this classification.
- Financial assets available for sale: after initial recognition, those assets are measured at fair value, with unrealized gains and losses recognized directly in other comprehensive income until the investment is reversed, except for impairment losses, interest and exchange gains and losses, which are posted directly to profit or loss for the period. At December 31, 2016 and 2015, the Company and its subsidiaries had no financial assets under this classification.
- Financial assets at fair value through profit or loss: these are stated in the statement of financial position at fair value, and their corresponding gains or losses are recognized in profit or loss. At December 31, 2016 and 2015, the Company and its subsidiaries had no financial assets under this classification.

Financial liabilities

- Financial liabilities measured at fair value through profit or loss: these are recorded under this classification when they are held for trading or designated at fair value through profit or loss. At December 31, 2016 and 2015, the Company and its subsidiaries had no financial liabilities under this classification.
- Other financial liabilities: at December 31, 2016 and 2015, these comprise loans and financing and balances payable to suppliers, which are measured at amortized cost under the effective interest method.

d) Statement of Added Value ("SVA")

The statement of value added (SVA) is not required by the IFRS, and is presented as supplementary information, in compliance with Brazilian Corporation Law. The purpose of the SVA is to disclose the wealth generated by the Company during the year and the wealth distribution among its stakeholders.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

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

2.1. New accounting pronouncements

The following new standards were approved and issued by the IASB, but are not yet effective and were not early adopted by the Company, as the CPC has not yet issued local equivalent pronouncements. Accordingly, early adoption is not allowed in Brazil, but is now under assessment by management for future impacts.

IFRS 9 - Financial Instruments (effective from 01/01/2018) Definition: this ultimately intends to replace IAS 39. Significant changes expected are: (i) all financial assets shall be initially recognized at fair value; (ii) the standard divides all financial assets into: amortized cost and fair value; and (iii) the concept of embedded derivatives was extinguished.

IFRS 10 in IAS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture. Definition: adjusts the conflict between IFRS 10 and IAS 28, regarding the accounting treatment of sale or contribution of assets between an investor and its associate/joint venture.

IFRS 11 - Accounting for Acquisitions of Interests in Joint Operations Definition: this is contained in IFRS 3 and other standards relevant to the business combination. IFRS 3 should be applied for the acquisition of interests in joint operations in which the joint operation is a business.

IFRS 15 - Revenue from Contracts with Customers (effective as from January 1, 2018) Definition: this is intended to make financial information more comparable and provide a new model for revenue recognition, and more detailed requirements for contracts with multiple obligations. Replaces IAS 11 and IAS 18, and corresponding interpretations.

IFRS 16 – Leases (effective as from January 1, 2019) Definition: this intends to determine how leases are accounted for, and requires lessees to recognize as an asset or liability all lease agreements, unless the agreement will be effective for twelve months or has insignificant value. The standard is applicable as from January 1, 2019.

The Company is assessing the impacts of applying IFRS 9, IFRS 15 and IFRS 16 from the date they become effective. Management expects that the application of the other standards and amendments pending to be applied will have no significant effect on the individual and consolidated financial statements.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

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

2.2. Significant accounting judgments and estimates

Management must make judgments and prepare estimates related to book values of assets and liabilities not easily obtained from other sources. These estimates and their respective assumptions are based on historical experience and other factors considered relevant. Actual results may differ from the amounts estimated.

The underlying estimates and assumptions are reviewed on an ongoing basis. The effects of accounting estimate reviews are recognized in the period in which estimates are reviewed.

3. Cash and cash equivalents

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Cash and banks	514	6,881	3,477	10,505
Short-term investments	97,214	155,750	130,922	218,111
	97,728	162,631	134,399	228,616

Short-term investments comprise Repurchase Agreements and CDBs with various financial institutions, with average yield ranging from 100.0% to 100.5% (100% to 102% in 2015) of the Interbank Deposit Certificate (CDI) rate, and are classified under "Cash and cash equivalents" since they are considered immediately redeemable financial assets and subject to an insignificant risk of changes in value.

4. Trade accounts receivable

Trade accounts receivable are recorded at nominal value of securities, less allowance for doubtful accounts.

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Trade accounts receivable – domestic	329,256	302,127	512,373	452,526
Trade accounts receivable – foreign (Note 17)	435	2,230	1,658	2,898
Related parties (Note 14)	6,790	4,075	-	-
Allowance for doubtful accounts	(2,430)	(3,237)	(4,386)	(5,635)
	334,051	305,195	509,645	449,789

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

4. Accounts receivable (Continued)

a) Aging list

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Falling due	312,089	289,369	476,698	430,088
Overdue:				
From 1 to 60 days	20,706	8,550	30,363	11,492
From 61 to 120 days	1,012	4,114	1,974	5,047
From 121 to 180 days	244	3,285	610	3,505
Over 180 days	2,430	3,114	4,386	5,292
	336,481	308,432	514,031	455,424

Maximum exposure to credit risk as of the financial statements date is the carrying amount of each aging range, as detailed in the chart above.

b) Allowance for doubtful accounts

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

Changes in allowance for doubtful accounts

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Balance at beginning of year	(3,237)	(6,130)	(5,635)	(9,445)
Additions	(7,484)	(2,615)	(9,936)	(4,516)
Write-offs (effective losses)	1,417	3,751	2,193	3,751
Reversals for receipt	6,874	1,757	8,992	4,575
Balance at end of year	(2,430)	(3,237)	(4,386)	(5,635)

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

5. Inventories

These are recorded at the lower of average cost and net realizable value, adjusted by an inventory loss provision, where applicable.

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Finished goods	97,237	103,819	171,072	174,347
Work in progress	47,129	22,193	53,014	30,419
Raw materials	107,260	111,663	168,111	158,699
Advances to suppliers	8,022	55,344	12,425	62,105
Provision for inventory losses	(10,449)	(6,784)	(25,422)	(20,117)
	249,199	286,235	379,200	405,453

Changes in provision for inventory losses

The estimate to set up an inventory loss provision is reviewed monthly, and considers, among other issues, expiry of products, and products locked due to quality issues.

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Balance at beginning of year	(6,784)	(10,875)	(20,117)	(19,419)
Additions	(14,853)	(20,675)	(22,168)	(38,747)
Reversals	6,980	6,239	11,123	9,284
Write-offs	4,208	18,527	5,740	28,765
Balance at end of year	(10,449)	(6,784)	(25,422)	(20,117)

6. Deferred income and social contribution taxes

Deferred income and social contribution tax assets and liabilities arise from temporarily nondeductible and/or nontaxable income and expenses, absorbed tax credits, and income and social contribution tax losses.

