PROFARMA

MOVIDOS POR MAIS, PRONTOS PARA MAIS

2016 Annual Report

MESSAGE FROM CEO

At the close of 2016, we celebrated the whole new level the Profarma Group achieved in the value chain of the Brazilian pharmaceutical market. We attained a more prominent position in the retail market by acquiring Rede Rosário drugstore chain in November 2016, in keeping with our diversification strategy, based on the integrated model. As a result, we hit the mark of 280 stores and expanded our area of operation to the Central-West Region.

This model allows us to operate in an integrated manner in all three segments–Wholesale, Retail and Specialties–and gives us competitive advantages over both the largest retailers and wholesalers by enabling us to capture synergies in seven major value drivers:

1. **Relevance to the industry**
2. **Possibility of expanding to new areas**
3. **Market reserve**
4. **Efficient cash cycle**
5. **Tax optimization**
6. **Strict management of expenses and**
7. **G&A synergies.**

By describing the advantages of each of those seven items in detail, we will be showing throughout this report how our solid, consistent strategy, based on the integrated model, strengthens our position in the industry.

In addition, we are backed by a multidisciplinary team and a nonconformist culture, and this allows us to have more agile operations and processes. Composed of professionals both developed internally and hired from the market, our teams have diverse knowledge, are more actively engaged and achieve better results more quickly than planned.

We relocated our corporate headquarters to more modern facilities in 2016 to further strengthen these features. This brought different areas and business segments closer.

Our proven ability to integrate acquisitions–as we did Drogasmil, Farmalife and Drogarias Tamoio–is an example of how our culture is reflected in our operations and synergies. In fact, within a few months we were able to integrate all the Profarma companies into the SAP, BI Cognos and Hyperion platform. Integrating Rede Rosario further attests to our efficiency. We started supplying the stores–a major challenge until then–as soon as we completed the acquisition. The chain's sales are increasing surprisingly quickly. This performance is shown by the segment's EBITDA, which shot up by 86% in 2016.

Now we are focusing on building a "listener" culture. We want to listen to our retail customers to improve their experiences at our stores. One of our most important initiatives in this regard is the CRM project, which is currently under development and about which we are very optimistic.

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We reorganized our wholesale team and continued investing in technology to improve the agility and assertiveness of our customer service. We relocated the procurement department to São Paulo to be even closer to the decision-makers in the industry.

Sales of the Specialties segment, through Profarma Specialty, are growing, mainly those of integrated health solutions. We are currently the only Brazilian company adopting this innovative concept developed to cater to the needs of patients in all the stages of the process– distribution, retail and patient care.

We remain driven for more, ready for more, and essentially non-conformists. We continue seeking to innovate our operations and management to grow in a profitable and sustainable manner. We remain confident our planning and strategy will take Profarma to a new level of profitability and, therefore, create value for our shareholders and society in general.

We thank our employees, customers, suppliers, partners and shareholders for their commitment, seriousness, trust and partnership. You have really helped us make Profarma a bigger and better Company.

Sammy Birmarcker

CEO

“EXPANSION IN THE RETAIL SEGMENT, IN LINE WITH OUR DIVERSIFICATION STRATEGY.”

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HIGHLIGHTS

	2016	2015	2014	2013	2012
ECONOMIC INDICATORS (R$ MILLION)					
Gross Revenues Consolidated	3,980.9	3,974.1	3,997.5	3,997.5	3,997.5
Gross Revenues*	4,047.2	3,749.0	4,050.8	4,050.8	4,050.8
SGA Expenses	357.6	336.7	333.2	333.2	333.2
SGA/Net Revenues (%)	10.3%	10.5%	9.6%	9.6%	9.6%
Financial Results	-79.7	-80.5	-56.0	-56.0	-56.0
Net (Loss) Income	-21.2	-52.1	20.4	20.4	20.4
Net Margin (%)	-0.6%	-1.5%	0.6%	0.6%	0.6%
EBITDA	79.6	65.6	95.8	95.8	95.8
Ebitda Margin (%)	2.3%	1.9%	2.8%	2.8%	2.8%
FINANCIAL INDICATORS (R$ MILLION)					
Assets	2,259.5	1,828.2	1,438.6	1,438.6	1,438.6
Stockholders' Equity	662.2	688.9	573.2	573.2	573.2
Net Debt / Ebitda (times)	236.6	219.3	458.5	458.5	458.5
Capex	3.0	3.3	4.8	4.8	4.8
Capex	25.5	27.4	4.6	4.6	4.6
OPERATIONAL INDICATORS					
Service level (%)	0.827	0.788	89.600	89.600	89.600
Errors per Million (Number of)	88.0	84.0	108.0	108.0	108.0
Electronic orders service (%)	89.9	88.2	77.00	77.00	77.00
CAPITAL MARKET					
Closing price (R$)	5.06	8.99	18.64	18.64	18.64
Number of shares (thousand)	41,509.10	41,509.10	33,208.34	33,208.34	33,208.34
Market Cap (R$ million)	210.0	373.7	619.0	619.0	619.0

* Non-Consolidated

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PROFILE

Integrated Model: One plus one is more than two

Profarma is a publicly-held corporation headquartered in the city of Rio de Janeiro, Rio de Janeiro State, and present throughout Brazil through 11 distribution centers. Since October 2006, its stock has been traded on the Novo Mercado, the special listing segment of the São Paulo Stock Exchange (BM&FBovespa) for companies voluntarily adopting corporate governance practices that go beyond those required by the current corporation law.

The largest mixed distributor in Latin America, the Profarma Group engages in the wholesale distribution of pharmaceuticals, fragrances and cosmetics; in pharmaceutical retail through d1000 and its regional brands–Farmalife, Drogasmil, Tamoio and Rosário; and in specialties through Profarma Specialty (wholesale, retail and services.) Profarma Specialty is a 50/50 joint venture between Profarma and AmerisourceBergen, the world leader in the segment.

Profarma was established 56 years ago as a pharmaceutical wholesaler, a segment in which it ranks second in Brazil. It broke into the retail market three years ago by acquiring two drugstore chains in Rio de Janeiro. As a result, the Company gained expertise in integrating new chains and entered the most profitable and fastest-growing segment in the industry.

Profarma created the d1000 division in 2016 to bring together all the operations of the Retail Division, which now comprise over 260 stores (Drogasmil, Farmalife, Tamoio and Rosario) in the states of Rio de Janeiro, Minas Gerais, Goiás, Tocantins and Mato Grosso, as well as the Federal District. It also has three exclusive product brands (N°21, Go Nutri and Bem Básico), which helps improve customer loyalty in the retail segment.

Profarma Group:

Outstanding governance, innovation, a pioneering spirit, capacity of growing organically or through acquisitions and associations, a strategic vision and a solid relationship with the market.

Corporate Identity

The Profarma Group's most distinctive hallmark is its nonconformist spirit, which has been driving the Company's growth over the years. This becomes all the more clear when we consider the integration into the Retail Division of the newly acquired companies–the Drogasmil, Tamoio and Rosário chains. In fact, our attitude and agility in integrating them underscores this feature, reflected in our slogan: 'Driven for more, ready for more.'

We have also sought to adapt our internal culture to the strategic moves that have turned it into an integrated model. Customer satisfaction became even more important when we broke into the retail market. As a result, we included "Listening to and Understanding the Customer" in our Beliefs and Behaviors, mainly as part of our corporate and internal communication initiatives.

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DRIVEN BY MORE, READY FOR MORE.

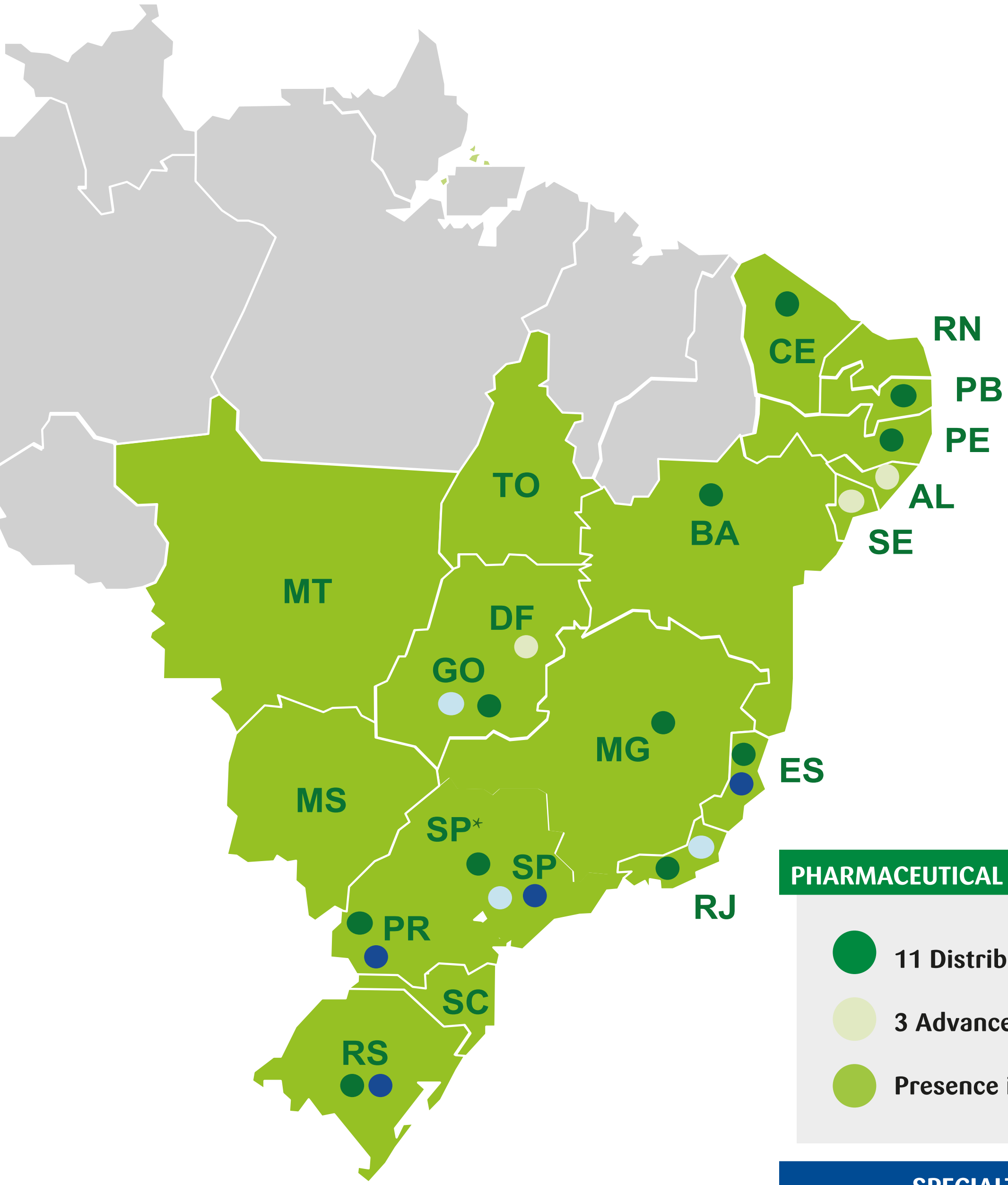
Values

- Commitment to transparency
- Willingness to change
- Nonconformity
- Integrity
- Meritocracy
- Pride in Belonging and
- Listening to the Customer

Beliefs and Behaviors

- We focus on the satisfaction of our business partners
- We pursue excellence relentlessly
- We are honest and work with integrity
- We are willing to change
- We recognize and value those who make the difference
- We are proud of who we are and what we do, and
- We are nonconformists by nature

Locations of Operation



PHARMACEUTICAL DISTRIBUTION

- 11 Distribution centers
- 3 Advanced distribution centers
- Presence in 96% of local market

SPECIALTIES

- 4 Advanced distribution centers
- 3 Drugstores

*countryside

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Wholesale Distribution Centers

We have 11 distribution centers and three advanced distribution centers strategically located to serve per month about 35,000 drugstores in 19 Brazilian states and the Federal District, or about 95% of Brazil's pharmaceutical market.

Profarma Specialty

This division has four distribution centers selling mainly to hospitals and private clinics throughout Brazil, as well as three specialty pharmacies serving end consumers. It also provides Patient Care Services with no geographical restrictions, that is, for customers from anywhere in Brazil.

Drugstore Chain

We have 279 stores–8 Farmalife and 62 Drogaria Tamoio stores in Rio de Janeiro, 59 Drogasmil stores in the states of Rio de Janeiro and Minas Gerais, and 150 Rosário stores in the Federal District and in the states of Goiás, Mato Grosso and Tocantins.

Timeline

- 1961 – Profarma was Founding
- 1996 – New DC in MG State
- 1998 – New DC in ES State
- 1999 – Acquisition of K + F (SP)
- 2001 – New DCs in PR State and DF
- 2004 – New DC in BA State
- 2006 – IPO
- 2007 – New DCs in PE and CE States and acquisition of Dimper (RS State)
- 2009 – New DC in GO State
- 2011 – Acquisition of Prodiet
- 2012 – Acquisition of Arpmed
- 2013 – Acquisition of CSB Brasil and 50% of Tamoio chain
- 2014 – Strategic association with ASB
- 2015 – Acquisition of remaining 50% of Tamoio
- 2016 – Acquisition of Rosario chain

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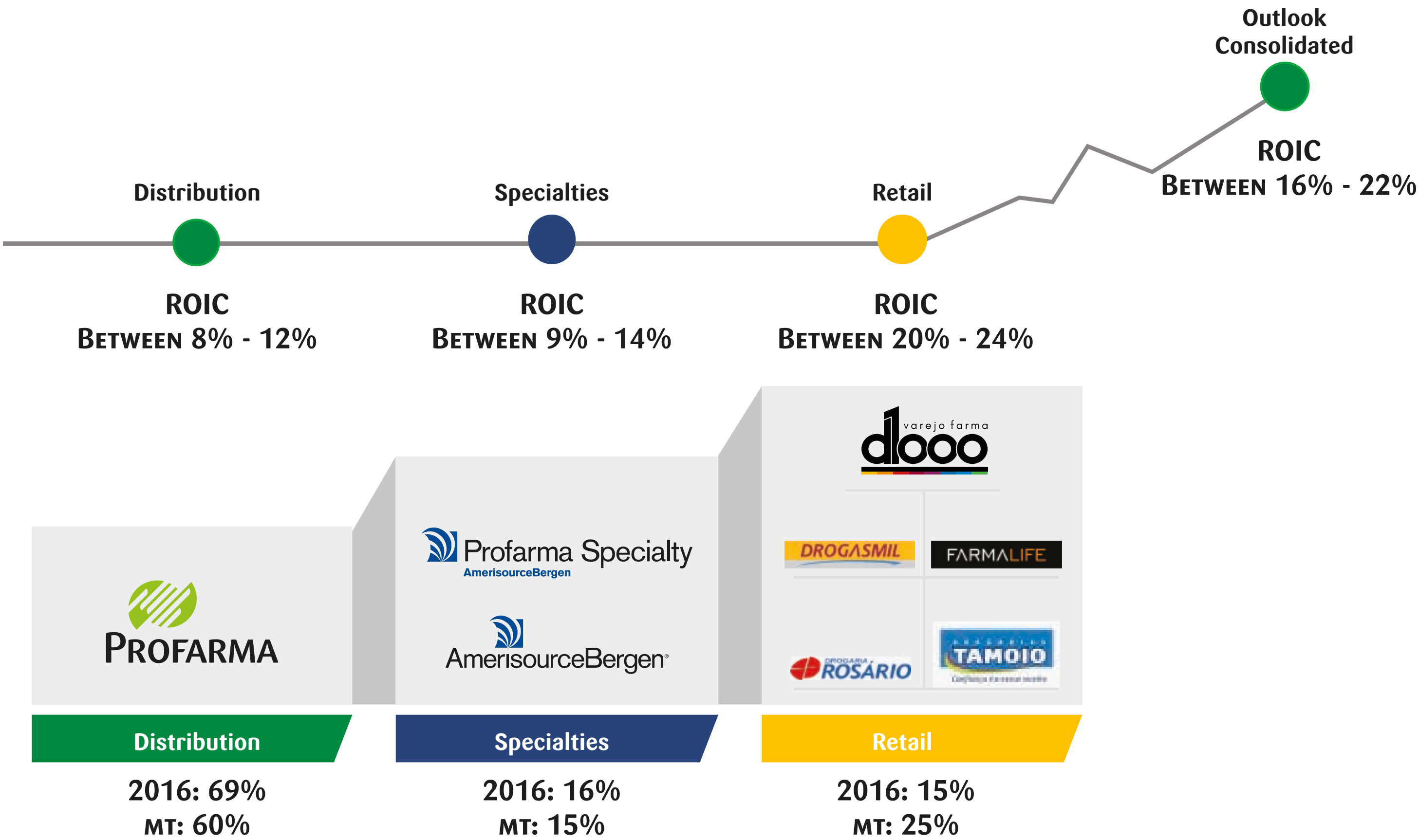
STRATEGY

Growing in a sustainable and profitable manner, developing partnerships with the pharmaceutical industry, promoting intelligent synergy among the three business divisions through integrated management based on indicators and the best Corporate Governance practices–these are the principles that define Profarma's strategy.We execute our strategy by making the most out of the competitive advantages provided by our integrated model, which will lead to a sum in which one plus one equals more than two when it is implemented as widely as planned.



MT: Medium term

The image above does not describe the Company's projections. It is just designed to show how the integrated model helps create value. It is no promise of future earnings and depends on different internal and external factors, neither scheduled nor guaranteed to be executed.

THE INTEGRATED MODEL

We have adopted an operational model combining wholesale distribution and retail operations and called integrated model for years. Developed in Europe, it has recently been introduced in the USA and Brazil; therefore, it has become a global trend. Companies adopting the integrated model have wholesale and retail operations, which leads to strategic and operational competitive advantages.

Competitive Advantages Provided by the Integrated Model

Bargaining Power with the Industry

By adopting the integrated model, Profarma has become one of the largest purchasers of pharmaceuticals in Brazil. It is also important to the industry because it involves initiatives and information that support launches and campaigns. This allows the industry to promote its products with greater assertiveness and at lower costs, mainly in advertising. Consequently, we are in a unique position to negotiate prices and payment terms.

Possibility of Expanding to New Areas

With a wholesale structure comprised of 11 distribution centers and 3 advanced distribution centers throughout Brazil, the retail division is in an optimal position in terms of logistics and sales. This influences the decision expand organically through acquisitions. The market knowledge we have gained over 56 years in the distribution business is another distinguishing feature of the Integrated Model.

Market Reserve

Another advantage of the Integrated Model is related to the market reserve since the chains making up d1000 purchase merchandise mainly from the Distribution Division. Consequently, the Pharmaceutical Distribution Division can make more accurate sales and cash flow projections, which helps it manage working capital, cash cycle and logistics better more efficiently, and translates into lower expenses, including financial expenses. In addition, we can be more critical about sales to third parties and refuse deals with lower margins in the distribution segment since we have a captive market.

Efficient Cash Cycle

Another advantage of the Market Reserve provided by the Integrated Model is the shorter cash cycle of the Retail Division in comparison to other drugstore chains. In fact, the retail platform's inventory consists only of the merchandise in the company's own stores under the integrated model whereas large chains have their own DCs and, for that reason, an additional 30-day inventory. As a result, the investment in working capital in the retail division is about 30 days shorter in the equation for calculating return on capital when compared with major drugstore chains.

• Tax Optimization

The Pharmaceutical Distribution Division has DCs in eleven different states; therefore, the retail division can optimize taxes by paying less ICMS [State VAT] and/or using ICMS credits in certain states.

Strict Management of Expenses

Wholesale distribution has always been a low-scale and low-margin business. As a result, we manage expenses and working capital strictly. This practice is transferred to the retail division under the integrated model. Indeed, d1000 has adopted this policy and used the tools, controls and indicators Profarma has developed over its 56-year history since inception.

G&A Synergies

Headquarters and the Group's departments–Human Resources, Finance, IT, Legal, among others–all have centralized expenses. This results in greater synergy when allocating those expenses and provides a more agile structure for decision making, a crucial factor in responding promptly to any moves of competition or seizing specific opportunities.

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PHARMACEUTICAL DISTRIBUTION DIVISION

Our Reason for Being
Improving our business partners' results by offering efficient distribution solutions.

What We Want
To be the best distribution option in Brazil's pharmaceutical retail industry.

# of employees: 2,820

# of clients: 29,206

# of items offered: 18,000

# of units sold per month: 18 million

# of electronic orders: 91.6%

# of errors per million: 63

Service level: 91.4%

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Features of the Pharmaceutical Distribution Division

The Pharmaceutical Distribution Division–Profarma's core business–comprises wholesale operations to pharmacies and drugstores. Our diversified product portfolio includes prescription, over-the-counter (OTC) and generic medicines. It also has health and beauty products, which are taking an increasing share in the mix. It has 11 distribution centers strategically located to serve drugstores in 19 Brazilian states and the Federal District, or about 95% of Brazil's pharmaceutical market.

Currently the second largest purchaser in the Brazilian pharmaceutical industry, Profarma is focused on being the best option for retailers by offering efficient distribution solutions. Accordingly, it is already recognized as the company that invests the most in technology in its distribution operations.

Two players have a nationwide presence in the distribution market: Profarma and the leading distributor. We increased our market share even more in 2016 by investing heavily in the sales department to boost sales to independent (regional) customers. We also invested in some DCs, which were expanded or improved, and in new operations, such as those in the states of Sergipe, Paraíba and Rio Grande do Norte. As a result, we outgrew the market by 50% in 2016–the largest growth rate in the Division since 2008. In addition, we focused less on major chains due to the increasing presence of independent customers in the business.

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Below is a brief description of the operation:

Procurement

Negotiates the acquisition of medicines and health and beauty products with the world's largest manufacturers.

Storage

The 11 Distribution Centers (DCs) located throughout Brazil store the products acquired and have them readily available for rapid distribution.

Sales

Focuses on sales to retailers (independent, small, medium-sized and large stores, and chains), fills orders and offers additional services to retailers, such as financing and promotional material.

Picking

Four DCs have automated picking and picking-to-light systems, which provides efficiency, agility, better quality and lower costs.

Product delivery

Over 200 dedicated vehicles monitored by satellite and GPRS. They all followed planned routes, with pre-set delivery locations and times, as well as an electronic blocking system in case of theft or deviations from the route.

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Our distribution infrastructure also includes a dedicated fleet of 200 vehicles that was fully outsourced in 2016 to reduce costs. Used to transport medicines and products, the vehicles are monitored by satellite and radio.

We focused heavily on three aspects of our Pharmaceutical Distribution Division in 2016: (i) developing services for suppliers, the sales force and consumers; (ii) undertaking initiatives to strengthen our internal customer-oriented culture; and (iii) adopting a major CRM (Customer Relationship Management) project, which is already in the pilot phase and should be implemented in 2017.

The CRM project will be tapping into our management culture based on indicators and will be integrated into the business intelligence system to allow us to customize our services and have an active offering in the Distribution Division. It will also provide support for supplier services, thus monetizing the access to parameterized information and reducing the industry's costs in launches and promotions.

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Greater Agility

Being retailers' first option is closely connected with our service level, agility and supply capacity. Another important point is being able to make quick strategic decisions. In 2016, we decided to speed up and improve all our processes and projects. The main measures we took were:

- Focusing more heavily on sales
- Developing a new credit analysis methodology
- Improving the registration process of new clients
- Increasing inventory to cope with increased demand and
- Developing closer ties with suppliers.

Relocating the sales department to São Paulo, where the major pharmaceutical companies are headquartered, was an important move completed in 2016 to be closer to the industry.

Customer Service

We have four channels for sales and after-sales services. We created a Customer Service Team in 2016, in line with internal initiatives to strengthen our organizational structure focused on improving the customer experience. The team monitors satisfaction levels, shopping experiences and internal relationship processes.

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Sales Channels:

Sales team

Composed of field sales representatives.

Call center

We restructured our sales service in 2016, and hired 50 professionals for the call center. Although responsible directly for only 7% of the Company's sales, these professionals are sales representatives who also help customers place electronic orders.

Electronic orders

Responsible for 92% of Profarma's sales, this channel has a large number of accesses currently and is designed to be an increasingly user-friendly, functional platform. In 2016, we introduced a department dedicated to the e-commerce platform. We have already undertaken some initiatives to improve customer experience.

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RETAIL DIVISION I D1000

Our Reason for Being
To promote health, beauty and well-being with excellence to exceed consumers' expectations by focusing on diversification and profitability.

What We Want
To be consumers' drugstore of choice.

# of stores: 279

Nationwide presence: 5 states and Federal District

# of stores opened: 4

# of stores closed: 4

# of stores renovated in 2016: 6

# of stores renovated since acquisition: 35

# of employees: 5,060

Average monthly sales per mature store: R$ 533.1 thousand

Average ticket: R$ 35.88

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Features of the Retail Division

The Retail Division became one of our main drivers of growth after we created d1000 and the operation grew sharply throughout 2016. Integrating the Drogasmil/Farmalife, Drogaria Tamoio and more recently Rosário shows our execution and operational ability. In addition, the chains comprising d1000 complement one another since they have different brand positioning and regional presence. In number of stores, d1000 has the second largest chain in Rio de Janeiro, the largest in the Central-West Region and one of the six largest in Brazil.

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Drogasmil

Recognized as one of the most traditional chains in Greater Rio de Janeiro, the Drogasmil chain has 59 stores in the states of Rio de Janeiro and Minas Gerais, mainly in major shopping malls. It sells pharmaceutical, personal care, beauty and convenience products. It focuses mainly on middle and lower middle class consumers.

