

Financial Statements

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

December 31, 2017
with Independent Auditor's Report



**Building a better
working world**

São Paulo, March 20, 2018

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, 2017 for your appreciation. All comparisons in this report consider consolidated data in relation to the same period in 2016, 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

Year 2017 was marked by a macroeconomic context of slow recovery, still impacted by the crisis of the last two years. Premised on the economy rekindling reflected by creation of formal jobs, falling interest rates and inflation under control and on its commitment to bring more life to people, Aché maintained its level of investment with initiatives such as the new industrial complex located in the Northeast of Brazil, preparing its business support platform and created additional 247 new jobs. The strength of Aché brand recognized by healthcare professionals and consumers, in line with its portfolio renewal capacity, has made it possible to reach great achievements, growing above the pharmaceutical market whilst maintaining its commitment to the five pillars of its Strategic Planning: growth, innovation, operational excellence, customer focus and sustainability.

The Company ended 2017 with Net Revenue of R\$3.0 billion - a 10.5 percent increase compared with prior year - and EBITDA of R\$870.4 million, representing a 6.9 percent increase and EBITDA margin of 29.3 percent. In recognition of all the efforts out forth to bring enhanced quality and trust to the consumer, Aché won 31 awards in various fields in 2017.

In furtherance of its successful portfolio renewal model and supported by its cash generation capacity, in 2017 the Company launched thirty new products in all business units in which it operates, expanding and increasing the reach of its diversified portfolio, synonymous with quality, safety and effectiveness.

In line with the Innovation Pillar and the strategy to become the most innovative laboratory in the country, in 2017 Aché opened the 1st Brazilian Nanotechnology Laboratory engaged in the research and development of new technological platforms, and established pioneering partnerships to develop new molecules from the Brazilian biodiversity. Reaffirming the commitment and competence of employees and the quality of our processes and commitment to results, initiatives such as the Operational Excellence Program (PEO) made the Company achieve positive results in reducing energy and water consumption and waste levels and ensuring a 20 increase in their levels of productivity.

Leader for the 11th year in a row in the Prescription market, Aché seeks to strengthen and enhance relationships with physicians and health professionals. In 2017, the Company consolidated the Conecta Aché Program, a platform for virtual visits, reaching physicians and health professionals in regions not yet visited. The results of this investment contributed to an expansion of visited municipalities and the beginning of visitation in dentists' offices.

In pursuit of continuous improvement, Overcoming Limits will be the Company's driver for 2018, leveraging its strengths focused on the guidelines of its Strategic Planning. Set on sustainable development, with respect to people and the environment, principles that are reflected in Aché's perpetuity, in the generation and sharing of value with society and shareholders.

Aché increases its Net Revenue by 10.5%, EBITDA by 6.9% and Net Income by 3.8% in 2017

Highlights - Financial Performance

- ü **Net Revenue of R\$3.0 billion**, a 10.5 percent increase compared with 2016
- ü **EBITDA of R\$870.4 million**, with a margin of 29.3 percent
- ü **Net Income of R\$565.3 million and Earnings per Share of R\$8.8 for the year**, with a 3.8 percent increase compared with 2016
- ü **Net leverage of 0.01x EBITDA** accumulated in 12 months

Major Financial Indicators - Consolidated

(R\$ million)	4Q16	4Q17	Var (%)	2016	2017	Var (%)
Net revenue	813.1	936.4	15.2%	2,686.3	2,967.9	10.5%
Gross profit	574.0	686.2	19.5%	1,894.5	2,158.6	13.9%
<i>% Net revenue</i>	<i>70.6%</i>	<i>73.3%</i>	<i>2.7 p.p</i>	<i>70.5%</i>	<i>72.7%</i>	<i>2.2 p.p</i>
EBITDA	324.5	292.2	-10.0%	814.1	870.4	6.9%
<i>% Net revenue</i>	<i>39.9%</i>	<i>31.2%</i>	<i>-8.7 p.p</i>	<i>30.3%</i>	<i>29.3%</i>	<i>-1.0 p.p</i>
Net Income	231.5	187.3	-19.1%	544.6	565.3	3.8%
<i>% Net revenue</i>	<i>28.5%</i>	<i>20.0%</i>	<i>-8.5 p.p</i>	<i>20.3%</i>	<i>19.0%</i>	<i>-1.2 p.p</i>
Earnings per share	3.6	2.9	-19.1%	8.5	8.8	3.8%

Source: Company's Accounting 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.

Aché has four manufacturing plants - Aché (Guarulhos-SP), Biosintética (São Paulo), 50 percent interest in Melcon Indústria Farmacêutica (Anápolis-GO) and the newly acquired Nortis (Londrina-PR). The Company also holds 25 percent 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, physicians, consumers, points of sale, community and suppliers, generating value to all stakeholders.

Aché Generation relies on 4.7 thousand employees committed to continuously generating value for patients, physicians, business partners and society as a whole, and maintaining a close relationship with health professionals and points of sale through on-site and virtual visits.

Regulatory environment

Aché's management and compliance structure is poised to monitor the evolution of legislation and respond to the demands of government and quasi-governmental agencies, such as the Ministry of Health and the National Health Surveillance Agency (Anvisa).

In 2017, the Company was selected along with five other pharmaceutical companies to participate in the experimental phase of the National Drug Control System (SNCM), an Anvisa program designed to track drugs from production to sale. The objective of the system is to bring greater safety to patients and professionals regarding the medicines used, greater control of production and logistics, as well as easier flows and maintenance of regulatory compliance standards.



Phase one of this project begins in 2018. Tracking capabilities will be put in place through technology of data capture, storage and electronic transmission, comprising the pharmaceutical products in the national territory.

Certifications won in 2017



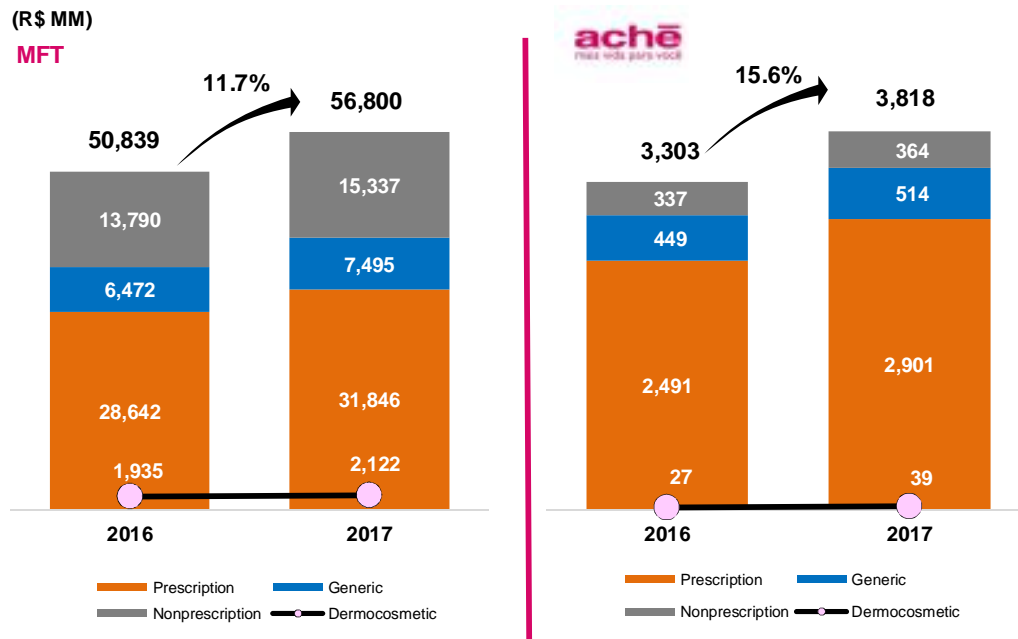
In line with the Aché Quality and Safety Standard, in year 2017 Nortis Farmacêutica, a group company acquired in 2016 and specialized in the manufacture of antibiotics, obtained in 2017 the Certification of Good Manufacturing Practices (CBPF) attesting to the quality of processes and authorizing the manufacturing and sale of its medicines.

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 2017, Aché recorded progress of 15.6 percent compared to a 11.7 percent growth in the Brazilian Pharmaceutical Market.



Source: IMS PPP' 2017.

Aché grew above the market in the main segment in which it operates. The prescription drugs market, which accounts for 56.1 percent of the TPM and 76.0 percent of the Company's business, increased by 11.2%, while Aché recorded an increase by 16.5 percent compared with the same prior-year period.

The generic prescription medicine market, which accounts for 13.2 percent of the TPM and 13.5 percent of the Company's business, increased by 15.8 percent, while Aché recorded an increase by 14.4 percent compared with the same prior-year period.

In the segment of Nonprescription Medicines, which accounts for 27.0 percent of the TPM and 9.5 percent of the Company's business, the market increased by 11.2 percent, while Aché recorded an increase by 8.0 percent compared with the same period in 2016.

In the Dermocosmetics segment, which accounts for 3.7 percent of the TPM and 1.0 percent of the Company's business, the market increased by 9.7 percent, while Aché recorded an increase by 44.4 percent compared with the same prior-year period, still fostered by the Profuse Line, which has expanded its portfolio in recent years.

Aché's development by segment

Prescription Medicine Business Unit

For eleven years in a row, the Company maintained its leadership in the medical prescription segment, with 6.6 percent market share, according to Close-Up International, one of the main auditing and reporting companies in the prescription market.

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.

In 2017, the Prescription Medicine Business Unit consistently maintained renewal of its portfolio, delivering 11 new products to the Brazilian market throughout the year.

Generic Prescription Medicine Business Unit



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. This Business Unit launched eight new products in the year.

Nonprescription Medicine Business Unit

Through its Nonprescription Medicine Business Unit, Aché brought the Achevita Line to the market in 2017. This is the first line of the Company with vitamins, minerals and functional foods for those who seek health and vitality in a practical way.



Existe ciência
na vitalidade

Products with advanced formulas and formats differentiated into six segments: fitness, women's health, bone and joint health, daily nutrition, heart health and child health.

In addition to reinforcing this business unit's portfolio, in 2017 Aché brought to the market other important launches for the Brazilian family. Effex, a high protection repellent, the only one with 30 percent Icaridin. The product offers up to 13 hours of protection and is effective in fighting diseases caused by Anopheles, Culex and Aedes aegypti mosquitoes, such as dengue, zika, chikungunya and yellow fever.



Dermatology Business Unit

Our *Profuse* brand - Aché Dermocosmetics - 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.

Five new products were launched by this BU for Brazilian consumers in 2017.

Economic and Financial Performance

Consolidated Profit or Loss

(R\$ million)	4Q16	on NR	4Q17	on NR	2016	on NR	2017	on NR
Net revenue ("NR")	813.1		936.4		2,686.3		2,967.9	
Gross profit	574.0	70.6%	686.2	73.3%	1,894.5	70.5%	2,158.6	72.7%
Selling and administrative expenses	(254.4)	-31.3%	(380.3)	-40.6%	(1,090.9)	-40.6%	(1,306.1)	-44.0%
Other operating expenses	(7.7)	-0.9%	(38.1)	-4.1%	(33.8)	-1.3%	(38.2)	-1.3%
Operating income (EBIT)	311.9	38.4%	267.8	28.6%	769.8	28.7%	814.3	27.4%
Finance income/costs, net	(13.7)	-1.7%	(5.8)	-0.6%	(35.6)	-1.3%	(19.6)	-0.7%
Income before income and social contribution taxes (IRPJ and CSLL)	298.2	36.7%	262.0	28.0%	734.2	27.3%	794.7	26.8%
EBITDA	324.5	39.9%	292.2	31.2%	814.1	30.3%	870.4	29.3%
Net Income	231.5	28.5%	187.3	20.0%	544.6	20.3%	565.3	19.0%
Earnings per share	3.6	0.4%	2.9	0.3%	8.5	0.3%	8.8	0.3%

Source: Company's Accounting Information.