The deferred tax asset recognized is limited to the amounts for which its offset is supported by taxable profit projections, prepared by the Company and its subsidiaries, considering also that the offset of income and social contribution tax losses is limited to 30% of the annual taxable profit.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

6. Deferred income and social contribution taxes (Continued)

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Assets				
Deferred income and social contribution taxes on:				
Temporarily non-deductible provisions:				
Provision for tax, civil and labor claims	69,411	67,147	81,909	77,391
Profit sharing	7,133	8,406	21,043	20,415
Allowance for doubtful accounts	826	1,100	1,457	1,889
Provision for inventory losses	3,951	2,642	8,987	6,926
Provision for fleet maintenance	3,046	2,573	3,823	3,220
Provision for customer bonus	5,629	5,932	20,605	19,867
Unrealized profit	842	458	842	458
Billed but not delivered	424	-	899	-
Other	4,259	2,548	5,018	3,192
	95,521	90,806	144,583	133,358

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Liabilities				
Deferred income and social contribution taxes on:				
Revaluation of assets	1,979	2,202	5,803	6,095
Deemed cost attributable to PP&E and difference between useful life vs. tax depreciation rate	74,707	72,708	89,013	86,749
Amortized goodwill	4,708	3,892	74,048	73,232
Borrowing cost	10,809	11,075	10,809	11,075
Monetary restatement of judicial deposits	19,896	23,472	19,896	23,472
Present value adjustment	-	-	-	13,176
Depreciation	14,372	-	17,829	-
Other	720	2,725	1,182	3,449
	127,191	116,074	218,580	217,248

Balance of liabilities, net of deferred income and social contribution taxes	(31,670)	(25,268)	(73,997)	(83,890)
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Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

6. Deferred income and social contribution taxes (Continued)

Deferred tax assets arising from temporary differences will be realized as they are settled or realized within ten years. The settlement or realization period of these differences is imprecise and is linked to various factors that are not under management's control. Based on its future taxable profit projections, management expects the tax credits to be realized as follows:

	Company	Consolidated
2016	19,050	41,666
2017	1,411	7,230
2018	3,872	11,963
2019 onwards	71,188	83,724
	<u>95,521</u>	<u>144,583</u>

7. Reconciliation of income and social contribution tax expenses

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Income before income and social contribution taxes	661,311	587,710	734,197	654,088
Nominal income and social contribution tax expense – 34%	(224,846)	(206,450)	(249,627)	(229,250)
Reconciliation of income and social contribution tax expense at nominal rate:				
Equity pickup	49,846	41,128	962	(588)
Tax benefit from technology research and development of technology innovation	20,719	20,257	23,067	22,354
Interest on equity	43,836	-	43,836	-
Nondeductible fines	(308)	(148)	(359)	(234)
Nondeductible donations	(1,416)	(1,585)	(2,396)	(2,558)
Tax debt offsetting – REFIS	-	17,472	-	17,472
Offset of “Lei do Bem” (Brazil's Tax Relief Law)	2,774	8,610	3,404	9,978
<i>Maternidade cidadã</i> program	(350)	(285)	(437)	(348)
Tax incentives	6,452	6,852	10,018	10,208
Accelerated depreciation (“Lei do Bem”)	(13,576)	(928)	(16,887)	(1,026)
Other	205	178	(1,524)	(6,199)
Effective expense of income and social contribution taxes	<u>(116,664)</u>	<u>(114,899)</u>	<u>(189,943)</u>	<u>(180,191)</u>
Current	(110,488)	(124,993)	(200,061)	(201,222)
Deferred	(6,176)	10,094	10,118	21,031
Effective rate	<u>18%</u>	<u>19%</u>	<u>26%</u>	<u>27%</u>

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

8. Investments – Company

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Subsidiaries (a)	455,952	441,273	6,319	596
Goodwill - Asta Médica	11,446	11,446	-	-
Goodwill - Melcon	17,533	17,534	-	-
Goodwill - Nortis	9,420	-	9,420	-
	494,351	470,253	15,739	596

Goodwill is classified as part of the investments from which it stemmed, as they are part of the investment acquired. In the consolidated statement of financial position, goodwill was reclassified to intangible assets, as it refers to expected profitability in each subsidiary acquired.

(a) Information on investments in subsidiaries and joint venture is as follows:

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

8. Investments – Company (Continued)

Company	Information on subsidiaries:					12/31/2016		12/31/2015		
	Total assets	Total liabilities	Total equity	Unrealized profit	Other	P&L for the year	Investment balance	Equity pickup	Investment balance	Equity pickup
Aché International	2,110	-	2,110	-	-	(419)	2,110	(419)	2,529	799
Biosintética	801,231	359,000	442,231	(1,389)	-	148,665	440,699	147,276	431,409	137,671
Melcon	33,765	18,717	15,017	503	31	(785)	6,825	95	6,740	1,508
Bionovis (a)	174,572	161,303	13,269	-	-	12,325	3,317	3,081	595	(2,915)
Nortis	4,228	1,227	3,001	-	-	(236)	3,001	(236)	-	-
							455,952	149,797	441,273	137,063
Provision for investment loss										
Labofarma	11,965	39,186	(27,221)	(242)	-	(4,078)	(27,463)	(4,320)	(23,143)	(15,141)
							428,489	145,477	418,130	121,922

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

The percentages of interests are described in Note 1.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

8. Investments – Company (Continued)

Changes in investments in subsidiaries and joint ventures

Subsidiaries and joint ventures	12/31/2015	Equity pickup	Acquisition of subsidiary	Dividend	Capital increase	Other	12/31/2016
Aché Internacional	2,529	(419)	-	-	-	-	2,110
Biosintética	431,552	148,665	-	(137,986)	-	-	442,231
Melcon	7,944	(408)	-	(12)	-	-	7,524
Bionovis	595	3,081	-	-	-	(357)	3,319
Nortis (a)	-	(236)	2,620	-	617	-	3,001
Unrealized profit	(1,347)	(886)	-	-	-	-	(2,233)
	<u>441,273</u>	<u>149,797</u>	<u>2,620</u>	<u>(137,998)</u>	<u>617</u>	<u>(357)</u>	<u>455,952</u>
Provision for inventory loss Investment - Labofarma	(23,143)	(4,320)	-	-	-	-	(27,463)
Total	<u>418,130</u>	<u>145,477</u>	<u>2,620</u>	<u>(137,998)</u>	<u>617</u>	<u>(357)</u>	<u>428,489</u>

(a) The cash effect of the acquisition of Nortis was R\$1,200 until December 31, 2016.

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

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

9. Property, plant and equipment

Property, plant and equipment are measured at historical cost, less straight-line depreciation and accumulated impairment losses.