Farmalife

The Farmalife chain, a reference in the dermocosmetics market, operates in Greater Rio de Janeiro. Just as Drogasmil, it is present in Rio de Janeiro's top shopping malls, in which it has eight stores. It sells pharmaceutical, personal care, beauty and convenience products. Its brand is targeted to upper-class and middle-class consumers.

Drogaria Tamoio

With 62 stores in Greater Rio de Janeiro, it sells pharmaceutical, personal care and beauty products. It focuses on middle-, lower-middle and working class consumers.

Rosário

Rede Rosário has a distribution center and 150 stores in the Federal District and in the states of Goiás, Tocantins and Mato Grosso. It offers a wide range of pharmaceutical, personal care and beauty products. It has a strong presence in the area with the highest per capita income in Brazil.

Managing the specific features of four brands (Drogasmil, Farmalife, Drogaria Tamoio and Rosário) and their different branding strategies is one of Profarma's main distinguishing features in the retail market. The division's operation rests on five strategic pillars: (i) exclusive brands; (ii) relationship; (iii) store execution; (iv) brand visibility and (v) in-store sales force encouragement.

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We are seeking to strengthen the ties with retail customers. Therefore, we are working to disseminate our customer-oriented culture by focusing mainly on listening more to customers, in addition to introducing the CRM project. Moreover, we consider the specific needs and expectations of retail customers in the plans for our different brands and locations of operation, from the product mix offered to the layout of each store. Therefore, we have been conducting studies and offering training to ensure high promotion standards, such as merchandising, price communication and layout by category.

Since we have strong, consolidated regional brands, our challenge has been to show customers a new chain, supplied with a relevant mix of products and a high customer service standards. To that end, we invested more heavily in online and offline media in 2016.

Lastly, we undertake sales campaigns in which all salespeople can earn extra pay if they sell products from a specific selection.

Nº21	Nº21 DIA A DIA	GONUTRI	Bem Básico.
health and beauty	health and beauty	vitamin supplements	"Farmacinha"
A vida pode ter as cores que você quiser (Life can have all colors that you want)	Praticidade todo dia! (Convenience every day!)	Ser saudável faz bem! (Being healthy is good!)	Descomplique, seja Bem Básico! (Keep it simple, be "Bem Básico")

160+ products

8 approved full-service suppliers

51% gross margin

Exclusive brands are an important tool to stand out in the retail market, improve customer loyalty and increase the profitability of retail stores. After acquiring Rede Rosário, we supplied all Rosário stores with GOnutri supplements. In one month, about 14,000 products were sold whereas the average d1000 sales amounts to about 16,000 products. In 2016, we had a portfolio of over 160 exclusive brand products, manufactured by 8 approved companies. We also had 69 launches during the year.

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The Integration of Rede Rosário

We are integrating Rosario in an efficient manner. We tapped into our previous experiences with Drogasmil/Farmalife and Drogaria Tamoio and adopted the same management and front-of-store systems of the other d1000 chains. As a result, we were able to update the SAP and exchange the ITEC sales management system more quickly.

Store inventories were replenished immediately due to the integrated model, which provides fast logistics and high service level. As a result, the chain's sales recovered as early as the first few months.

In addition, we hired 400 employees in just three months, trained staff, renovated 70% of the stores, rebranded products and regularized licenses.

Asset Improvement

While focusing on synergy, we also worked to improve the asset. We renegotiated real estate contracts to reduce rent expenses and conducted studies to determine the best location for some stores, with a view to higher profits. In addition, we expanded four stores in 2016. In 2017, we are planning to redesign the Drogasmil mix and rebrand Drogaria Tamoio.

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SPECIALTIES DIVISION | PROFARMA SPECIALTY

Our Reason for Being
Improving our business partners' results by offering innovative solutions and services.

What We Want
To be the strategic partner of choice in the specialties segment for the industry, healthcare providers and patients.

# of employees: 479
# of Distribution Centers: 4
# of drugstores: 3
# of clients: 1,800

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Features of the Specialties Division

The Specialties Division has been operating through a joint venture with AmerisourceBergen Company (ABC), the specialties market leader worldwide, since 2014. Profarma Specialty, the Division's brand, is firmly established as a provider of integrated health solutions and is involved in different stages of the process– distribution, retail sales and patient care. It has B2C and B2B operations in Distribution, Specialty Pharmacy and Patient Care and focuses mainly on the private sector.

Profarma Specialty is the only company in Brazil adopting the integrated health concept, designed to increase partners' results by offering innovative solutions and services. Well received by the market, this concept was borrowed from ABC.

This move also involved structuring processes and the internal organization. For example, the entire operation was relocated to new headquarters, strategically located in São Paulo to bring Profarma Specialty closer to the industry, almost fully based in that city. The new distribution center created in São Paulo allows the Company to deliver products ordered by specialty pharmacies on the same day in that city, thus increasing its competitiveness.

In parallel with the consolidation processes, Profarma Specialty launched the Cubixx refrigerator, a drug cooler created by AmerisourceBergen and featuring an automated inventory management system. It allows real-time monitoring to help customers protect high-cost products, manage inventories, purchase products, bill customers, and manage drug distribution and quality more easily, leading to fewer losses.

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Distribution

Our strategy focuses on consolidating the product portfolio and improving our relationship with the industry. Currently a partner of the main brands, Profarma Specialty aims to increase its share in their sales.

Specialty Pharmacy

In 2016, we revised the growth strategy of the Specialty Pharmacy segment, which started focusing on high-cost oncological and dermatological products.

Patient care

Profarma Specialty is responsible for increased treatment management through technology and processes ranging from diagnosis, drug eligibility (in the case of oncologicals) and patient follow-up.

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THE POWER OF OUR NONCONFORMITY

GOVERNANCE

"We are honest and work with integrity" - Our Belief

Our stock is traded on BM&FBovespa's (Bolsa de Valores, Mercadorias & Futuros, or Brazilian Securities, Commodities & Futures Exchange) Novo Mercado, a special listing segment for companies adopting special corporate governance practices voluntarily. Our organizational culture is also guided by ethical relationships, transparency, accountability, equal rights and duties and corporate responsibility, principles related to corporate governance.

We also comply with the ABRASCA [Associação Brasileira das Companhias Abertas, or Brazilian Association of Public Companies] Code of Self-Regulation and Good Corporate Governance Practices for Publicly-Held Corporations, to which it has been a signatory since 2012 to improve its corporate governance practices continuously. This code was drafted by ABRASCA based on the best practice of corporate governance adopted in Brazil and other countries.

Governance Structure

IT Governance

EWe conducted a comprehensive study of each employee's accesses to SAP (Integrated Management System) in 2016. This study identified conflicting accesses and involved the development of an array of combinations that should be avoided due to compliance issues. In addition, we introduced controls and standards for procedures to maintain the matrix, with no risks of conflicts.

Board of Directors

Profarma's Board of Directors is composed of six members, two of whom–the chairman and one director–are independent. Elected at the Annual General Meeting, Directors serve a joint two-year term, and may be reelected and removed from office at any time.

A decision-making body, the Board of Directors establishes strategic business policies and guidelines, monitors and oversees of the Company's performance. It also supervises the Executive Board.

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Composition of Profarma's Board of Directors*

Fernando Perrone
Chairman (Independent Director)

Sammy Birmarcker
Deputy Chairman

Manoel Birmarcker
Director

James Frary
Director

Armando Sereno Diógenes Martins
Director

Dan Ioschpe
Independent Director

*The Directors' career histories are available on Profarma's IR website

Statutory Audit Committee

Profarma has had a non-standing Statutory Audit Committee since 2012, in accordance with its Bylaws. The current Statutory Audit Committee, composed of three members, was installed by the Annual General Meeting on April 30, 2015 for one year.

The Statutory Audit Committee, which works independently from senior management and the independent auditors, mainly oversees management's activities, reviews the financial statements and reports its findings to shareholders, represented by the Board of Directors.

Executive Board

The Executive Board is currently formed by two officers: one Chief Executive Officer and one Chief Financial and Investor Relations Officer. The Executive Board manages the business in accordance with the strategic guidelines established by the Board of Directors.

Ethics and Professional Conduct

The Profarma Group is particularly concerned about ethical issues involving the corporate daily routine. Accordingly, we updated our Code of Ethics in 2015 and it disseminated its contents to all employees at a face-to-face event in 2016, in addition to making it available on the Company's website. This document, prepared by the Ethics Committee jointly with workgroups from different areas, contains clear, precise guidelines about how the Company conducts its business, what employees are and are not allowed to do, and what situations are or are not acceptable. Compliance issues are also dealt with in a straightforward comprehensive manner.

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Internal Audit

Created in 2014, the Internal Audit team adopts the COSO methodology (internal risk management tool) in its work routines. In addition to monitoring processes continuously, it regularly determines critical activities that may cause losses to cope with them a more thorough manner, and indicate gaps and solutions. In 2016, the Internal Audit team focused on improving legal issues (labor lawsuits, permits and recovery of amounts), setting parameters for each state's tax rates and analyzing all the payroll variables. Also in 2016, it adopted continuous auditing routines mainly for manual postings, inventory adjustments and payments to suppliers, among other tasks.

Risk Management

Supported by a proprietary methodology, our risk management practices, conducted for all Profarma companies, follow a preventive approach. They are based on the Risk Management Map, which covers all processes, flows and controls.

In 2016, we mapped Logistics risks (processes for receiving, storing, returning, operating and shipping goods), introduced internal rules and policies (Policy on the Delegation of Authority and Approval Hierarchy, Supply Policy, Human Resources Policies) among other activities. In addition, we focused heavily on managing legal and tax issues, and examined all payroll variables.

In 2017, the Risk Management team will be paying close attention to Drogarias Tamoio's systems, as well as good synergy and integration practices. Moreover, we are planning to automate the risk perception process.

Relationship

People

We have a team of 8,000 employees motivated by new challenges and inspired by leaders who encourage each of them to become an agent of innovation and success. We see them as an important pillar of our business; therefore, we seek to create mechanisms and tools to improve the internal alignment of the Company. In 2016, we revised our corporate ideology strategically to adapt it to the consolidation of our position in the retail market. As a result, we introduced one more Value: Listening to the Customer. The purpose is to create a more customer-oriented internal culture.In parallel, we have been focusing more closely on the strategic alignment among our employees, a key initiative to boost and speed up the integration of the companies acquired recently.

Accordingly, we introduced in 2016 a specific E-Commerce team to make the tool more user-friendly, functional and interactive, thus improving customers' experience.

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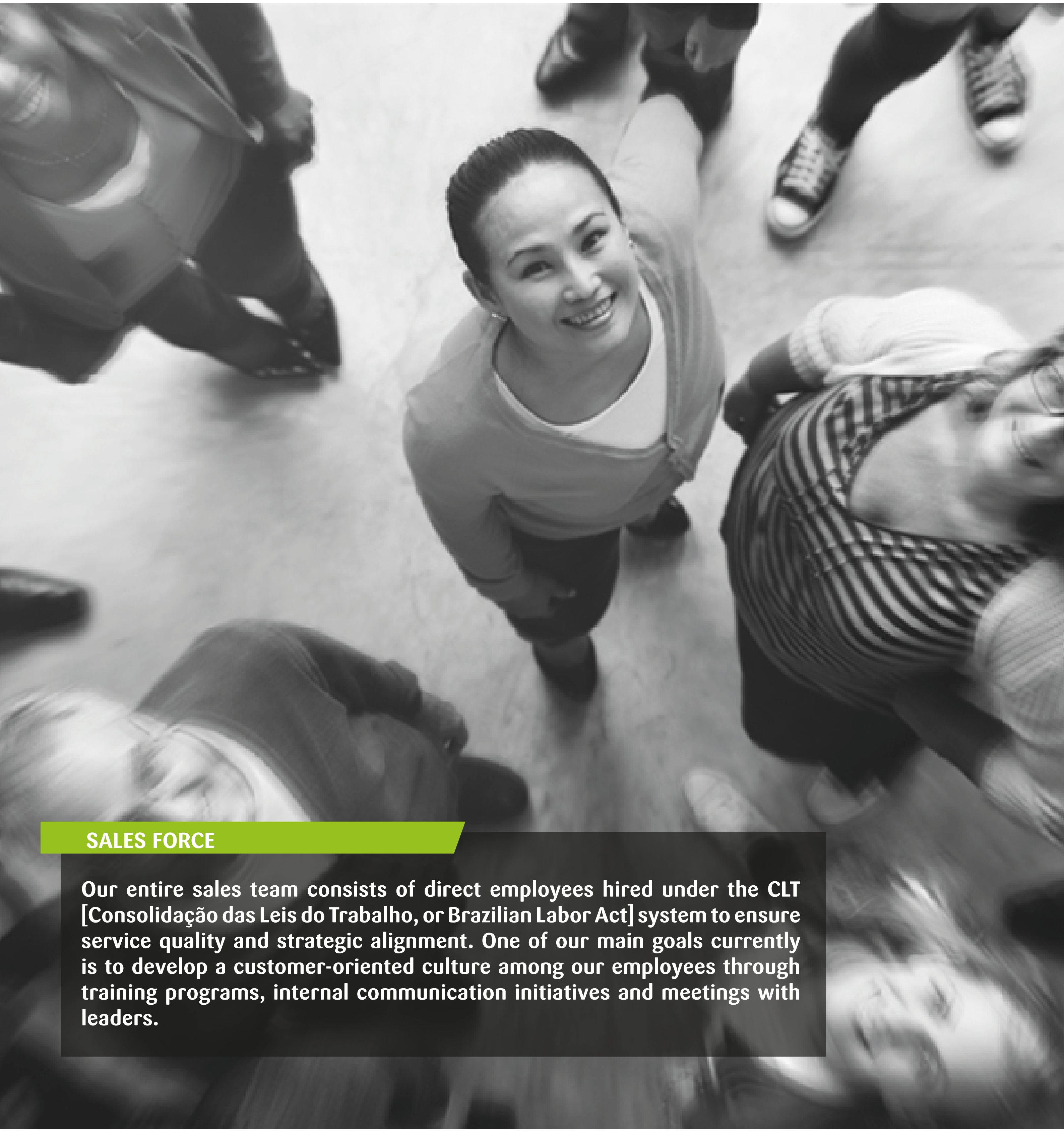

SALES FORCE

Our entire sales team consists of direct employees hired under the CLT [Consolidação das Leis do Trabalho, or Brazilian Labor Act] system to ensure service quality and strategic alignment. One of our main goals currently is to develop a customer-oriented culture among our employees through training programs, internal communication initiatives and meetings with leaders.

Motivation campaigns:

Superação [Exceeding Expectations]

We run this campaign jointly with suppliers for four months, based on seasonality: summer (November to February) and winter (May to August.) It is a share-of-mind campaign that works like a "store shelf" in salespeople's heads. Each salesperson goes out on the street with 12,000 units to sell and focuses solely on the products selected for the campaign. We concentrate on net sales of 25 to 30 brands, as well as over 10 manufacturers, on average each month. The entire field team–from salespeople to branch managers–, the entire call center team–from operators to managers–and all electronic order employees are involved. In turn, the procurement team is responsible for the inventory of the products selected for the campaign. All participants have an opportunity to score points, the so-called "Profas", and claim prizes from a rewards catalogue at the end of the campaign. The top-ranking professionals in each category win a trip to a destination of their choice.

Show do Intervalo [In-Between Show]

Our partnership with suppliers includes another campaign, undertaken in between the Superação campaign seasons, that is, in March and April and in September and October. Participants are ranked, and the winners are rewarded with virtual currency. This gives them have access to a rewards portal where they can exchange their currency for different prizes: store vouchers, electronics, household appliances, movie tickets, trips, experiences, etc.

Pharmania

Pharmania assesses engagement in campaigns and recognizes the top performers in the year. Participants score points every month based on the results of campaigns, and the top-ranking employees in each category win an group trip to another country. Pharmania has taken winners to Rome, Prague, Greece, Peru and South Africa.

Aceleração [Greater Agility]

This campaign is designed to place newly launched SKUs. Participants include only field sales employees, who go out with pre-order forms and sell newly launched products before they reach the inventory. The goal is to sell out the inventory in less than one week and make Profarma a reference in that particular product among clients. The campaign boosts the sales success rate and rewards winners with virtual currency.

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Other initiatives

Aventura em Dobro [Twice the Adventure]: with over nine editions, the campaign forges a partnership between two manufacturers and rewards the winners with a group trip. The winners have been to Punta Cana, Las Vegas, Lisbon, Porto, Orlando and other destinations.

Inverno [Winter]: This campaign involves five manufacturers focusing on their seasonal brands from April to June. Rewards are in virtual currency.

Turbo: with over eight editions, the campaign forges a partnership between two manufacturers in July and August and rewards the winning teams with cars and motorcycles.

Solar: This is an exclusive campaign for key manufacturers' sunscreen lines. It is conducted from September to November and offers rewards in virtual currency as well.

Suppliers

Going beyond the usual business ties, we offer sales and service solutions that facilitate our suppliers' day-to-day routines. As marketing strategies, we have:

- **Aceleração [Greater Agility] - a campaign designed to promote new launches**
- **Customized programs and**
- **PIN [Plano Integrado de Negócios, or Integrated Business Plan.]**

It also has a Supplier Portal, developed to improve our supplier services. Suppliers can find all the information they need for their analyses, access information about each branch, obtain sales reports, track orders, register launches and access Profarma news and notices on this portal.

We have also been undertaking incentive campaigns geared to suppliers and the sales force for some years. The idea is to find out what manufacturers' goals are (launching products, improving credit scores, coping with brand seasonality, etc.) and, based on them, set objectives and design incentive campaigns for regional and national sales teams (e-commerce, call center and field.)

Seeking a closer regular contact with the industry, we have relocated our Procurement team to São Paulo, where most pharmaceutical companies are based.

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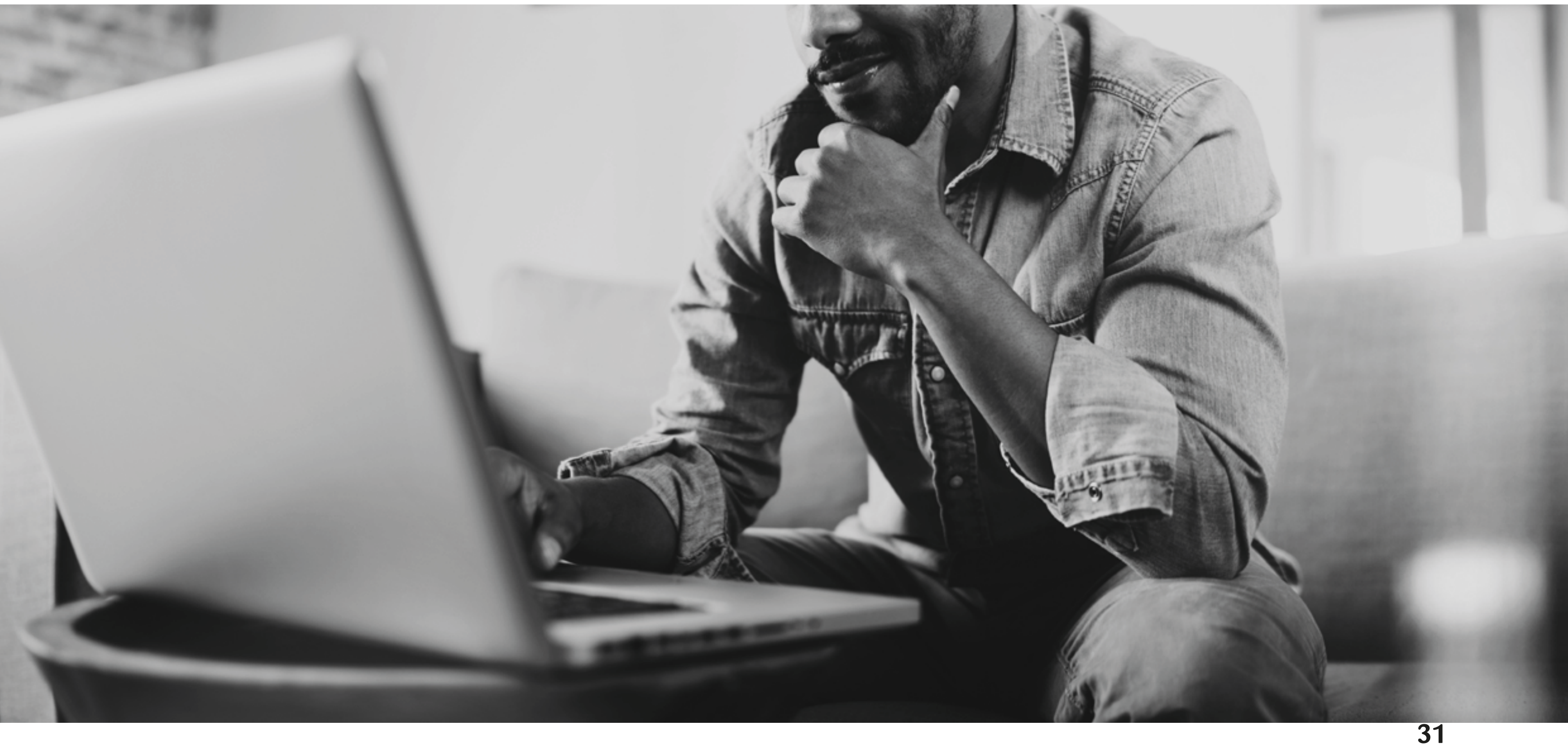
Customers

Based on our thorough knowledge of the pharmaceutical market, the trends and dynamics of the chain, we have been developing mechanisms and tools to help our customers find better business opportunities. Our customers' success is our success. With this in mind, we have introduced Profarma inbox, an application to improve communication with our sales force by providing sales employees with information about all the stages of the process. On their tablets or mobile phones, they can attend training programs and access financial data, as well as obtain information about sales and promotional campaigns among others. In addition, sales representatives can receive specific information about their client bases, e.g., whether a given pharmacy has not ordered a product it usually purchases. As a result, representatives can have a customized checklist for each client visit.

We have also started planning campaigns geared to independent pharmacies–one of the main targets of our sales strategy–, which will gain momentum from 2017 onwards. One of them will be Clube de Lançamentos [Launch Club]. Customers will be receiving firsthand the products to be launched.

Another sales initiative focused on teaching retail customers to sell dermo-cosmetics by showing their high margins and profit potential. To that end, we provided the sales force with an electronic catalogue of dermocosmetics, as well as a store rating program that indicates the most adequate quantity of products per store size.

Our main customer loyalty initiative, with a focus on building relationships, is based on the Dotz relationship program. For next year, we are planning to increase our specialized offerings (with the help of the CRM project) and introduce a relationship ruler to determine whether we have to take specific action to attract a customer, keep it in the program or re-activate it. Specifically for Farmalife customers, we are developing a premium strategy for high-spending customers, with updates about new products, and events with influencers and bloggers.



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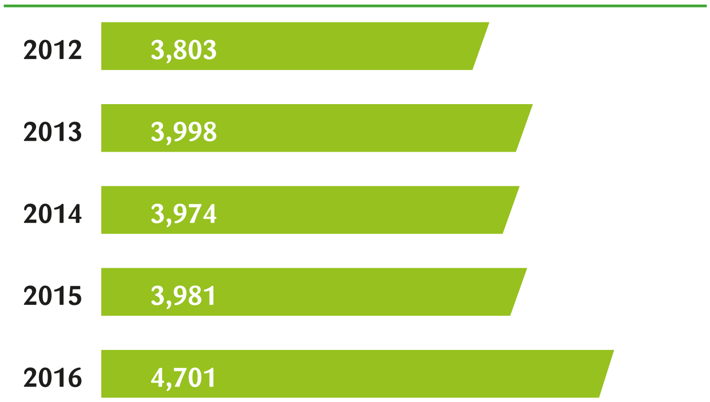
OUR STRATEGY IS TO GROW BY CREATING VALUE.

ECONOMIC AND FINANCIAL PERFORMANCE

Gross Operating Revenue

Consolidated gross revenue amounted to R$4.7 billion in 2016, up 18.1% year-over-year. This increase is connected mainly with Rede Tamoio's and Rede Rosário's sales, which have been consolidated into those of the Retail Division since 1Q16 and December 2016 respectively. Had Rede Tamoio's and Rede Rosário's sales not been consolidated in 2016 and December 2016 respectively, consolidated gross revenue would have risen by 12.0%.

Gross Operating Revenue
(R$ million)



Gross Profit

Consolidated gross profit climbed by 43.1% between 2015 and 2016, with 15.3% gross margin, an increase of 2.7 p.p. This change was largely due to the positive impact of the consolidation of Rede Tamoio's results from 1Q16.

Operating Expenses

Consolidated operating expenses, which comprise administrative, selling and logistics expenses (but not depreciation and other revenues), came to R$504.8 million, or 12.4% of net operating revenue, in 2016. Consequently, they increased by 2.1 p.p. from 2015, largely due to the consolidation of Rede Tamoio's operating expenses from 1Q16.

Other Operating Income/(Expenses)

Under other operating income/(expenses), the Company recorded a R$19.2 million loss in 2016, down R$2.8 million from the R$22.0 million loss recorded in 2015, mainly due to the drop recorded by the Pharmaceutical Distribution Division (R$3.6 million.)