Rating Agencies

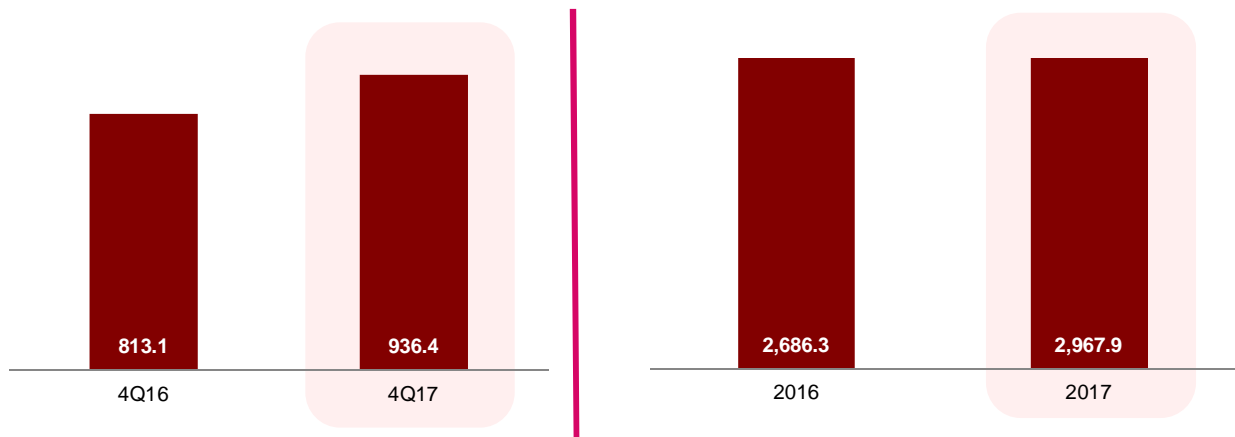
	Global Scale		Nationwide
Ratings	Local Currency	Foreign currency	Nationwide
	Long Term	Long Term	Long Term
Fitch Ratings (Prospect)	BBB (Stable)	BB (Stable)	AAA (Stable)
Standard and Poor's (Prospect)	BB+ (Stable)	BB+ (Stable)	AAA (Stable)

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 its strong position as leader in Prescription in the Brazilian pharmaceutical market, allowed the Company to keep its investment grade within the industry acceptable level above Sovereign.

Sales revenue, net

Net sales revenue grew by 10.5 percent in relation to 2016, reaching R\$2,967.9 million. In 4Q17, Net Revenue amounted to R\$936.4 million, 15.2 percent higher compared to the same prior-year quarter.

Sales Revenue R\$ MM

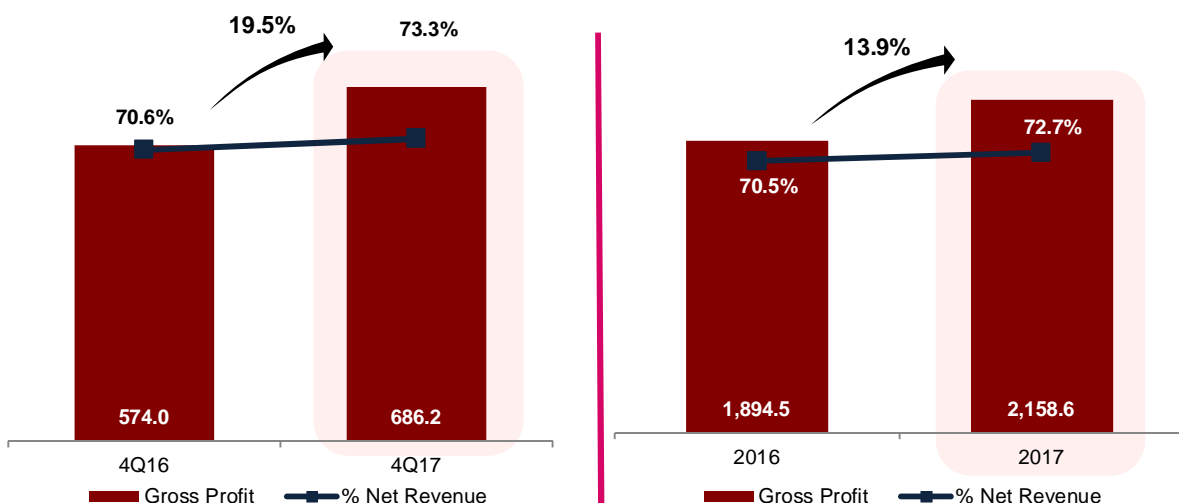


Source: Company's Accounting Information.

Gross profit

In year 2017, Gross profit amounted to R\$2,158.6 million, 13.9 percent higher compared to the same period for 2016.

Gross Profit R\$ MM



Source: Company's Accounting Information.

Selling, general and administrative expenses

(R\$ million)	4Q16	on NR	4Q17	on NR	2016	on NR	2017	on NR
Selling expenses	202.8	24.9%	261.3	27.9%	879.2	32.7%	976.1	32.9%
Allowance for doubtful accounts	0.3	0.0%	1.9	0.2%	0.9	0.0%	2.8	0.1%
Freight expenses	16.0	2.0%	19.0	2.0%	62.7	2.3%	69.2	2.3%
General and administrative expenses	39.8	4.9%	60.1	6.4%	142.3	5.3%	172.8	5.8%
Operating expenses	258.9	31.8%	342.3	36.6%	1,085.1	40.4%	1,220.9	56.6%

(R\$ million)	4Q16	on NR	4Q17	on NR	2016	on NR	2017	on NR
Provision for inventory obsolescence	1.4	0.2%	8.4	0.9%	11.1	0.4%	24.7	0.8%
Provisions for (reversals of) contingencies	(5.9)	-0.7%	29.6	3.2%	(5.3)	-0.2%	60.5	2.0%
Other operating expenses (income)	(4.5)	-0.6%	38.0	4.1%	5.8	0.2%	85.2	2.9%
Selling and administrative expenses	254.4	31.3%	380.3	40.6%	1,090.9	40.6%	1,306.1	44.0%

Source: Company's Accounting Information.

Operating expenses

Sales Expenses accounted for 32.9% of Net Revenue, an increase of 0.2 pp when compared to the same prior-year period, reflected by the promotional investments and in line with the increase in Net Revenue. General and administrative expenses represented 5.8% of Net Revenue, an increase of 0.5 pp when compared to the same prior-year period, mainly due to infrastructure and system development expenses.

Other operating expenses (income)

Provision for Contingencies represented 2.0 percent of net revenue, an increase of 2.2 percent compared to the same prior-year period. This increase is largely explained by the provision for new labor claims.

The Operational Excellence Program (PEO) provided - in addition to reducing water and energy consumption and waste levels, a productivity increase of our industrial plants by 20 percent.

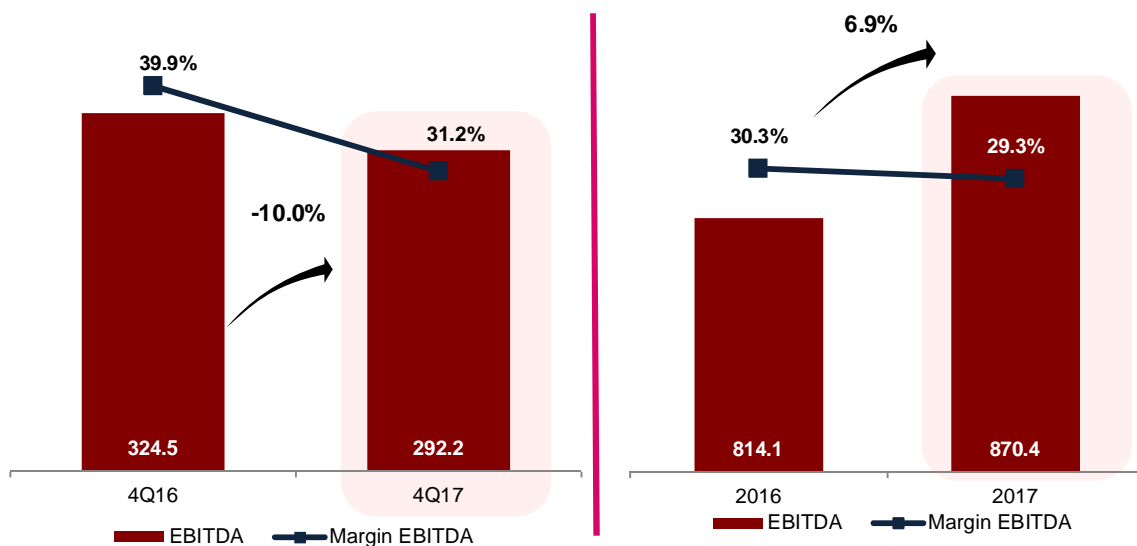
EBITDA

Accumulated EBITDA (earnings before interest, taxes, depreciation and amortization) reached R\$870.4 million, 6.9% higher compared to prior year, and with an EBITDA margin of 29.3 percent in year 2017.

(R\$ million)	4Q16	4Q17	Var (%)	2016	2017	Var (%)
Net Income	231.5	187.3	-19.1%	544.6	565.3	3.8%
Provision for income and social contribution taxes	67.3	73.8	9.7%	189.9	228.2	20.2%
Finance income/costs, net	13.7	5.8	-57.7%	35.6	19.6	-44.9%
Depreciation and amortization	12.0	25.3	110.8%	44.0	57.3	30.2%
EBITDA	324.5	292.2	-10.0%	814.1	870.4	6.9%

Source: Company's Accounting Information.

EBITDA E MARGIN EBITDA R\$ MM



Source: Company's Accounting Information.

Finance income (costs)

Finance income and costs, net for 2017 totaled R\$19.6 million, with a decrease of R\$16.0 million compared to prior year.

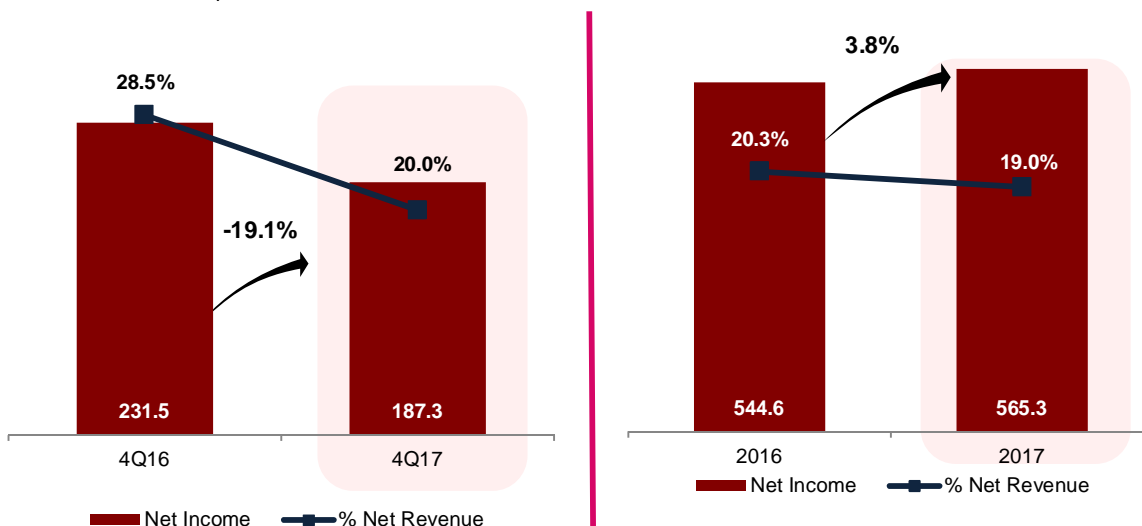
(R\$ million)	4Q16	on NR	4Q17	on NR	2016	on NR	2017	on NR
Finance income (cost)	(13.9)	-1.7%	(6.7)	-0.7%	(51.1)	-1.9%	(20.3)	-0.7%
Foreign exchange variation	0.2	0.0%	0.9	0.1%	15.5	0.6%	0.7	0.0%
Finance income (costs)	(13.7)	-1.7%	(5.8)	-0.6%	(35.6)	-1.3%	(19.6)	-0.7%

Source: Company's Accounting Information.