	Useful life (years)	Company					
		12/31/2016			12/31/2015		
		Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount
Land		82,774	-	82,774	82,774	-	82,774
Buildings	42.35	489,466	(130,524)	358,942	486,253	(122,132)	364,121
Facilities	10	48,737	(36,129)	12,608	44,467	(34,317)	10,150
Machinery and equipment	6.03	255,075	(112,471)	142,604	218,468	(98,758)	119,710
Furniture and fixtures	10	12,585	(8,633)	3,952	11,344	(8,051)	3,293
Vehicles	5	2,074	(1,994)	80	2,074	(1,934)	140
IT equipment	4	21,860	(14,588)	7,272	20,940	(10,711)	10,229
Molds and dies/other	10	20,542	(11,246)	9,296	19,598	(9,883)	9,715
		933,113	(315,585)	617,528	885,918	(285,786)	600,132
Advances for property, plant and equipment		3,109	-	3,109	-	-	-
Construction in progress		36,597	-	36,597	24,821	-	24,821
		972,819	(315,585)	657,234	910,739	(285,786)	624,953
Consolidated							
	Useful life (years)	12/31/2016			12/31/2015		
		Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount
		Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount
Land		122,666	-	122,666	122,666	-	122,666
Buildings	42.35	539,140	(142,914)	396,226	525,549	(133,402)	392,147
Facilities	10	59,925	(43,493)	16,432	54,068	(41,213)	12,855
Machinery and equipment	6.03	399,092	(168,075)	231,017	336,414	(146,963)	189,451
Furniture and fixtures	10	15,234	(9,598)	5,636	13,538	(8,804)	4,734
Vehicles	5	2,795	(2,536)	259	2,795	(2,370)	425
IT equipment	4	30,660	(20,332)	10,328	28,655	(15,310)	13,345
Molds and dies/other	10	29,634	(14,837)	14,797	27,490	(12,628)	14,862
		1,199,146	(401,785)	797,361	1,111,175	(360,690)	750,485
Advances for property, plant and equipment		5,301	-	5,301	-	-	-
Construction in progress		52,137	-	52,137	42,591	-	42,591
		1,256,584	(401,785)	854,799	1,153,766	(360,690)	793,076

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

9. Property, plant and equipment (Continued)

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

	Company				12/31/2016
	12/31/2015	Acquisition	Write-off	Transfer	
Land	82,774	-	-	-	82,774
Buildings	486,253	362	-	2,851	489,466
Facilities	44,467	1,758	-	2,512	48,737
Machinery and equipment	218,468	34,506	-	2,101	255,075
Furniture and fixtures	11,344	1,241	-	-	12,585
Vehicles	2,074	-	-	-	2,074
IT equipment	20,940	992	(72)	-	21,860
Molds and dies/other	19,598	944	-	-	20,542
Subtotal	885,918	39,803	(72)	7,464	933,113
Construction in progress	24,821	19,240	-	(7,464)	36,597
Total	910,739	59,043	(72)	-	969,710

	Consolidated				12/31/2016
	12/31/2015	Acquisition	Write-off	Transfer	
Land	122,666	-	-	-	122,666
Buildings	525,549	971	-	12,620	539,140
Facilities	54,068	1,843	-	4,014	59,925
Machinery and equipment	336,414	55,450	(46)	7,274	399,092
Furniture and fixtures	13,538	1,706	(10)	-	15,234
Vehicles	2,795	-	-	-	2,795
IT equipment	28,655	2,077	(72)	-	30,660
Molds and dies/other	27,490	2,144	-	-	29,634
Subtotal	1,111,175	64,191	(128)	23,908	1,199,146
Construction in progress	42,591	33,454	-	(23,908)	52,137
Total	1,153,766	97,645	(128)	-	1,251,283

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

	Company			12/31/2016
	12/31/2015	Additions	Write-off	
Buildings	(122,132)	(8,392)	-	(130,524)
Facilities	(34,317)	(1,812)	-	(36,129)
Machinery and equipment	(98,758)	(13,713)	-	(112,471)
Furniture and fixtures	(8,051)	(582)	-	(8,633)
Vehicles	(1,934)	(60)	-	(1,994)
IT equipment	(10,711)	(3,877)	-	(14,588)
Molds and dies/other	(9,883)	(1,363)	-	(11,246)
Total	(285,786)	(29,799)	-	(315,585)

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

9. Property, plant and equipment (Continued)

	Consolidated			12/31/2016
	12/31/2015	Additions	Write-off	
Buildings	(133,402)	(9,512)	-	(142,914)
Facilities	(41,213)	(2,280)	-	(43,493)
Machinery and equipment	(146,963)	(21,126)	14	(168,075)
Furniture and fixtures	(8,804)	(800)	6	(9,598)
Vehicles	(2,370)	(166)	-	(2,536)
IT equipment	(15,310)	(5,022)	-	(20,332)
Molds and dies/other	(12,628)	(2,209)	-	(14,837)
Total	(360,690)	(41,115)	20	(401,785)

For the year ended December 31, 2016, 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.

10. Intangible assets

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Brands	28,223	24,724	30,162	26,637
CBPF – Nortis (a)	2,400	-	2,400	-
Software	16,223	15,017	17,728	16,418
Goodwill - Asta Médica Ltda. (b)	-	-	11,446	11,446
Goodwill - Biosintética (c)	-	-	203,942	203,942
Goodwill - Melcon (d)	-	-	17,533	17,534
Total	46,846	39,741	283,211	275,977

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

(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 goodwill of subsidiary Biosintética arising 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.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

10. Intangible assets (Continued)

Changes in intangible assets are as follows:

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Balance at beginning of year	39,741	28,263	275,977	264,427
Additions	9,448	13,225	10,148	13,757
Write-offs	-	-	-	-
Amortization - software	(2,343)	(1,747)	(2,914)	(2,207)
Balance at end of year	46,846	39,741	283,211	275,977

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 medicines 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 13% p.a. (14% p.a. in 2015).

The results of the impairment test conducted as of December 31, 2016 indicated no need for recording a provision for losses.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

11. Loans and financing

	Annual charges	Maturity	Company		Consolidated	
			12/31/2016	12/31/2015	12/31/2016	12/31/2015
Local currency:						
PRÓ-DF (a)	25% of INPC + 2.43%	2042	-	-	-	6,513
FINAME	TJLP + 1.15 to 2.95%	2016	-	86	-	179
FINAME	2.5% to 6.0%	2020	858	1,735	1,443	2,704
FCO and FOMENTAR	2.9% to 10%	2019	-	-	1,925	1,677
FINEP (b)	4%	2019	29,030	37,236	29,030	37,236
BNDES (d)	4.5%	2023	32,885	31,445	35,302	34,493
Working capital	18.16%	2018	-	-	7,915	104
	Referential Rate IPCA					
Profarma – BNDES (a)	+ 1.52%	2022	6,763	5,914	6,763	5,914
Profarma – BNDES (a)	TJLP + 1.5% to 3%	2023	71,778	87,694	90,383	104,186
			141,314	164,110	172,761	193,006
Current			33,280	29,687	44,190	33,762
Noncurrent			108,034	134,423	128,571	159,244
Total			141,314	164,110	172,761	193,006

(a) The Profarma - BNDES financing is intended for the construction and expansion of the industrial unit in Guarulhos – SP and research and development of products. Those financing agreements set forth usual early maturity hypotheses upon failure to comply with certain financial indexes. Major covenants are as follows: General debt equal to or less than 0.75 and total net debt / EBITDA equal to or less than 3.0. At December 31, 2016, the Company complies with these contractual commitments. This financing is collateralized by mortgage on properties, machinery and equipment owned by the Company, located in Guarulhos - SP.