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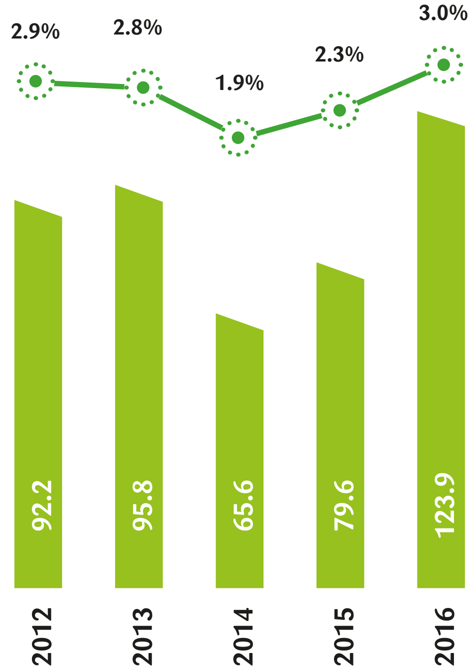
EBITDA

EBITDA came to R$123.9 million (3.0% margin) in 2016, up R$44.2 million (55.5%) from 2015, when it totaled R$79.6 million (2.3% margin.) This upturn resulted directly from a rise of 39.2% in the Retail Division's EBITDA and of 28.8% in the Pharmaceutical Distribution Division's.

The Retail Division's EBITDA was impacted negatively by the December 2016 EBITDA of Rede Rosário, which had just started recovering. Without this effect, consolidated EBITDA would have amounted to R$130.2 million, an increase of 63.6%, or R$50.0 million, from 2015 with 3.2% EBITDA margin.

EBITDA and EBITDA Margin
(R$ million and % of net revenues)



Adjusted Ebitda Breakdown

(R$ MILLION)	2016	2015	Chg.%
Net Income*	(49.0)	(21.2)	131.2%
Non Recurring Expenses	28.2	5.0	464.6%
IR / CS	(3.5)	1.4	-
Financial Expenses	128.6	78.2	64.4%
Depreciation and Amortization	19.5	16.3	19.8%
Adjusted Ebitda	**123.9**	**79.6**	**55.5%**
Adjusted Ebitda Margin	3.0%	2.3%	0.7 p.p.

* Before shareholder income

Financial Result

The Company recorded a net financial loss of R$128.6 million in 2016, up R$50.4 million vs. 2015. This change resulted from a 31.4% higher average debt in 2016 in relation to 2015. The financial result was also affected by extraordinary expenses of R$6.1 million, related to the accounting adjustments of swap operations (PVA–present value adjustment–and MVA–adjustment to market value), and of R$14.5 million, connected with the inflation adjustment of the outstanding balance of the Rede Tamoio acquisition, both with no effect on cash.

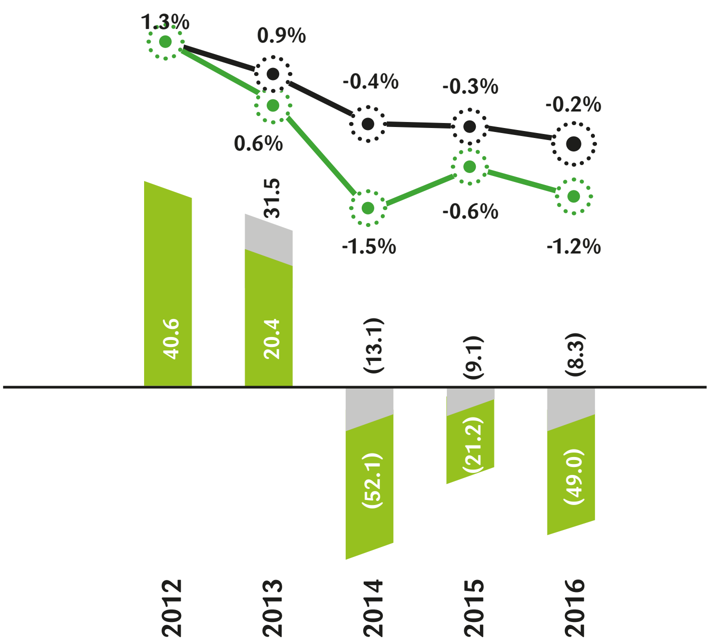
Net Income (Loss)

The 2016 net income was affected by non-recurring expenses related mainly to the acquisitions of the remaining 50% of Rede Tamoio, in December 2015, and of 100 % of Rede Rosário, in December 2016.

Adjusted by those events, net income would have totaled R$1.5 million in 2016, up R$10.6 million year-over-year.

This change can be seen from two different perspectives: based on the divisions' net income and consolidated EBITDA. Indeed, both the Pharmaceutical Distribution Division and the Retail Division recorded higher net income, of R$3 million and R$24.9 million respectively. However, those increases were partly offset by the financial expenses related to the outstanding balance of Rede Tamoio's acquisition–R$14.5 million. Regarding the Company's operations, consolidated EBITDA also rose significantly by R$50.5 million. However, that increase was offset by R$45.8 million higher Financial Expenses in 2016, including the inflation adjustment of the outstanding balance of the Tamoio acquisition. Despite the R$48.9 million net loss, it is worth noting operating cash generation (not including the events with no effect on cash) totaled R$58.2 million.

Net Income (Loss) and Adjusted Net Income (Loss)
(R$ million and % of net revenues)



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Debt

Profarma's net debt stood at R$415.2 million at the close of 2016, a R$178.5 million rise against December 2015, when it stood at R$236.6 million. As a result, the Company's net debt/EBITDA ratio rose from 3.0x (December 2015) to 3.3x at the close of 2016.The Rede Rosário acquisition led to additional expenses of about R$62.0 million in 4Q16. Without those effects, the Company's debt would have stood at 2.7x, 10% down on 2015 and 18% down on 2014. This decrease in debt was driven by 55.5% higher EBITDA and improved working capital management, as well as the R$140.0 million capital increase in 2Q16.

Indebtedness

(R$ MILLION)	2016	2015
Cash and Cash Equivalents	205,506	253,048
Short Term-Debt	(255,633)	(312,439)
Long Term-Debt	(365,060)	(177,247)
Net Debt	**415,187**	**236,638**

Long-Term Debt Profile

(R$ MILHÕES)	2016	2015
Year 2017	-	(96,210)
Year 2018	(220,441)	(78,918)
Year 2019	(57,030)	-
Year 2020	(42,857)	-
Year 2021	(42,857)	-
Year 2034	(1,331)	(1,488)
Year 2036	(544)	(632)
Total	**(365,060)**	**(177,247)**

Capital Expenditures

In 2016, investments totaled R$32.2 million, most of which (R$24.6 million) in the Pharmaceutical Distribution Division and R$7.5 million in the Retail Division. The investments in the Pharmaceutical Distribution Division were largely connected with facilities, machinery and equipment. In the Retail Division, Profarma invested mainly in opening five stores and renovating six others.

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OUTLOOK

We have gained unique expertise in acquisitions in recent years. As a result, we are better prepared to pursue our growth and diversification strategy.

The Pharmaceutical Distribution Division may continue growing at the same rate as in 2016, driven by expansion in the Northeast Region, higher sales to Rede Rosário and independent customers' need to have business ties and credit limits with more than one distributor. In addition, the market is expected to grow, driven by Brazil's demographic profile and the new medicines.

In the Retail Division, we will be focusing mainly on Rede Rosário since it has an excellent staff, a strong presence in one of regions with the highest per capita income in Brazil and a strong, traditional influential brand. These factors should lead to a quick consistent recovery. The Drogasmil/Farmalife and Tamoio chains will continue investing in advertising, promotions and category management, as well as examining opportunities for organic expansion.

The Profarma Specialty joint venture, which represents the Specialties Division, will continue investing in technology and innovation, incorporating processes and knowledge from the strategic partnership with ASB and focusing on increasing its share in the private sector market.

Strategically, the Company is optimistic about the CRM project. Data from the pilot test has shown surprising results, so we expect the project to boost our business capacity when it is fully implemented.

Supported by the retail superstructure (processes, systems and people) and the Pharmaceutical Distribution Division's experience, the advantages of the integrated model have become more quantitatively clearer to stakeholders in the short and medium term, by providing a return on our investments, on shareholders' investments as planned, customer service excellence and unique pharmaceutical solutions for society.

CORPORATE INFORMATION

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04719-030 | Brazil

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PROFARMA

MOVIDOS POR MAIS, PRONTOS PARA MAIS

Financial Statements

2016 MANAGEMENT REPORT

Dear Shareholders,

Profarma Distribuidora de Produtos Farmacêuticos S.A. hereby submits to its shareholders the Management Report and corresponding Separate and Consolidated Financial Statements, together with the independent auditor's report, for the fiscal years ended December 31, 2016 and 2015, prepared in accordance with the international accounting practices under International Financial Reporting Standards (IFRS), the pronouncements issued by the CPC applicable to its operations, and the standards established by the Securities and Exchange Commission of Brazil (CVM), in force for fiscal year 2016.

The non-financial information presented in this Report has not been revised by the independent auditors.

MESSAGE FROM MANAGEMENT

The year 2016 was marked by the deepest recession in Brazilian history. The country's GDP fell by over 3 percent for the second straight year, accumulating record retraction of about 9%. The political situation was one of the key factors straining the economy; however, this issue was tackled gradually throughout the year, and the important measures the Brazilian National Congress approved to drive economic recovery have already led to greater stability.

In fact, these measures helped change the expectations of economic agents and, consequently, check inflation. As a result, the inflation rate as measured by IPCA [*Índice de Preços ao Consumidor Amplo*, or Broad Consumer Price Index] for February 2017 was the lowest for the month since 2000–0.33%–whereas that for the 12 months ended February 2017 was very close to the midpoint of the inflation target: 4.5%. This allowed the Brazilian Central Bank (BACEN) to loosen the monetary policy. According to BACEN's Focus Report, the COPOM [*Comitê de Política Monetária*, or Monetary Policy Committee] is expected to lower the basic interest rate (the SELIC rate) by 1% at its next few meetings; therefore, the SELIC rate is likely fall below 10% by the close of 2017.

In the international arena, some events considered unlikely thus far led to some volatility. Brexit, still surrounded by uncertainly, and the election of Donald Trump to the Presidency of the U.S. are the two most remarkable events in 2016. The Chinese economy has been showing surprising stability and having a direct impact on metal prices. After strong market volatility, data shows the global economy is performing well and indicates a faster pace of growth, driven by increased job creation in the U.S. (200 thousand jobs in February 2017) combined with steady wage income.

In 2016, we celebrated our 55th anniversary, as well as our 10th anniversary as a Company listed on BM&FBovespa's [*Bolsa de Valores, Mercadorias & Futuros de São Paulo*, or Brazilian Securities, Commodities and Futures Exchange] Novo Mercado segment. In addition, the Profarma Group achieved a completely new level in the value chain of the Brazilian pharmaceutical market. We acquired Rede Rosário drugstore chain in November 2016. As a result, we now have a more prominent position in the pharmaceutical retail market since we have 279 stores and have expanded our area of operation to the Central-West Region. In addition, d1000 varejo farma strengthened its position as Brazil's sixth largest drugstore chain in number of stores.

Still pursuing our diversification strategy under the new Profarma's model, we have been seeking to reap all the benefits of having integrated operations–by capturing synergies–, based on major vectors of value creation, which would be impossible to set only in the retail or in the wholesale market. The main vectors are: (i) relevance to the industry; (ii) possibility of expanding to new areas; (iii) a lower dependence from the large chains of the Farma Distribution Division; (iv) reduced need for working capital (reflecting a more efficient cash cycle); (v) tax optimization; and (vi) G&A synergies.

We recorded a growth in all our divisions in 2016. Gross revenue came to R$ 5.5 billion, up 12.5% year-over-year. In turn, EBITDA totaled R$ 144.6 million, with 3.0% margin, 26.1% and 0.3 p.p. up respectively. This is what we see in the consolidated *pro forma* data, which considers 100% of all subsidiaries–Profarma Distribuição Farma; d1000 varejo farma, with 100% of Drogasmil/Farmalife and Tamoio; Profarma Specialty, with 100% of the joint venture. The results of Rede Rosário, acquired in November 2016, started being consolidated into the Company's only in December – and just reflect Rede Rosário's performance in this month.

We reduced our debt level (excluding Rosário) for the second straight year. In fact, it slumped by 18% between December 2014 and December 2016, reflecting a sharp increase in operating income (EBITDA) and efficient cash cycle management. This improvement was led by a R$ 140 million capital increase late in the first half of the year.

As we expected, we reaped the first benefits of our diversification strategy–being present in segments offering better margins and profits–in 2016. Adjusted net income came to R$ 1.5 million in 2016, not considering the effect of Rede Rosário's results in 4Q16, nor some related non-recurring events, mainly to the acquisitions of the remaining 50% of the Tamoio Chain (December 2015) and of 100% of Rede Rosário (in November 2016).

Consequently, the Company's net income rose by R$ 10.6 million vs. a net loss of R$ 9.1 million in 2015. It is worth noting EBITDA rose by R$ 50.5 million year-over-year, offset almost entirely by a R$ 45.8 million increase in financial expenses, including the provision for the financial expenses related to the outstanding balance of the acquisition of Rede Tamoio (R$ 14.5 million).

The Pharmaceutical Distribution Division's sales totaled R$ 4.2 billion in 2016, 12.4% up year-over-year. This performance reflects mainly a 20.6% rise in sales to independent customers. In addition to a 0.4 p.p. drop in operating expenses–despite high inflation–, EBITDA shot up by 28.8% to R$ 108.7 million, with EBITDA margin of 3.0%, up 0.4 p.p. This performance was led by the annual price increase–of 10.5% on average in 2016.

The Specialties Division's sales climbed by 26.2% year-over-year in 2016. As a result, the Division recorded R$ 967.9 million in sales, largely due to the 34.7% increase in sales of oncological products. It is worth noting the 37.8% rise in sales to the private sector, as well as the 0.7 p.p. fall in operating expenses, which corresponded to 8.7% of sales in the year. Profarma Specialty has been recording consistent growth, especially in the segment of integrated health solutions. We are currently the only Brazilian company adopting this innovative concept, designed to attend to patients in all stages of the process, from diagnosis to treatment management.

The gross revenue of the Retail Division, represented by d1000 varejo farma–not including Rosário–, totaled R$ 801.3 million, a 7.0% increase from 2015. The evolution of our retail platform is shown by the Division's EBITDA–R$ 25.0 million (3.1% margin) in 2016, 86.1% up on the previous year. The operational improvements were reflected in gross margin, 0.4 p.p. up year-over-year, and a 0.4 p.p. fall in operating expenses.

In terms of operations, we finished integrating Drogasmil and Tamoio Chains–systems, store supplies, and category and prices management–, resulting in tax and operating synergies that led to savings of R$ 15.3 million per year. Regarding Rede Rosário, we started integrating systems and stores supplies in November 2016, thus creating operational synergies whose positive effects we observed as early as in the first few months of 2017: higher sales and lower expenses. The integration of Rede Rosário is proceeding as we expected, and we believe Rosário will have a positive impact on our consolidated results as early as in 2017.

We have been succeeding in our diversification strategy by operating as a vertically-integrated platform, despite the challenging situation. In this regard, we announced a private capital increase of R$ 100 million at most early in 1Q17 to seize the opportunities in the value chain of the pharmaceutical market, without losing sight of our commitment to a healthy capital structure. We are expecting this capital contribution by late April. Adhesion had reached 98 percent by the end of the subscription phase.

Business diversification, coupled with the Group's sound financial health, gives us more opportunities for growth and helps us maintain our prominent position. Aware of those advantages and eager to continue creating value for all our stakeholders, we are constantly seeking to improve our rates of return, capture synergies among our different businesses and integrate newly acquired companies.

We remain driven for more, ready for more, and essentially non-conformists.

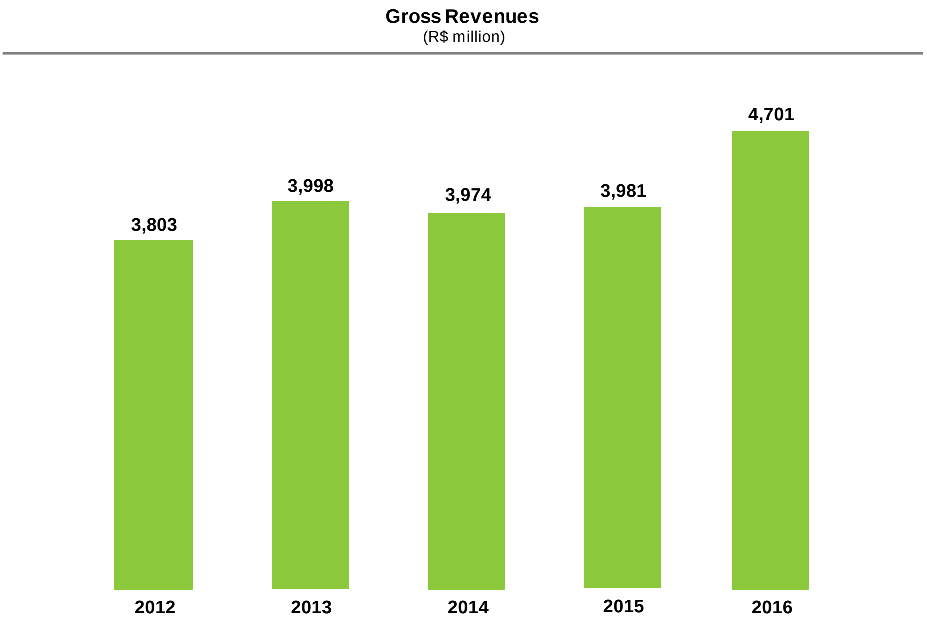
Sammy Birmarcker

Diretor Presidente

ECONOMIC AND FINANCIAL PERFORMANCE

Gross Operating Revenue

Consolidated gross revenue amounted to R$ 4.7 billion in 2016, up 18.1% from 2015. Such increases are connected mainly with Rede Tamoio's and Rede Rosário's sales, which have been consolidated into those of the Retail Division since 1Q16 and December 2016 respectively. Had Rede Tamoio's sales not been consolidated in 2016 and Rede Rosário's in December 2016, consolidated gross revenue would have risen by 12.0%.



Gross Profit

Consolidated gross profit climbed by 43.1% between 2015 and 2016, with 15.3% higher gross margin, an increase of 2.7 p.p. These change was largely due to the positive impact of the consolidation of Rede Tamoio's results from 1Q16.

Operating Expenses

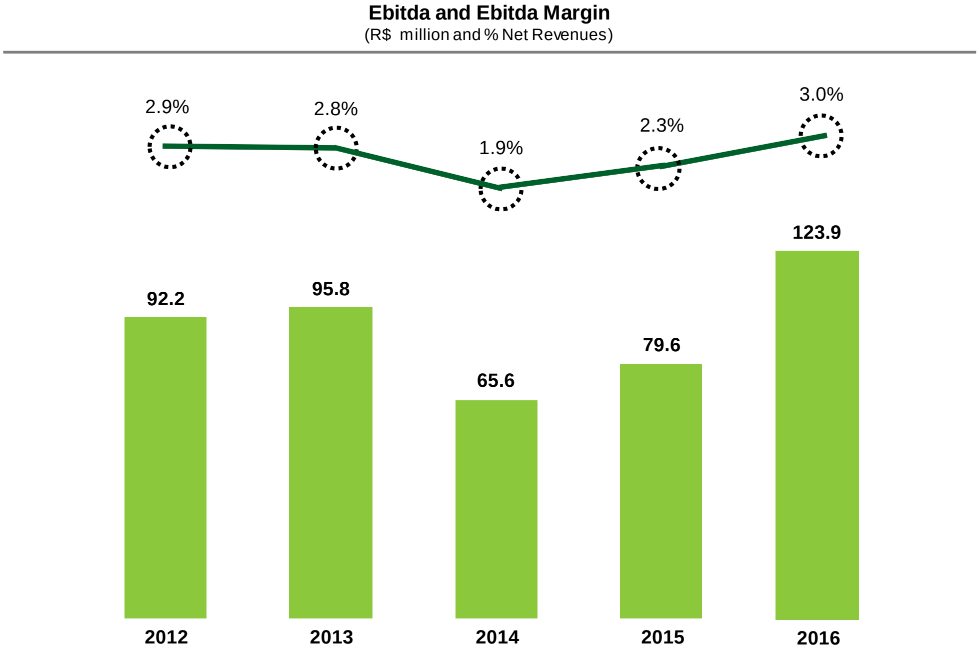
Consolidated operating expenses, which comprise administrative, selling and logistics expenses (but not depreciation and other revenues), came to R$ 504.8 million, or 12.4% of net operating revenue, in 2016. Consequently, they increased by 2.1 p.p. from 2015, largely due to the consolidation of Rede Tamoio's operating expenses from 1Q16.

Other Operating Income/(Expenses)

Under other operating income/(expenses), the Company recorded a R$ 19.2 million expense in 2016, down R$ 2.8 million from the R$ 22.0 million expense recorded in 2015, mainly due to the drop recorded by the Pharmaceutical Distribution Division (R$ 3.6 million).

EBITDA

EBITDA came to R$ 123.9 million (3.0% margin) in 2016, up R$ 44.2 million (55.5%) from 2015, when it totaled R$ 79.6 million (2.3% margin). This surge resulted directly from a rise of 39.2% in the Retail Division's EBITDA and of 28.8% in the Pharmaceutical Distribution Division's. The Retail Division's EBITDA was impacted negatively by the December 2016 EBITDA of Rede Rosário, which has just started recovering. Without this effect, consolidated EBITDA would have amounted to R$ 130.2 million, a 63.6% (R$ 50.5 million) increase from 2015, with 3.2% EBITDA margin.



Adjusted Ebitda Breakdown

(R$ Million)	2016	2015	Chg.%
Net Income*	(49.0)	(21.2)	131.2%
Non Recurring Expenses	28.2	5.0	464.6%
IR / CS	(3.5)	1.4	-
Financial Expenses	128.6	78.2	64.4%
Depreciation and Amortization	19.5	16.3	19.8%
Adjusted Ebitda	**123.9**	**79.6**	**55.5%**
Adjusted Ebitda Margin	**3.0%**	**2.3%**	**0.7 p.p.**

* Before Shareholder Income

Financial Result

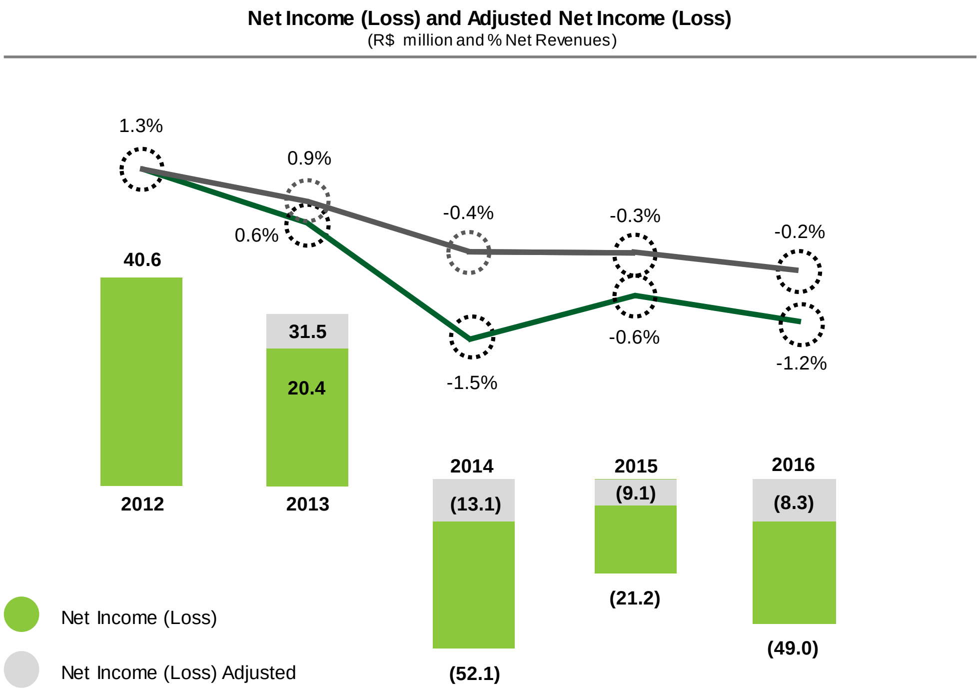
The Company recorded net financial expenses of R$ 128.6 million in 2016, up R$ 50.4 million vs. 2015. These rise is connected with Profarma's higher average debt in 2016, 31.4% when compared to the previous year. it is worth noting the increase between 2015 and 2016 was related to AVP and AVM expenses, R$ 6.1 million, as well as financial expenses related to the outstanding balance of the Rede Tamoio acquisition, R$ 14.5 million, both of which had no cash effect.

Net Income (Loss)

In 2016, net income was adversely affected by nonrecurring expenses related primarily to the acquisition of the remaining 50% interest in the Tamoio chain in December 2015 and of the 100% interest in the Rosário chain in December 2016.

Therefore, on a comparative basis adjusted for these events, the Company posted net income of R$1.5 million in 2016, which represents improvement of R$10.6 million compared to 2015.

This improvement can be seen from two perspectives: net income of the divisions and consolidated EBITDA. An analysis of net income by division shows that both the distribution and retail segments registered improvements of R$3 million and R$24.9 million, respectively. However, these advances were partially offset by financial expenses related to the balance payable for Tamoio, of R$14.5 million. On the operational front, consolidated EBITDA also posted significant improvement, of R$50.5 million. From this perspective, we see that this operational improvement was consumed by financial expenses that were R$45.8 million higher including the adjustment of the balance payable for Tamoio. Note that although the net loss was R$48.9 million, internal cash generation (excluding noncash events) amounted to R$58.2 million.



Debt

Profarma's net debt stood at R$ 415.2 million at the close of 2016, a R$ 178.5 million rise against December 2015, when it stood at R$ 236.6 million. As a result, Profarma's net debt/EBITDA ratio rose from 3.0x (December 2015) to 3.3x at the close of 2016. The Rede Rosário acquisition led to additional expenses of about R$ 62.0 million in 4Q16. Without that impact, the Company's debt would have stood at 2.7x, 10% down on 2015 and 18% down on 2014. This decrease in debt level was driven by 55.5% higher EBITDA, as well as improved working capital management, as well as the R$ 140.0 million capital increase in 2Q16.