Net Income

Net income for 2017 amounted to R\$565.3 million, i.e. 3.8 percent higher as compared to the 2016. In 4Q17, Net income reached R\$187.3 million, equivalent to 20.0% of Net revenue.

Net Income R\$ MM



Source: Company's Accounting Information.

Net debt

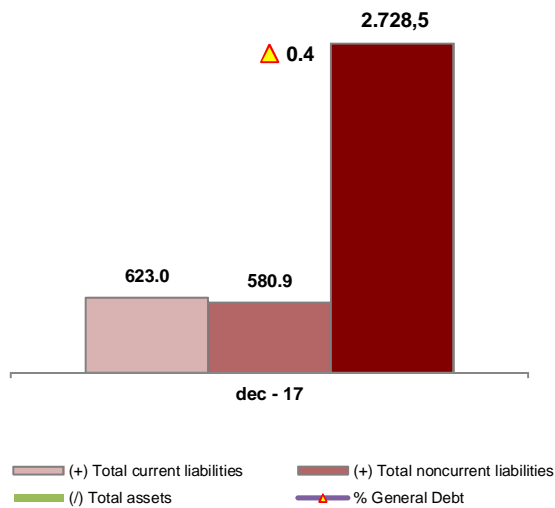
The Company ended year 2017 with a net financial debt of R\$5.6 million. Gross debt totals R\$174.6 million and is mainly characterized as long term.

(R\$ million)	2016	2017	Var (%)
Loans and financing – current	44.2	43.1	-2.5%
Loans and financing – noncurrent	128.6	131.5	2.3%
Gross Debt	172.8	174.6	1.0%
Cash and cash equivalents	134.4	169.0	25.7%
Net debt	38.4	5.6	-85.4%

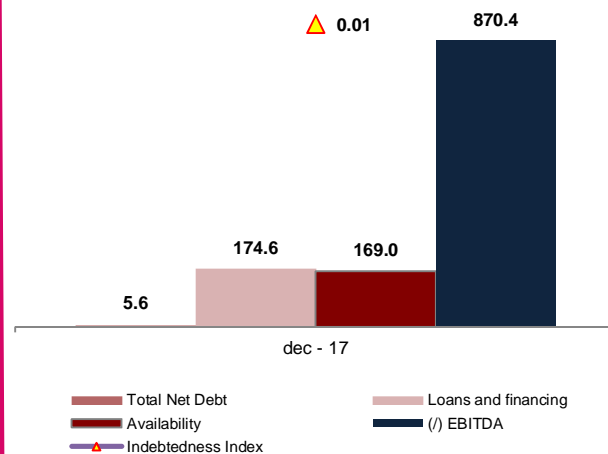
Source: Company's Accounting Information.

Leverage R\$ MM

General Debt



Total Net Debt / Ebitda



Source: Company's Accounting Information.

Investments

Research, Development and Innovation (RDI)

In Radical Innovation we have a portfolio of projects that comprise new pharmaceutical assets in the Synthetics, Herbal, Biological and Dermocosmetic categories. This portfolio already has results of the cooperation between Aché and the Structural Genomics Consortium (SGC) - an international open innovation consortium focused on the discovery of new biological targets.



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

Innovation projects generated by Aché are protected by patent applications in Brazil and in countries with great market potential.



In October 2017, Aché entered into a partnership between Brazil's **National Center for Research in Energy and Materials (CNPEM)** and **Phytobios**, with the support of the Brazilian Industrial Research and Innovation. This pioneering initiative in the country will research Brazilian biodiversity as a source of inspiration for new molecules.

These institutions provide complementary competencies capable of integrating all the activities required to arrive at a new medicine: the CNPEM, that has great capacity in the development and conduct of the tests for identifying bioactive compounds, using technological resources such as the accelerator of particles; Phytobios, which has extensive experience in conducting bioprospecting expeditions in Brazilian biomes; and Aché, which for more than 50 years has expertise in the research and development stages of innovative medicines.

This alliance results in the **Brazilian Biodiversity Prospecting Program**. Again, enabling the Company to promote science in the country while fulfilling our purpose of bringing more life to people, wherever they are.

Also in 2017, Aché, in partnership with the Swiss Company Ferring Pharmaceuticals, opened the NILE (Nanotechnology Innovation Laboratory Enterprise) laboratory at Guarulhos Unit.



Unprecedented in Brazil, this laboratory is focused on the research and development of new technological platforms based on nanotechnology, which can be applied in medicines, cosmetics and nutritional products. Seven million (R\$7 mm) were invested in equipment and infrastructure.

Property, plant and equipment

In 2017, investments in property, plant and equipment totaled R\$90.9 million, with special emphasis on the acquisition of new machinery and equipment in the amount of R\$17.2 million.

Dividends

The Company recorded P&L for the year of R\$ 565.3 million, of which R\$ 60.6 million was earmarked for payment of IOE, R\$ 84.0 million already advanced as dividends throughout 2017 and R\$ 420.7 million are awaiting resolution by the Annual General Meeting (AGM).

Acknowledgments

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

The Management

Aché Laboratórios Farmacêuticos S.A. and subsidiaries

Financial Statements

December 31, 2017

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

Independent auditor's report on individual and consolidated financial statements

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

Opinion

We have audited the accompanying individual and consolidated financial statements of Aché Laboratórios Farmacêuticos S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2017 and the statement of profit or loss, of comprehensive income (loss), of changes in equity and of cash flows for the year then ended, and a summary of significant accounting practices and other explanatory information.

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

Basis for opinion

We conducted our audit in accordance with Brazilian and International standards on auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements provided for in the Code of Ethics for Professional Accountants and in the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to support our opinion.



Other matters

Statements of value added

The individual and consolidated statements of value added for the year ended December 31, 2017, prepared under the responsibility of Company's management, and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purpose of forming our opinion, we evaluate whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether its form and content are in accordance with the criteria set forth in Accounting Pronouncement CPC 09 - Statement of Value Added. In our opinion, this statement of value added has been properly prepared, in all material respects, in accordance with the criteria set forth in this Accounting Pronouncement and is consistent with the overall individual and consolidated financial statements.

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

The Company management is responsible for such other information, including the Management Report.

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

In connection with the audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the report is significantly inconsistent with the financial statements or with our knowledge obtained in the audit, or otherwise seems to contain material misstatements. If, based on our work, we conclude that there are material misstatements in the Management Report, we are required to communicate this matter. We have nothing to report in this respect.

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

Management is responsible for the preparation and fair presentation of these individual and consolidated financial statements 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), 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 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 overall individual and consolidated financial statements are free of 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 material misstatements when they exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess 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 internal control of Company and its subsidiaries.
- 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.
- 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, of the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

São Paulo, March 20, 2018.

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Auditores Independentes S.S.
CRC-2SP034519/O-6

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

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.

Statements of financial position
December 31, 2017 and 2016
(In thousands of reais – R\$)

	Note	Company		Consolidated	
		12/31/2017	12/31/2016	12/31/2017	12/31/2016
Assets					
Current assets					
Cash and cash equivalents	3	107,506	97,728	168,964	134,399
Trade accounts receivable	4	459,461	334,051	660,668	509,645
Inventories	5	290,612	249,199	411,569	379,200
Taxes and social contributions to offset		6,755	7,415	50,718	35,745
Dividends receivable	14	58,313	59,324	-	-
Prepaid expenses		75,161	63,966	82,232	70,187
Other receivables		14,248	13,816	20,755	24,659
Total current assets		1,012,056	825,499	1,394,906	1,153,835
Noncurrent assets					
Financial investments		-	-	30	-
Judicial deposits	16	103,956	115,660	109,093	121,529
Taxes and social contributions to offset		5,617	7,975	9,457	13,928
Deferred income and social contribution taxes	6	1,223	-	-	-
Investments	8	546,186	494,351	6,186	15,739
Property, plant and equipment (PP&E)	9	664,667	657,234	884,561	854,799
Intangible assets	10	72,017	46,846	317,520	283,211
Other receivables		6,741	5,494	6,789	5,005
Total noncurrent assets		1,400,407	1,327,560	1,333,636	1,294,211
Total assets		2,412,463	2,153,059	2,728,542	2,448,046

	Note	Company		Consolidated	
		12/31/2017	12/31/2016	12/31/2017	12/31/2016
Liabilities and equity					
Current liabilities					
Loans and financing	11	35,603	33,280	43,146	44,190
Trade accounts payable	12	142,952	75,864	190,623	100,234
Tax liabilities	13	108,965	79,366	179,217	152,645
Labor and social security liabilities	15	70,245	47,515	102,268	74,499
Dividends and IOE payable	14	-	52,304	-	52,318
Accounts payable		29,561	12,708	42,666	27,380
Other liabilities		38,809	19,185	65,185	56,711
Total current liabilities		426,135	320,222	623,105	507,977
Noncurrent liabilities					
Loans and financing	11	107,121	108,034	131,492	128,571
Deferred income and social contribution taxes	6	-	31,670	46,858	73,997
Provision for tax, civil, and labor contingencies	16	268,671	204,151	305,480	240,978
Provision for investment loss	8	29,066	27,463	-	-
Other liabilities	17	65,634	13,113	97,097	40,593
Total noncurrent liabilities		470,492	384,431	580,927	484,139
Equity					
Capital	19	440,959	440,959	440,959	440,959
Capital reserves	19	174,212	174,212	174,212	174,212
Revaluation reserve	19	3,650	4,117	3,650	4,117
Equity adjustment	19	130,743	132,301	130,743	132,301
Income reserves	19	766,272	696,817	766,272	696,817
Total attributed to controlling interests		1,515,836	1,448,406	1,515,836	1,448,406
Noncontrolling interests in subsidiaries' equity		-	-	8,674	7,524
Total equity		1,515,836	1,448,406	1,524,510	1,455,930
Total liabilities and equity					
		2,412,463	2,153,059	2,728,542	2,448,046

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A.

Statements of profit or loss
 Years ended December 31, 2017 and 2016
 (In thousands of reais - R\$, except earnings per share)

	Note	Company		Consolidated	
		12/31/2017	12/31/2016	12/31/2017	12/31/2016
Operating revenue, net	20	2,212,976	2,006,353	2,967,912	2,686,268
Cost of sales	21	(601,831)	(585,665)	(809,305)	(791,755)
Gross profit		1,611,145	1,420,688	2,158,607	1,894,513
Operating income (expenses)					
Selling expenses	21	(863,308)	(753,795)	(1,048,088)	(942,839)
General and administrative expenses	21	(203,759)	(101,482)	(258,037)	(148,136)
Employee and management profit sharing	26	(32,461)	(24,351)	(55,941)	(44,033)
Equity pickup	8	188,460	145,477	2,355	2,830
Other operating income (expenses), net	22	14,162	2,817	15,411	7,410
Operating income before finance income (costs)		714,239	689,354	814,307	769,745
Finance income (costs)					
Finance income	23	19,497	14,732	25,440	22,163
Finance costs	23	(36,667)	(54,458)	(45,713)	(73,184)
Foreign exchange variation, net	23	1,004	11,683	717	15,473
Income before income and social contribution taxes		698,073	661,311	794,751	734,197
Income and social contribution taxes					
Current	7	(165,699)	(110,488)	(255,473)	(200,061)
Deferred	7	32,891	(6,176)	27,137	10,118
Net income for the year		565,265	544,647	566,415	544,254
Attributable to:					
Controlling interests		565,265	544,647	565,265	544,647
Noncontrolling interests		-	-	1,150	(393)
Earnings per share for the year - R\$					
Basic earnings per share	27	8.85	8.52	8.85	8.52

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A.