(b) The financing 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. Finep financing 09.14.0086.00, amounting to R\$41,468, is for R&D projects. Fund is released according to proof of expenditures related to the project. Until December 31, 2015, the amount of R\$4,147 was released, with participation of Aché, as set forth in the agreement, by means of a matching entry in the amount of R\$939 in 2016. For 2016, there was no release of funds. This financing is guaranteed by bank guarantee.

(c) Financing operations contracted with Banco de Brasília (Pro-DF) maturing up to 2042 were settled on April 28, 2016, through auction (PRO-DF 2004,367,367 / 2-01). Short-term investments given as collateral recorded under noncurrent were used to settle these operations.

(d) Financing operations contracted with BNDES are addressed to Research and Development of Innovative Products according to the line subsidized by BNDES within the Profarma Innovation program, for which the mortgage of Guarulhos property was given as collateral. Major covenants are: General debt equal to or less than 0.75 and total net debt / EBITDA equal to or less than 3.0. At December 31, 2016, the Company complies with these contractual commitments.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

12. Trade accounts payable

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Trade accounts payable - domestic	42,909	41,110	53,539	55,091
Trade accounts payable – foreign	26,872	97,464	40,425	124,026
Drawee risk transaction (a)	4,699	-	6,270	-
Related parties (Note 14)	1,384	2,076	-	1,060
	75,864	140,650	100,234	180,177

- (a) The Company and its subsidiaries have agreements entered into with Banco Itaú to structure the transaction known as "drawee risk" with its main suppliers. In this transaction, suppliers transfer the right of receipt of securities to the Bank which, in turn, will become the creditor of the transaction. This transaction did not change maturities, prices and conditions previously set forth when a complete analysis of the suppliers by category was performed; therefore, the Company and its subsidiaries record this transaction under Trade accounts payable.

13. Tax liabilities

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
State VAT (ICMS):	17,178	21,350	24,470	29,585
Corporate Income Tax (IRPJ)	37,460	58,871	83,571	96,222
Contribution Tax on Gross Revenue for Social Security Financing (COFINS)	7,230	7,629	7,278	7,656
Social Contribution Tax on Net Profit (CSLL)	8,411	16,072	23,523	27,712
Contribution tax on gross revenue for social integration program (PIS)	1,522	1,610	1,532	1,616
Other	7,565	2,726	12,271	7,102
	79,366	108,258	152,645	169,893

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

14. Related parties

Related-party transactions and balances are as follows:

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Revenues:				
Sales to and manufacturing for Biosintética (a)	134,627	99,172	-	-
Sales to Melcon (b)	2,901	2,297	-	-
Sales to Labofarma (b)	6,770	(321)	-	-
Purchases:				
Purchases of products from Biosintética (a)	11,972	13,046	-	-
Purchase of products from Melcon	10,446	8,797	-	-
Purchase of services from Labofarma	4,985	4,406	-	-
Current assets:				
Accounts receivable - Biosintética (c)	111	2,860	-	-
Accounts receivable - Labofarma (c)	4,959	1	-	-
Accounts receivable - Melcon (c)	1,720	1,214	-	-
Dividends receivable – Biosintética	59,324	25,174	-	-
	66,114	29,249		
Other receivables - Melcon (c)	134	275	-	-
Advances to suppliers - Farmaprod	-	38		38
Total current assets	66,248	29,562		38
Noncurrent assets:				
Accounts receivable - Melcon (b)	492	492	-	-
Accounts receivable – Nortis (c)	11,591	-	11,591	-
Current liabilities:				
Trade accounts payable - Biosintética (c)	1,132	301	-	-
Trade accounts payable - Labofarma (c)	-	349	-	-
Trade accounts payable - Melcon (c)	252	644	-	-
Trade accounts payable - Farmaprod (c)	-	497	-	760
Dividends payable	52,304	61,521	52,318	61,521
Associação Brasileira de Assistência ao Deficiente Visual - Laramara	-	285	-	300
Total current liabilities	53,688	63,597	52,318	62,581

(a) Manufacturing of products and rendering of corporate services passed on to subsidiaries at the cost effectively incurred in these services.

(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.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

14. Related parties (Continued)

Key management personnel compensation

Compensation of officers and management of the Company and its subsidiaries, including benefits, if any, is as follows:

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Overall management compensation and charges	3,836	4,917	14,537	16,512

15. Labor and social security liabilities

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Salaries and wages payable	72	6	303	172
Accrued vacation pay, 13th monthly salary and social charges	10,286	9,187	13,293	12,199
Social Security Tax (INSS) payable	11,188	10,403	14,976	13,944
FGTS payable	705	2,883	985	3,714
Profit sharing	16,829	20,384	33,945	30,042
Withholding Income Tax (IRRF) on payroll	7,884	6,462	10,107	8,290
Other	551	380	890	585
	47,515	49,705	74,499	68,946

16. Provision for tax, civil and labor claims

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 lawsuits for which an unfavorable outcome was assessed as probable.

Breakdown of provisions by nature is as follows:

	Company					12/31/2016
	12/31/2015	Additions	Reversals	Payments	Restatement	
Tax	95,162	17,182	(22,841)	(95)	7,216	96,624
Labor	77,911	42,727	(35,612)	(10,287)	6,921	81,660
Civil	5,736	2,506	(833)	(537)	732	7,604
Other litigation (a)	18,681	398	(2,700)	-	1,884	18,263
	197,490	62,813	(61,986)	(10,919)	16,753	204,151

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

16. Provisions for tax, civil and labor claims (Continued)

	Consolidated					12/31/2016
	12/31/2015	Additions	Reversals	Payments	Restatement	
Tax	102,529	17,507	(23,095)	(105)	8,909	105,745
Labor	91,792	49,989	(39,914)	(10,300)	8,586	100,153
Civil	6,199	3,467	(965)	(627)	776	8,850
Other litigation (a)	27,100	398	(3,152)	-	1,884	26,230
	227,620	71,361	(67,126)	(11,032)	20,155	240,978

(a) Other litigation refers to other provisions for contingencies not related to administrative and/or legal claims.

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

	Consolidated	
	12/31/2016	12/31/2015
Unemployment Compensation Fund (FGTS) (a)	29,968	40,047
PIS and COFINS (b)	25,623	22,432
Income and social contribution taxes (IRPJ and CSLL) (c)	34,242	16,897
Social security (d)	2,907	7,858
ICMS (e)	3,251	6,220
Other (f)	9,754	9,075
	105,745	102,529

(a) Tax 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 involving this tax is: (i) Administrative proceeding involving disallowance of credits related to fleet expenses;

(c) The most relevant legal proceedings that discuss the tax referred to above are as follows: (i) Judicial proceedings whose purpose is monetary restatement in the statement of financial position, which generated equity pickup and its subsequent exclusion from the social contribution calculation bases; (ii) Administrative proceeding that discusses the collection of Per/Dcomp not approved by the Brazilian IRS.

(d) Requirement to pay a fine as the Company did not inform in the GFIP all the generating facts and contributions to which it is subject;

(e) Tax Notices or Administrative Proceedings issued by the São Paulo, Espírito Santo and Minas Gerais States Finance Offices, the purpose of which is the collection of ICMS and ICMS-ST;

(f) This amount includes: (i) Attorney's fees accrued as a result of success fees engaged; (ii) Several legal proceedings that discuss the other taxes not listed above and that have values of lesser relevance.