Indebtedness

(R$ Million)	31-dec-16	31-dec-15
Cash and Cash Equivalents	205,506	253,048
Short Term-Debt	(255,633)	(312,439)
Long Term-Debt	(365,060)	(177,247)
Net Debt	**415,187**	**236,638**

Long-Term Debt Profile

(R$ Milhões)	31-dec-16	31-dec-15
Year 2017	(220,442)	(96,210)
Year 2018	(57,030)	(78,918)
Year 2019	(42,857)	(1,488)
Year 2020	(42,857)	-
Year 2021	(1,331)	-
Year 2034	(1,488)	(1,488)
Year 2036	(544)	(632)
Total	**(365,060)**	**(177,247)**

Cash Flow

(R$ Million)	2016	2015
Cash Flow Generated / (Used) in Operating Activities	**(107.3)**	**59.3**
Internal Cash Generation	58.1	52.2
Operating Assets Variation	(165.4)	7.1
Trade Accounts Receivable	(44.5)	(2.1)
Inventories	19.6	(84.8)
Suppliers	(103.2)	141.4
Other Items	(37.3)	(47.4)
Cash Flow (Used) in Investing Activities	**(117.1)**	**(5.7)**
Cash Flow Generated / (Used) by Financing Activities	**176.9**	**25.4**
Net Increase / (Decrease) in Cash	**(47.5)**	**79.0**

In 2016, the Company's cash and cash equivalents increased by R$47.5 million, mainly due to cash flow provided by operating activities, of R$107.3 million, and by investing activities of R$117.1 million, offset by cash used in financing activities (R$176,9 million).

Cash used in operating activities resulted in internal cash generation of R$58.1 million, offset by the negative variation in operating assets of R$165.4 million. The negative variation is mainly related to the lower balance of trade payables, R$103.2 million, the higher balance of trade note receivable, R$44.5 million, partially offset by lower inventories, of R$19.6 million.

Internal cash generation of R$58.1 million was 11.3% higher than in the previous year. Note that, despite the decrease of R$25.1 million in the result before income and social contribution taxes, internal cash generation increased by R$5.9 million, mainly due to a R$24.6 million increase in provision for interest on loans.

Cash used in investing activities (R$ 117.0 million) was mainly allocated to the acquisition of Rede Rosário (R$ 32.0 million), payment of the second installment in the acquisition of Tamoio (R$37.1 million) and injection of R$20.1 million in the specialty platform.

In financing activities, cash generation was mainly driven by the capital increase of June 2016 (R$140.0 million). Additionally, a total of R$37.8 million were generated by new loans, net of amortization of principal and interest paid in the period.

CAPEX

In 2016, investments totaled R$ 32.2 million, most of which (R$ 24.6 million) in the Pharmaceutical Distribution Division and R$ 7.5 million in the Retail Division. The investments in the Pharmaceutical Distribution Division were largely connected with facilities, machinery and equipment. In the Retail Division, Profarma invested mainly in opening four stores and renovating six others.

Human Resources

On December 31, 2016, the Company had 7,904 employees.

Comprises wholesale operations to pharmaceutical retailers, with the sale of medicines and health and beauty products.

ECONOMIC AND FINANCIAL PERFORMANCE

Gross Operating Revenue

The Pharmaceutical Distribution Division's gross operating revenues came to R$ 4.2 billion in 2016, up 12.4% from 2015. This performance reflects mainly the rise in sales of 20.6% in the independent customers segment in 2016 vs. 2015. It is worth noting large chains' sales (not including the Retail Division) slid by 2.2% drop in 2016 vs. 2015.

The breakdown of 2016 sales by geographical region shows that the Mid-West Region stood out, with a rise of 54.4% from 2015, mainly in connection with the Rede Rosário acquisition in 4Q16.

The performance highlight by categories was the health & beauty products (up 25.4%) and branded (up 12.9%) segments vs. 2016.

Gross Profit

The Pharmaceutical Distribution Division's gross profit rose by 8.3% year-over-year in 2016 due to the 12.4% increase in sales during the year. Gross margin remained virtually flat at 10.3%.

Operating Expenses

In 2016, operating expenses, which include administrative, selling and logistics expenses (but not depreciation and other revenues), amounted to R$ 274.4 million, or 7.6% of net operating revenue.

Thus, operating expenses fell by 0.4 p.p. vs. 2015. Operating expenses increased by 6.5% between 2015 and 2016–despite high inflation throughout the year–and greatly helped us achieve decreases in view of higher sales in the period under analysis–12.4% in 2016.

Other Operating Income/(Expenses)

Under other operating income/(expenses), the Company recorded a R$ 5.1 million expense in 2016, down R$ 3.6 million from the R$ 8.6 million expense recorded in 2015, mainly due to better results in promotions with suppliers, as well as a drop in the provision for contingencies.

EBITDA

EBITDA amounted to R$ 108.7 million (3.0% margin) in 2016, rising by 28.8% (0.4 p.p.) from 2015. This increase resulted both from 12.4% higher sales and from 0.4 p.p. lower operating expenses.

This segment concentrates the distribution, specialty pharmacy and patient support. Since 3Q14, the Specialties division's figures have been accounted in a non-consolidated manner owing to the creation of the (50/50) joint venture with AmerisourceBergen. As a result, the Specialties Division's results were added to Profarma's through the equity method–50% of the Net Income/(Loss) recorded.

ECONOMIC AND FINANCIAL PERFORMANCE

Gross Operating Revenue

The Specialties Division's consolidated gross revenue came to R$ 967.9 million in 2016, 26.2%, up on 2015. These increase was mainly driven by rise of 35.9% in specialty wholesale sales in the period under comparison.

Higher specialties wholesale sales resulted largely from an increase of 37.8% in sales to the private sector vs. 2015. The breakdown of sales by category shows the oncological products segment stood out in 2016, with sales increasing by 34.7% in 2016 vs. 2015.

Gross Profit

Gross profit totaled R$ 101.6 million in 2016, up 20.6% from 2015, reflecting higher sales in the period. The drop in gross margin between 2015 and 2016 was related mainly to the discontinuation of breast implant sales.

Operating Expenses

In 2016, operating expenses, which comprise administrative, selling and logistics expenses (but not depreciation and other revenues), amounted to R$ 77.3 million, or 8.7% of net operating revenue, a 0.7 p.p. drop in relation to 2015. This performance mainly resulted from the 26.2% increase in sales in 2016.

Other Operating Income/(Expenses)

Under other operating income/(expenses), the Division recorded R$ 11.4 million expense in 2016, up R$ 6.4 million year-over-year due to additional expenses on terminations related to the integration of Íntegra and operational improvement projects.

EBITDA

EBITDA came to R$ 17.3 million in 2016, rising by 8.0% against 2015, primarily owing to a rise in sales between the period under comparison–26.2%.

Rede Tamoio's operations have been consolidated into Profarma's results since 2016. The Company acquired the remaining 50% stake in Rede Tamoio in December 2015. In 2015, only Rede Drogasmil/Farmalife's operations were consolidated into Profarma's results. However, the 2015 results of both chains' operations will be presented on a consolidated (*pro forma*) basis for comparative purposes to provide a better understanding of the performance of the Retail Division, which is now called d1000 varejo farma. In November 2016, the Company acquired 100% of Rede Rosário, whose results are consolidated into Profarma's. For comparison purposes, we describe the Retail Division's performance without considering Rede Rosário, whose results are discussed separately.

STRATEGIC HIGHLIGHT

Profarma acquired 100% of Rede Rosário, which has 150 stores in the Central-West Region, in November 2016. As a result, the Company more than doubled its retail platform–from 129 to 279 stores–and is now the sixth largest pharmaceutical retailer in Brazil.

ECONOMIC AND FINANCIAL PERFORMANCE (WITHOUT ROSÁRIO)*

Gross Revenue

The Retail Division's sales rose by 7.0% year-over-year in 2016 mainly due to a 9.8% higher average ticket, which totaled R$ 35.62.

Average monthly sales per mature store came to R$ 579.8 thousand, up 5.7% year-over-year and 8.6% higher than ABRAFARMA's (Associação Brasileira de Redes de Farmácias e Drogarias, or the Brazilian Association of Pharmacy and Drugstore Chains) average.

The breakdown of gross revenue shows the generics segment stood out and accounted for 12.0% of total sales in 2016, 0.5 p.p. up on 2015.

Gross Profit

Gross profit amounted to R$ 241.2 million, up 8.5% from 2015, when it came to R$ 222.3 million, coupled with a 0.4 p.p. increase in gross margin, which stood at 30.1%.

Operating Expenses

Operating expenses amounted to R$ 211.3 million in 2016, corresponding to 26.4% of gross revenue, down 0.4 p.p. year-over-year. This performance is largely explained by synergies the Division captured throughout 2016. It is worth noting operating expenses in absolute amounts climbed only by 4.7% despite high inflation during most of the year.

Other Operating Income/(Expenses)

Under other operating income/(expenses), the Division recorded a R$ 21.4 million loss in 2016, up R$ 7.8 million year-over-year, primarily owing to higher non-recurring expenses, mainly on closed refurbished stores (R$ 2.9 million) and writing off inventory items (R$ 4.2 million).

EBITDA

Consolidated EBITDA amounted to R$ 25.0 million (3.1% margin) in 2016, rising by 86.1% (1.3 p.p.) year-over-year. This increase was connected with the 0.4 p.p. rise in gross margin, coupled with 0.4 p.p. lower operating expenses in the period, reflecting the operational synergies captured in 2016 (R$ 8.8 million in the year).

Net Income (Loss)

The Retail Division recorded a net loss of R$ 18.3 million in 2016, thus improving by R$ 6.3 million from 2015, mainly due to the operational improvement of the platform, reflected in a rise in EBITDA of 86.1% vs. 2016 and of 87.5% vs. 4Q15. Had it not been for the non-recurring expenses, the 2016 net loss would have stood at R$ 1.9 million, or R$ 16.5 million better when compared to 2015; in addition, we would have achieved the break-even point in 4Q16, with net income totaling R$ 0.4 million.

Cash Cycle and Working Capital

d1000 varejo farma's supply model is based mostly on Profarma's distribution strategy, with logistics services store by store. Therefore, its average inventory level and consequently its cash cycle are lower than those of major chains, whose supply model is mainly based on the manufactures thus being responsible for them own distribution.

d1000's cash cycle was 30.1 days in 4Q16, down 6.1 days from 4Q15, which corresponds to average working capital of R$ 67.5 million, in line with Profarma's strategy regarding the Retail Division's working capital needs in the quarter.

OPERATING PERFORMANCE | *PRO FORMA* CONSOLIDATED DATA (WITHOUT ROSÁRIO)

Store Chain and Expansion

d1000 varejo farma had 279 points of sale at the close of 2016 due to the acquisition in November 2016 of Rede Rosário, comprised of 150 stores, as well as four new stores opened and four stores closed during the period. At the close of the period, about 20% of the Drogasmil, Farmalife and Tamoio stores, or 129 stores, were in the maturation stage and had yet to achieve their full sale and profitability potential.

REDE ROSÁRIO HIGHLIGHTS

Profarma acquired 100% of Rede Rosário in November 2016 for R$ 173.0 million, adjusted by the working capital gap in September 2016 (estimated at R$ 50 million), to be paid in two installments: (i) the first at the closing of the deal (R$ 32.0 million) and (ii) the second (estimated at R$ 91 million) three years later, adjusted for inflation based on 120% of the CDI [*Certificado de Depósito Interfinanceiro*, or Interbank Deposit Certificate] rate for the period.

Over 40 years in the market, Rede Rosario is a major brand in its area of operation. It has about 2,200 employees and serves over 700 thousand customers per month. Comprising 150 stores in the Federal District and in the states of Goiás, Tocantins and Mato Grosso, it is the largest drugstore chain in number of stores in the Federal District and Mato Grosso State.

The main benefits of integrating Rede Rosário into the d1000 varejo farma platform are the expansion into less competitive markets and the creation of a platform providing faster organic growth, as well as scale gains.

ECONOMIC AND FINANCIAL PERFORMANCE

Rede Rosário's sales increased by 52,8% in December 2016 vis a vis to September 2016, reaching R$ 38.2 million–between September and December 2016. This performance marks the beginning of the chain's recovery and was mainly due to the significant improvement in the service level, reflecting the fast and prompt introduction of a structured supply model by Profarma immediately after the acquisition, thus tapping into one of the benefits of the new model of company based on a partnership between whosale and retail –a quick supply.

This increase was also driven by aggressive media campaigns (TV and radio) and an internal promotional campaign targeted at the chain's employees, involving the Division's own brand.

The effects of these initiatives are reflected partly by the chain's operating indicators. In fact, service level rose from 56% to 82% (up 46%) and the number of customers increased by 32% during the period.

The integration of Rede Rosário into the existing chains (Drogasmil/Farmalife and Tamoio) started as soon as the deal was closed, on November 2016, based on a 90-day plan involving the operational, administrative, commercial, financial, tax and IT teams. In fact, 95% of the plan had been completed by late February 2017. IT produced Rede Rosário's Financial Statements in January 2017 on the SAP environment, with the same model adopted by d1000 varejo farma. The operational, administrative, financial and commercial areas renegotiated contracts and realigned services, indicating a synergy potential of R$ 5.0 million per year, about 1% of gross revenue in 2016.

In 2017, the Retail Division will be focusing on bringing up sales in a sustainable manner, and improving the service level and customer service at the Rosário's stores.

CAPITAL MARKET

Stock Performance

The Ibovespa Index, which measures the price changes of the most traded stocks on the São Paulo Stock Exchange, rose by 38.9% in 2016 after falling for three years despite the political crisis and the economic hurdles. Investors' confidence level increased due to the perceived improvement in the political situation and the much-needed reforms pushed through by the Brazilian National Congress.

In the wake of this change, Profarma's shares (BM&FBOVESPA: PFRM3) rose by 69.4% in 2016, reflecting the assertiveness of our strategy and the bullish variable income market in Brazil. They reached their peak in the year, R$ 10.92, in mid-October.

The liquidity of Profarma's shares also increased in 2016. Indeed, their average daily trading volume shot up 3.4 times between 1Q16 and 4Q16. The average daily trading volume shot up, from R$ 236.5 thousand in 1Q16 to R$ 805.1 thousand in 4Q16. In addition, the average daily number of transactions rose by 43.4%, from 153.3 in 1Q16 to 220.0 in 4Q16.

Market capitalization amounted to R$ 531.7 million at the close of 2016, with free float of 28.0%.

SUBSEQUENT EVENTS

Meeting of the Board of Directors | Capital Increase

At a meeting held on February 6, 2017, the Board of Directors deliberated on the following Agenda items:

(i) Having a capital increase of up to R$ 100,000,001.20 by issuing 11,507,480 new common shares, at the unit price of R$ 8.69, to be subscribed by the Company's current shareholders only, in accordance with Sections 170, Paragraph 1, subsection III of Law 6404, dated December 15, 1976, as amended ("Brazilian Corporations Law" and "Issue Price" respectively), which takes into account the weighted average price of Profarma's Shares at the BM&FBovespa's (Bolsa de Valores, Mercadorias & Futuros de São Paulo, or Brazilian Securities, Commodities and Futures Exchange) trading sessions ("BM&FBOVESPA") over the 90 calendar days prior to this date. This was considered by the Company's Management the most appropriate criterion for the issue price since it prevents the unwarranted dilution of the Company's current shareholders' equity interests and increases the odds of a successful Capital Increase because the prices represent the market value of the shares issued by the Company. If all the shares connected with the approved capital increase are subscribed, the Company's capital stock will increase from R$ 826,851,547.45, divided into 76,345,290 common nominative, book-entry shares without face value.

By the publication of this earnings release, 98% of the shares had been subscribed. This successuful capital increase, with high adhesion, reinforces shareholders' confidence in the Company's growth strategy.

SOCIAL RESPONSIBILITY

Created in November 2006, the Profarma Institute for Social Responsibility has the mission of helping create a more just and supportive society through projects aimed at the democratization of health and education.

In this sense, the Institute has been developing actions in Rio de Janeiro, raising social awareness and delivering solid results. Aware that nothing is built on its own and that there is a lot more to be done, the Institute has important partnerships and collaborators in its campaigns.

The Institute's main target public are children with severe illnesses. The major projects developed in 2016, with approximately 6,000 donations made to underprivileged children who have cystic fibrosis, neoplasm, AIDS, Osteogenesis Imperfecta and Diabetes, were concentrated in the Rio de Janeiro's state.

CORPORATE GOVERNANCE

The Company is listed in the Novo Mercado segment of BM&FBOVESPA, which comprises the companies committed to the best corporate governance practices in the Brazilian market. Profarma grants additional rights to all shareholders, such as the right to sell their shares for 100% refund (tag along).

In accordance with the corporate governance practices, the Company complies with a quiet period in the 15 days prior to the disclosure of its results, ensuring fairness in the disclosure of financial information to the market.

The Board of Directors is composed of six members, two of which are independent, and the Board of Executive Officers is composed of two members.

The Company's Audit Board, installed in April 2012, is currently composed of three members, elected by the Annual Shareholders' Meeting.

ARBITRATION CLAUSE

In compliance with Article 52, Chapter VIII of its Bylaws, the Company, its Shareholders, Management and members of the Audit Board (when instated) hereby undertake to resolve by means of arbitration, any and all dispute or controversy that may arise among them, related to or deriving from, and specially due to the application, validity, effectiveness, interpretation, breach and its effects of the provisions of the Brazilian Corporations Law, the Company's Bylaws, rules issued by the National Monetary Council (CMN), the Central Bank of Brazil and the Brazilian Securities and Exchange Commission (CVM), as well as other rules applicable to the operation of capital markets in general, in addition to those provided for in the Novo Mercado Rules, the Market Arbitration Panel Rules and the Novo Mercado Listing Agreement.

AUTHORIZATION TO CONCLUDE THE FINANCIAL STATEMENTS

Authorization to conclude these financial statements was granted by the Board of Directors on March 17, 2017.

RELATIONSHIP WITH INDEPENDENT AUDITORS

The Company's policy in engaging its independent auditors for services unrelated to external audit aims to ensure that there is no conflict of interests, loss of independence or objectivity, and is based on the principles that preserve the auditor's independence.

In fiscal year 2016, the independent auditors KPMG Auditores Independentes were not engaged in services unrelated to external audit.

ACKNOWLEDGEMENTS

We would like to thank our shareholders, clients, suppliers and, most importantly, our employees for their effort and dedication, which led us to achieve excellent results in recent years.

The management

BALANCE SHEET

as at December 31, 2016 and December 31, 2015
(In thousands of Reais)

Assets	Note	Parent Company 2016	Parent Company 2015	Consolidated 2016	Consolidated 2015
Current					
Cash and Cash Equivalents	6	184.225	213.688	205.506	253.048
Financial Instruments	26	-	18.269	-	28.285
Accounts Receivable	7	632.321	500.601	527.268	487.417
Inventories	8	469.189	493.465	649.508	597.662
Recoverable Taxes	9	230.000	230.295	249.948	237.092
Advances		6.398	5.229	8.142	8.639
Other Accounts Receivable	11	45.456	26.578	52.584	30.494
Total Current Assets		1.567.589	1.488.125	1.692.956	1.642.637
Non-Current					
Judicial Deposits		12.917	14.128	23.708	26.116
Financial Instruments	26	-	9.697	-	9.697
Related Parties	12	341	341	-	-
Deferred Income Tax and Social	9	22.633	17.203	59.840	17.203
Recoverable Taxes	9	4.546	4.566	5.253	4.566
Assets Available for Sale	10	5.870	7.870	5.870	7.870
Other Accounts Receivable	11	6.599	10.671	7.643	12.377
Investments	14	335.103	242.521	79.823	58.522
Property, Plant and Equipment	15	58.259	40.059	112.068	74.843
Intangible Assets	16	6.676	7.724	725.072	428.328
Total Non-Current Assets		452.944	354.780	1.019.277	639.522
Total Assets		**2.020.533**	**1.842.905**	**2.712.233**	**2.282.159**

Liabilities	Note	Parent Company 2016	Parent Company 2015	Consolidated 2016	Consolidated 2015
Current					
Suppliers	17	687.409	699.207	734.908	711.365
Loans and Financing	18	171.535	230.197	246.314	340.724
Financial Instruments	26	2.406	-	9.319	-
Payroll and Social Contribution		13.659	11.297	42.246	22.849
Taxes and Fees	19	40.237	40.069	64.325	66.658
Other Accounts Payable		2.512	1.260	59.830	45.930
Total Current Liabilities		917.758	982.030	1.156.942	1.187.526
Non-Current					
Loans and Financing	18	301.654	150.137	362.393	186.944
Taxes and Fees	19	30.632	32.968	75.686	73.243
Financial Instruments	26	2.667	-	2.667	-
Deferred Income Tax and Social Contribution	21	-	-	69.036	40.058
Provision for Contingencies	20	8.487	9.422	118.905	39.514
Related Parties	12	118	141	-	-
Other Accounts Payable		261	261	167.648	86.928
Total Non-Current Liabilities		343.819	192.929	796.335	426.687
Total Liabilities		1.261.577	1.174.959	1.953.277	1.614.213
Shareholders' Equity	22				
Capital Stock		726.852	586.879	726.852	586.879
Treasury Shares		(16.367)	(16.367)	(16.367)	(16.367)
Goodwill in Capital Transactions		(12.167)	(12.167)	(12.167)	(12.167)
Capital Reserve		7.083	7.083	7.083	7.083
Accumulated Losses		(133.270)	(84.307)	(133.270)	(84.307)
Earnings Reserve		186.825	186.825	186.825	186.825
Total Shareholders' Equity		758.956	667.946	758.956	667.946
Total Liabilities and Shareholders' Equity		**2.020.533**	**1.842.905**	**2.712.233**	**2.282.159**

INCOME STATEMENT

as at December 31, 2016 and December 31, 2015
(In thousands of Reais, except for earnings per share)

	Note	Parent Company 2016	Parent Company 2015	Consolidated 2016	Consolidated 2015
Operating revenues	24	3.750.363	3.360.959	4.084.669	3.465.143
Cost of goods and services sold		(3.378.741)	(3.017.786)	(3.459.416)	(3.028.174)
Gross profit		371.622	343.173	625.253	436.969
Operating income (expenses)					
General and administrative	28	(87.996)	(82.029)	(126.725)	(95.155)
Selling and marketing	28	(57.159)	(65.504)	(255.173)	(148.206)
Logistic and distribution	28	(118.328)	(108.715)	(122.901)	(114.210)
Depreciation and amortization		(7.591)	(7.483)	(19.502)	(16.275)
Other operating income (expenses)		(22.432)	(11.833)	(19.218)	(11.653)
Equity Income	14	(43.789)	(29.991)	(5.570)	6.906
Earnings bef. net financial expenses		34.327	37.618	76.164	58.376
Financial income	25	28.165	25.940	29.450	27.457
Financial expenses	25	(116.886)	(86.536)	(158.032)	(105.656)
Earnings before taxes		(54.394)	(22.978)	(52.418)	(19.823)
Income tax and social contribution - current	21	-	-	(2.476)	(817)
Income tax and social contribution - deferred	21	5.431	1.796	5.931	(542)
		5.431	1.796	3.455	(1.359)
Net Income for the Period	22	(48.963)	(21.182)	(48.963)	(21.182)
Attributable Net Income to the Company's Owners		(48.963)	(21.182)	(48.963)	(21.182)
Minority Interests in Subsidiaries Net Income		-	-	-	-
Earnings per thousand common shares:					
Basic (in Reais)	23	(0,822)	(0,526)		
Dilluted (in Reais)	23	(0,822)	(0,526)		

STATEMENT OF COMPREHENSIVE INCOME

as at December 31, 2016 and December 31, 2015
(In thousands of Reais)

	Parent Company		Consolidated	
	2016	2015	2016	2015
Profit for the Period				
Comprehensive Income for the Period	(48.963)	(21.182)	(48.963)	(21.182)
Attributable Comprehensive Income to the Company's Owners	(48.963)	(21.182)	(48.963)	(21.182)
Minority Interests in Subsidiaries	-	-	-	-

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

as at December 31, 2016 and December 31, 2015
(In thousands of Reais)

			Capital Reserve			Earnings Reserve						
	Capital Stock	Treasury Shares	Capital Market Cost	Equity Transactions	Benefit Reserve to Employees settled with Equity Instruments	Legal	Statutory Investment	Tax Incentive	Accumulated Earnings (Losses)	Attributable to the Parent Company's Owners (Parent Company BR GAAP)	Non-controlling Participation	Total (Consolidated) - IFRS and BR GAAP
Balances as at December 31, 2014	**586.879**	**(16.367)**	**43**	**(12.167)**	**6.762**	**-**	**-**	**186.825**	**(63.125)**	**688.851**	**-**	**688.851**
Stock option plan	-	-	-	-	277	-	-	-	-	277	-	277
Net income for the period	-	-	-	-	-	-	-	-	(21.182)	(21.182)	-	(21.182)
Balances as at December 31, 2015	**586.879**	**(16.367)**	**43**	**(12.167)**	**7.039**	**-**	**-**	**186.825**	**(84.307)**	**667.946**	**-**	**667.946**
Capital increase	139.973	-	-	-	-	-	-	-	-	139.973	-	139.973
Net income for the period	-	-	-	-	-	-	-	-	(48.963)	(48.963)	-	(48.963)
Balances as at December 31, 2016	**726.852**	**(16.367)**	**43**	**(12.167)**	**7.039**	**-**	**-**	**186.825**	**(133.270)**	**758.956**	**-**	**758.956**