Statements of comprehensive income (loss)
Years ended December 31, 2017 and 2016
(In thousands of reais - R\$)

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Net income for the year	565,265	544,647	566,415	544,254
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	565,265	544,647	566,415	544,254
Attributable to:				
Controlling interests	565,265	544,647	565,265	544,647
Noncontrolling interests	-	-	1,150	(393)
	565,265	544,647	566,415	544,254

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A.

Statements of changes in equity Years ended December 31, 2017 and 2016 (In thousands of reais - R\$)

	Capital reserves			Equity adjustment				Income reserves					Retained earnings	Total attributed to controlling interests	Noncontrolling interests 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 PPE	Unpaid profits reserve	Reserve for additional dividends proposed				
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
Allocation of profit for R&D reserve as per AGM held on Apr 18, 2016	-	-	-	-	-	-	-	-	21,463	-	(21,463)	-	-	-	-	-
Allocation of profit to PPE reserve as per AGM held on Apr 18, 2016	-	-	-	-	-	-	-	-	-	28,130	(28,130)	-	-	-	-	-
Dividends approved as per AGM held on Apr 18, 2016	-	-	-	-	-	-	-	-	-	-	(306,783)	-	-	(306,783)	-	(306,783)
Transfer to income reserve – noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(12)	(12)
Interest on equity paid according to the SGM held on February 4, 2016	-	-	-	-	-	-	-	-	-	-	-	-	(60,088)	(60,088)	-	(60,088)
Interest on equity paid according to the SGM held on December 13, 2016	-	-	-	-	-	-	-	-	-	-	-	-	(63,270)	(63,270)	-	(63,270)
Supplemental IOE for year 2016	-	-	-	-	-	-	-	-	-	-	-	-	(5,572)	(5,572)	-	(5,572)
Realized Reserves	-	-	-	-	-	-	-	-	-	-	1,928	-	(1,928)	-	-	-
Supplemental mandatory minimum dividend	-	-	-	-	-	-	-	-	-	-	-	-	(7,233)	(7,233)	-	(7,233)
Transfer to income reserves	-	-	-	-	-	-	-	-	-	-	408,484	-	(408,484)	-	-	-
Balances at December 31, 2016	440,959	167,767	6,445	4,117	122,981	9,320	43,807	982	110,426	131,190	410,412	-	-	1,448,406	7,524	1,455,930
Realization of revaluation reserve	-	-	-	(467)	-	-	-	-	-	-	-	-	467	-	-	-
Realization of adjustments to deemed cost	-	-	-	-	(1,354)	(204)	-	-	-	-	-	-	1,558	-	-	-
Net income for the year	-	-	-	-	-	-	-	-	-	-	-	-	565,265	565,265	1,150	566,415
Dividends for year 2016 as per AGM held on Apr 28, 2017	-	-	-	-	-	-	-	-	-	-	(353,265)	-	-	(353,265)	-	(353,265)
Interest on equity paid according to the SGM held on December 14, 2017	-	-	-	-	-	-	-	-	-	-	-	-	(60,570)	(60,570)	-	(60,570)
Prepayment of dividends for year 2017 approved at the SGM held on Dec 21, 2017	-	-	-	-	-	-	-	-	-	-	-	-	(84,000)	(84,000)	-	(84,000)
Allocation of profit to PPE reserve as per AGM held on Apr 28, 2017	-	-	-	-	-	-	-	-	-	57,147	(57,147)	-	-	-	-	-
Transfer to income reserves	-	-	-	-	-	-	-	-	-	-	420,695	-	(420,695)	-	-	-
Transf. Reserve for new products to PPE reserve as per AGM held on Apr 28, 2017	-	-	-	-	-	-	-	-	(17,073)	17,073	-	-	-	-	-	-
Realized Reserves	-	-	-	-	-	-	-	-	-	-	2,025	-	(2,025)	-	-	-
Balances at December 31, 2017	440,959	167,767	6,445	3,650	121,627	9,116	43,807	982	93,353	205,410	422,720	-	-	1,515,836	8,674	1,524,510

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A.

Cash flow statements

Years ended December 31, 2017 and 2016

(In thousands of reais - R\$)

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Cash flow from operating activities				
Income before income and social contribution taxes	698,073	661,311	794,751	734,197
Adjustments to reconcile income before income and social contribution taxes to net cash from operating activities:				
Depreciation and amortization	41,084	32,142	57,305	44,029
Loss on disposal of property, plant and equipment items	2,377	72	2,480	128
Provisions for tax, civil and labor contingencies	73,012	17,580	76,630	24,390
Provision for inventory losses	14,665	7,873	26,976	11,045
Equity pickup	(188,460)	(145,477)	(2,355)	(2,830)
Other provisions	72,145	(4,170)	64,978	(2,562)
Accrued interest, and monetary and exchange variations	11,333	10,591	13,398	6,616
Allowance for doubtful accounts	328	6,067	1,081	7,743
Other	-	369	(940)	349
	724,557	586,358	1,034,304	823,105
(Increase) decrease in operating assets:				
Trade accounts receivable	(125,738)	(34,923)	(152,104)	(67,599)
Inventories	(56,078)	29,163	(59,345)	15,208
Taxes recoverable	571	(12,108)	(13,970)	(24,896)
Related parties	-	(11,591)	-	(11,591)
Prepaid expenses and other receivables	(1,170)	34,782	2,511	36,528
Increase (decrease) in operating liabilities:				
Trade accounts payable	67,088	(64,786)	90,389	(79,943)
Labor and social security liabilities	22,730	(2,190)	27,769	5,553
Taxes payable	(10,373)	(267)	(13,392)	(885)
Income and social contribution taxes paid	(123,279)	(129,240)	(212,040)	(201,063)
Provision for tax, civil and labor contingencies paid	(8,492)	(10,919)	(12,128)	(11,032)
Interest paid on loans and financing	(10,845)	(8,635)	(12,730)	(10,718)
Other liabilities	16,853	5,940	15,286	7,062
Net cash provided by operating activities	495,824	381,584	694,550	479,729
Cash flow from investing activities				
Dividends received from subsidiaries	150,012	103,847	-	-
Acquisition of subsidiaries	-	(1,200)	-	(1,200)
Capital increase in subsidiaries	(10,773)	(617)	-	(617)
Acquisition of PPE and intangible assets	(68,756)	(68,492)	(99,227)	(107,793)
Advances on PPE items	(14,633)	(3,109)	(19,107)	(5,301)
Long-term investments	-	-	(30)	9,272
Net cash from (used in) investing activities	55,850	30,429	(118,364)	(105,639)
Cash flow from financing activities				
Loans and financing taken out	54,257	4,625	68,019	18,730
Repayment of loans and financing	(46,011)	(29,377)	(59,486)	(34,873)
Dividends and IOE paid	(550,142)	(452,164)	(550,154)	(452,164)
Net cash used in financing activities	(541,896)	(476,916)	(541,621)	(468,307)
Increase (decrease) in cash and cash equivalents	9,778	(64,903)	34,565	(94,217)
Cash and cash equivalents at beginning of year	97,728	162,631	134,399	228,616
Cash and cash equivalents at end of year	107,506	97,728	168,964	134,399
Increase (decrease) in cash and cash equivalents	9,778	(64,903)	34,565	(94,217)

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A.

Statements of value added
Years ended December 31, 2017 and 2016
(In thousands of reais - R\$)

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Revenues				
Sales of goods, products and services	2,656,479	2,393,450	3,474,466	3,120,106
Allowance for doubtful accounts	(327)	807	(1,078)	1,249
Other revenues	39,511	11,768	42,907	16,122
	2,695,663	2,406,025	3,516,295	3,137,477
Inputs acquired from third parties				
Raw materials consumed	460,600	488,338	602,679	639,268
Cost of sales and services	34,876	6,754	42,998	10,368
Materials, energy, third-party services and other expenses	607,676	443,101	737,444	560,220
Impairment of assets	5,187	4,688	3,464	7,394
	1,108,339	942,881	1,386,585	1,217,250
Gross value added	1,587,324	1,463,144	2,129,710	1,920,227
Depreciation and amortization	(41,084)	(32,142)	(57,305)	(44,029)
Net value added produced by the Company	1,546,240	1,431,002	2,072,405	1,876,198
Value added received in transfer				
Equity pickup	188,460	145,477	2,355	2,830
Finance income	19,497	14,732	25,440	22,163
	207,957	160,209	27,795	24,993
Total value added to be distributed	1,754,197	1,591,211	2,100,200	1,901,191
Distribution of value added	1,754,197	1,591,211	2,100,200	1,901,191
Personnel	517,740	444,703	664,757	585,706
Direct compensation	434,440	371,856	556,157	490,418
Benefits	54,695	47,466	73,178	62,835
Unemployment Compensation Fund (FGTS)	28,605	25,381	35,422	32,453
Taxes, rates and contributions	601,903	527,306	782,442	671,858
Federal	367,573	323,325	480,728	409,119
State	229,584	199,433	294,584	256,633
Local	3,375	-	4,433	-
Other taxes	1,371	4,548	2,697	6,106
Debt remuneration	69,289	74,555	87,736	98,980
Interest	35,663	42,775	44,995	57,711
Rent	33,626	31,780	41,591	41,662
Noncontrolling interests			1,150	(393)
Equity remuneration	565,265	544,647	565,265	544,647
Dividends and Interest on Equity (IOE) paid	144,570	136,163	144,570	136,163
Retained profits for the year	420,695	408,484	420,695	408,484

See accompanying notes.

Aché Laboratórios Farmacêuticos S.A.

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

1. Operations

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

The Company holds ownership interest in the following companies:

Business name	Core activity	Country	Interest	12/31/2017	12/31/2016
Aché International Ltd.	Maintenance of partnerships with other international companies for the technical and operational development of its products.	British Virgin Islands	Direct	100%	100%
Biosintética Farmacêutica Ltda.	Manufacturing, trade, import and export of pharmaceutical products for human consumption; operations in the main pharmaceutical segments.	Brazil	Direct	99.99%	99.99%
Indústria Farmacêutica Melcon do Brasil S.A.	(a) Manufacturing, trade, 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) Holding of non-financial institution.	Brazil	Indirect	99.99%	99.99%
Bionovis S.A.	Research, development, production, distribution and sale of biotechnological medicines.	Brazil	Jointly owned subsidiary	25%	25%
Nortis Farmacêutica Ltda.	(c) Manufacturing of cephalosporin antibiotics for human consumption, non-prescription drugs and nutraceuticals.	Brazil	Direct	100%	100%
Laboratório Químico Farmacêutico Tiaraju Ltda	(d) Holder of registrations of phytomedicines and functional foods.	Brazil	Direct	100%	100%

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

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

(c) On March 14, 2016, Aché acquired "Nortis" Pharmaceutical Industry, a laboratory specialized in manufacturing cephalosporin antibiotics and selling functional foods. Established in 2002, "Nortis" is a company with a modern industrial park installed, has achieved excellence in drug production, continuously investing in technology and produces 20 million units per year. As at June 30, 2017, Nortis is included in the Company's financial information.

(d) On March 4, 2016, Aché acquired Laboratório Químico Farmacêutico Tiaraju Ltda, a chemical pharmaceutical laboratory founded in 1991 with extensive experience in the phytomedicines and functional foods market. With this acquisition Aché will incorporate registrations of 12 phytomedicines. At December 31, 2017 and 2016, these records are classified as intangible assets in the amount of R\$ 3,500 since they relate to the acquisition of intangible assets, in accordance with CPC 04 (R1).

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

1. Operations (Continued)

At the beginning of 2017, the Company acquired land in the municipality of Cabo de Santo Agostinho – PE state, in an area of 250,000 sqm., for expansion of its industrial operations and distribution in the North and Northeast regions, whose total investment is estimated at approximately R\$ 500 million until 2021.