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.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

16. Provisions for tax, civil and labor claims (Continued)

Proceedings assessed as risk of possible loss

At December 31, 2016, the Company and its subsidiaries are parties to proceedings that are not provisioned since they involve risk of loss classified by legal advisors as possible. Contingent liabilities are as follows:

	Consolidated	
	12/31/2016	12/31/2015
Tax	1,165,408	1,114,802
Labor (a)	99,203	-
Civil	6,362	5,440
	1,270,973	1,120,242

(a) At December 31, 2016, the Company, by means of its legal advisors, changed its assumptions related to judgment of labor proceedings, and created criteria for proceedings assessed as risk of possible loss. At December 31, 2015, legal advisors assessed risks of labor proceedings only as probable and/or remote loss.

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

	Consolidated	
	12/31/2016	12/31/2015
Unemployment Compensation Fund (FGTS)	1,354	1,232
PIS and COFINS (e)	234,700	211,602
IRPJ and CSLL (a) (b) (c) (d)	826,629	817,052
Social security	5,385	914
State VAT (ICMS):	83,284	70,664
Other	14,056	13,338
	1,165,408	1,114,802

Major proceedings assessed as risk of possible loss

a) *Administrative Proceeding No. 16643.720001/2011-18 (base years 2006 to 2009)*

In May 2011, the Brazilian IRS served a tax notice to subsidiary Biosintética amounting to approximately R\$301,000 (R\$365,620 restated at December 31, 2016) requiring payment of supposed IRPJ and CSLL debt for base years 2006 to 2009, as it understands that the subsidiary failed to legally qualify for amortization charge deduction related to goodwill paid on acquisition of company Delta Participações Farmacêuticas S.A.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

16. Provisions for tax, civil and labor claims (Continued)

Major proceedings assessed as risk of possible loss (Continued)

a) *Administrative Proceeding No. 16643.720001/2011-18 (base years 2006 to 2009) (Continued)*

In session held on December 6, 2012, the Brazilian Administrative Board of Tax Appeals (CARF) analyzed the voluntary appeal filed by Biosintética and unanimously decided that the tax notice was not due.

The finance authorities filed a special appeal, which was awarded a favorable decision to Biosintética on January 20, 2016.

At the moment, Biosintética is awaiting to be legally informed of this decision in order to adopt any legal measures it deems appropriate.

Notwithstanding last CARF decision, Biosintética confirms that the defense arguments are well grounded, and, based on a legal report issued by its outside legal advisors, the likelihood of loss in relation to goodwill deduction is possible, tending to remote. As far as increased fine application, the loss is classified as remote. Therefore, no provision was set up for this proceeding.

b) *Administrative Proceeding No. 16561.720154/2014-18 (base years 2010 and 2011)*

In December 2014, the Brazilian IRS issued a new tax notice against subsidiary Biosintética amounting to R\$112,409 (R\$122,552 restated at December 31, 2016), requiring payment of supposed IRPJ and CSLL debt for base years 2010 and 2011, which also stemmed from amortization charge deduction related to goodwill paid on acquisition of company Delta Participações Farmacêuticas S.A.

On January 11, 2016, a lower-court judge partially granted a decision, based on which Biosintética filed a voluntary appeal for its defense within the legal term.

Regarding risk classification, as this is a proceeding of the same legal nature as the one above (16643.720001/2011-18), we replicated the information presented above, to wit: risk of loss possible, tending to remote, as far a goodwill deduction is concerned, and with respect to increased fine application, risk of loss is remote. Therefore, no provision was set up for this proceeding.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

16. Provisions for tax, civil and labor claims (Continued)

Major proceedings assessed as risk of possible loss (Continued)

c) *Administrative proceeding No. 16561.720052/2014-94*

In July 2014, the Brazilian IRS issued a tax assessment notice amounting to R\$202,315, to require alleged debts of IRPJ and CSLL related to base years 2008 and 2009, since it understands the legal requirements would not have been fulfilled for deducting the amortization charges of goodwill after the merger of the split-off assets of Magenta Participações Ltda.

With respect to base year 2009, management opted for joining Tax Recovery Program (REFIS 2014), resulting in the payment of R\$44.7 million in 2014 (R\$94,387 without discount).

With respect to base year 2008, whose amount was estimated at R\$107,928 at that time (R\$118,762 restated at December 31, 2016), despite a first-level unfavorable decision, the Company confirms that the grounds for defense are strong, and that the risk of loss is possible.

It is awaiting a decision for the voluntary appeal.

d) *Proceeding No. 16095.720.146/2015-98 – Interest on Equity (IOE)*

On December 21, 2015, the Brazilian IRS issued a tax notice requiring payment of IR/CS for calendar year 2011, given deduction of expenses with payment of IOE calculated on past bases (2008 to 2010), whose historical amount is R\$44,639 (R\$47,638 restated at December 31, 2016).

On January 20, 2016, an appeal was filed, the decision of which was dismissed and the tax notice was maintained in accordance with decision issued on May 16, 2016. The Voluntary Appeal was filed within the law-mandated term and awaits judgment by CARF.

As regards risk, the outside legal advisors in charge of defense classify it as a possible loss, based on the defense line adopted and understanding of case law. Therefore, no provision was set up for this proceeding.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

16. Provisions for tax, civil and labor claims (Continued)

Major proceedings assessed as risk of possible loss (Continued)

e) *Proceeding No. 16095.720.147/2015-32 – PIS/COFINS one-phase regime*

On December 21, 2015, the Brazilian IRS issued a tax notice requiring payment of one-phase regime PIS/COFINS for the period from 2011 to 2012, given the alleged tax payment deficiency, in the historical amount of R\$198,027, (R\$211,363, restated at December 31, 2016), as follows:

- (i) Failure to pay PIS/COFINS at the one-phase/differentiated rates, arguing that Aché, upon only reselling such products, applied the zero rate set forth in article 2 of Law No. 10147/00. A.D. inspection understood that the appropriate procedure would be to use the tax credit arising from those acquisitions from third parties, under the terms of article 24 of Law No. 11727/08, and then tax resale revenue at differentiated rates.

For the item above, the main defense argument was used, that resale revenues, even those earned by industries, are subject to the zero rate of PIS/COFINS, as confirmed by Law No. 10147/00, which defines that the same concept used for the IPI in industrial processing should be applied to the one-phase PIS/COFINS, i.e., considering the zero rate of the abovementioned taxes in resale of products.

- (ii) Disallowance of PIS/COFINS matching credits under the terms of article 3 of Law No. 10147/00, in own manufacturing events, due to lack of docket of request filed with the Brazilian IRS.

As regards item 02, the Company clarifies that the request is always via the Medicine Chamber (CMED), which, after approving it, reports the products subject to the matching credit to the Brazilian IRS. In order to prove such allegation, CMED sales report was included in the defense records, which indicates Aché as the beneficiary of the products for which the tax notice was served.