STATEMENTS OF CASH FLOW

as at December 31, 2016 and December 31, 2015
(In thousands of Reais)

	Note	Parent Company 2016	Parent Company 2015	Consolidated 2016	Consolidated 2015
Cash flow from operating activities					
Net income for the period	Note	**(54.394)**	**(22.978)**	**(52.418)**	**(19.823)**
Adjustments to conciliate the profit to cash and cash equivalents generated from operating activities:					
Depreciation and amortization	15 e 16	7.591	7.483	19.502	16.274
Equity from subsidiaries and affiliates	14	43.789	45.725	5.570	8.827
Gain on disposal of interest		-	(15.734)	-	(15.734)
Provision for contingencies		(934)	1.698	(5.358)	1.702
Interest on loans and financing		65.941	45.724	87.728	63.103
Provision for Doubtful Accounts		8.127	4.966	9.138	4.959
Loss on disposal of property, plant and equipment		619	87	1.429	818
Other		6.049	2.253	(7.466)	(7.959)
		76.788	**69.224**	**58.125**	**52.166**
(Increase) Decrease in Operating Assets					
Trade Note Receivable		(139.585)	(36.514)	(44.524)	(2.106)
Inventories		24.366	(76.375)	19.602	(84.760)
Taxes Recoverable		(589)	(53.803)	(7.123)	(56.847)
Other Sundry Items		(22.198)	7.566	(19.659)	5.377
Increase (Decrease) in Operating Liabilities					
Suppliers (Trade Accounts Payable)		(13.055)	156.127	(103.193)	141.383
Salaries and Payroll Taxes		2.361	111	(83)	794
Taxes Recoverable		(3.988)	10.138	(17.314)	4.912
Paid Corporate Income Tax and Social Contribution		-	-	(2.794)	(837)
Other		1.231	(86)	9.671	(817)
Cash (Used in) / Provided by Operating Activities		**(74.669)**	**76.389**	**(107.292)**	**59.265**
Investing Activities					
Investiment Increase		(130.143)	(10.880)	(87.673)	18.347
Additions to Fixed Assets		(21.381)	(12.747)	(28.077)	(21.698)
Additions to Intangible Assets		(244)	(567)	(1.379)	(2.366)
Cash (Used in) / Provided by Investing Activities		**(151.768)**	**(24.194)**	**(117.129)**	**(5.717)**
Financing Activities					
Capital Increase		139.972	-	139.972	-
Dividendos pagos / Recebidos		-	1.040	-	731
Loans and Financing - Principal		496.672	188.744	657.871	304.368
Loans and Financing - Amortization		(368.866)	(154.471)	(519.684)	(233.117)
Loans and Financing - Interests		(70.804)	(41.420)	(101.281)	(46.579)
Cash (Used in) / Provided by Financing Activities		**196.974**	**(6.107)**	**176.879**	**25.403**
Increase / (Decrease) in Cash		**(29.463)**	**46.088**	**(47.542)**	**78.951**
Cash and Cash Equivalents at Beginning of Quarter		213.688	167.600	253.048	174.097
Cash and Cash Equivalents at End of Quarter		184.225	213.688	205.506	253.048

ADDED VALUE STATEMENT

as at December 31, 2016 and December 31, 2015
(In thousands of Reais)

	Parent Company		Consolidated	
	2016	2015	2016	2015
Revenues	4.292.904	3.785.849	4.620.557	3.893.943
Sale of goods, products and services	4.301.032	3.790.817	4.631.991	3.899.222
Allowance for doubtful accounts - Reversal / (Recording)	(8.128)	(4.968)	(11.434)	(5.279)
Input acquired from third parties	3.570.683	3.160.001	3.674.211	3.180.795
Raw materials consumed				
Cost of goods and services sold	3.378.741	3.017.786	3.428.205	3.034.821
Materials, energy, third-party services and others	191.942	142.215	245.943	144.005
Loss/Recovery of asset value	-	-	(2.921)	1.969
Others	-	-	2.984	-
Gross value added	722.221	625.848	946.346	713.148
Depreciation and amortization	7.591	7.483	19.502	16.275
Net Value Added	714.630	618.365	926.844	696.873
Value Added received by transference	(7.975)	4.128	31.727	41.143
Equity from subsidiaries and affiliates	(43.789)	(29.991)	(5.570)	6.906
Financial income	35.814	34.119	37.297	34.237
Total value added	706.655	622.493	958.571	738.016
Distribution of value added				
Personnel:				
Direct Compensation	101.436	87.724	219.261	128.173
Benefits	23.520	16.077	34.312	22.186
FGTS (Government Severance Fund)	6.519	5.721	13.927	7.997
Taxes, fees and contributions:				
Federal	56.989	69.319	75.609	88.000
State	475.644	397.783	488.516	399.041
Municipal	9	-	9.283	411
Value Distributed to Providers of Capital:				
Interest	71.013	48.186	110.052	64.484
Rentals	20.488	18.865	56.574	48.906
Retained earnings	(48.963)	(21.182)	(48.963)	(21.182)
Total value added distributed	706.655	622.493	958.571	738.016

Profarma Distribuidora de Produtos Farmacêuticos S.A.

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal years ended December 31, 2016 and 2015

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

1 Operating context

Profarma Distribuidora de Produtos Farmacêuticos S.A. is a publicly-held company, established in May 1961, headquartered at Avenida Ayrton Senna, 2.150, bloco P, 3º andar, in the City and State of Rio de Janeiro, and is engaged in the wholesale sale and distribution of pharmaceuticals, cosmetics and similar products, toiletries, and holding of interests in other companies, regardless of their business sector.

Through its logistics department, the Company distributes its products in the South, Southeast, Northeast and Center-West regions of Brazil, covering approximately 96% of the Brazilian market.

There are eleven (11) distribution centers located in strategic regions of Brazil, of which five (5) are totally automated, and its corporate headquarters are located in the city of Rio de Janeiro.

The parent company and its subsidiaries (Group) are primarily engaged in the distribution and retail sale of pharmaceutical and hospital products.

On June 26, 2014, AmerisourceBergen Corporation, through its subsidiary BPL Brazil Holding Company, became the holder of 19.9% of Profarma's capital through the subscription of new shares arising from the rights issue approved by the Extraordinary Shareholders' Meeting of the company held on May 12, 2014. The capital injection of R$186,680 was made through the assignment by BMK Participações S.A., the parent of Profarma, without financial consideration to the assignor, of its preemptive rights in the subscription of shares issued by the Company. The rights issue was carried out at the price of R$22.50 per share and the other shareholders of the Company who exercised their preemptive rights conferred upon them by operation of law and by the Company's Bylaws participated in the issue, with the injection of R$87 million at the same unit cost.

Furthermore and as part of the same association, the companies each became the holder of 50% of Cannes RJ Participações S.A. ("Cannes"), a company operating in the specialty pharmaceuticals market. The contribution of Profarma to the Joint Venture was represented by its operating assets focused on this segment, which are formed by the recently acquired equity interests in Profarma Specialty and Arpmed as well as the assets of the parent company related to the pharmaceutical specialty segment, while AmerisourceBergen contributed through a primary capital injection of R$40,000 and a secondary capital injection (through the acquisition of additional shares) of R$21,350.

The financial statements were approved by the Board of Directors and authorized for issue on March 17, 2017.

2 Acquisition of investment

2.1. – Acquisition of Tamoio

On December 23, 2015, Profarma acquired, through its subsidiary D1000 Varejo (whose former name was Cancun, altered as per Note 5), more 50% of the voting shares of Itamaraty Empreendimentos e Participações S.A., which was approved by the CADE on December 8, 2015. Profarma now holds indirectly 100% interest in Itamaraty Empreendimentos e Participações S.A., which holds 100% interest in Drogarias Tamoio chain.

This acquisition expanded Profarma's operations in the pharmaceutical retail market by means of Drogarias Tamoio.

The table below shows the types of consideration paid and the amounts recorded as assets in connection with this acquisition on the acquisition date and the goodwill recorded.

Consideration Paid	Fair Value
Secondary subscription	135,058
Total	**135,058**

The payments will be made as follows:

Secondary subscription – R$6,125 in cash, R$36,833 on January 23, 2016, R$43,333 on January 23, 2017, R$43,334 on January 23, 2018 and R$5,433 in June 2013 (option to acquire of 50%).

Transaction Overview	
Total consideration transferred	135,058
Fair value of previously held portion	129,625
Fair value of investments net of deferred income tax	86,142
Goodwill	178,540

With the acquisition of 50% interest in Itamaraty Empreendimentos e Participações S.A., Profarma now holds control over this company.

2.2 – Acquisition of Rosário and Centro Oeste Farma

On September 25, 2016, Profarma acquired, through its subsidiary D1000 Varejo (whose former name was Cancun, altered as per Note 5), 100% of the voting shares of Drogaria Rosário S.A. and Centro Oeste Farma Distribuidora de Medicamentos Ltda. The ownership control was effectively executed on November 3, 2016, after CADE's approval.

The table below shows the types of consideration paid and the amounts recorded as assets in connection with this acquisition on the acquisition date and the goodwill recorded (on a provisional basis, in accordance with CPC 15.45):

Consideration Paid	Fair Value
Secondary subscription	133,484
Earn out	15,000
Total	**148,484**

The payments will be made as follows:

Secondary subscription – R$32,000 in cash, R$101,484 on November 16, 2019, and Earn out – R$15,000 on November 16, 2019.

Transaction Overview	
Total consideration transferred	148,484
Fair value of investments net of deferred income tax	(49,505)
Goodwill	197,989

3 Preparation base

The Company's financial statements include: (i) the separate statements, referred to as Parent Company financial statements; and (ii) the Consolidated financial statements. These parent company and consolidated financial statements were prepared and are being presented in accordance with the accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which in Brazil comprise the translations made by the Brazilian Accounting Pronouncements Committee (CPC).

The Company's parent company and consolidated financial statements are expressed in Brazilian reais (R$), which is the Company's functional currency.

3.1 New and revised standards and interpretations

In force for the fiscal years starting on or after July 1, 2016:

Annual improvements in the cycles of 2012 to 2014 – Minor amendments to existing pronouncements.

In force for the fiscal years starting on or after January 1, 2017:

- IFRS 15 – Revenue from Contracts with Customers – establishes 5 steps to apply to the agreements signed with clients for the purposes of revenue recognition and reporting. It will replace the pronouncements currently in force for the matter (IAS 18 and IAS 11) and interpretations on the issue (IFRIC 13, IFRIC 15 and IFRIC 18).

In force for the fiscal years starting on or after January 1, 2018:

- IFRS 9 – Financial Instruments – New standard to introduce new requirements for the classification, measurement, impairment, hedge accounting and derecognition of financial assets and liabilities.

The Group plants to adopt these standards once they come into force. The Group analyzed the impacts of these standards and so far has not identified any material impact on the financial statements.

In effect for fiscal years starting on or after January 1, 2019:

- IFRS 16 introduces a single model for the accounting of leases in the balance sheet for lessees. A lessee recognizes an asset that represents the right to use the leased asset and a lease liability that represents its obligation to make lease payments. Optional exemptions are available for short-term leases and low value items. The lessor's accounting remains similar to the current standard, that is, lessors continue to classify leases as financial or operating leases.

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

  Early adoption is allowed only for financial statements in accordance with IFRS and only by companies applying IFRS.

  The Company should apply IFRS 16 initially on January 1, 2019. The Company has not defined yet how the transition to the new process will apply.

4 Significant accounting policies

a. Cash and cash equivalents

Include cash balances, cash bank deposits and investments with highly liquid investments, originally maturing in up to three months after the contracting date or subject to an insignificant risk of change in value, and held with the purpose of meeting short-term cash liabilities rather than investments or other purposes.

b. Income and expense recognition

Income and expenses are recorded on the accrual basis.

Operating income from the sale of goods in the normal course of business is measured at the fair value of the consideration received or receivable. Operating income is recognized when there is convincing evidence that the most significant risks and rewards of ownership of goods have been transferred to the buyer, it is probable that future economic benefits will flow to the entity, the associated costs and possible return of goods can be reliably estimated, there is no continuing involvement with the goods sold, and the amount of the operating income can be reliably measured. If it is probable that discounts will be granted and the amount can be reliably measured, then such discounts are recognized as a reduction of operating income as sales are recognized.

The risks and rewards are transferred when medicines are effectively delivered to the end customer. Sales revenues are recognized in profit or loss when goods are delivered to the customer. Revenue is not recognized when there is significant uncertainty as to its realization.

c. Use of estimates

The preparation of individual and consolidated financial statements pursuant to IFRSs and the standards issued by the CPCs requires Management to make estimates based on judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and assumptions are periodically reviewed. Revised accounting estimates are recognized in the period in which estimates are reviewed and in any affected future periods.

Information on judgments related to accounting policies adopted that affect the amounts recorded in the individual and consolidated financial statements and that may result in an adjustment over the next years includes the allowance for doubtful debts, allowance for inventory losses, provision for risks (Note 20) and measurement of financial instruments, recoverability of tax credits, impairment, share-based transactions, fair value of financial instruments, purchase price allocation, sales discounts and refunds.

d. Non-derivative financial instruments

Non-derivative financial instruments include short-term investments, trade and other receivables, borrowings and financing, as well as trade payables and other debts.

Non-derivative financial instruments are initially stated at fair value plus directly attributable transaction costs, except for financial instruments not recognized at fair value through profit or loss. Subsequently to the initial recognition, non-derivative financial instruments are measured as follows:

- ***Financial instruments at fair value through profit or loss***

  An instrument is classified at fair value through profit or loss if it is held for trading and designated as such when initially recognized. Financial instruments are designated at fair value through profit or loss if the Company manages these investments and makes purchase and sale decisions based on their fair value according to the investment strategy and risk management documented by the Company. After initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured by their fair value and their fluctuations are recognized in profit or loss.

- ***Held-to-maturity instruments***

  Refer to non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortized cost using the effective interest rate, less impairment losses.

- ***Available-for-sale instruments***

  Refer to investments in equity instruments and certain assets relating to debt instruments classified as available for sale. Subsequent to initial recognition, they are measured at their fair value and their fluctuations, except for impairments, and differences in foreign currency of these instruments, are recognized directly in equity, net of taxes. When an investment is no longer recognized, the gain or loss accumulated in equity is transferred to profit or loss.

- ***Loans and receivables***

  Loans in foreign currency are measured at fair value and loans in domestic currency are measured at amortized cost under the effective interest method, less impairment losses.

e. Derivative financial instruments

The Company conducts derivative transactions to hedge against risks relating to foreign currency. Derivatives are initially recognized at their fair value and attributable transaction costs are recognized in profit or loss when incurred. Subsequently to initial recognition, derivatives are measured at fair value and changes are recorded in profit or loss.

f. Trade receivables

Trade receivables are recorded at the amount invoiced, adjusted to present value (when applicable, to better reflect the fair value of the transaction) and net of allowance for doubtful debts, when applicable.

The present value is calculated based on an interest rate that reflects the term, currency and risk of each transaction. The balancing item of the adjustments to present value is accounted for in gross revenues. The difference between the present value of a transaction and the face value of the invoice is recognized as finance income and is recognized over the term of the transaction.

The allowance for doubtful debts was recognized in an amount considered sufficient by Management to cover probable losses on the collection of receivables.

g. Inventories

Inventories are stated based on the average purchase cost, less net of allowance for losses, when applicable, which does not exceed fair value (net realizable value).

h. Assets held for sale

-

Non-current assets classified as available for sale are measured at the lowest between their carrying amount and fair value, net of sale expenses, as applicable.

i. Investments

Investments in subsidiaries and joint ventures are accounted for under the equity method in the individual financial statements.

j. Property, plant and equipment

Stated at cost, less accumulated depreciation and impairment losses, if applicable. Depreciation is calculated on a straight-line basis at rates referred to in Note 15 and takes into consideration the estimated useful lives of assets.

k. Leased assets

Certain lease agreements substantially transfer to the Company the risks and rewards of ownership of an asset. These agreements are recognized as finance lease agreements and the assets are recognized at the present value of the minimum lease payments set forth in the agreement. Goods recognized as assets are depreciated using the depreciation rates applicable to each group of assets, as described in Note 15. Finance charges corresponding to finance lease agreements are accounted for in profit or loss over the lease term.

l. Intangible assets

Intangible assets include assets acquired from third parties, including through business combinations, as follows:

- Goodwill arising on acquisitions involving business combinations. Goodwill with indefinite useful life is tested annually for impairment and written down due to accumulated impairment losses, when required.
- Software acquired from third parties with defined useful life is amortized over a 5-year period. These assets are measured at their full acquisition cost less amortization expenses.
- Commercial Locations (commercial goodwill) acquired from third parties with useful life established in accordance with rental contract duration.
- Other intangible assets acquired with finite useful life are amortized over a 5-year period (distribution rights of products to be amortized over the contractual term of five years). These assets are measured at total acquisition cost, less amortization expenses.
- Trademark value from acquisitions involving business combination. The trademark value without defined useful life is tested annually for impairment, and accumulated impairment losses are deducted, if applicable.
- Commercial goodwill value from acquisitions involving business combination. Commercial goodwill value has defined useful life in accordance with contractual term.

m. Impairment of assets

Financial assets

Financial assets (basically comprising trade receivables) are measured to determine whether there is objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that such loss event had a negative effect on the projected future cash flows that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency in payment by the borrower, the restructuring of the amount due to the Company under terms that Management would not otherwise consider, indications that a borrower will file for bankruptcy.

The Company considers as evidence of impairment for held-to-maturity receivables and investments, both individually and in aggregate. All individually significant held-to-maturity receivables and investments are tested for specific impairment. All individually material held-to-maturity receivables identified as not individually impaired are then collectively assessed with respect to the loss of any amount occurred but which has not been identified. Held-to-maturity receivables and investments that are not individually significant are collectively assessed for impairment by grouping together securities with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted to reflect Management's judgment as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical trends.

An impairment of a financial asset measured at amortized cost is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective original interest rate of the asset. Losses are recognized in profit or loss in "allowance for impairment losses" (substantially trade receivables). When a subsequent event indicates the reversal of impairment, the impairment loss is reversed and recognized in profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets (comprised mainly of property, plant and equipment and intangible assets with determined useful life) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Intangible assets without defined useful life are tested annually, regardless of indications of impairment.

The recoverable value of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market conditions with respect to the capital recovery period and the risks specific to the asset. For impairment testing purposes, assets that cannot be individually tested are grouped in the lowest group of assets that generates cash inflows from continuing use, which are mainly independent from cash inflows from other assets or groups of assets (CGU).

The Company's corporate assets do not generate separate cash flows. When there is indication that a corporate asset is impaired, its recoverable amount is allocated to a CGU or group of CGUs to which the corporate asset reasonably and consistently belongs.

An impairment loss is recognized as the amount by which the carrying amount of an asset or CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

The Company did not find any indications of impairment of these assets in 2016 and 2015.

n. Current and noncurrent liabilities

Current and noncurrent liabilities are carried at their known or estimated amounts, plus charges, inflation adjustments and exchange rate changes incurred through the end of the reporting period, when applicable. When applicable, current and noncurrent liabilities are adjusted to present value (to best reflect the fair value of the transaction) based on interest rates that reflect the term, currency and risk of each transaction. The balancing item to the adjustment to present value is accounted for in the line items that originated the liability.

The difference between the present value of a transaction and the nominal value of a liability is recorded in profit or loss over the contractual term, based on the amortized cost and effective interest methods.

o. Provision

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. Provisions are recognized based on the best estimates of the risk involved.

p. Government grants

A government grant is recognized in profit or loss for the period, against the respective expenses to be offset, on a systematic basis, provided that the conditions set out in CPC 07 (R1) - Accounting for Government Grants and Disclosure of Government Assistance are satisfied.

q. Current and deferred income tax and social contribution

Current and deferred income tax and social contribution for the year is calculated at the rate of 15%, plus a 10% surtax on taxable income exceeding R$240 for income tax and 9% on taxable income for social contribution, and take into consideration the offset of tax loss carryforwards, limited to 30% of taxable income.

Income tax and social contribution expenses comprise current and deferred income taxes. Current and deferred taxes are recognized in profit or loss unless they are related to the business combination or items recognized directly in equity or other comprehensive income.

r. Statements of value added

The Company has prepared individual and consolidated statements of value added (DVA) in accordance with CPC 09 – Statement of Value Added, which are presented as an integral part of the financial statements prepared under BR GAAP, whereas they represent additional disclosure for IFRS.

s. Earnings per share

Basic earnings per share are calculated by means of the profit for the period attributable to owners of the Company and the weighted average number of common shares outstanding in the related year. Diluted earnings per share are calculated by means of the average number of shares outstanding, adjusted by instruments potentially convertible into shares, with diluting effect, in the reported periods, as prescribed by CPC 41 and IAS 33.

t. Segment reporting

The Company operates in the pharmaceutical distribution, hospital and specialty, retail segments and believes that other additional segments are irrelevant (Note 27).

5 Consolidated financial information

	Interest (%)	
	12.31.2016	12.31.2015
Farmadacta Informática Ltda.	99.95%	99.95%
Promovendas Representações Ltda.	99.98%	99.98%
Locafarma Soluções de Transportes e Logística Ltda.	100.00%	100.00%
Cannes RJ Participações S/A - Holding (*)	50.00%	50.00%
D1000 Varejo Farma Participações S/A (* *)	100.00%	100.00%

(*) Holding company, holds an indirect 100% stake in Profarma Specialty Farmacêutica S/A and 100% in Arpmed S/A.

(**) Holding company, holds indirect 100% stake in Itamaraty S/A (Drogarias Tamoio chain), CSB Drogarias S/A (Drogasmil chain), Drogaria Rosário S.A. and Centro Oeste Farma Distribuidora de Medicamentos Ltda (COF).

According to minutes dated March 17, 2016, the name of the company was changed from Cancun RJ Participações S/A to D1000 Varejo Farma Participações S/A.

Basis of consolidation

a. Elimination of intragroup assets and liabilities;

b. Elimination of interests in the subsidiaries' capital, reserves and retained earnings (accumulated losses);

c. Elimination of income and expense, as well as unrealized income, arising on transactions between the companies. Unrealized losses are eliminated as well, but only when there is no evidence of problems in recovering the related assets;

d. Elimination of tax charges on the portion of unrealized income stated as deferred taxes in the consolidated balance sheet;

e. Separate disclosure of non-controlling interests in the consolidated financial information;

f. The accounting policies have been applied consistently to all the consolidated companies and are consistent with those adopted in the previous year.

6 Cash and cash equivalents

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Cash and banks	11,051	19,719	23,793	26,196
Marketable securities	173,174	193,969	181,713	226,852
	184,225	**213,688**	**205,506**	**253,048**

High-liquidity short-term cash investments, redeemable within three months, are readily convertible into a known amount of cash and are subject to an insignificant risk of change in value.

As at December 31, 2016, short-term investments comprised CDBs (*Certificados de Depósitos Bancários*, or Bank Deposit Certificates) issued by Banco do Brasil, Santander, Itaú, HSBC, Bradesco, Safra, BRB and Caixa Econômica Federal, yielding interest at a rate ranging from 97% to 101% of the CDI overnight (Interbank Deposits) rate (97% and 101% at December 31, 2015).

The Group's exposure to interest rate risks and a sensitivity analysis to financial assets and liabilities can be found in Note 26.

7 Trade receivables

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Trade receivables	651,245	511,658	546,380	499,105
Adjustment to present value	(381)	(642)	(383)	(643)
	650,864	511,016	545,997	498,462
Allowance for doubtful debts	(18,543)	(10,415)	(18,729)	(11,045)
	632,321	**500,601**	**527,268**	**487,417**

As at December 31, 2016, the average days sales outstanding was 38 days (44 days at December 31, 2015).

The aging list of balances is as follows:

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Due	597,520	481,928	486,531	462,673
Overdue from 1 to 30 days	21,705	11,718	26,601	13,694
Overdue from 31 to 60 days	4,006	1,416	4,130	1,827
Overdue from 61 to 90 days	2,060	3,615	2,107	4,755
Overdue from 91 to 180 days	5,307	1,484	5,492	3,935
Overdue more than 181 days	6,925	2,282	7,797	3,006
Overdue more than 361 days	13,722	9,215	13,722	9,215
	651,245	**511,658**	**546,380**	**499,105**

The amount of the allowance for doubtful debts at the parent company and its subsidiaries takes into consideration past losses. The Company calculates effective losses in relation to the realized gross revenue on an annual basis, and this figure is used to estimate the monthly ADA. The Company also analyzes the due dates of the notes, guarantees involved, renegotiations and the current financial position of the other party. Management believes that the current allowance is sufficient to cover any possible losses on the collection of receivables.

It is worth noting that the Company has no receivables insurance.

The amounts were adjusted to present value using the Company's average debt rate as a discount rate of 1.3271% p.m. at December 31, 2016 (1.2178% p.m. at December 31, 2015).

The changes in the allowance for doubtful debts are as follows:

Change in ADD	Parent Company	Consolidated
At December 31, 2014	**8,099**	**9,394**
Additions	4,965	4,959
Write-offs/Reversals	(2,649)	(3,308)
At December 31, 2015	**10,415**	**11,045**
Additions	9,789	10,970
Write-offs/Reversals	(1,661)	(3,286)
At December 31, 2016	**18,543**	**18,729**

8 Inventories

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Medicine	392,717	432,685	542,933	523,790
Toiletries	78,701	62,328	108,804	75,452
Allowance for inventory losses	(3,010)	(2,918)	(3,010)	(2,950)
Other	781	1,370	781	1,370
	469,189	**493,465**	**649,508**	**597,662**

Provision for loss is based on Company's inventory loss records.