Some of the important steps for the beginning of this construction are in progress, such as the preparation of the conceptual project, definition and contracting of the engineering company, design of the compatible executive project, beginning of ground-levelling of the land and bidding for beginning of the civil works. The first phase of operations is scheduled for start in 2019 and the second phase in 2021.

2. Basis of preparation and summary of significant accounting practices

These individual and consolidated condensed financial statements were approved for disclosure at the Board of Directors' Meeting held on March 20, 2018.

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

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

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

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

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

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

a) Functional and reporting currency

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

Foreign currency transactions and balances

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

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

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

c) Financial instruments

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

Financial assets

- Loans and receivables: these refer to non-derivative financial assets with fixed or determinable payments that are not traded in an active market. After the initial recognition, such financial assets are measured at amortized cost using the effective interest rate method, less impairment. At December 31, 2017 and 2016, the financial assets of the Company and its subsidiaries mainly refer to the following balances: cash and cash equivalents, short-term investments, trade accounts receivable and transactions with related parties.

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

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

c) Financial instruments (Continued)

Financial assets (Continued)

- Investments held to maturity: non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has expressed the intention and financial ability to hold them to maturity. After the initial evaluation, these assets are measured at amortized cost using the effective interest rate method, less impairment losses. As of December 31, 2017 and 2016, the Company and its subsidiaries had no financial assets in this classification.
- Financial assets available for sale: after initial measurement, these assets are measured at fair value, with unrealized gains and losses recognized directly under other comprehensive income until the investment is derecognized, except for impairment losses, interest and gains or losses on exchange variation that are recognized directly in the statement of profit or loss for the period. At December 31, 2017 and 2016, the Company and its subsidiaries had no financial assets in this classification.
- Financial assets at fair value through profit or loss are stated in the statement of financial position at fair value, and their corresponding gains or losses are recognized in the statement of profit or loss. As of December 31, 2017 and 2016, the Company and its subsidiaries had no financial assets in this classification.

Financial liabilities

- Financial liabilities measured at fair value through profit or loss: these are classified under this denomination when they are held for trading or designated at fair value through profit or loss. As of December 31, 2017 and 2016, the Company and its subsidiaries had no financial liabilities in this classification.
- Other financial liabilities: at December 31, 2017 and 2016, these are represented by loans and financing and balances payable to suppliers, which are measured at amortized cost using the effective interest rate method.

d) Statement of Value Added

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

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

(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, which are not yet in force and have not been early adopted by the Company, since the CPC has not yet issued the equivalent local pronouncements. Accordingly, their early adoption is not allowed in Brazil, and management is currently assessing the future impacts of their adoption.

IFRS 9 Financial Instruments (Effective from Jan 1, 2018)	Ultimately intended to replace IAS 39. The main changes envisaged are: (i) all financial assets must be initially recognized at their fair value; (ii) the standard divides all financial assets into: amortized cost and fair value; and (iii) the concept of embedded derivatives ceased to exist.
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IFRS 15 Revenue from Contracts with Customers (Effective from Jan 1, 2018)	Intended to make financial information more comparable and to provide a new model for recognizing revenues and more detailed requirements for multi-obligation contracts. This replaces IAS 11 and IAS 18 standards as well as their interpretation.
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IFRS 16 Leases (Effective from Jan 1, 2019)	This is intended to unify the lease accounting model, requiring lessees to recognize all lease agreements as assets or liabilities, unless the lease arrangement has a maturity period of twelve months or an immaterial value. The standard is applicable as of January 1, 2019.
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IFRS 17 Insurance Contracts (Effective from Jan 1, 2021)	This standard applies to all types of insurance contracts (i.e. life, non-life, direct insurance and reinsurance), regardless of the type of entities that issue them, as well as certain guarantees and financial instruments with characteristics of discretionary participation. The standard is applicable as of January 1, 2021.
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The Company is assessing the impacts of the application of IFRS 16 and IFRS 17 as of their effective date. In Management's opinion, the expectation is that the application of the other standards and amendments yet to be applied should not have a significant effect on the individual and consolidated financial statements. The company also did not identify significant effects on the application of IFRS 9 and IFRS 15.

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

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

2.2. Significant accounting judgments, estimates and assumptions

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

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

3. Cash and cash equivalents

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Cash and banks	14,225	514	24,630	3,477
Short-term investments	93,281	97,214	144,334	130,922
	107,506	97,728	168,964	134,399

Short-term investments comprise Repurchase Agreements and Bank Deposit Certificates (CDBs) with various financial institutions, with yield ranging from 98,00% to 100,00% of the Interbank Deposit Certificate (CDI) rate, and are classified under "Cash and cash equivalents" because they are considered immediately redeemable financial assets and subject to an insignificant risk of change in value.

4. Accounts receivable

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

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Domestic	442,103	329,256	663,791	512,373
Foreign (Note 18)	582	435	2,341	1,658
Related parties (Note 14)	19,533	6,790	-	-
Allowance for doubtful accounts	(2,757)	(2,430)	(5,464)	(4,386)
	459,461	334,051	660,668	509,645

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

4. Accounts receivable (Continued)

a) Accounts receivable by aging list

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Falling due	442,471	312,089	637,656	476,698
Overdue:				
From 1 to 60 days	14,787	20,706	20,710	30,363
From 61 to 120 days	1,920	1,012	2,252	1,974
From 121 to 180 days	283	244	50	610
Above 180 days	2,757	2,430	5,464	4,386
	462,218	336,481	666,132	514,031

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

b) Allowance for doubtful accounts

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

Changes in the allowance for doubtful accounts

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Balance at beginning of year	(2,430)	(3,237)	(4,386)	(5,635)
Additions	(1,595)	(7,484)	(3,530)	(9,936)
Write-downs (effective losses)	1	1,417	3	2,193
Reversals due to amounts received	1,267	6,874	2,449	8,992
Balance at end of year	(2,757)	(2,430)	(5,464)	(4,386)

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

5. Inventories

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

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Finished products	115,069	97,237	167,692	171,072
Work-in-process	48,794	47,129	72,561	53,014
Raw materials	114,804	107,260	157,837	168,111
Advances to suppliers	18,508	8,022	31,393	12,425
Provision for inventory losses	(6,563)	(10,449)	(17,914)	(25,422)
	290,612	249,199	411,569	379,200

Changes in provision for inventory losses

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

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Balance at beginning of year	(10,449)	(6,784)	(25,422)	(20,117)
Additions	(18,146)	(14,853)	(35,981)	(22,168)
Reversals	3,481	6,980	9,005	11,123
Write-offs	18,551	4,208	34,484	5,740
Balance at end of year	(6,563)	(10,449)	(17,914)	(25,422)

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 whose 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.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

(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 10 years. The period of settlement or realization of such differences is inaccurate and related to several factors that are not under the management control. Based on their projections of future taxable profit, management's expectation of tax credits is as follows:

	Company	Consolidated
2018	27,081	44,045
2019	2,058	8,877
2020	3,655	12,624
From 2021 onwards	93,200	105,751
	<u>125,994</u>	<u>171,297</u>

7. Reconciliation of income and social contribution tax expense

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Income before income and social contribution taxes	698,073	661,311	794,751	734,197
Nominal income and social contribution tax expense – 34%	(237,345)	(224,846)	(270,215)	(249,627)
Reconciliation of income and social contribution tax expense at effective rate:				
Equity pickup	63,614	49,846	801	962
Tax benefit from technology research and development of technology innovation	18,158	20,719	19,769	23,067
Interest on equity	20,594	43,836	20,594	43,836
Nondeductible fines	(195)	(308)	(288)	(359)
Nondeductible donations	(1,742)	(1,416)	(2,849)	(2,396)
Offset of "Lei do Bem" (Brazil's Tax Relief Law)	-	2,774	-	3,404
'Citizen maternity' allowance	(363)	(350)	(419)	(437)
Tax incentives	7,481	6,452	10,869	10,018
Accelerated depreciation (Brazil's Tax Relief Law)	(5,026)	(13,576)	(7,407)	(16,887)
Other	2,016	205	809	(1,524)
Effective income and social contribution tax expense	<u>(132,808)</u>	<u>(116,664)</u>	<u>(228,336)</u>	<u>(189,943)</u>
Current	(165,699)	(110,488)	(255,473)	(200,061)
Deferred	32,891	(6,176)	27,137	10,118
Effective rate	<u>19%</u>	<u>18%</u>	<u>29%</u>	<u>26%</u>

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

8. Investments - Company

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Subsidiaries (a)	507,787	455,952	6,186	6,319
Goodwill - Asta Médica	11,446	11,446	-	-
Goodwill - Melcon	17,533	17,533	-	-
Goodwill - Nortis	9,420	9,420	-	9,420
	546,186	494,351	6,186	15,739

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

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

Aché Laboratórios Farmacêuticos S.A.

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

8. Investments - subsidiaries (Continued)

Company	12/31/2017				P&L for the year	12/31/2016			
	Total assets	Total liabilities	Total equity	Unrealized profit		Investment balance	Equity pickup	Investment balance	Equity pickup
Aché International	-	-	-	-	(2,110)	-	(2,110)	2,110	(419)
Biosintética	871,619	386,271	485,348	1,446	192,118	485,262	193,564	440,699	147,276
Melcon	40,683	23,335	17,348	(331)	2,300	7,644	819	6,825	95
Bionovis (a)	255,508	230,763	24,745	(318)	12,745	6,186	2,869	3,317	3,081
Nortis	9,283	588	8,695	(514)	(3,528)	8,695	(4,042)	3,001	(236)
						507,787	191,100	455,952	149,797
Provision for investment loss									
Labofarma	1,295	30,360	(29,065)	245	(2,885)	(29,066)	(2,640)	(27,463)	(4,320)
						478,721	188,460	428,489	145,477

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

Aché Laboratórios Farmacêuticos S.A.

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

8. Investments - subsidiaries (Continued)

Changes in investments in subsidiaries and joint ventures

Subsidiaries and joint ventures	12/31/2016	Equity pickup	Dividends	Capital increase	12/31/2017
Aché International	2,110	(2,110)	-	-	-
Biosintética	440,699	193,564	(149,001)	-	485,262
Melcon	6,825	819	-	-	7,644
Bionovis	3,317	2,869	-	-	6,186
Nortis (a)	3,001	(4,042)	-	9,736	8,695
	<u>455,952</u>	<u>191,100</u>	<u>(149,001)</u>	<u>9,736</u>	<u>507,787</u>
Provision for loss on Investment - Labofarma	(27,463)	(2,640)	-	1,037	(29,066)
Total	<u>428,489</u>	<u>188,460</u>	<u>(149,001)</u>	<u>10,773</u>	<u>478,721</u>

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

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

9. Property, plant and equipment

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

	Useful life (years)	Company					
		12/31/2017			12/31/2016		
		Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount
Land		82,774	-	82,774	82,774	-	82,774
Buildings	42.35	490,738	(139,014)	351,724	489,466	(130,524)	358,942
Facilities	10	60,043	(38,677)	21,366	48,737	(36,129)	12,608
Machinery and equipment	6.03	269,381	(127,531)	141,850	255,075	(112,471)	142,604
Furniture and fixtures	10	14,139	(9,267)	4,872	12,585	(8,633)	3,952
Vehicles	5	2,074	(2,032)	42	2,074	(1,994)	80
IT equipment	4	28,968	(18,612)	10,356	21,860	(14,588)	7,272
Molds and dies/other	10	22,155	(12,687)	9,468	20,542	(11,246)	9,296
		970,272	(347,820)	622,452	933,113	(315,585)	617,528
Advances		10,310	-	10,310	3,109	-	3,109
Construction in progress		31,905	-	31,905	36,597	-	36,597
		1,012,487	(347,820)	664,667	972,819	(315,585)	657,234
Consolidated							
	Useful life (years)	Consolidated					
		12/31/2017			12/31/2016		
		Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount
Land		122,666	-	122,666	122,666	-	122,666
Buildings	42.35	545,668	(153,489)	392,179	539,140	(142,914)	396,226
Facilities	10	83,627	(47,851)	35,776	59,925	(43,493)	16,432
Machinery and equipment	6.03	427,929	(194,004)	233,925	399,092	(168,075)	231,017
Furniture and fixtures	10	17,321	(10,638)	6,683	15,234	(9,598)	5,636
Vehicles	5	2,795	(2,674)	121	2,795	(2,536)	259
IT equipment	4	38,515	(25,703)	12,812	30,660	(20,332)	10,328
Molds and dies/other	10	32,017	(17,196)	14,821	29,634	(14,837)	14,797
		1,270,538	(451,555)	818,983	1,199,146	(401,785)	797,361
Advances		12,890	-	12,890	5,301	-	5,301
Construction in progress		52,688	-	52,688	52,137	-	52,137
		1,336,116	(451,555)	884,561	1,256,584	(401,785)	854,799