This was challenged on January 20, 2016, and is now pending a decision. in view of the deed conversion into procedural service, as a result of the number of supporting documents attached to the defense.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

16. Provisions for tax, civil and labor claims (Continued)

Major proceedings assessed as risk of possible loss (Continued)

e) *Proceeding No. 16095.720.147/2015-32 – PIS/COFINS one-phase regime (Continued)*

The outside legal advisors in charge of defense classify the proceeding as a possible loss, based on the line of defense adopted and case-law understanding. Therefore, no provision was set up.

Engagement of Special Guarantee:

At March 31, 2014, the Government filed a Tax Precautionary Measure pleading the unavailability of Aché's properties and assets of approximately R\$564 million, referring to taxes under discussion, which were with suspended payment. On April 10, 2014, the preliminary injunction claimed by the Government was granted, thus freezing the bank accounts and other assets of Aché. This decision was subject to an appeal before the Federal Regional Court 3rd Chapter (Assessment Notice No. 0013851-96.2014.4.03.0000) and due to its maintenance at June 30, 2014, a letter of guarantee was presented of the total amount under dispute. On July 3, 2014, this guarantee was accepted, and the unfreezing of Aché's properties and assets was determined. On July 3, 2014, after favorable decision of the Brazilian General Attorney's Office, the Letter of Guarantee was replaced by an insurance guarantee of R\$750 million, presented in order to prevent any encumbrance to Aché's equity.

In December 2015, with favorable decision by the Brazilian General Attorney's Office and acceptance by the court, the insurance guarantee was reduced to R\$594,490. The reduction arises from the favorable (although partial) decision in three tax notices:

- (i) Administrative proceeding No. 16561.000025/2007-72, in connection with IRJP and CSLL payment for years 2002 and 2003 related to a divestiture at equity value, and disallowance of offset tax losses;
- (ii) Administrative proceeding No. 16561.000027/2007-61, in connection with IRPJ/CSLL/PIS/COFINS payment for years 2003 and 2004 relating to undervalued inventory; and
- (iii) Administrative proceeding No. 16561.000029/2007-51, in connection with the portion related to CSLL payment for years 2001 to 2003 related to the exclusion of free samples from the CSLL tax base.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

16. Provisions for tax, civil and labor claims (Continued)

Engagement of Special Guarantee: (Continued)

On October 28, 2016, the disclaimer of the guarantee was granted, considering a decision rendered by the High Court of Justice (STJ) in Appeal to the STJ in Interlocutory Appeal No. 913,515, which understood that debts with suspended liability do not lead to approval of a Tax Precautionary Measure.

According to the assessment of outside legal advisors and considering the case law of the High Court of Justice (STJ) on this matter, the likelihood of an unfavorable outcome to this Precautionary Measure is remote.

Labor claims – IPCA-E restatement

Considering Claim No. 22012, filed by the Brazilian Bank Federation, the STF issued an injunction suspending the effects of the decision awarded on proceeding No. 0000479.60.2011.5.04.0231, in which the expression "equivalent to the TRD," contained in the main section of article 39 of Law No. 8177/91, was rendered unconstitutional. Therefore, the decision on the index to be used to restate labor provisions is suspended. The Company informs that it conducted a study on the possible impact of adopting the IPCA-E - Brazil's Extended Consumer Price Index – restatement on its probable-loss labor claim provisions, in the event the legal decision on its application is reversed:

	<u>Company</u> <u>12/31/2016</u>	<u>Consolidated</u> <u>12/31/2016</u>	<u>Company</u> <u>12/31/2015</u>	<u>Consolidated</u> <u>12/31/2015</u>
IPCA-E	112,099	134,790	114,896	132,786
TR	81,660	100,153	77,911	91,792
IPCA-E x TR difference	30,439	34,637	36,985	40,994

Judicial deposits

Changes in judicial deposits are as follows:

<u>Individual</u>	<u>12/31/2015</u>	<u>Additions/ restatements</u>	<u>Reversals / write-offs</u>	<u>12/31/2016</u>
Tax	100,384	8,730	(35,055)	74,059
Labor	28,149	21,378	(10,454)	39,073
Civil	1,623	905	-	2,528
	130,156	31,013	(45,509)	115,660

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

16. Provision for tax, civil and labor claims (Continued)

Judicial deposits (Continued)

Consolidated	12/31/2015	Additions / restatements	Reversals / write-offs	12/31/2016
Tax	100,520	8,730	(35,055)	74,195
Labor	31,751	23,647	(10,592)	44,806
Civil	1,623	905	-	2,528
	133,894	33,282	(45,647)	121,529

17. 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.

Net financial position at December 31, 2016 and December 31, 2015 is as follows:

	Consolidated	
	12/31/2016	12/31/2015
Loans and financing (Note 11)	172,761	193,006
Cash and cash equivalents (Note 3)	(134,399)	(228,616)
Short-term investments - noncurrent assets	-	(9,272)
Net financial position (assets) / liabilities	38,362	(44,882)

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

17. Financial instruments (Continued)

b) Financial instruments by category

	Company		Consolidated	
	Carrying amount and market value		Carrying amount and market value	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Financial assets:				
Loans and receivables				
Cash and cash equivalents (Note 3)	97,728	162,631	134,399	228,616
Trade accounts receivable (Note 4)	334,051	305,195	509,645	449,789
Short-term investments - noncurrent assets	-	-	-	9,272
Judicial deposits (Note 16)	115,660	130,156	121,529	133,894
Financial liabilities:				
Loans and financing (Note 11)	141,314	164,110	172,761	193,006
Trade accounts payable (Note 12)	75,864	140,650	100,234	180,177
Accounts payables	12,708	8,188	27,380	21,738

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

The balance of loans and financing is monetarily restated based on inflation indexes 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 those 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.

The Company and its subsidiaries operated with derivative financial instruments for 2016, and at December 31, 2016, the operations were settled. For 2016, net effect of the financial hedge in P&L for the year recorded expense in the amounts of R\$12,539 and R\$19,527 (income in the amounts of R\$9,848 and R\$13,447 at December 31, 2015), individual and consolidated, respectively - See Note 22.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

17. Financial instruments (Continued)

c) Risk management (Continued)

At December 31, 2016, the Company is not engaged in derivative financial instruments.

c.1) *Interest rate risk*

The Company has agreements in reais at floating interest rates pegged to the Long-term interest rate (TJLP), plus 1.5 to 3.0% p.a. and fixed rates ranging from 4 to 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.