9 Recoverable and deferred tax assets

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Current				
State VAT (ICMS)	191,205	207,709	200,886	208,676
Taxes on Income (IR and CSLL)	20,035	15,585	28,124	16,394
Taxes on Revenue (PIS and COFINS)	18,713	6,984	20,747	7,338
Other	47	17	191	4,684
	230,000	**230,295**	**249,948**	**237,092**
Non-current				
Taxes on Revenue (PIS and COFINS)	4,546	4,566	4,546	4,566
Taxes on Income (IR and CSLL)	-	-	707	-
	4,546	**4,566**	**5,253**	**4,566**
Deferred Taxes	22,633	17,203	59,840	17,203
Deferred IR and CSLL	**22,633**	**17,203**	**59,840**	**17,203**

Recoverable ICMS corresponds basically to the reverse charge tax levied on the amount of the Company's inventories.

Deferred income tax and social contribution are recorded to reflect future tax effects attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts and tax losses.

In the year, the Company increased the provision for deferred taxes as a balancing item to profit, amounting to R$5,430, increasing noncurrent assets to R$22,633 (R$17,203 at December 31, 2015).

In the Consolidated balance, provision for deferred taxes increased R$42,637, due to the sum of R$10,250 recorded in results and the inclusion of balances of companies acquired in the amount of R$32,387, thus increasing non-current assets to R$59,840 (R$17,203 at December 31, 2015).

This change in Parent Company and Consolidated balances is due to temporary differences and tax losses recognized in the period and included in the balance sheet arising from the companies acquired. The Company believes that there is no impairment risk of these deferred Income Tax/Social Contribution balances, according to impairment study based on projected future profit or loss.

Below is the Company's projection for deferred income tax realization:

Periods	Parent Company	Consolidated
2017	6,807	10,685
2018	2,334	8,830
2019	4,753	11,751
2020	5,211	11,479
2021	5,801	12,277
2022	(2,273)	4,819
Total	**22,633**	**59,840**

10 Assets held for sale

Composed of assets received upon the settlement of trade accounts receivable in the amount of R$5,870 (R$7,870 at December 31, 2015), which are available for sale. The Company is negotiating the sale of these assets. The fair value of assets held for sale is supported by a real estate valuation report.

11 Other trade receivables

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Current				
Prepaid insurance expenses	985	773	1,202	882
Amounts receivable (b)	40,849	23,608	44,800	25,086
Other prepaid expenses	3,622	2,197	6,582	4,526
	45,456	**26,578**	**52,584**	**30,494**
Non-current				
Other assets (a)	6,599	10,671	7,643	12,377
	6,599	**10,671**	**7,643**	**12,377**

(a) Consists mostly of investments totaling R$3,642 at Banco BRB (R$3,228 at December 31, 2015), earmarked as a guarantee for long-term financing obtained from the same bank. The amount of R$823 is recorded in the consolidated statements as Credits with Registered Warrants of CSB.

(b) Includes mainly receivables from suppliers related to structured logistics services aimed at promoting the sale of certain products.

12 Related parties

The Company and its subsidiaries (listed in note 5) work together. The ownership structure of the parent company is shown in note 22.

The main asset and liability balances as at December 31, 2016, as well as the transactions that influenced the results in the year, with respect to transactions with related parties, result from transactions between the Company and its subsidiaries and joint venture for the respective types of operations.

The raw material and service purchase transactions and the product sale transactions (short-term with no interest) of the subsidiary are described below:

	12.31.2016								12.31.2015
	Farmadacta	Promovendas	COF	Profarma Specialty	CSB	Itamaraty	Locafarma	Total	Total
Trade receivables (1)	-	-	83,906	14,248	34,221	33,000	-	165,376	58,632
Intercompany loans (2)	-	-	-	-	-	-	-	-	6,339
Trade payables (3)	(2,438)	(3,331)	-	-	-	-	(1,602)	(7,371)	(10,204)
Non-current assets	-	-	-	-	-	-	341	341	341
Non-current liabilities (2)	(89)	(29)	-	-	-	-	-	(118)	(141)
Expenses (4)	320	247	-	-	-	-	6,626	7,193	8,416
Net income from returns (5)	-	-	(40,876)	(139,272)	(224,449)	(206,360)	-	(610,957)	(333,733)
Joint venture advance	-	-	-	-	-	-	-	-	284

(1) Comprise mainly due from related parties
(2) Comprise mainly intercompany loans
(3) Comprise mainly due to related parties in connection with services
(4) Comprise mainly intercompany services
(5) Comprise mainly intercompany product sales

Balances and transactions between the Company and its subsidiaries, which are its related parties, are eliminated on consolidation. Transactions between related parties that impact the consolidated information are those carried out between the parent company and its joint subsidiaries.

13 Compensation of key management personnel

This year, the compensation of the members of the Board of Directors amounted to R$3,698 (R$3,929 at December 31, 2015) whereas that of the Executive Officers totaled R$1,118 (R$997 at December 31, 2015). Payroll taxes levied on these amounts totaled R$963 (R$985 at December 31, 2015). In addition to compensation, the Company grants its management health and life insurance totaling R$159 (R$142 at December 31, 2015) and private pension plan in the amount of R$23 (R$13 at December 31, 2015).

14 Investments

a. Information on subsidiaries, joint ventures and associates

	Capital		Number of shares ('000)		Equity		Profit (loss) for the period		Interest %		Equity Income (loss)	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Subsidiaries												
Farmadacta Informática Ltda.	8	8	8	8	2,618	3,936	(1,318)	293	99.95%	99.95%	2,617	3,933
Promovendas Representações Ltda.	8	8	8	8	3,350	4,826	(1,476)	518	99.98%	99.98%	3,349	4,824
Locafarma Soluções e Transporte Ltda.	50	50	50	50	1,688	1,771	(83)	(352)	100.00%	100.00%	1,688	1,771
D1000 Varejo Farma Participações S/A(**)	239,928	203,428	239,928	203,428	247,626	173,470	(35,343)	(28,918)	100.00%	100.00%	247,626	173,470
Joint Venture												
Cannes RJ Participações S/A(*)	160,541	110,828	160,541	110,828	128,114	85,576	(11,140)	(703)	50.00%	50.00%	64,089	42,788
Cannes RJ Fair value measurement (****)	-	-	-	-	-	-	-	-	0.00%	0.00%	15,734	15,734
Total Investments											335,103	242,521
Joint Venture												
Supernova Comércio Atacadista S/A (***)	300	300	300	300	(538)	(538)	-	(6)	35.00%	35.00%	(188)	(188)
Total allowance for investment losses											(188)	(188)

(*) Holding company with an indirect 100% stake in Profarma Specialty Farmacêutica S/A and a 100% stake in Arpmed S/A, classified as joint venture.
(**) Holding company, holds an indirect 100% stake in Itamaraty S/A (Drogarias Tamoio chain), Drogaria Rosário S.A. and Centro Oeste Farma Distribuidora de Medicamentos Ltda (COF).
(***) The provision for loss on investments at Supernova Comércio Atacadista S/A represents part of the balance of other accounts payable presented under the Company's non-current liabilities.
(****) Profarma, as the joint controller of the Cannes group together with Amerisource (50%/50%), measured at fair value the remaining portion of its investment in the third quarter of 2015, leading to a positive adjustment of R$15,734.

b. Change in investments for the year ended December 31, 2016

Parent Company

	Farmadacta	Promovendas	Locafarma Soluções	Cannes (*)	Super Nova	D1000 (**)	Total
Balance at 12.31.14	**3,640**	**4,306**	**2,493**	**40,102**	**(188)**	**196,818**	**247,171**
Equity accounting	293	518	(722)	(1,528)	-	(28,918)	(30,357)
Dividends	-	-	-	-	-	(1,043)	(1,043)
Increase in investment	-	-	-	4,214	-	6,610	10,824
Fair value measurement	-	-	-	15,734	-	-	15,734
Balance at 12.31.15	**3,933**	**4,824**	**1,771**	**58,522**	**(188)**	**173,467**	**242,329**
Equity accounting	(1,316)	(1,475)	(83)	(5,571)	-	(35,343)	(43,788)
Increase in investment	-	-	-	26,872	-	109,502	136,374
Balance at 12.31.16	**2,617**	**3,349**	**1,688**	**79,823**	**(188)**	**247,626**	**334,914**

(*) Holding company with an indirect 100% stake in Profarma Specialty Farmacêutica S/A and an 100% stake in Arpmed S/A.
(**) Holding company, holds an indirect 100% stake in Itamaraty S/A (Drogarias Tamoio chain) CSB Drogarias S/A (Drogasmil chain), Drogaria Rosário S.A. and Centro Oeste Farma Distribuidora de Medicamentos Ltda (COF).

Consolidated

	Cannes (*)	**Itamaraty (**)**			**Total**
	Investment	50% Interest in Equity	Surplus Value Acquisition	Investment	
Balance at 12.31.14	**40,102**	**26,316**	**14,381**	**40,697**	**80,798**
Capital payment	-	-	-	-	-
Equity accounting	(1,528)	8,434	-	8,434	6,906
Effect of acquisition of 100% control (*)	-	(30,957)	(12,828)	(43,785)	(43,785)
Increase in investment	4,214	-	-	-	4,214
Amortization of assets in acquisition	-	-	(1,553)	(1,553)	(1,553)
Payment of dividends	-	(3,793)	-	(3,793)	(3,793)
Fair value measurement	15,734	-	-	-	15,734
Balance at 12.31.15	**58,522**	**-**	**-**	**-**	**58,522**
Equity accounting	(5,571)	-	-	-	(5,571)
Increase in investment	26,872	-	-	-	26,872
Balance at 12.31.16	**79,823**	**-**	**-**	**-**	**79,823**

The areas of activity of the subsidiaries and joint ventures are highlighted below:

Subsidiaries:

Farmadacta – Information technology service provider;
Locafarma Soluções – Cargo and transportation planning and control;
Promovendas – Sales promotion and market survey;
CSB (Drogarias Drogasmil and Farmalife chains) – Pharmaceutical retailers;
Itamaraty (Drogarias Tamoio chain) – Pharmaceutical retailer;
Drogaria Rosário – Pharmaceutical retailer;
Centro Oeste Farma Distribuidora de Medicamento Ltda (COF) – Distribution of pharmaceutical products.

Joint ventures:

Profarma Specialty – Distribution of pharmaceutical / hospital products.
Supernova (joint venture) – Distribution of pharmaceutical / hospital products;
Arpmed – Sales of pharmaceuticals.

All group companies have their registered offices in Brazil.

c. Financial information of joint ventures

Consolidated Balance Sheet Cannes RJ Participações S.A.
Period ended December 31, 2016

Assets	12.31.2016	Liabilities	12.31.2016
Current	320,701	Current	229,226
Non-current	11,851	Non-current	29,027
Property, plant and equipment	10,077		
Intangible assets	43,738	Shareholders' equity	128,114
Total assets	386,367	Total liabilities	386,367

Income Statement Cannes RJ Participações S.A.
twelve-month period ended December 31, 2016

Gross revenue	967,919
Net revenue	885,501
Gross profit	101,631
Depreciation	(2,830)
Operating expenses (SG&A)	(77,286)
Other operating income (expenses)	(11,353)
Profit before net finance income (cost) and taxes	10,162
Finance cost	(10,163)
Profit (loss) before IR/CSLL	(6,607)
Current IR/CS	(2,843)
Deferred IR/CS	(1,690)
Profit (Loss) for the period	**(11,140)**

- D1000 Varejo Farma Participações S.A.

D1000 Varejo is a holding company established to control companies in the retail segment, retail trading of pharmaceutical products, in the state of Rio de Janeiro. The financial information for the fiscal year ended December 31, 2016 for the subsidiaries of D1000 Varejo is presented below:

	Assets	Liabilities	Equity	Net profit (loss)	Gross revenue	Type of control	Interest in total and voting capital (%)
NICE RJ Participações (*)	705,827	457,634	248,193	(34,763)	-	Direct subsidiary	100
Itaramaty (**)	193,456	159,847	33,609	3,709	452,855	Indirect subsidiary	100
CSB (**)	138,203	176,312	(38,109)	(22,034)	348,398	Indirect subsidiary	100
Rosário (**)	125,064	183,484	(58,420)	(8,453)	38,160	Indirect subsidiary	100
COF (**)	98,538	147,876	(49,338)	(777)	30,201	Indirect subsidiary	100

(*) Holding company
(**) Operational

- Cannes RJ Participações S.A.

Cannes is a holding company established to control the companies in the pharmaceutical specialties segment. The financial information for the fiscal year ended December 31, 2016 for the subsidiaries and joint operations of Cannes is presented below:

	Assets	Liabilities	Equity	Net profit (loss)	Gross revenue	Type of control	Interest in total and voting capital (%)
Amarante RJ Participações (*)	8,034	54	7,980	(4,327)	-	Direct subsidiary	100
Mirandela RJ Participações (*)	18,762	285	18,477	(9,588)	-	Direct subsidiary	100
Profarma Specialty (**)	329,928	228,270	101,658	2,776	893,935	Indirect subsidiary	100
Arpmed (**)	46,988	37,200	9,789	(13,251)	73,984	Indirect subsidiary	100

(*) Holding company
(**) Operational

15 Property, plant and equipment

		Parent Company							
		12.31.15	12.31.16						12.31.15
	Rate	Cost	Additions	Write-off	Transf.	Cost	Accumulated Depreciation	Net Value	Net Value
Improvements	10%	16,265	2	(4)	3,183	19,446	(12,802)	6,644	4,825
Furniture and fixtures	10%	13,719	1,927	(881)	-	14,765	(8,336)	6,429	5,717
Vehicles	20%	1,552	3,568	-	130	5,250	(1,924)	3,326	4
Hardware	20%	18,619	2,944	(7,902)	(5)	13,656	(8,766)	4,890	3,508
Machinery and equipment	10%	28,125	570	(5,510)	15	23,200	(15,829)	7,371	8,601
Assets under construction	-	17,404	16,112	(594)	(3,323)	29,599	-	29,599	17,404
		95,684	**25,123**	**(14,891)**	**-**	**105,916**	**(47,657)**	**58,259**	**40,059**

		Consolidated								
		12.31.15	12.31.16							12.31.15
	Rate	Cost	Additions	Additions due to Acquisition	Write-off	Transf.	Cost	Accumulated Depreciation	Net Value	Net Value
Improvements	10%	55,220	3,392	6,489	(639)	3,149	67,611	(33,142)	34,469	25,154
Furniture and fixtures	10%	24,488	3,024	8,131	(881)	14	34,776	(12,836)	21,940	12,939
Vehicles	20%	2,578	3,964	-	(210)	130	6,462	(2,525)	3,937	315
Hardware	20%	29,059	4,006	1,168	(7,903)	2	26,332	(16,612)	9,720	7,062
Machinery and equipment	10%	32,725	922	1,819	(5,517)	28	29,977	(17,574)	12,403	11,968
Assets under construction	-	17,404	16,112	-	(594)	(3,323)	29,599	-	29,599	17,405
		161,474	**31,420**	**17,607**	**(15,744)**	**0**	**194,757**	**(82,689)**	**112,068**	**74,843**

There are no indications that the property, plant and equipment of the Company and its subsidiaries might be impaired.

Depreciation of property, plant and equipment

		Parent Company			
		12.31.2015	12.31.2016		
			Depreciation		
	Rate	Opening Balance	Additions	Write-off	Closing Balance
Improvements	10%	(11,441)	(1,365)	4	(12,802)
Furniture and fixture	10%	(8,002)	(1,217)	883	(8,336)
Vehicles	20%	(1,548)	(375)	-	(1,923)
Hardware	20%	(15,111)	(1,532)	7,877	(8,766)
Machinery and equipment	10%	(19,523)	(1,803)	5,497	(15,829)
		(55,626)	**(6,292)**	**14,261**	**(47,657)**

		Consolidated			
		12.31.2015	12.31.2016		
			Depreciation		
	Rate	Opening Balance	Additions	Write-off	Closing Balance
Improvements	10%	(30,163)	(3,206)	227	(33,142)
Furniture and fixture	10%	(11,617)	(2,102)	883	(12,836)
Vehicles	20%	(2,244)	(447)	166	(2,525)
Hardware	20%	(21,998)	(2,492)	7,878	(16,612)
Machinery and equipment	10%	(20,811)	(2,265)	5,503	(17,573)
		(86,834)	**(10,512)**	**14,657**	**(82,689)**

16 Intangible Assets

	Parent Company							
		12.31.15	12.31.16					12.31.15
	Rate	Cost	Additions	Write-off	Cost	Accumulated Amortization	Net Value	Net Value
Trademarks and patents		14	-	-	14	-	14	14
Software	20%	14,024	97	(5)	14,116	(12,569)	1,547	2,410
Goodwill (a)		3,985	-	-	3,985	-	3,985	3,985
Other		969	139	-	1,108	(12)	1,096	969
Distribution Right	20%	2,247	-	-	2,247	(2,247)	-	327
Software under development		20	14	-	34	-	34	20
		21,259	**250**	**(5)**	**21,504**	**(14,828)**	**6,676**	**7,724**

	Consolidated								
		12.31.15	12.31.16						12.31.15
	Rate	Cost	Additions	Additions due to Acquisition	Write-off	Cost	Accumulated Amortization	Net Value	Net Value
Trademarks and patents		94,851	-	22,045	-	116,896	-	116,896	94,851
Software	20%	18,620	259	1,470	(5)	20,344	(15,733)	4,611	4,689
Other		969	135	-	-	1,104	(12)	1,092	969
Commercial location		75,792	1,125	56,103	(6,280)	126,740	(13,531)	113,209	71,722
Goodwill (*b / c / d)*		259,737	31,503	197,989	-	489,228	-	489,228	255,752
Distribution Right	20%	2,247	-	-	-	2,247	(2,246)	1	326
Software under development		20	14	-	-	34	-	34	20
		452,235	**33,037**	**277,607**	**(6,285)**	**756,593**	**(31,522)**	**725,072**	**428,329**

Amortization of intangible assets

	Parent Company				
		12.31.2015	12.31.2016		
			Amortization		
	Rate	Opening Balance	Additions	Write-offs	Closing Balance
Software	20%	(11,613)	(961)	5	(12,569)
Goodwill - *Fundo de comércio*	20%	-	(12)	-	(12)
Distribution right	20%	(1,921)	(326)	-	(2,247)
		(13,534)	**(1,299)**	**-**	**(14,828)**

		Consolidated			
		12.31.2015	12.31.2016		
			Amortization		
	Rate	Opening Balance	Additions	Write-offs	Closing Balance
Software	20%	(14,144)	(1,593)	5	(15,733)
Distribution right	20%	(1,921)	(325)	-	(2,246)
Commercial location		(8,054)	(5,625)	136	(13,543)
		(24,119)	**(7,544)**	**141**	**(31,522)**

a. **Goodwill on acquisition of Dimper's assets**

The Company conducted a goodwill impairment test at December 31, 2016 on the balance of R$3,985 corresponding to the acquisition of Dimper's assets in 2009, considering a 10-year discounted cash flow at a rate of 14% p.a., based on the annual budget for 2016 period and the long-term planning up to 2025, with a 5.5% growth projection on a perpetuity basis.

b. **Goodwill on Drogarias Tamoio chain**

The balance of R$178,540 refers to the acquisition of 100% interest in the Drogarias Tamoio chain on June, 23, 2015, as described in Note 2.1. The Company conducted a goodwill impairment test at December 31, 2016, considering a discounted cash flow at a rate of 14% p.a., with a 5.5% growth projection on a perpetuity basis. This analysis supports goodwill recovery on the same date.

c. **Goodwill on acquisition of CSB**

The balance R$108,714 refers to the acquisition of CSB Drogarias S.A. in September 2013, refers to the expected future benefits. Goodwill was tested for impairment on December 31, 2016, considering the discounted cash flow at a rate of 13.00% p.a. and estimated growth of 5.5% on a perpetuity basis. This analysis supports goodwill recovery on the same date.

d. Goodwill on acquisition of Rosário and Centro Oeste Farma drugstore chains

The balance of R$197,989 refers to the acquisition of 100% of Rosário and Centro Oeste Farma (COF) drugstore chains in November 2016, as described in Note 2.2.

17 Trade Payables

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Trade payables - Goods for resale	678,500	690,591	725,810	698,223
Trade payables - Goods not for resale	10,424	11,633	10,612	16,159
Adjustment to present value	(1,515)	(3,017)	(1,514)	(3,017)
	687,409	**699,207**	**734,908**	**711,365**

The Company has a financial risk management policy to ensure that trade payables are settled on their due dates.

As at December 31, 2016, the average days payable outstanding stood at 67 days (81 days at December 31, 2015).

The Group's exposure to liquidity risks, related to trade and other payables is discussed in Note 26.

The aging list of trade payables for resale is as follows:

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
From 01 to 60 days	550,129	468,874	562,321	474,056
From 61 to 90 days	91,532	98,044	93,586	99,127
From 91 to 360 days	36,839	123,673	38,460	125,040
Instruments whose maturities are under negotiation	-	-	31,443	-
	678,500	**690,591**	**725,810**	**698,223**

Overdue instruments of the Rosário and Centro Oeste Farma (COF) drugstore chains are being negotiated with suppliers.

18 Borrowings and Financing

			Parent Company		Consolidated	
Institution	**Index**	**Interest**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Banco Santander	CDI	137,9 % do CDI	-	-	367	-
Banco Safra	CDI	136,52% do CDI	49.704	-	49.704	-
HSBC	CDI	100% do CDI + 1% a.a.	-	-	13.798	20.985
Banco BBM	CDI	104,50% do CDI	-	-	-	15.074
Banco Banrisul	CDI	125,0% do CDI	-	-	6.475	9.857
Banco do Brasil	CDI	132,8% do CDI	181.283	-	181.283	-
Banco Itaú		1,55% a.m.	-	7.441	-	7.441
BB/HSBC - Debêntures	CDI	100% do CDI + 1% a.a.	-	173.280	-	173.280
Banco BBM (**)		6,24 % a.a. (US$)	15.639	-	15.639	-
Banco BRB (*)		2,43 % a.a.	1.876	2.120	1.876	2.120
Banco Safra (**)		6,6010% a.a. (US$)	17.067	16.925	47.788	27.713
Banco Itaú (**)		4,0813% a.a. (US$)	53.116	77.496	104.703	127.106
Banco Santander (**)		5,8853% a.a. (US$)	80.417	38.420	109.617	67.734
Banco do Brasil (**)		3% a.a. (US$)	-	40.382	-	40.382
HSBC (**)		6,3635 % a.a (US$)	74.087	24.271	77.458	35.978
			473.189	**380.334**	**608.707**	**527.668**
Current			**171.535**	**230.197**	**246.314**	**340.724**
Non-current			**301.654**	**150.137**	**362.393**	**186.944**

(*) In 2009 and 2011, the Company obtained financing facilities, maturing in 2034 and 2036, respectively, from Banco de Brasília S.A., under the Federal District’s Productive Undertakings Support Program (PROF-DF II), Special Financing for Development (FIDE/DF), with funds from the Federal District Development Fund (FUNDEFE). These transactions are recorded at present value based on the average rate of the Company’s debt at December 31, 2016, and can be settled through a debt auction, considering the outstanding debt balances calculated at present value based on the current CDI rate, deducted from the short-term investments deposited as collateral.

(**) ***Hedge Accounting and Fair Value Option***

All loan operations in USD contracted prior to July 1, 2015, were formally designated as hedge accounting, starting July 1, 2015, to hedge future loan settlement flows.

For borrowings in foreign currency contracted as from July 1, 2015, the Company opted for fair value options accounting, reporting these borrowings at fair value. For these transactions, the Company has swap agreements to hedge future loan settlement flows.

Consequently, all borrowings in foreign currency were designated as hedge accounting and fair value options, and are accounted for at fair value, allowing results and loan balances to be reported in accordance with the Company's financial/economic settlement strategy.

Out of the borrowing and financing transactions described above, 38% are collateralized by receivables, totaling R$203,107, and short-term investments, the latter in the case of financing from Banco de Brasilia - BRB (R$3,642). The other transactions do not have collaterals or sureties.

The financing agreements entered with Banco do Brasil, HSBC and Itaú contain terms and conditions - covenants – related to the Company’s liquidity level.

The ratios required by covenants related to the Company's liquidity level, which can lead to the accelerated maturity of borrowings if not met, are described below:

	Net Debt / EBITDA
Banco do Brasil (150 million)	= < 4.8
Banco do Brasil (35 million)	= < 4
Santander	= < 4
Itaú (47 million)	= < 4.4

In case of noncompliance, the financial institutions have the option to request early repayment of these borrowings.

In accordance with the loan agreements, the aforementioned ratios shall be calculated as at the end of each fiscal year, not including the 150 million and 35 million operation with Banco do Brasil to be calculated at the end of each six-month period as of September 2016. As at December 31, 2015 and December 31, 2016, all the ratios required under loan agreements are within the established ranges.

The Company is reporting the balance of borrowings in foreign currency at fair value by adopting the Hedge Accounting and Fair Value Option methodologies, so as to report such balances on the same basis as hedge instruments.