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

9. Property, plant and equipment (Continued)

Changes in property, plant and equipment are as follows:

	Company				12/31/2017
	12/31/2016	Acquisition	Write-offs	Transfers (b)	
Land	82,774	-	-	-	82,774
Buildings	489,466	1,076	-	196	490,738
Facilities	48,737	3,089	(211)	8,428	60,043
Machinery and equipment	255,075	10,070	(96)	4,332	269,381
Furniture and fixtures	12,585	1,575	(21)	-	14,139
Vehicles	2,074	-	-	-	2,074
IT equipment	21,860	7,386	(917)	639	28,968
Molds and dies/other	20,542	1,102	-	511	22,155
Subtotal	933,113	24,298	(1,245)	14,106	970,272
Advances	3,109	14,633	-	(7,432)	10,310
Construction in progress	36,597	17,137	-	(21,829)	31,905
Total	972,819	56,068	(1,245)	(15,155)	1,012,487

	Consolidated					12/31/2017
	12/31/2016	Acquisition	Nortis (a)	Write-offs	Transfers (b)	
Land	122,666	-	-	-	-	122,666
Buildings	539,140	1,737	841	-	3,950	545,668
Facilities	59,925	4,103	425	(211)	19,385	83,627
Machinery and equipment	399,092	17,182	4,023	(265)	7,897	427,929
Furniture and fixtures	15,234	1,968	140	(21)	-	17,321
Vehicles	2,795	-	120	(120)	-	2,795
IT equipment	30,660	8,100	59	(944)	640	38,515
Molds and dies/other	29,634	1,608	-	-	775	32,017
Subtotal	1,199,146	34,698	5,608	11,561)	32,647	1,270,538
Advances	5,301	19,107	-	-	(11,518)	12,890
Construction in progress	52,137	37,155	-	-	(36,604)	52,688
Total	1,256,584	90,960	5,608	(1,561)	(15,475)	1,336,116

(a) At December 31, 2017, Nortis is included in the Company's consolidated statements, and therefore, these amounts refer to the balance of Dec/16, when that company had not yet been consolidated.

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

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Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

9. Property, plant and equipment (Continued)

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

	Company			12/31/2017
	12/31/2016	Additions	Write-offs	
Buildings	(130,524)	(8,490)	-	(139,014)
Facilities	(36,129)	(2,758)	210	(38,677)
Machinery and equipment	(112,471)	(15,155)	95	(127,531)
Furniture and fixtures	(8,633)	(649)	15	(9,267)
Vehicles	(1,994)	(38)	-	(2,032)
IT equipment	(14,588)	(4,401)	377	(18,612)
Molds and dies/other	(11,246)	(1,441)	-	(12,687)
Total	(315,585)	(32,932)	697	(347,820)

	12/31/2016	Nortis (a)	Additions	Write-offs	12/31/2017
Buildings	(142,914)	(632)	(9,943)	-	(153,489)
Facilities	(43,493)	(238)	(4,331)	211	(47,851)
Machinery and equipment	(168,075)	(1,082)	(25,076)	229	(194,004)
Furniture and fixtures	(9,598)	(110)	(946)	16	(10,638)
Vehicles	(2,536)	(95)	(148)	105	(2,674)
IT equipment	(20,332)	(42)	(5,728)	399	(25,703)
Molds and dies/other	(14,837)	-	(2,359)	-	(17,196)
Total	(401,785)	(2,199)	(48,531)	960	(451,555)

(a) At December 31, 2017, Nortis is included in the Company's consolidated statements, and therefore, these amounts refer to the balance of Dec/16, when that company had not yet been consolidated.

At the year ended December 31, 2017, 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.

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

10. Intangible assets

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Trademarks	28,223	28,223	30,131	30,162
CBPF - Nortis (a)	1,554	2,400	1,554	2,400
Software	42,240	16,223	43,494	17,728
Goodwill - Asta Médica Ltda. (b)	-	-	11,446	11,446
Goodwill - Biosintética (c)	-	-	203,942	203,942
Goodwill - Melcon (d)	-	-	17,533	17,533
Goodwill – Nortis (e)	-	-	9,420	-
Total	72,017	46,846	317,520	283,211

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

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

Changes in intangible assets are as follows:

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Balance at beginning of year	46,846	39,741	283,211	275,977
Additions	27,321	9,448	27,374	10,148
Write-offs	(8,372)	-	(8,417)	-
Amortization - software	(8,933)	(2,343)	(9,560)	(2,914)
PPE transfers (b)	15,155	-	15,475	-
Beginning balance - Nortis (a)	-	-	9,437	-
Balance at end of year	72,017	46,846	317,520	283,211

(a) At December 31, 2017, Nortis is included in the Company's consolidated statements, and therefore, these amounts refer to the balance of Dec/16, when that company had not yet been consolidated.

(b) See Note 9.

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

10. Intangible assets (Continued)

Impairment test of goodwill based on expected future profitability

The impairment test of this 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 11.1% p.a. (13% p.a. in 2016).

The results of the impairment test conducted as of December 31, 2017 indicated no need for recording a provision for losses.

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

11. Loans and financing

	Annual charges	Maturity	Company		Consolidated		
			12/31/2017	12/31/2016	12/31/2017	12/31/2016	
Local currency:							
Working capital	18.16%	2019	-	-	1,800	7,915	
FCO and FOMENTAR	2.9% to 10%	2026	-	-	12,543	1,925	
FINAME	2.5% to 6%	2020	98	858	372	1,443	
FINEP (a)	4%	2019	24,784	29,030	24,784	29,030	
	Referential Rate IPCA +						
Profarma – BNDES (b)	1.52% to 2.06%	2023	34,584	6,763	34,584	6,763	
Profarma – BNDES (b)	TJLP + 1.5% to 3%	2023	56,147	71,778	71,657	90,383	
Profarma – BNDES (c)	4.5%	2023	27,111	32,885	28,898	35,302	
			142,724	141,314	174,638	172,761	
Current liabilities			35,603	33,280	43,146	44,190	
Noncurrent liabilities			107,121	108,034	131,492	128,571	
Total			142,724	141,314	174,638	172,761	

(a) 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 – contract 09.14.0086.00 amounting to R\$41,468, provides for performance of Research and Development Projects. The funds are released according to evidence of the expenditures related to the project. The amount of R\$ 8,294 with the participation of Aché was released until December 31, 2017.

(b) Profarma Financing taken out from BNDES bank intended for the construction and expansion of the industrial unit of Guarulhos - SP, for research and development of products and the acquisition of Nortis Farmacêutica, a pharmaceuticals company specialized in the manufacture of antibiotics. These financing arrangements provide for usual early maturity hypotheses when certain financial ratios are not performed. The main covenants of these financing contracts are: General Indebtedness equal to or lower than 0.75 and Total Net Debt/EBITDA equal to or lower than 3.0. At December 31, 2017, the Company is in compliance with these contractual covenants. This financing is guaranteed by the granting on mortgage of real estate, machinery and equipment owned by it, located in Guarulhos - SP.

(c) The financing operations taken out from BNDES bank are set on undertaking Research and Development of Innovative Products according to a facility line subsidized by BNDES within the *Profarma Inovação* program, having as collateral the mortgage of Guarulhos property; the main contractual covenants are: General Indebtedness equal to or lower than 0.75 and Total Net Debt/EBITDA equal to or lower than 3.0. At December 31, 2017, the Company is in compliance with these contractual covenants.

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

12. Trade accounts payable

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Domestic suppliers	73,718	42,909	95,328	53,539
Foreign suppliers	56,686	26,872	81,939	40,425
Debtor risk (a)	7,953	4,699	13,356	6,270
Related parties (Note 14)	4,595	1,384	-	-
	142,952	75,864	190,623	100,234

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

13. Tax liabilities

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
ICMS	12,558	17,178	20,361	24,470
Corporate Income Tax (IRPJ)	70,001	37,460	117,448	83,571
Contribution Tax on Gross Revenue for Social Security Financing (COFINS)	6,544	7,230	6,544	7,278
Social Contribution Tax on Net Profit (CSLL)	17,843	8,411	32,557	23,523
Social Contribution Tax on Gross Revenue for Social Integration Program (PIS)	1,364	1,522	1,364	1,532
Other	655	7,565	943	12,271
	108,965	79,366	179,217	152,645

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

14. Related parties

Related-party transactions and balances are as follows:

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Revenues:				
Sales to and manufacturing for Biosintética (a)	132,130	134,627	-	-
Sales to Melcon (b)	5,584	2,901	-	-
Sales to Labofarma (b)	5,389	6,770	-	-
Purchases:				
Purchases of products from Biosintética (a)	12,283	11,972	-	-
Purchase of products from Melcon	16,419	10,446	-	-
Purchase of services from Labofarma	46	4,985	-	-
Purchase of products from Nortis	3,367	-	-	-
Current assets:				
Accounts receivable - Biosintética (c)	7,332	111	-	-
Accounts receivable - Labofarma (c)	9,789	4,959	-	-
Accounts receivable - Melcon (c)	2,408	1,720	-	-
Accounts receivable - Nortis (c)	4	-	-	-
Dividends receivable - Biosintética	58,313	59,324	-	-
Other receivables - Melcon (c)	-	134	-	-
Total current assets	77,846	66,248	-	-
Noncurrent assets				
Accounts receivable - Melcon (b)	-	492	-	-
Accounts receivable - Nortis (c)	-	11,591	-	11,591
Current liabilities:				
Trade accounts payable - Biosintética (c)	1,618	1,132	-	-
Trade accounts payable - Melcon (c)	2,125	252	-	-
Trade accounts payable - Nortis (c)	852	-	-	-
Dividends payable	-	52,304	-	52,318
Associação Brasileira de Assistência ao Deficiente Visual - Laramara	184	-	329	-
Total current liabilities	4,779	53,688	329	52,318

(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.