Sensitivity to interest rate

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, 2016. The impact on profit or loss could occur as follows:

Company			Probable scenario		Possible scenario		Remote scenario	
Risk factor	Average rate p.a.	Exposed amounts at 12/31/2016	Average rate p.a.	Effect on profit or loss	Average rate p.a.	(+25%) Effect on profit or loss	Average rate p.a.	(+50%) Effect on profit or loss
Short-term investment	CDI	97,214	13.25%	12,881	9.94%	9,661	6.6%	6,440
Loan – local currency	TJLP	(141,314)	7.50%	(5,383)	9.38%	(6,729)	11.25%	(8,075)
Net impact – assets / (liabilities)		(44,100)		7,498		2,932		(1,635)

Consolidated			Probable scenario		Possible scenario		Remote scenario	
Risk factor	Average rate p.a.	Exposed amounts at 12/31/2016	Average rate p.a.	Effect on profit or loss	Average rate p.a.	(+25%) Effect on profit or loss	Average rate p.a.	(+50%) Effect on profit or loss
Short-term investment	CDI	130,922	13.25%	17,347	9.94%	13,010	6.6%	8,674
Loan – local currency	TJLP	(172,761)	7.50%	(6,779)	9.38%	(8,473)	11.25%	(10,168)
Net impact – assets / (liabilities)		(41,839)		10,568		4,537		(1,494)

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

17. Financial instruments (Continued)

c) Risk management (Continued)

c.2) *Currency risk*

The risk arises from the possibility of the Company and its subsidiaries incurring losses due to fluctuations in exchange rates, which decrease or increase the nominal amounts payable or amounts taken out in the market.

There are amounts payable denominated in foreign currencies (US dollars, euros, Swiss francs and pound sterling) and which are, therefore, exposed to risks related to exchange variation. Total assets and liabilities subject to foreign exchange exposure and the corresponding currencies are as follows:

		Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
In euros:	EUR				
Assets		617	708	1,874	1,713
Liabilities		(574)	(2,562)	(899)	(3,181)
Net exposure		(43)	(1,854)	975	(1,468)
In US dollars:	US\$				
Assets		539	2,987	911	3,159
Liabilities		(7,540)	(21,932)	(11,279)	(28,159)
Net exposure		(7,001)	(18,945)	(10,368)	(25,000)
In Swiss franc:	CHF				
Assets		-	-	-	-
Liabilities		(269)	(327)	(269)	(327)
Net exposure		(269)	(327)	(269)	(327)
In pound sterling:	GBP				
Liabilities		-	(31)	-	(31)
Net exposure		-	(31)	-	(31)
Total customers in R\$		558	2,243	1,788	2,878
Total exchange variation – customers in R\$		(123)	(13)	(130)	20
Total assets (Note 4)		435	2,230	1,658	2,898
Total suppliers in R\$		(27,848)	(95,240)	(42,088)	(121,494)
Total exchange variation – suppliers in R\$		976	(2,224)	1,663	(2,532)
Total liabilities (Note 12)		(26,872)	(97,464)	(40,425)	(124,026)
Total advances to suppliers		3,357	10,763	8,257	14,911

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

17. Financial instruments (Continued)

c) Risk management (Continued)

c.2) *Currency risk* (Continued)

The main balances exposed to exchange variation are as follows:

- Trade accounts receivable – those assets generated debt assets on foreign exchange losses amounting to R\$81 in Company and foreign exchange gains amounting to R\$470 in consolidated at December 31, 2016 (exchange gains amounting to R\$209 in Company and losses amounting to R\$889 in consolidated at December 31, 2015).
- Trade accounts payable and advances – those liabilities generated foreign exchange gains amounting to R\$11,764 in Company and R\$15,275 in consolidated at December 31, 2016 (foreign exchange losses amounting to R\$14,160 in Company and R\$16,810 in consolidated at December 31, 2015);

Sensitivity to exchange rate

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

The following table presents positive or (negative) adjustments to transactions in foreign currencies:

Company	Probable scenario			Possible scenario		Remote scenario			
	Risk factor	Average rate p.a.	Exposed amounts at 12/31/2016	Average rate p.a.	Effect on profit or loss	Average rate p.a.	Effect on profit or loss (+25%)	Average rate p.a.	Effect on profit or loss (+50%)
Long position - USD	US\$	3.26	435	3.30	5	4.13	116	4.95	226
Short position - USD	US\$	3.26	(26,872)	3.30	(337)	4.13	(7,140)	4.95	(13,942)
Net exposure			(26,437)		(332)		(7,024)		(13,716)
Consolidated	Probable scenario			Possible scenario		Remote scenario			
	Risk factor	Average rate p.a.	Exposed amounts at 12/31/2016	Average rate p.a.	Effect on profit or loss	Average rate p.a.	Effect on profit or loss (+25%)	Average rate p.a.	Effect on profit or loss (+50%)
Long position - USD	US\$	3.26	1,658	3.30	21	4.13	441	4.95	860
Short position - USD	US\$	3.26	(40,425)	3.30	(507)	4.13	(10,740)	4.95	(20,973)
Net exposure			(38,767)		(486)		(10,299)		(20,113)

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

17. Financial instruments (Continued)

c) Risk management (Continued)

c.3) *Credit risk*

Financial instruments that potentially expose the Company and its affiliates to credit risk concentration primarily comprise bank balances, short-term investments and trade accounts receivable. Balances and investments in banks follow a strict policy to qualify the entity according to its equity and rating, and, conservatively, investments in low-risk and highly-liquid papers. Trade accounts receivable balance is predominantly denominated in reais and is distributed among 128 customers. The Company has its own methodology of credit risk assessment, to which all the customers' base is submitted, recurring to cash receipts and guarantees (sureties). The Company's term policy (shorter than 45 days sales outstanding) also contributes to the management of customer credit risk, allowing lower exposures in average/long-terms.

c.4) *Liquidity risk*

Effectively managing liquidity risk implies maintaining enough cash and marketable securities, funds available through credit facilities used and the ability to gain market share.

Management monitors liquidity of the Company and its subsidiaries, considering the estimated cash flow and cash and cash equivalents. In addition, the liquidity management policy of the Company and its subsidiaries involves cash flow projections and considering the level of net assets necessary to meet the projections, monitoring liquidity ratios in the statement of financial position and maintaining the debt financing plan. The aging list of financial liabilities taken out by the Company and its subsidiaries is as follows:

Consolidated	Up to 1 year	Up to 2 years	From 3 to 4 years	More than 4 years	Total
Trade accounts payable	100,234	-	-	-	100,234
Loans and financing	44,190	40,692	58,525	29,354	172,761

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

18. Equity

a) Capital

At December 31, 2016, 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 of Equity Investment Funds, each of which holds an equal interest of 33.33%.

b) Capital reserves

	<u>12/31/2016</u>	<u>12/31/2015</u>
Special goodwill reserve	167,767	167,767
Goodwill reserve on shares issued	6,445	6,445
	<u>174,212</u>	<u>174,212</u>

The special goodwill 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>12/31/2016</u>	<u>12/31/2015</u>
Legal reserve (i)	43,807	43,807
Reserve for new products, research and development and investments in property, plant and equipment (ii)	241,616	192,023
Tax incentive reserve (iii)	982	882
Unpaid income reserve (iv)	410,412	356,376
Total	<u>696,817</u>	<u>593,088</u>

(i) 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.

(ii) 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.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

18. Equity (Continued)

c) Income reserves (Continued)

(iii) 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.