The noncurrent portion matures as follows:

	Parent Company	Consolidated
Year	12.31.2016	12.31.2016
2018	157,140	217,774
2019	56,925	57,030
2020	42,857	42,857
2021	42,857	42,857
2034	1,331	1,331
2036	544	544
	301,654	**362,393**

19 Taxes and Fees

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Current:				
State VAT (ICMS)	32,336	34,424	41,470	43,579
Taxes on Income (IR and CSLL)	-	-	5,301	1,353
Taxes on Revenue (PIS and COFINS)	-	-	2,991	66
Installments - ICMS (*)	107	137	107	137
Installments - REFIS	4,336	4,089	5,741	4,378
Installments - INSS	-	-	-	2,138
Other	3,458	1,419	8,715	15,007
	40,237	**40,069**	**64,325**	**66,658**
Non-current:				
Installments - ICMS	799	300	13,840	14,636
Installments - REFIS	29,833	32,668	61,846	49,154
Installments - INSS	-	-	-	9,453
	30,632	**32,968**	**75,686**	**73,243**
Deferred IR / CSLL (*)	**-**	**-**	**69,036**	**40,058**

(*) The amounts classified as deferred income tax and social contribution derive from assets booked at Nice RJ Participações S/A referring to the acquisition of CSB, Tamoio, Rosário and COF.

20 Provision for risks

The Company and its subsidiaries are parties to lawsuits and administrative proceedings in various courts and governmental bodies arising from the normal course of operations, involving tax, labor and civil issues.

Based on information from its legal counsel, an analysis of the ongoing legal disputes, and as for labor lawsuits, previous experience with regards to amounts claimed, Management recorded a provision in an amount considered sufficient to cover the estimated losses on the lawsuits in progress, as follows:

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Tax	335	101	64,625	23,400
Civil	425	375	9,734	531
Labor	7,727	8,946	44,546	15,583
	8,487	**9,422**	**118,905**	**39,514**

Changes in provisions were as follows:

	Parent Company			
	Tax	Civil	Labor	Total
At December 31, 2014	**-**	**480**	**7,244**	**7,724**
Additions	101	413	3,524	4,038
Used and Write-Offs	-	(518)	(1,821)	(2,340)
At December 31, 2015	**101**	**375**	**8,946**	**9,422**
Additions	468	398	9,127	9,993
Used and Write-Offs	(234)	(348)	(10,346)	(10,928)
At December 31, 2016	**335**	**425**	**7,727**	**8,487**

	Consolidated			
	Tax	Civil	Labor	Total
At December 31, 2014	**13,643**	**544**	**13,850**	**28,037**
Additions	10,424	538	4,141	15,103
Used and Write-Offs	(667)	(551)	(2,407)	(3,625)
At December 31, 2015	**23,400**	**531**	**15,584**	**39,514**
Additions	12,055	7,850	11,831	31,735
Additions due to Acquisition	33,163	2,799	29,751	65,713
Used and Write-Offs	(3,993)	(1,446)	(12,619)	(18,057)
At December 31, 2016	**64,625**	**9,734**	**44,546**	**118,905**

The main labor lawsuits accrued at the parent company and consolidated are related to overtime claims, issues regarding the workers' severance pay fund (FGTS), and employment relationship claims.

The main tax-related claims accrued at the consolidated are connected to the acquisition of Rosário chain and refer to differences in the payments of ICMS, income tax and social contribution by subsidiaries arising in periods before the acquisition.

There are other legal disputes with a possible unfavorable outcome according to the Company's legal counsel, totaling approximately R$170,493 in the consolidated (R$167,468 at December 31, 2015) for which no provisions were recognized because they are not required under the accounting practices adopted in Brazil and IFRS. Possible contingencies are divided among various claims, the main claims being:

• A tax assessment notice in 2010 against Profarma Distribuidora de Produtos Farmacêuticos S.A., issued by the Federal District Department of Finance, concerning an alleged difference in the calculation basis of ICMS–reverse charge, in the amount of R$56,206 at December 31, 2016 (against R$56,350 at December 31, 2015). Based on the opinion of its legal counsel, the Company's Management believes that an unfavorable outcome is possible.

• Tax deficiency notice issued against Profarma Distribuidora de Produtos Farmacêuticos S.A. by the Federal Revenue Service, in the amount of R$5,801 at December 31, 2016 referring to the acquisition of IPI credit to offset income tax and social contribution dues related to fiscal year 2002.

• Tax deficiency note issued against Profarma Distribuidora de Produtos Farmacêuticos S.A. in 2014 by the Finance Department of the State of São Paulo, referring to the alleged non-payment of ICMS in interstate transfer transactions, in the amount of R$4,549 on December 31, 2016 (R$6,366 on December 31, 2015).

• Tax Deficiency Notice issued against Profarma Distribuidora de Produtos Farmacêuticos S.A. in 2013 and 2014, by the Federal Revenue Service, in the amount of R$31,157 at December 31, 2016 (R$28,542 at December 31, 2015) related to the Collection of PIS and COFINS taxes related to fiscal years 2008 and 2009, on reimbursements of marketing expenses and refunding due to discounts granted to customers deducted from the calculation base of said contributions.

21 Income tax and social contribution

a. Reconciliation of the effective rate

The reconciliation of the expense calculated by applying the combined tax rates and the income tax and social contribution expense charged to profit or loss is as follows:

	Parent Company		Consolidated	
	12.31.2016	**12.31.2015**	**12.31.2016**	**12.31.2015**
Profit/loss before income tax and social contribution	(54,394)	(22,978)	(52,418)	(19,823)
Combined tax rate	34%	34%	34%	34%
Income tax and social contribution:				
Calculated by the combined tax rate	18,494	7,813	17,822	6,740
Exclusions:				
Equity income	(14,888)	(10,197)	(1,894)	2,348
Government grants	2,182	5,870	2,182	5,870
Effect from Subsidiaries – Deemed Profit taxation s	-	-	(1,593)	(660)
Unrecognized IR effect of Tax loss on subsidiaries	-	-	(8,475)	(14,103)
Other permanent additions/deductions	(357)	(1,691)	(4,588)	(1,554)
Income tax and social contribution on profit for the year	**5,431**	**1,795**	**3,455**	**(1,359)**
Effective tax rate	**10%**	**8%**	**7%**	**-7%**

The companies Farmadacta Informática Ltda., Locafarma Soluções de Transportes e Logística Ltda. and direct subsidiaries opted for taxation based on deemed profit.

Profarma Distribuidora de Produtos Farmacêuticos S.A. (parent company), D1000 Varejo Farma Participações S.A., Itamaraty and CSB drugstores opted for the taxable income taxation regime.

b. Breakdown of deferred tax assets

Deferred IRPJ (income tax) and CSLL (social contribution) are recorded to reflect future tax effects attributable to:

(i) temporary differences between the tax base in the income statement and their related entries booked on an accrual basis; (ii) tax losses incurred, which are deemed as recoverable by the management of the Company.

Parent Company

	Parent Company					
	12.31.2016			12.31.2015		
	IRPJ	CSLL	Total	IRPJ	CSLL	Total
Assets						
Time differences	1,433	516	1,949	(366)	(131)	(497)
Deferred IR/CSLL on tax loss	15,209	5,475	20,684	13,015	4,685	17,700
Non-current	**16,642**	**5,991**	**22,633**	**12,649**	**4,554**	**17,203**

Consolidated

	Consolidated					
	12.31.2016			12.31.2015		
	IRPJ	CSLL	Total	IRPJ	CSLL	Total
Assets						
Time differences	26,311	9,472	35,783	(366)	(131)	(497)
Tax loss	17,689	6,368	24,057	13,015	4,685	17,700
Non-current	**44,000**	**15,840**	**59,840**	**12,649**	**4,554**	**17,203**
Liabilities						
Time differences	50,762	18,274	69,036	29,454	10,604	40,058
Non-current	**50,762**	**18,274**	**69,036**	**29,454**	**10,604**	**40,058**

In the Consolidated balance, deferred tax liabilities increased R$28,979, due to the Taxes on fair value of Assets and Liabilities of companies acquired in the amount of R$23,857 and the temporary differences totaling R$5,493, offset by the recognition of R$371 in profit or loss.

In accordance with CPC 32 *Income Taxes*, approved by CVM Resolution 599/09, the Company bases the recognition of its tax assets on expected generation of future taxable income, based on a technical study prepared annually at the end of the year. In case of any significant factors that modify such estimates, these will be revised during the current fiscal year.

22 Equity (parent)

a. Share capital

Paid-in capital amounts to R$726,852 as at December 31, 2016 (R$586,879 as at December 31, 2015), represented by 64,837,810 (41,509,103 on December 31, 2015) book-entry, registered common shares, with no par value.

The following is the shareholding position with respect to subscribed and paid-in capital as at December 31, 2016:

Position at 12.31.2016

Profarma	Consolidated Ownership	
Shareholder	Common shares Number	Common shares %
Signatories of the Shareholders' Agreement	45,245,430	69.8%
BMK Participações S.A.	29,496,841	45.6%
BPL Brazil Holding Company	15,748,589	24.2%
Board of Directors	3	0.0%
Board of Executive Officers	240,119	0.4%
Treasury Shares	1,202,200	1.9%
Outstanding shares	18,150,058	28.0%
Total	**64,837,810**	**100.0%**

Posição em 31.12.2016

Profarma	Consolidated Ownership	
Shareholder	Common shares Number	Common shares %
Signatories of the Shareholders' Agreement	28.563.288	68,8%
BMK Participações S.A.	20.266.391	48,9%
BPL Brazil Holding Company	8.296.897	19,9%
Board of Directors	3	0,0%
Board of Executive Officers	176.676	0,4%
Treasury Shares	1.202.200	2,9%
Outstanding shares	11.566.936	27,9%
Total	**41.509.103**	**100,0%**

On June 20, 2016, the Extraordinary Shareholders' Meeting, Profarma Distribuidora de Produtos Farmacêuticos S.A. partially approved the capital increase of one hundred thirty-nine million and nine hundred seventy-two thousand reais (R$139,972) due to subscription and payment of twenty-three million, three hundred twenty-eight thousand and seven hundred seven (23,328,707) shares at the issue price of six reais (R$6.00) per share ("Partial Approval").

b. Profit reserves

- **Legal reserve**

  Calculated at 5% of profit for the year, as set forth in Article 193 of Law 6404/76, up to the limit of 20% of capital. On December 31, 2016, no legal reserve had been accrued because the Company had reported loss.

- **Bylaws reserve**

  Used in the expansion of the Company's activities and/or its subsidiaries and associates, in an amount of no less than 5% of profit for the year, less legal and statutory deductions, in accordance with the Company's bylaws, which may not exceed 80% of subscribed capital.

- **Tax incentive reserve**

  Due to accrued losses, the Company did not recognize R$6,417 as a tax incentive reserve relating to deemed ICMS credits on the receipt of products, as well as interstate operations, granted under Decree 36450, of October 29, 2004, set forth in the Tax Regime Instrument entered into with the Rio de Janeiro Finance Department. The reserve will be formed when the Company records profit for allocation. All balances recorded in this reserve are of the same nature as described in the previous paragraph.

c. Dividends

The Company's Bylaws establishes the payment of a minimum mandatory dividend of 25% of adjusted profit, in accordance with Law 6404/76. Provision for payment of minimum mandatory dividends was not recorded due to the loss for the year.

23 Earnings per Share

Basic earnings per share

Basic earnings or losses per share as at December 31, 2016 were calculated by dividing the profit for the year, attributable to the holders of parent company's common shares, by the weighted average number of common shares available during the period, compared to the period ended December 31, 2015, as shown below:

	Parent Company	
	12.31.2016	**12.31.2015**
Profit attributable to shareholders	(48,963)	(21,182)
Number of shares (in thousands - weighted average)	59,533	40,307
Basic earnings/loss per share (R$)	(0.822)	(0.526)

The Company does not have any preferred shares.

Diluted earnings per share

Diluted earnings or losses per share were calculated by dividing the profit attributable to the holders of parent company’s common shares by the weighted average number of common shares available during the periods ended December 31, 2016 ad 2015, plus the weighted average number of common shares issued in the exchange of all potential common shares diluted into common shares, as shown below:

	Parent Company	
	12.31.2016	12.31.2015
Shares' weighted average	59,533	40,307
Potential impact from stock option exercise (weighted average)	-	-
Total shares' weighted average - diluted result (thousands of shares)	59,533	40,307
Diluted earnings per share (R$)	(0.822)	(0.526)

The average market price of the Company's shares, for the purpose of calculating the dilutive effects of the stock options, was based on the market prices quoted in the year the options remained outstanding.

24 Operating income

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Gross operating revenue				
Sale of goods	4,339,934	3,871,823	4,701,079	3,980,914
Taxes and other deductions	(589,571)	(510,864)	(616,410)	(515,771)
Net operating revenue	**3,750,363**	**3,360,959**	**4,084,669**	**3,465,143**

25 Finance income (costs)

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Finance costs				
Interest	(69,188)	(47,990)	(107,017)	(64,193)
Finance costs - APV	(29,145)	(22,910)	(29,145)	(22,910)
SWAP results - market adjustment	(2,722)	187	(5,359)	(1,239)
Other	(15,831)	(15,823)	(16,511)	(17,314)
	(116,886)	(86,536)	(158,032)	(105,656)
Finance income				
Interest	12,019	13,396	13,311	14,909
Gains on inflation adjustment	636	1,179	628	1,179
Finance income - APV	15,140	11,334	15,140	11,334
Other	370	31	371	35
	28,165	25,940	29,450	27,457
Finance Income (costs)	**(88,721)**	**(60,596)**	**(128,582)**	**(78,199)**

26 Financial instruments and risk management

The Company and its subsidiaries carry out transactions involving financial instruments. The management of these instruments is carried out following operational strategies and internal controls with the objective of ensuring the liquidity, profitability and safety of the business. The contracting of financial instruments for hedging purposes is carried out based on a periodic analysis of the risk exposure that the Management intends to hedge (exchange rate, interest rate, etc.), which is approved by the Board of Directors. Control consists of constantly monitoring contracted terms versus prevailing market terms. The Company and its subsidiaries do not make investments of a speculative nature in derivatives or any other risk assets. The results obtained from these transactions are consistent with the policies set by the Company's management.

The estimated realizable values of financial assets and liabilities of the Company were determined based on available market inputs and appropriate estimates and methodologies. However, judgments and interpretations were applied to produce the most appropriate realizable value. The amounts estimated based on this methodology may not necessarily be realizable in the market.

The management and monitoring of these instruments are carried out through systematic monitoring, with a view to ensuring liquidity, profitability and safety of the business.

26.1 Capital management

The Company maintains a sound capital basis to ensure investor, creditor and market confidence, as well as the future development of the business. The return on invested capital, considering the results of the Company’s economic activities and the dividends for its shareholders, is also monitored.

Management seeks maintaining a balance between the highest possible returns with more appropriate levels of borrowings and the advantages and security provided by a healthy capital position.

26.2 Fair value versus carrying amount

Management understands that the financial assets and liabilities not shown in this note are at stated their carrying amounts, with a reasonable presentation of fair value. The fair values of the financial assets and liabilities, together with the carrying amounts presented in the asset balance sheet, are as follows:

	Parent Company				
	12.31.2016		12.31.2015		
	Carrying amount	Fair value	Carrying amount	Fair value	*Level*
Assets stated at fair value					
Short-term investments	173,174	173,174	193,969	193,969	*2*
Asset derivatives - Swap	0	0	27,966	27,966	*2*
Assets stated at amortized cost					
Trade receivables	632,321	632,321	500,601	500,601	*1*
Related parties	165,376	165,376	64,971	64,971	*1*
Accounts receivable	165,376	165,376	58,632	58,632	*1*
Intercompany loans	-	-	6,339	6,339	*1*
Liabilities stated at fair value					
Borrowings and financing	240,326	240,326	197,493	197,493	*2*
Liability derivatives - Swap	(5,072)	(5,072)	-	-	*2*
Liabilities stated at amortized cost					
Borrowings and financing	232,863	241,670	182,841	182,846	*2*
Trade payables	687,409	687,409	699,207	699,207	*2*
Related parties	7,489	7,489	10,345	10,345	*1*

	Consolidated				
	12.31.2016		12.31.2015		
	Carrying amount	Fair value	Carrying amount	Fair value	*Level*
Assets stated at fair value					
Short-term investments	181,713	181,713	226,852	226,852	*2*
Asset derivatives - Swap	-	-	37,982	37,982	*2*
Assets stated at amortized cost					
Accounts receivable	527,268	527,268	487,417	487,417	*1*
Liabilities stated at fair value					
Borrowings and financing	354,763	354,763	298,912	298,912	*2*
Liability derivatives - Swap	(11,985)	(11,985)	-	-	*2*
Liabilities stated at amortized cost					
Borrowings and financing	253,944	262,262	228,756	228,764	*2*
Trade payables	734,908	734,908	711,365	711,365	*2*

The tables above also present the fair value hierarchy according to the valuation method used by the Company. The different levels are defined as follows:

- Level 1: Active market inputs (unadjusted quoted prices) so that it is possible to access these figures on a daily basis, including on the fair value measurement date.

- Level 2: Inputs other than active market inputs (unadjusted quoted prices) included in Level 1, extracted from the pricing model based on observable market inputs.

- Level 3: Inputs obtained using the pricing model based on unobservable market inputs.

26.3 Valuation of financial instruments – fair value

a. Short-term Investments

Classified as financial assets measured at fair value through profit or loss. The interest rates earned on the Company's cash and cash equivalents at the end of the year approximate the market rates for transactions with similar nature, terms and risk, and thus the carrying amounts of cash and cash equivalents approximate their fair values.

b. Borrowings and financing

Borrowings contracted in domestic currency are classified as financial liabilities recognized at their amortized cost. The interest rate variances on borrowings and the market rates for instruments with similar nature, terms and risk cause the carrying amounts of borrowings to be different from their fair values.

Borrowings contracted in foreign currency are classified as financial liabilities and recognized at fair market value, using the Hedge Accounting and Fair Value Option methodologies.

c. Financial instruments – swaps

Measured at fair value; their purpose is to hedge assets against foreign currency fluctuations.

The outstanding swap transactions were contracted simultaneously with the foreign currency-denominated loan transactions, taking into account rates and equivalent amounts, swapping the exchange-rate exposure of the loans with exposure to the CDI rate, therefore not qualifying for hedge accounting. The gains and losses arising on the recognition of interest and mark-to-market adjustments are allocated to profit or loss.

Swaps are recognized at fair value. In swaps contracted, the Company will receive exchange fluctuation plus a fixed rate (long position) and in exchange will pay a percentage of the CDI rate (short position).

The fair value of the long position is calculated as follows: the amount in US dollars on the transaction’s maturity date is discounted to present value by the prorating factor of the dollar exchange rate coupon corresponding to the maturity date on the calculation date. The fair value of the long position is equal to the present value in US dollars multiplied by the closing Ptax rate on the base date.

The fair value of the short position is calculated as follows: the amount is calculated in Brazilian Reais on the calculation date by the daily allocation of each contract’s CDI percentage factor. Based on this amount, the estimated amount is calculated on the maturity date by multiplying the Brazilian market fixed interest rate by the contracted CDI rate percentage. The fair value of the short position is equal to the amount estimated on the maturity date, discounted to present value by a prorating factor of the Brazilian fixed rate.

The amount to be settled on the maturity date will be the difference between the long position and the short position. The amounts of the dollar exchange rate coupon and the fixed interest rate are obtained from independent market sources, such as the BM&F (Brazilian commodities and futures exchange) and providers of financial information, while the dollar Ptax rate is obtained from BACEN.

The swap transactions used to hedge borrowings are summarized as follows:

	Parent Company			
	Notional value		Fair value (*)	
Description	**12.31.2016**	**12.31.2015**	**12.31.2016**	**12.31.2015**
Swap agreements				
Index:				
U.S. dollar + 5.5985% p.a. Op. Safra				
Total Op. Safra	-	9,428	-	6,934
Index:				
U.S. dollar + 3.00% p.a. Op. **BB**				
Total Op. BB	-	28,937	-	8,455
Index:				
U.S. dollar + 3.25% p.a. Op. **Itaú**				
Total Op. Itaú	47,854	47,854	75	9,697
Index:				
U.S. dollar + 2.4706% p.a. Op. Itaú				
Total Op. Itaú	-	17,000	-	(772)
Index:				
Dólar norte-americano + 4,6398 % ao ano Op. HSBC				
Total Op. HSBC	-	25,000	-	(1,318)
Index:				
U.S. dollar + 6.69% p.a. Op. HSBC				
Total Op. HSBC	30,000	30,000	(1,467)	4,969
Index:				
U.S. dollar + 6.60% p.a. Op. HSBC				
Total Op. HSBC	20,000	-	(754)	-
Index:				
U.S. dollar + 5.92% p.a. Op. HBC				
Total Op. HSBC	25,000	-	(1,025)	-
Index:				
U.S. dollar + 6.7960% p.a. Op. Safra				
Total Op. Safra	16,159	-	(574)	-
Index:				
U.S. dollar + 5.93% p.a. Op. Santander				
Total Op. Santander	20,000	-	0	-
Index:				
U.S. dollar + 5.90% p.a. Op. Santander				
Total Op. Santander	24,000	-	(378)	-
Index:				
U.S. dollar + 5.87% p.a. Op. Santander				
Total Op. Santander	34,000	-	(462)	-
Index:				
U.S. dollar + 5.36% p.a. Op. Itaú				
Total Op. Itaú	14,963	-	(447)	-
Index:				
U.S. dollar + 6.24% p.a. Op. BBM				
Total Op. BBM	19,000	-	(39)	-
Total long position	250,976	158,219	(5,072)	27,966
Current assets	-	-	0	18,269
Non-current assets	-	-	75	9,697
Current liabilities	-	-	(2,406)	-
Non-current liabilities	-	-	(2,742)	-

	CSB Varejo			
	Notional value		Fair value (*)	
Description	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Swap agreements				
Index:				
U.S. dollar + 5.65% p.a. Op. Itaú				
Maturity: 05/2017	10,000	-	(4)	-
Total Op. Itaú	**10,000**	**-**	**(4)**	**-**
Index:				
U.S. dollar + 6.095% p.a. Op. HSBC				
Maturity: 04/2017	3,500	-	(630)	-
Total Op. HSBC	**3,500**	**-**	**(630)**	**-**
Index:				
U.S. dollar + 3.97% p.a. Op. Santander				
Maturity: 03/2016	-	7,975	-	1,200
Total Op. Santander	**-**	**7,975**	**-**	**1,200**
Index:				
U.S. dollar + 3.98% p.a. Op. Santander				
Maturity: 03/2016	-	15,000	-	2,485
Total Op. Santander	**-**	**15,000**	**-**	**2,485**
Index:				
U.S. dollar + 2.8723% p.a. Op. HSBC				
Maturity: 07/2016	-	10,000	-	1,090
Total Op. Santander	**-**	**10,000**	**-**	**1,090**
Index:				
U.S. dollar + 4.6580% p.a. Op. Safra				
Maturity: 08/2016	-	10,000	-	193
Total Op. Safra	**-**	**10,000**	**-**	**193**
Index:				
U.S. dollar + 1.70% p.a. Op. Itaú				
Maturity: 03/2016	-	40,002	-	5,048
Total Op. Itaú	**-**	**40,002**	**-**	**5,048**
Total long/short position	**13,500**	**82,977**	**(634)**	**10,016**
Current assets	-	-	**-**	**10,016**
Current liabilities	-	-	**(634)**	**-**

	Tamoio Varejo			
	Notional value		Fair value (*)	
Description	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Swap agreements				
Index:				
U.S. dollar + 4.71% p.a. Op. Itaú				
Maturity: 03/2018	-	-	(4,863)	-
Total Op. Itaú	**-**	**-**	**(4,863)**	**-**
Index:				
U.S. dollar + 5.36 % p.a. Op. Itaú				
Maturity: 03/2017	4,987	-	(149)	-
Total Op. Itaú	**4,987**	**-**	**(149)**	**-**
Index:				
U.S. dollar + 5.84 % p.a. Op. Santander				
Maturity: 09/2018	9,800	-	(134)	-
Total Op. Santander	**9,800**	**-**	**(134)**	**-**
Index:				
U.S. dollar + 4.777% p.a. Op. Santander				
Maturity: 09/2018	9,400	-	(128)	-
Total Op. Santander	**9,400**	**-**	**(128)**	**-**
Index:				
U.S. dollar + 4.777% p.a. Op. Santander				
Maturity: 09/2018	9,400	-	(128)	-
Total Op. Santander	**9,400**	**-**	**(128)**	**-**
Total long/short position	**33,587**	**-**	**(5,402)**	**-**
Current liabilities	**33,587**	**-**	**(5,402)**	**-**

	Rosário			
	Notional value		Fair value (*)	
Descrição	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Swap agreements				
Index:				
U.S. dollar + 6.30% p.a. Op. Safra				
Maturity: 12/2018	30,000	-	(877)	-
Total Op. Itaú	**30,000**	**-**	**(877)**	**-**
Total long/short position	**30,000**	**-**	**(877)**	**-**
Current liabilities	**30,000**	**-**	**(877)**	**-**

	Consolidated			
	Notional value		Fair value (*)	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Total long position	**328,063**	**241,196**	**-**	**37,982**
Total short position	-	-	**(11,985)**	-
Current assets	-	-	0	28,285
Non-current assets	-	-	75	9,697
Current liabilities	-	-	(9,319)	-
Non-current liabilities	-	-	(2,742)	-

26.4 Risk management

a. Credit risk

The Company's sales and credit granting policies follow strict credit guidelines set by Management, consisting of constantly monitoring balances and transactions with customers, taking into account payment timeliness and risk dilution, seeking to minimize possible losses as a result of bad debts.

The Company has recorded an allowance for doubtful debts, the balance of which at December 31, 2016 in the Parent was R$18,543 (R$10,415 at December 31, 2015), and in the consolidated was R$18,729 (R$11,045 at December 31, 2015) to cover possible credit risks, as described in Note 7.