Notes to individual and consolidated financial statements (Continued)

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(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 is as follows:

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Overall management compensation and charges	4,430	4,292	21,250	18,422

15. Labor and social security liabilities

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Wages and salaries payable	11	72	270	303
Accrued vacation pay, 13 th monthly salary and social charges	17,787	10,286	21,797	13,293
Social Security Tax (INSS) payable	16,252	11,188	20,096	14,976
Unemployment Compensation Fund (FGTS) payable	4,624	705	5,712	985
Profit sharing	21,256	16,829	41,311	33,945
Withholding Income Tax (IRRF) on payroll	9,691	7,884	11,857	10,107
Other	624	551	1,225	890
	70,245	47,515	102,268	74,499

16. Provision for tax, civil, and labor contingencies

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

Breakdown of related provisions by nature is as follows:

	Company					12/31/2017
	12/31/2016	Additions	Reversals	Payments	Restatement	
Tax	96,624	16,914 (a)	(5,817)	(688)	4,737	111,770
Labor	81,660	58,560 (b)	(15,390)	(7,164)	8,965	126,631
Civil	7,604	1,709	(316)	(640)	716	9,073
Other litigation (c)	18,263	4,029	(1,867)	-	772	21,197
	204,151	81,212	(23,390)	(8,492)	15,190	268,671

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Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

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

	Consolidated					12/31/2017
	12/31/2016	Additions	Reversals	Payments	Restatement	
Tax	105,745	17,913 (a)	(7,277)	(1,451)	5,201	120,131
Labor	100,153	62,571 (b)	(19,800)	(9,740)	10,730	143,914
Civil	8,850	2,729	(387)	(937)	789	11,044
Other litigation (c)	26,230	5,256	(1,867)	-	772	30,391
	240,978	88,469	(29,331)	(12,128)	17,492	305,480

- (a) The Company enrolled with the PERT (Special Tax Settlement Program) on cash payment terms, with the respective rules/reductions established by Provisional Executive Order (MP) No. 783/2017, signed into Law No. 13496/2017. Supported by the opinion of its outside lawyers, management selected in this connection six tax lawsuits which, due to the change in their likelihood of loss in light of current tax case law, caused an unfavorable impact of R\$ 10.5 million on P&L for year 2017.
- (b) These refer to new diluted labor claims. The procedure adopted by Aché is to set up a provision for contingency on a suit-by-suit basis by reference to the history of decisions unfavorable to the Company. The corresponding amounts are calculated by outside lawyers retained for this purpose.
- (c) Other litigation matters refer to other provisions for contingencies not related to administrative and / or judicial proceedings.

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

	Consolidated	
	12/31/2017	12/31/2016
Unemployment Compensation Fund (FGTS) (a)	31,451	29,968
PIS and COFINS (b)	25,489	25,623
IRPJ and CSLL (c)	45,368	34,242
Social Security (d)	3,030	2,907
ICMS (e)	3,690	3,251
Other (f)	11,103	9,754
	120,131	105,745

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

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Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

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

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

Proceedings assessed as risk of possible loss

As of December 31, 2017, the Company and its subsidiaries are parties to tax, civil and labor proceedings that are not accrued since they involve risk of loss classified by legal advisors as possible.

	Consolidated	
	12/31/2017	12/31/2016
Tax	1,167,906	1,165,408
Labor	112,664	99,203
Civil	8,712	6,362
	<u>1,289,282</u>	<u>1,270,973</u>

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

	Consolidated	
	12/31/2017	12/31/2016
Unemployment Compensation Fund (FGTS)	-	1,354
PIS and COFINS (e)	244,328	234,700
IRPJ and CSLL (a) (b) (c) (d)	811,232	826,629
Social Security	5,600	5,385
ICMS	92,051	83,284
Other	14,695	14,056
	<u>1,167,906</u>	<u>1,165,408</u>

Major proceedings assessed as risk of possible loss

a) *Biosintética Goodwill – Delta Part. Acquisition (part 1)*

This is a tax assessment notice against subsidiary Biosintética totaling approximately R\$ 301,000 (R\$ 376,655 restated through 12/31/17) to claim alleged IRPJ and CSLL debts from 2006 to 2009, due to allegedly unfulfilled legal conditions to deduct the amortization charges of goodwill paid on the acquisition of Delta Participações Farmacêuticas S.A.

The Voluntar0079 Appeal lodged by Biosintética was deemed fully grounded, however, the Statement Finance Department filed an Appeal to the Higher Court of Justice (STJ), also deemed founded.

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Notes to individual and consolidated financial statements (Continued)
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16. Provisions for tax, civil and labor contingencies (Continued)

Major proceedings assessed as risk of possible loss (Continued)

a) *Biosintética Goodwill – Delta Part. Acquisition (part 1) (Continued)*

As a result of the last unfavorable decision, the discussion at administrative level was partially finalized. The only item outstanding is the judgment of the increased fine in this connection.

This assessment will be entirely subject to a future judicial discussion, since Biosintética ratifies that the defense arguments are well-founded and, based on legal advice from its outside lawyers, assesses the risk of loss in regard to the goodwill deduction as possible towards remote and, with reference to the imposition of the increased fine, the risk of loss is remote. For this reason, no provision was recorded for this proceeding.

b) *Biosintética Goodwill – Delta Part. Acquisition (part 2)*

This refers to required payment of IRPJ and CSLL taxes for the period of 2010 and 2011, totaling R\$ 112,409 (R\$ 126,554 restated up to 12/31/17), originated from deduction of amortization charges of goodwill paid on the acquisition of Delta Participações Farmacêuticas S.A.

Awaiting a decision on the Appeal to STJ (REsp.) brought by Biosintética, which was accepted.

Regarding the classification of risk of loss, since this is a proceeding related to the previous one (item a), the same classification is attributed to the subject matters under discussion. For this reason, no provision was recorded for this proceeding either.

c) *Goodwill upon inception of Magenta Participações LTDA*

The Brazilian IRS issued a tax assessment notice amounting to R\$202,315, to require alleged debts of IRPJ and CSLL related to calendar 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.

In regard to collection re. 2009 base year, management decided to join REFIS tax installment payment program in 2014. With respect to calendar year 2008, the amount of which was estimated at R\$ 107,928 at that time (R\$ 122,388 restated through 12/31/17), the Company awaits a decision on the Voluntary Appeal brought for believing – along with its legal advisors - that the grounds for defense are sound and should be accepted.

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

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

Major proceedings assessed as risk of possible loss (Continued)

d) Interest on Equity (IOE). Retroactive tax collection

Tax assessment notice drawn for collection of IRPJ and CSLL for calendar year 2011, due to the deduction of expenses with payment of IOE calculated on previous bases, whose historical amount corresponds to R\$ 44,639 (R\$ 49,768 restated through 12/31/17).

The Company awaits a decision on the Appeal lodged to the STJ, although the external legal advisors assess the case as a possible loss. For that reason, no provision was recorded for the said proceeding.

e) PIS/COFINS one-phase regime

Required payment of PIS/COFINS under the 'one-phase' regime for the 2011-2012 period, in the historical amount of R\$ 198,027 (R\$ 220,831 restated through 12/31/17), mostly due to disallowance of the PIS/COFINS matching credit under the terms of article 3 of Law 10147/00. After an objection thereto was filed, the act was converted into a diligence, which has not yet been completed.

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

Engagement of Special Guarantee

At March 31, 2014, the Federal 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 in their entirety. A bank letter of guarantee was presented for the total amount in dispute, later replaced by surety bond in the amount involved.

On October 28, 2016, the disclaimer of the guarantee was granted, considering a decision rendered by the Higher 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, the likelihood of an unfavorable outcome to this Precautionary Measure is remote.

On November 4, 2016, the National Treasury was awarded an unfavorable sentence. A decision is awaited since then.

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Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

Judicial deposits

Changes in judicial deposits are as follows:

<u>Company</u>	<u>12/31/2016</u>	<u>Additions/ restatements</u>	<u>Reversals/ write-offs</u>	<u>12/31/2017</u>
Tax	74,059	2,871	(191)	76,739
Labor	39,073	8,638	(23,060) (a)	24,651
Civil	2,528	146	(108)	2,566
	115,660	11,655	(23,359)	103,956

<u>Consolidated</u>	<u>12/31/2016</u>	<u>Additions/ restatements</u>	<u>Reversals/ write-offs</u>	<u>12/31/2017</u>
Tax	74,195	2,871	(327)	76,739
Labor	44,806	10,777	(25,795)(a)	29,788
Civil	2,528	146	(108)	2,566
	121,529	13,794	(26,230)	109,093

(a) The Company engaged a law firm specialized in the analysis of judicial deposits for the revision of labor claim deposits, and the variation above is due to the changes in the year (write-off of R\$ 13,293) and the revision itself (write-off of R\$ 12,502).

17. Other liabilities

	<u>Company</u>		<u>Consolidated</u>	
	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2016</u>
Provision for maintenance of rented vehicles	7,993	8,959	9,800	11,244
Profit sharing payable	6,052	4,154	32,430	27,947
Advanced receipts - strategic projects	48,045	-	49,517	-
Other accounts payable	3,544	-	5,350	1,402
	65,634	13,113	97,097	40,593

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Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

18. 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, 2017 and 2016 is summarized as follows:

	Consolidated	
	12/31/2017	12/31/2016
Loans and financing (Note 11)	174,638	172,761
Cash and cash equivalents (Note 3)	(168,964)	(134,399)
Short-term investments - noncurrent assets	(30)	-
Derivatives	406	-
Net financial position – (assets) / liabilities	6,050	38,362

b) Financial instruments by category

	Company		Consolidated	
	Carrying amount and market value		Carrying amount and market value	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Financial assets:				
Loans and receivables				
Cash and cash equivalents (Note 3)	107,506	97,728	168,964	134,399
Trade accounts receivable (Note 4)	459,461	334,051	660,668	509,645
Derivatives	406	-	406	-
Financial investments - noncurrent assets	-	-	30	-
Judicial deposits (Note 16)	103,956	115,660	109,093	121,529
Financial liabilities:				
Loans and financing (Note 11)				
Trade accounts payable (Note 12)	142,724	141,314	174,638	172,761
Accounts payable	142,952	75,864	190,623	100,234
	29,561	12,708	42,666	27,380

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Notes to individual and consolidated financial statements (Continued)
December 31, 2017
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18. Financial instruments (Continued)

b) Financial instruments by category (Continued)

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

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

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

c) Risk management

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

The Company and its subsidiaries operated with derivative financial instruments for 2017. For 2017, net effect of the financial hedge in P&L for the year recorded expense in the amounts of R\$2,053 and R\$3,055 (expenses, net in the amounts of R\$12,539 and R\$19,527 at December 31, 2016), individual and consolidated, respectively - See Note 23.

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 1.52% 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. to 2.06% p.a.

Sensitivity to interest rates

For the sensitivity analysis of interest rate on loans and short-term investments, the Company took into account the probable scenario with 25% and 50% increase in possible and remote scenarios, respectively. Amounts were calculated based on the remaining principal balance of the loan, pegged to the TJLP rate, and short-term investments at December 31, 2017. The impact on profit or loss could occur as follows:

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Notes to individual and consolidated financial statements (Continued)
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18. Financial instruments (Continued)

c.1) Interest rate risk (Continued)

Company	Risk factor	Average rate p.a.	Exposed amounts at 12/31/2017	Probable scenario		Possible scenario (+25%)		Remote scenario (+50%)	
				Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L
Short-term investments	CDI	6.89%	93,281	6.68%	6,231	5.01%	4,673	3.3%	3,116
Loans - domestic currency	TJLP	7.00%	(142,724)	7.00%	(5,049)	8.75%	(6,311)	10.50%	(7,573)
Net impact – assets / (liabilities)			(49,443)		1,182		(1,638)		(4,457)

Consolidated	Risk factor	Average rate p.a.	Exposed amounts at 12/31/2017	Probable scenario		Possible scenario (+25%)		Remote scenario (+50%)	
				Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L
Short-term investments	CDI	6.89%	144,334	6.68%	9,642	5.01%	7,231	3.3%	4,821
Loans - domestic currency	TJLP	7.00%	(174,638)	7.00%	(6,135)	8.75%	(7,668)	10.50%	(9,202)
Net impact – assets / (liabilities)			(30,304)		3,507		(437)		(4,381)

c.2) Currency risk

The Company reduces its exposure to exchange rate volatility by entering into forward (long) contracts of NDF dollars. The contracts have monthly maturities and serve as a hedging mechanism to the foreign exchange variation that impacts the cost of imported inputs. The type of the NDFs used is "Plain Vanilla", which are settled through the difference between the exchange rate published by the Central Bank (PTAX) of a specific date and the forward rate. At December 31, 2017, the "notional" amount of contracts entered into in US dollars was US\$4,840 in the company and in the consolidated (there were no amounts recorded as at December 31, 2016).