(iv) The Annual General Meeting will approve distribution of profits and interest on equity related to 2016 in a subsequent period.

d) Dividend and interest on equity

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 dividend and IOE are as follows:

<u>Total dividend paid over 2015</u>	
Referring to 2014	241,718
Referring to 2015	56,682
Total dividend and/or IOE paid over 2015 (cash effect)	<u>298,400</u>
Mandatory minimum dividend of 25% of net income for 2015	118,203
Prepaid dividend for 2015	(56,682)
Supplement of mandatory minimum dividend – classified as dividend payable	<u>61,521</u>
<u>Dividends approved at the AGM held on April 18, 2016, related to 2015.</u>	
Payment approved by the Board of Directors at the meeting held on April 25, 2016.	40,406
Payment approved by the Board of Directors at the meeting held on May 31, 2016.	70,000
Payment approved by the Board of Directors at the meeting held on August 1, 2016.	65,010
Payment approved by the Board of Directors at the meeting held on August 30, 2016.	153,390
	<u>328,806</u>
<u>Total dividends paid over 2016</u>	
Referring to 2015	328,806
Interest on equity referring to 2015	60,088
Interest on equity referring to 2016	63,270
Total dividends and/or IOE paid over 2016 (cash effect)	<u>452,164</u>
<u>Dividends payable</u>	
Supplement of statutory mandatory minimum dividend	7,233
Balance of dividends pending payment referring to 2015	39,499
Supplement of IOE for 2016	5,572
	<u>52,304</u>

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

18. Equity (Continued)

e) Equity adjustment

	Company	
	12/31/2016	12/31/2015
Adjustments to deemed cost of PP&E	122,981	124,336
Equity adjustment in subsidiaries' assets	9,320	9,524
Total equity adjustment	132,301	133,860

19. Operating revenue, net

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Gross sales revenue	3,159,790	2,721,494	6,092,917	5,158,485
Returns, discounts and others	(766,340)	(648,075)	(2,972,811)	(2,462,760)
Sales taxes	(387,097)	(317,225)	(433,838)	(362,787)
Total	2,006,353	1,756,194	2,686,268	2,332,938

20. Expenses by nature

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Raw materials consumed	488,338	377,334	639,268	505,089
Bought-in materials, energy and services and others	443,101	462,762	560,220	592,249
Personnel and taxes	444,703	373,686	585,706	500,886
Depreciation and amortization	32,142	25,490	44,029	34,750
Federal, state and municipal taxes	12,747	16,879	31,123	20,715
FINEP R&D project expenses (a)	9,389	8,354	9,389	8,354
Other selling and administrative expenses	10,522	(9,311)	12,995	(9,443)
	1,440,942	1,255,194	1,882,730	1,652,600
Cost of sales	585,665	454,547	791,755	626,692
Selling expenses	753,795	665,161	942,839	830,312
General and administrative expenses	101,482	135,486	148,136	195,596
Total	1,440,942	1,255,194	1,882,730	1,652,600

(a) Expenses related to Finep financing agreement No. 09.14.0086.00. The amount released in 2015 totaling R\$4,147 was fully used. Expenses recorded in 2016 totaled R\$9,389, with R\$8,450 in excess expenses.

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

21. Other operating income (expenses)

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Resale of scrap	252	140	317	213
Recovery of expenses	337	523	787	659
Receivables from commercial agreement	-	3,000	-	3,000
Tax benefits income	-	-	-	1,639
Income from recovery of claims	2,607	-	4,068	-
Income from unused credits	8,160	-	10,011	-
Other income	412	1,155	939	1,014
Total other income	11,768	4,818	16,122	6,525
Expenses with strategic projects	(6,533)	(3,059)	(6,689)	(691)
Debts related to commercial agreement	(841)	(1,237)	(841)	(972)
Gain (loss) on disposal of PP&E items	(72)	(41)	(84)	(41)
Other expenses	(1,505)	(1,721)	(1,098)	(1,819)
Total other expenses	(8,951)	(6,058)	(8,712)	(3,523)
	2,817	(1,240)	7,410	3,002

22. Financial income (expenses)

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Interest income	11,505	13,484	17,770	21,969
Monetary gains	699	5,636	861	5,692
Income from hedge	2,046	9,852	2,821	13,456
Other financial income	482	314	711	1,068
Present value adjustment realized	-	-	-	8,111
Total financial income	14,732	29,286	22,163	50,296
Interest expenses	(10,994)	(10,505)	(14,724)	(12,746)
Monetary losses	(23,992)	(11,530)	(27,391)	(13,452)
Loss on hedge	(14,585)	(4)	(22,348)	(9)
Present value adjustment realized	-	-	(90)	-
Sundry charges	(3,038)	(1,973)	(5,456)	(2,107)
Other financial expenses	(1,849)	(946)	(3,175)	(1,466)
Total financial expenses	(54,458)	(24,958)	(73,184)	(29,780)
Foreign exchange losses	(5,120)	(28,440)	(9,629)	(41,809)
Foreign exchange gains	16,803	14,416	25,102	27,030
Total foreign exchange variation, net	11,683	(14,024)	15,473	(14,779)
Financial income (expenses), net	(28,043)	(9,696)	(35,548)	5,737

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

23. 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 a spouse;
- Retirement to disability transferrable to a 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, 2016 totaled R\$3,766 (R\$3,346 in 2015).

24. 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, 2016, the insurance coverage was taken out at the amounts indicated below, according to the insurance policies:

<u>Insurance lines</u>	<u>Insured amounts</u>
Property damage to PP&E	390,000
Civil liability	55,000

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

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

25. 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. As of December 31, 2016, the profit-sharing plan amounted to R\$44,033 (R\$47,763 in 2015), as shown below:

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Addition of provision for the year	28,683	25,627	51,179	49,316
Reversal of prior-years' provision	(4,332)	(1,351)	(7,146)	(1,553)
Employee and management profit sharing in profit or loss for the year	24,351	24,276	44,033	47,763

26. Earnings per share

	Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Basic and diluted numerator				
Allocation of net income for the year to shareholders - R\$	544,647	472,811	544,647	472,811
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\$	8.52	7.40	8.52	7.40

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Notes to individual and consolidated financial statements (Continued)

December 31, 2016

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

Board of Directors

Adalberto Panzenboeck Dellape Baptista	Chairman
Paula Regina Depieri	Vice Chairman
Alexandre Gottlieb Lindenbojm	Director
Carlos Eduardo Depieri	Director
Jonas de Campos Siauyls	Director
José Rogério Luiz	Director
Luiz Antônio Martins Amarante	Director
Luiz Carlos Vaini	Director
Ricardo Panzenboeck Dellape Baptista	Director

Statutory Board

Paulo Eduardo Nigro	Chief Executive Officer
Adriano Alvim de Oliveira	Chief Operations Officer
Gabriela Mallmann	Chief Quality and Regulatory Matters Officer
Manoel Arruda Nascimento Neto	Chief Business Development Officer
Sidinei Righini	Chief Financial Officer
Vânia de Azevedo Nogueira de Alcântara Machado	Chief Commercial Officer

Accountant

Rodrigo Miranda Simões
CRC-1SP250809/O-7