		Carrying Amount			
		Parent Company		Consolidated	
	Note	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Accounts receivable	7	632,321	500,601	527,268	487,417
Other accounts receivable	11	45,456	26,578	52,584	30,494
Cash and cash equivalents	6	184,225	213,688	205,506	253,048
		862,002	**740,867**	**785,358**	**770,959**

b. Liquidity Risk

The Company's general policy is to maintain adequate levels of liquidity to ensure its ability to meet present and future obligations, and take advantage of commercial opportunities as they arise. Management believes that the Company presents an appropriate balance between the maturities of its assets and liabilities, bearing in mind its satisfactory cash generation capacity, as measured by EBITDA.

The table below shows the financial liability positions by due date:

December 31, 2016	Parent Company					
	Carrying amount	Cash flow by contract	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years
Non-derivative financial liabilities:						
Borrowings and financing	473,189	574,933	46,077	93,515	209,804	225,537
Trade payables	687,409	688,924	688,924	-	-	-

December 31, 2015	Parent Company					
	Carrying amount	Cash flow by contract	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years
Non-derivative financial liabilities:						
Borrowings and financing	380,334	428,029	128,705	109,010	123,837	66,477
Trade payables	699,207	702,224	702,224	-	-	-

December 31, 2016	Consolidated					
	Carrying amount	Cash flow by contract	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years
Non-derivative financial liabilities:						
Borrowings and financing	608,707	726,782	88,829	130,651	281,631	225,671
Trade payables	734,908	736,422	736,422	-	-	-

December 31, 2015	Consolidated					
	Carrying amount	Cash flow by contract	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years
Non-derivative financial liabilities:						
Borrowings and financing	527,668	604,361	250,208	109,010	123,837	121,306
Trade payables	711,365	714,382	714,382	-	-	-

c. Market Risk

Interest rate risk

This risk derives from the impact of the fluctuations in interest rates, not only on finance costs associated with borrowings and financing, but also on finance income, from short-term investments. This risk arises from the possibility of significant fluctuations in the CDI (overnight) rate.

The financial index for the Company's transactions is the CDI rate fluctuation. As at December 31, 2016, gross debt indexed to the CDI plus the position taken in the swap contracts totals R$608,707 (R$527,668 at December 31, 2015). The Company considers the risk of CDI fluctuation rate as a significant market risk factor.

Under the “probable” scenario, considering market expectations in accordance with data published by BACEN on October 28, 2016, an effective average rate of 13.75% is estimated for 2016, compared to the effective rate of 14.00% in the year ended December 31, 2016. Furthermore, in sensitivity tests under more rigorous scenarios, we have considered an increase in the average CDI rate by 25% and 50%.

The table below shows a sensitivity analysis under three proposed scenarios, considering the negative impact on income before the taxes, generated by the outstanding debt indexed to the CDI rate at December 31, 2016:

Parent Company

Operação	**Probable scenario**	**Scenario I - 25% stress**	**Scenario II - 50% stress**
Investments pegged to the CDI rate	24,244	30,305	36,367
Borrowings pegged to the CDI rate	(33,646)	(42,057)	(50,468)
SWAPs pegged to the CDI rate	(32,601)	(40,751)	(48,901)
Interest expense on net debt pegged to the CDI rate	(42,003)	(52,503)	(63,002)
Estimated annual rate of the CDI in 2016	14.00%	17.50%	21.00%

Consolidated

Operation	**Probable scenario**	**Scenario I - 25% stress**	**Scenario II - 50% stress**
Investments pegged to the CDI rate	25,440	31,800	38,160
Borrowings pegged to the CDI rate	(49,667)	(62,083)	(74,500)
SWAPs pegged to the CDI rate	(35,552)	(44,440)	(53,328)
Interest expense on net debt pegged to the CDI rate	(59,779)	(74,723)	(89,668)
Estimated annual rate of the CDI in 2016	14.00%	17.50%	21.00%

d. Currency risk

The Company considers the exposure to the US dollar fluctuation to be a significant market risk, and to mitigate this risk it has contracted swap transactions with Itaú and Safra, subject to the same dates, due dates and notional amounts of its liability exposures contracted with the same institution in foreign currency, so as to eliminate the currency risk by swapping this with fluctuation for a percentage of the CDI rate.

The Company has calculated the fluctuations in the carrying amounts of the financial instruments hedging currency risks, in three distinct scenarios, considering the possible fluctuation in the dollar Ptax rate. The Company took into account the dollar rate projections for each maturity date of its financial instruments–obtained on BM&FBovespa on December 31, 2016 to create that scenario.

The swap has no initial cost. The swap transaction is matched with borrowings in foreign currency in terms of notional amounts, term and interest rate, with no effect on due date. The difference between the present values of the swap transaction's long position (US dollar) and the short position (CDI) may be recorded either in the group of assets or in the group of liabilities, according to the nature of the balance resulting therefrom.

The Company has a policy of settling long-term contracts only on the due date. The net effect shown in the sensitivity analysis schedule at December 31, 2016 is generated by the difference in the measurement method of the financial instruments indexed to exchange rate fluctuation. While borrowings are recognized at their amortized cost, swaps are recognized at their fair values in accordance with CVM Resolutions 566 and 603. On the dates the borrowings fall due, their amortized cost will be equal to their fair values, completely eliminating the effect of currency fluctuations on the Company's cash.

The Company does not carry out transactions involving financial risk instruments of a speculative nature.

As shown below, in none of the scenarios, considering the US dollar fluctuation risk, the Company would incur an accounting loss:

Sensitivity Analysis

Parent Company

	Parent Company		
	Probable scenario	**Scenario I - 25% stress**	**Scenario II - 50% stress**
USD			
Exchange rate on 12/31/2016 (a)	3.26	3.26	3.26
Estimated exchange rate for 12/31/2017 (a)	3.50	2.63	1.75
Borrowings in foreign currency	(17,764)	46,758	111,281
Swaps (Long position in foreign currency)	17,635	(46,420)	(110,476)
	(129)	**338**	**805**

Consolidated

	Consolidated		
	Probable scenario	**Scenario I - 25% stress**	**Scenario II - 50% stress**
USD			
Exchange rate on 12/31/2016 (a)	3.26	3.26	3.26
Estimated exchange rate for 12/31/2017 (a)	3.50	2.63	1.75
Borrowings in foreign currency	(26,223)	69,024	164,270
Swaps (Long position in foreign currency)	25,957	(68,324)	(162,605)
	(266)	**700**	**1,665**

(a) Source: Central Bank of Brazil – exchange rates and Focus market readout

e. Capital risk

The Group manages its capital with the objective of ensuring that its companies will continue to operate in such a way as to provide the maximum return to its shareholders through the optimization of its capital structure. The Group's capital structure consists of raising funds through the new borrowings and financing, cash and cash equivalents, short-term investments, dividend payments, reserves and retained earnings.

27 Results by Business Segment

The Company's operations are broken down into segments according to the organization and management model approved by the Board of Directors, as follows:

The information per operating segment is presented in accordance with CPC 22 *Operating Segments* (IFRS 8).

- Pharmaceutical Distribution: This is the Company's core business and comprises wholesale operations to pharmaceutical retailers, with the sale of medicines and personal care and beauty products.

- Retail: This segment encompasses the acquired retail chains Drogasmil, Tamoio and Rosário, which together have 279 stores in different areas of the State of Rio de Janeiro and the Midwest region and place Profarma among the largest pharmaceutical retailers in Brazil.

Income Statement by Business Segment

	Pharmaceutical Distribution	Intercompany Transactions	Other	Pharmaceutical Retail	Consolidated
Gross revenue	4,340,381	(478,723)	-	839,421	4,701,079
Net revenue	3,750,114	(471,684)	-	806,239	4,084,669
Gross profit	371,373	-	-	253,880	625,253
Depreciation	(7,590)	-	(3,452)	(8,460)	(19,502)
Operating expenses (SG&A)	(274,449)	-	(117)	(230,233)	(504,799)
Other operating income (expenses) and equity in the earnings (losses) of joint ventures	(5,080)	-	1,705	(21,413)	(24,788)
Profit/Loss before finance result and taxes	84,253	-	(1,867)	(6,222)	76,164

Balance Sheet by Business Segment:

	Balances at 12.31.2016		
	Pharmaceutical Distribution	Pharmaceutical Retail	Total
Trade receivables	632,747	45,651	678,398
Inventory	469,190	180,319	649,509
Trade payables	680,091	205,945	886,036

Other assets and liabilities not shown in the above table are managed jointly by the Management of the Company.

28 Operating expenses

	Parent Company		Consolidated	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
General and administrative expenses				
Payroll and outsourced services	(59,224)	(55,364)	(86,352)	(64,235)
Organizational structure	(28,772)	(26,665)	(40,373)	(30,920)
	(87,996)	**(82,029)**	**(126,725)**	**(95,155)**
Selling and marketing expenses				
Payroll and outsourced services	(48,137)	(41,381)	(215,595)	(93,620)
Organizational structure	(9,022)	(24,123)	(39,578)	(54,586)
	(57,159)	**(65,504)**	**(255,173)**	**(148,206)**
Logistics and distribution expenses				
Payroll and outsourced services	(102,901)	(95,564)	(106,876)	(100,395)
Organizational structure	(15,427)	(13,151)	(16,025)	(13,815)
	(118,328)	**(108,715)**	**(122,901)**	**(114,210)**

The breakdown of cost of sales was not reported as the item is composed primarily of goods acquired from third-parties.

29 Insurance coverage

The Company and its subsidiaries adopt a policy of contracting insurance coverage for assets subject to risk, for an amount considered to be sufficient to cover possible losses, considering the nature of its activity. The adopted risk assumptions, given their nature, are not within the scope of a special review, and consequently were not reviewed by the independent auditors.

As at December 31, 2016, the insurance coverage was distributed as follows:

Insured items	Type of coverage	Premium maximum limit
Facilities, equipment and inventories	Fire/Lightning/Explosion	543,608
Loss of profits (overheads, loss of net profit)	Loss of Profit	214,437
Total		**758,045**

30 Liens, pledges and guarantees

The Company had guarantees from Safra, HSBC, Banco do Brasil, Itaú, Bradesco, Austral and Swissre totaling R$18,797 at December 31, 2016, referring to its transactions with its suppliers and lawsuits, at the annual average rate of 2% of said transactions, renewed annually.

Board of Executive Officers

Chief Executive Officer
Sammy Birmarcker

Executive Officer
Maximiliano Guimarães Fischer

Board Members
Sammy Birmarcker
Manoel Birmarcker
Armando Sereno
Dan Ioschpe
Fernando Perrone
James Frary

Members of the Audit Board
Gilberto Braga
Elias de Matos Brito
Flavio José Rissato Adorno

Accountant
Cátia Campos Victer Rodrigues
CRC-RJ 078.195/O-3

SHAREHOLDING POSITION OF HOLDERS OF MORE THAN 5% OF THE COMPANY'S STOCK, UP TO THE INDIVIDUAL LEVEL				
Position at 12/31/2016 (In share unit)				
DIRECT PROFARMA DISTRIBUIDORA DE PRODUTOS FARMACÊUTICOS S.A.	Total Shares Issued by the Company		Shareholder Position Holders of more than 5%	
	Common Shares		Total Shares	
Shareholder	Number	%	Number	%
BMK Participações S.A.	26,808,323	41.35%	26,808,323	41.35%
BPL Brazil Holding Company	15,748,589	24.29%	15,748,589	24.29%
Vinci Equities Gestora de Recursos Ltda. (*)	3,462,396	5.34%	3,462,396	5.34%
Manoel Birmarcker	1,258,063	1.94%	1,258,063	1.94%
Sammy Birmarcker	1,204,070	1.86%	1,204,070	1.86%
Cacilda Birmarcker	86,772	0.13%	86,772	0.13%
Deborah Uderman	139,613	0.22%	139,613	0.22%
Treasury Shares	1,202,200	1.85%	1,202,200	1.85%
Other shareholders	14,927,784	23.02%	14,927,784	23.02%
Total	**64,837,810**	**100.00%**	**64,837,810**	**100.00%**

(*) Manager of fund holding ownership interest in the Company.

SHAREHOLDING POSITION OF HOLDERS OF MORE THAN 5% OF THE COMPANY'S STOCK, UP TO THE INDIVIDUAL LEVEL				
Position at 12/31/2015 (In share unit)				
DIRECT PROFARMA DISTRIBUIDORA DE PRODUTOS FARMACÊUTICOS S.A.	Total Shares Issued by the Company		Shareholder Position Holders of more than 5%	
	Common Shares		Total Shares	
Shareholder	Number	%	Number	%
BMK Participações S.A.	18,474,989	44.5%	18,474,989	44.5%
BPL Brazil Holding Company	8,296,897	20.0%	8,296,897	20.0%
HSBC Investments Gestão de Recursos Ltda (*)	3,773,713	9.1%	3,773,713	9.1%
Manoel Birmarcker	827,901	2.0%	827,901	2.0%
Sammy Birmarcker	794,301	1.9%	794,301	1.9%
Cacilda Birmarcker	54,200	0.1%	54,200	0.1%
Deborah Uderman	115,000	0.3%	115,000	0.3%
Treasury Shares	1,202,200	2.9%	1,202,200	2.9%
Other shareholders	7,969,902	19.2%	7,969,902	19.2%
Total	**41,509,103**	**100.0%**	**41,509,103**	**100.0%**

(*) Manager of fund holding ownership interest in the Company.

SHAREHOLDING POSITION OF THE CONTROLLING SHAREHOLDER, MANAGEMENT AND OUTSTANDING SHARES				
Position at 12/31/2016 (In share unit)				
PROFARMA DISTRIBUIDORA DE PRODUTOS FARMACÊUTICOS S.A.	Total Shares Issued by the Company		Posição Acionária Consolidada	
	Common Shares		Total Shares	
Shareholder	Number	%	Number	%
Controlling Shareholder	29,496,841	45.5%	29,496,841	45.5%
Board of Directors	3	0.0%	3	0.0%
Board of Executive Officers	240,119	0.4%	240,119	0.4%
Treasury Shares	1,202,200	1.9%	1,202,200	1.9%
Other Shareholders	33,898,647	52.3%	33,898,647	52.3%
Total	**64,837,810**	**100.0%**	**64,837,810**	**100.0%**

SHAREHOLDING POSITION OF THE CONTROLLING SHAREHOLDER, MANAGEMENT AND OUTSTANDING SHARES				
Position at 12/31/2015 (In share unit)				
PROFARMA DISTRIBUIDORA DE PRODUTOS FARMACÊUTICOS S.A.	Total Shares Issued by the Company		Posição Acionária Consolidada	
	Common Shares		Total Shares	
Shareholder	Number	%	Number	%
Controlling Shareholder	20,266,391	48.8%	20,266,391	48.8%
Board of Directors	3	0.0%	3	0.0%
Board of Executive Officers	176,676	0.4%	176,676	0.4%
Treasury Shares	1,202,200	2.9%	1,202,200	2.9%
Other Shareholders	19,863,833	47.9%	19,863,833	47.9%
Total	**41,509,103**	**100.0%**	**41,509,103**	**100.0%**

Arbitration Clause

In compliance with Article 52, Chapter VIII of its Bylaws, the Company, its Shareholders, Management and members of the Audit Board (when instated) hereby undertake to resolve by means of arbitration, any and every dispute or controversy that may arise among them, related to or deriving from, and specially due to the application, validity, effectiveness, interpretation, breach and its effects of the provisions of the Brazilian Corporations Law, the Company's Bylaws, rules issued by the National Monetary Council (CMN), the Central Bank of Brazil and the Brazilian Securities and Exchange Commission (CVM), as well as other rules applicable to the operation of capital markets in general, in addition to those provided for in the Novo Mercado Rules, the Market Arbitration Panel Rules and the Novo Mercado Listing Agreement.

Statement of the Officers on the Financial statements

STATEMENT

The undersigned officers of Profarma Distribuidora de Produtos Farmacêuticos S.A. and its subsidiaries hereby declare that, at the meeting held on this date, they reviewed, discussed, approved and decided to submit to the Board of Directors for approval the Parent Company's Individual and the Consolidated Financial Statements.

Rio de Janeiro, March 10, 2017.

____
Sammy Birmarcker
Chief Executive Officer

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Maximiliano Guimarães Fischer
Investor Relations Officer

Statement of the Officers on the Independent Auditors' Report

STATEMENT

The undersigned officers of Profarma Distribuidora de Produtos Farmacêuticos S.A. and its subsidiaries hereby declare that, at the meeting held on this date, they reviewed, discussed, approved and decided to submit to the Board of Directors for approval the independent auditors' report.

Rio de Janeiro, March 17, 2017.

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Sammy Birmarcker
Chief Executive Officer

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Maximiliano Guimarães Fischer
Investor Relations Officer

Report of the Supervisory Board or equivalent body

SUPERVISORY BOARD REPORT

THE SUPERVISORY BOARD of PROFARMA DISTRIBUIDORA DE PRODUTOS FARMACÊUTICOS S.A., within its attributions provided by Law and the Bylaws, pursuant to Article 163 of Federal Law 6,404/1976, have examined the annual management report, financial statements, capital budget and management statements for allocation of profit, all of which related to the fiscal year ended December 31, 2016. Based on the examined documents, on the analysis made and clarifications presented by the representative of the Company, and also based on the unqualified report of the external auditors, KPMG Auditores Independentes, dated March 17, 2017, the SUPERVISORY BOARD, has decided, by unanimous vote, that said documents are in adequate conditions to be submitted to the General Shareholders' Meeting.

Rio de Janeiro, March 17, 2017.

Gilberto Braga
Chairman of the Supervisory Board and of the Meeting

Elias De Matos Brito
Member of the Supervisory Board and Secretary of the Meeting

Flavio José Rissato Adorno
Member of the Supervisory Board

Independent auditor's report on the financial statements

To the Directors, Executive Officers and Shareholders of

Profarma Distribuidora de Produtos Farmacêuticos S.A. Rio de Janeiro - Rio de Janeiro

Opinion

We have audited the accompanying individual and consolidated financial statements of Profarma Distribuidora de Produtos Farmacêuticos S.A. ("Company"), identified as Parent Company and Consolidated, respectively, which comprise the balance sheet as of December 31, 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the significant accounting policies and other explanatory information.

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the financial position of Profarma Distribuidora de Produtos Farmacêuticos S.A. as of December 31, 2016, and its financial performance and their cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and 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. In accordance with said standards, our responsibilities are described in the next section, namely "Responsibilities of the auditor for the audit of the financial statements." We are independent in relation to the Company, in accordance with the relevant ethical principles set forth in the Code of Ethics for Professionals and in the Professional Standards issued by the Brazilian Federal Accounting Council (CFC) and we comply with the other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Main audit issues

The main audit issues are those that in our professional judgment were most significant in our audit of the current year. These issues were treated within the scope of our audit of the financial statements as a whole and in forming our opinion on said financial statements and, therefore, we do not express a separate opinion on said issues.

Existence and measurement of inventories and costs of goods sold (Notes 4g and 8) – Parent Company and Consolidated

The most important segment of the Company is the distribution of drugs to its clients (drugstores). Inventories of drugs, which are very important in the financial statements as a whole, are recorded at cost or net realizable value, whichever is lower. This cost may not be recoverable if these inventories are damaged, become fully or partially obsolete or if their sale price has decreased. When applicable, the net impairment is estimated based on a comparison of average cost and the respective recent sale prices. Due to the significant volume of items and since timely inventory processes and the determination of estimated inventory cost and net impairment value involve estimates and judgments by the Company that could affect the value of these assets in the individual and consolidated financial statements and the investment amount booked at the equity method in the parent company financial statements, we consider this matter to be significant in our audit.

How our audit conducted this issue

- We evaluated the design, implementation and effectiveness of key internal controls related to the approval, recording and physical counting of inventories and the measurement of impairment loss of inventories.

- We monitored, based on sampling, the physical inventories carried out by the Company;

- Based on sampling, we examined the cost of goods receipts and recalculated the average cost recorded;

- We performed tests of realization of the goods resold, to check if the inventories are being realized with positive margins, and concluded that inventories are recorded at cost price or the net realizable value, whichever is lower.

- Our procedures also included an assessment of the disclosures made by the Company.

Allowance for Doubtful Debts – ADD (Note 7) – Parent Company and Consolidated

The Company periodically reviews its accounts receivable in order to estimate the need of recording a provision for impairment losses ("Provision"). The criteria and methodologies for determining the provision are documented in internal policies and, by their nature, require the use of judgment and assumptions by the Company that include analyses of external factors and general economic conditions, as well as internal factors, such as historical losses and credit risk of clients. Due to the significance of accounts receivable, the high degree of judgment involved, the level of uncertainty for determining impairment and the impact that any changes in assumptions used to determine them may have on the individual and consolidated financial statements and on the investment amount booked using the equity method in the parent company financial statements, we consider this matter significant for audit.

How our audit conducted this issue

- We evaluated the design, implementation and effectiveness of key internal controls related to the identification and recording of accounts receivable.

- We evaluated the criteria, assumptions and data used by the Company to determine the levels of delinquency, considering the policies for the receipt of doubtful accounts in comparison with historical data and we recalculated the balance in the provision based on the delay of accounts receivable.

- We performed tests on the integrity of reports used by the Company and the consistency of percentages used in the calculation. We also recalculated the allowance based on assumptions adopted by the Company and compared the balances of important clients with the assumptions used by the Company.

- We also evaluated the changes in allowance for doubtful debts over time and considered the adequacy of the disclosures in the financial statements.

Other information that accompanies the financial statements and the auditor's report
The Company's management is responsible for such other information that comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not include the Management Report and we did not express an audit judgment on this report.

With reference to the audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and assess if this report is substantially inconsistent with the individual and consolidated financial statements or with the knowledge we gained in performing the audit, or otherwise, appears to be materially misstated. If, based on the work performed, we conclude that there is material misstatement in the Management Report, we are required to communicate the fact. We have nothing to report in this regard.

Responsibilities of the management and the governance for the financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and in conformity with accounting practices adopted in Brazil, and for such internal control as Management determines is necessary to enable the preparation of the individual and consolidated 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 evaluating the Company's ability to continue as a going concern, disclosing the issues related with its operating continuity and the use of this accounting base in the preparation of the individual and consolidated financial statements, unless management intends to liquidate the Company or close down its operations, or if it does not have any realistic alternative to prevent the closing down of operations.

The people in charge of the Company's governance are responsible for supervising the process of preparation of the individual and consolidated financial statements.

Responsibilities of the auditor for the audit of the financial statements

Our objective is to obtain reasonable assurance that the individual and consolidated financial statements, taken as a whole, are free of material misstatements, whether caused by error or fraud, and to issue an audit report with our opinion. Reasonable assurance is a high level of security, but it is not a guarantee that an audit performed in accordance with the Brazilian and international audit standards will always detect a material misstatement. Misstatements may result from fraud or error and are considered relevant when, individually or taken together, they can influence, within a reasonable perspective, the economic decisions made by users based on said individual and consolidated financial statements.

As part of audit performed in accordance with Brazilian and international audit standards, we make a professional judgment and maintain an attitude of professional skepticism throughout the audit. In addition:

- We assess the general presentation, structure and content of the individual and consolidated financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the corresponding transactions and the events in a manner compatible with the aim of a fair presentation.

- We communicate with those in charge of governance regarding, among other aspects, the planned scope, the audit time and the significant audit findings, including any significant deficiency in the internal controls identified during our work.

- We identify and assess the material misstatement risks in the individual and consolidated financial statements, whether caused by fraud or error, plan and carry out audit procedures in response to such risks, and obtain adequate and sufficient audit evidence to support our opinion. The risk of non-detection of material misstatement resulting from fraud is bigger than that arising out of error, as that fraud may involve bypassing the internal controls, collusion, forgery, omission or intentional misrepresentations.

- We gain an understanding of the internal controls relevant to the audit so that we can plan audit procedures suitable to the circumstances, but, not with the aim of expressing an opinion on the efficiency of the internal controls of the Company.
- We assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and respective disclosures made by management.
- We obtain appropriate and sufficient audit evidence regarding the financial information of the entities or business activities of the group to express an opinion on the individual and consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the group and, consequently, for the audit opinion.

We issue an opinion on the appropriateness of the use by management of the operating continuity accounting base and, supported by the audit evidence obtained, if there is a significant uncertainty regarding events or conditions that might raise significant doubt as to the Company's ability to continue as a going concern. Our conclusions are grounded in the audit evidences obtained up to the date of our report. However, future events or conditions may impair the ability of the Company to continue as a going concern.

We also provide those in charge of governance a declaration of our compliance with relevant ethical requirements, such as the applicable independence requirement, and we report all relationships or issues that may significantly affect our independence, including the respective safeguards when applicable.

Of the issues we discussed with those in charge of governance, we determined the most significant ones in the audit of the individual and consolidated financial statements of the current year and, as such, they constitute the Main Audit Issues. We describe these issues in our Audit Report, unless any law or regulation prohibits their disclosure to the public, or when, in extremely rare circumstances, we determine that the issue must not be mentioned in our report because the adverse consequences of such disclosure may reasonably overcome the benefits of its communication to the public.

Other issues

Statements of value added

We also examined the individual and consolidated statements of value added (DVA) for the fiscal year ended December 31, 2016, prepared under the responsibility of the Company’s management and presented as required by the Brazilian Corporations Law for publicly held companies and as complementary information for the purposes of IFRS, which do not require the presentation of statements of value added. These statements were submitted to the same audit procedures described earlier and, in our opinion, are presented fairly, in all material respects, in relation to the financial statements taken as a whole.

Rio de Janeiro, March 17, 2017

KPMG Auditores Independentes
CRC SP-014428/O-6 F-RJ

Marcelo Luiz Ferreira
Accountant CRC RJ-087095/0-7