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Notes to individual and consolidated financial statements (Continued)
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18. Financial instruments (Continued)

c) Risk management (Continued)

c.2) *Currency risk*

Sensitivity to derivatives

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

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

Hedge sensitivity analysis - Derivatives (Currency term / NDF) - Adjustment (R\$ MM)

	Remote scenario	Possible scenario	Probable scenario	Possible scenario	Remote scenario
	-50%	-25%		+25%	+50%
Company	(7,610)	(3,605)	400	4,405	8,411
Consolidated	(7,610)	(3,605)	400	4,405	8,411
Net impact – company/consolidated	(8,010)	(4,005)	-	4,005	8,010
Loss/(Gain)	(8,010)	(4,005)	-	4,005	8,010

Probable scenario, FOCUS Bulletin published as of 12/29/2017. The expected rate is R\$/US\$3.31

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:

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Notes to individual and consolidated financial statements (Continued)

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18. Financial instruments (Continued)

		Company		Consolidated	
		12/31/2017	12/31/2016	12/31/2017	12/31/2016
In euros:	EUR				
Assets		1,738	617	1,801	1,874
Liabilities		(1,278)	(574)	(1,842)	(899)
Net exposure		460	43	(41)	975
In US dollars:	US\$				
Assets		574	539	1,127	911
Liabilities		(14,825)	(7,540)	(21,817)	(11,279)
Net exposure		(14,251)	(7,001)	(20,690)	(10,368)
In Swiss franc (CHF):	CHF				
Liabilities		(875)	(269)	(875)	(269)
Net exposure		(875)	(269)	(875)	(269)
Total customers in R\$		687	558	2,381	1,788
Total exchange variation – customers in R\$		(105)	(123)	(40)	(130)
Total assets (Note 4)		582	435	2,341	1,658
Total suppliers in R\$		(56,056)	(27,848)	(81,328)	(42,088)
Total exchange variation – suppliers in R\$		(630)	976	(611)	1,663
Total liabilities (Note 12)		(56,686)	(26,872)	(81,939)	(40,425)
Total advances to suppliers		7,829	3,357	8,161	8,257

The main balances exposed to exchange variation are as follows:

- Trade accounts receivable - these assets generated exchange gains amounting to R\$11 - Company and exchange gain of R\$42 - Consolidated as of December 31, 2017 (exchange gain of R\$81 - Company and exchange gain of R\$470 - Consolidated as at December 31, 2016);
- Trade accounts payable and advances - these liabilities generated exchange gains amounting to R\$993 - Company and R\$629 - Consolidated as at December 31, 2017 (exchange gain of R\$11,764 - Company and of R\$15,275 - Consolidated as of December 31, 2016).

Aché Laboratórios Farmacêuticos S.A.

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

18. Financial instruments (Continued)

c) Risk management (Continued)

c.2) *Currency risk* (Continued)

Sensitivity to exchange rate

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

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

Company				Probable scenario		Possible scenario (+25%)		Remote scenario (+50%)	
	Risk factor	Average rate p.a.	Exposed amounts at 12/31/2017	Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L
Long position - USD	US\$	3.31	582	3.29	(3)	4.11	141	4.94	286
Short position - USD	US\$	3.31	(56,686)	3.29	308	4.11	(13,786)	4.94	(27,881)
Net exposure			(56,104)		305		(13,645)		(27,595)
Consolidated				Probable scenario		Possible scenario (+25%)		Remote scenario (+50%)	
	Risk factor	Average rate p.a.	Exposed amounts at 12/31/2017	Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L	Average rate p.a.	Effect on P&L
Long position - USD	US\$	3.31	2,341	3.29	(13)	4.11	569	4.94	1,151
Short position - USD	US\$	3.31	(81,939)	3.29	446	4.11	(19,927)	4.94	(40,301)
Net exposure			(79,598)		433		(19,358)		(39,150)

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 investments in low-risk and highly-liquid papers to meet the Company's operational requirements. Trade accounts receivable balance is predominantly denominated in reais and is distributed among various 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.

Aché Laboratórios Farmacêuticos S.A.

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

18. Financial instruments (Continued)

c) Risk management (Continued)

c.4) *Liquidity risk*

Effectively managing liquidity risk implies maintaining enough cash and marketable securities, funds available through bank 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:

<u>Consolidated</u>	<u>Within 1 year</u>	<u>Up to 2 years</u>	<u>From 3 to 4 years</u>	<u>Above 4 years</u>	<u>Total</u>
Trade accounts payable	190,623	-	-	-	190,623
Loans and financing	43,146	39,651	50,070	41,771	174,638

19. Equity

a) Capital

At December 31, 2017 and 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%.

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

19. Equity (Continued)

b) Capital reserves

	<u>12/31/2017</u>	<u>12/31/2016</u>
Special goodwill reserve	167,767	167,767
Share premium reserve	6,445	6,445
	<u>174,212</u>	<u>174,212</u>

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

c) Income reserves

	<u>Consolidated</u>	
	<u>12/31/2017</u>	<u>12/31/2016</u>
Legal reserve (i)	43,807	43,807
Reserve for new products, research and development and investments in property, plant and equipment (ii)	298,763	241,616
Tax incentive reserve (iii)	982	982
Unpaid profits reserve (iv)	422,720	410,412
Total	<u>766,272</u>	<u>696,817</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.

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 2017 in a subsequent period.

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

19. Equity (Continued)

d) Dividends and Interest on Equity (IOE)

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

Changes in dividends and IOE are as follows:

<u>Total dividend paid over 2016</u>	
Referring to 2015	328,806
IOE referring to 2015	60,088
IOE referring to 2016	63,270
Total dividends and/or IOE paid over 2016 (cash effect)	<u>452,164</u>
<u>Dividends payable</u>	
Supplemental mandatory minimum dividend	7,233
Balance of dividends pending payment referring to 2015	39,499
Supplemental IOE for year 2016	5,572
Balance of dividends payable in 2016	<u>52,304</u>
<u>Dividends approved at the SGM held on April 28, 2017</u>	
<u>360,501</u>	
<u>Total dividend paid over 2017</u>	
Referring to 2015	39,499
Supplemental IOE referring to 2016	5,572
Payment of Dividends - 2016	360,501
Prepaid dividend for 2017	84,000
IOE referring to 2017	60,570
Subtotal - dividends and/or IOE paid over 2017 (cash effect)	<u>550,142</u>
Dividends paid to noncontrolling interests	<u>12</u>
Total	<u>550,154</u>
<u>Dividends payable</u>	
Mandatory minimum dividend – statutory (income for the year R\$565,265 x 25%)	141,316
Prepaid dividends for year 2017	144,570

The balance of mandatory minimum dividends was fully settled in the course of year 2017.

e) Equity adjustment

	<u>Company</u>	
	<u>12/31/2017</u>	<u>12/31/2016</u>
Adjustments to deemed cost of PPE	121,627	122,981
Equity adjustment in subsidiaries' assets	9,116	9,320
Total equity adjustment	<u>130,743</u>	<u>132,301</u>

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

20. Operating revenue, net

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Gross sales revenue	3,601,941	3,159,790	6,977,158	6,092,917
Returns, discounts and others	(945,462)	(766,340)	(3,502,692)	(2,972,811)
Sales taxes	(443,503)	(387,097)	(506,554)	(433,838)
Total	2,212,976	2,006,353	2,967,912	2,686,268

21. Expenses by nature

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Raw materials consumed	460,600	488,338	602,679	639,268
Materials, energy, third-party services and other expenses	607,676	443,101	737,444	560,220
Personnel and taxes	517,740	444,703	664,757	585,706
Depreciation and amortization	41,084	32,142	57,305	44,029
Other selling and administrative expenses	41,798	32,658	53,245	53,507
	1,668,898	1,440,942	2,115,430	1,882,730
Cost of sales	601,831	585,665	809,305	791,755
Selling expenses	863,308	753,795	1,048,088	942,839
General and administrative expenses	203,759	101,482	258,037	148,136
Total	1,668,898	1,440,942	2,115,430	1,882,730

- (a) The change in General and Administrative Expenses was mainly due to the increase in expenses with infrastructure and systems development and provisions for new labor lawsuits.

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

22. Operating income (expenses)

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Resale of scrap	512	252	582	317
Recovery of expenses	6,467	337	6,504	787
Income from recovery of claims	7,741	2,607	10,783	4,068
Income from unused credits	-	8,160	-	10,011
Receivables from commercial agreements	11,422	-	11,422	-
Recovery of taxes	12,478	-	15,152	-
Other revenues	3,943	412	4,190	939
Total other income	42,563	11,768	48,633	16,122
Expenses with strategic projects	(21,715)	(6,533)	(23,656)	(6,689)
Payables from commercial agreement	-	(841)	-	(841)
Other tax expenses	(1,999)	-	(2,947)	-
Gain (loss) on disposal of PPE items	(2,198)	(72)	(2,171)	(84)
Other expenses	(2,489)	(1,505)	(4,448)	(1,098)
Total other expenses	(28,401)	(8,951)	(33,222)	(8,712)
	14,162	2,817	15,411	7,410

23. Finance income (costs)

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Interest income	13,064	11,505	18,125	17,770
Monetary gains	3,065	699	3,098	861
Income from hedge	2,174	2,046	2,654	2,821
Other finance income	1,194	482	1,563	711
Total finance income	19,497	14,732	25,440	22,163
Interest expenses	(12,515)	(10,994)	(16,349)	(14,724)
Monetary losses	(15,042)	(23,992)	(17,277)	(27,391)
Expense from hedge	(4,227)	(14,585)	(5,709)	(22,348)
Present value adjustment realized	-	-	-	(90)
Sundry charges	(2,795)	(3,038)	(3,698)	(5,456)
Other finance costs	(2,088)	(1,849)	(2,680)	(3,175)
Total finance costs	(36,667)	(54,458)	(45,713)	(73,184)
Exchange losses	(7,750)	(5,120)	(10,973)	(9,629)
Exchange gains	8,754	16,803	11,690	25,102
Total foreign exchange variation, net	1,004	11,683	717	15,473
Finance income/costs, net	(16,166)	(28,043)	(19,556)	(35,548)

Aché Laboratórios Farmacêuticos S.A.

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

24. Supplementary pension plan

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

The pension plan offered includes the following benefits:

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

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

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

The Company's contributions to the supplementary pension plan for the year ended December 31, 2017 totaled R\$4,198 (R\$3,766 in 2016).

25. 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, 2017, the insurance coverage was taken out at the amounts indicated below, according to the insurance policies:

<u>Insurance lines</u>	<u>Amounts insured</u>
Property damage to PPE	395,000
Civil liability	85,000

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

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

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

26. Employee and management profit sharing - consolidated

The Company and its subsidiaries include in their human resources policy a profit-sharing plan (PPR) and bonuses for officers, not covered by any other variable compensation programs offered by these companies. Goals and criteria for defining and distributing funds awarded are agreed to between the parties, with objectives of gains in productivity and competitiveness and motivation and involvement of participants. The PPR posted to consolidated P&L for the year ended December 31, 2017 amounted to R\$55,941 (R\$44,033 in 2016), as follows:

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Addition of provision for the year	33,870	28,683	61,076	51,179
Reversal of prior-years' provision	(1,409)	(4,332)	(5,135)	(7,146)
Employee and management profit sharing in P&L for the year	32,461	24,351	55,941	44,033

27. Earnings per share

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Basic and diluted numerator				
Allocation of net income for the year to shareholders - R\$	565,265	544,647	565,265	544,647
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\$	8.85	8.52	8.85	8.52

Aché Laboratórios Farmacêuticos S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2017

(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
Geraldo José Carbone	Director
Jonas de Campos Sialyly	Director
José Rogério Luiz	Director
Luiz Antônio Martins Amarante	Director
Luiz Carlos Vaini	Director
Ricardo Panzenboeck Dellape Baptista	Director

Statutory Board

Vânia de Azevedo Nogueira de Alcântara Machado	Chief Executive Officer
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

Accountant

Rodrigo Miranda Simões
CRC-1SP250809/O-7