Raia Drogasil S.A.

Financial Statements
December 31, 2013
with Independent Auditor's Report

EARNINGS RELEASE 2013

São Paulo, March 17th, 2014. RaiaDrogasil S.A. (BM&FBovespa: RADL3) announces today its results for the 4th quarter of 2013 (4Q13) and for the fiscal year of 2013. The consolidated financial statements of RaiaDrogasil S.A. for the period ended December 31st, 2013 were prepared in accordance with IFRS and were reviewed by our independent auditors in accordance with Brazilian and international standards of auditing. Such financial statements were prepared in Reais and all growth rates are related to the same period of 2012.

As a result of the creation of RaiaDrogasil, we incurred both in 2013 and in 2012 on certain non-recurring expenses related to the integration and to the alignment of certain accounting practices between the entities. To facilitate a better understanding and analysis of our operating performance, we are supplementally presenting adjusted results for 2013 and 2012 excluding the effects of non-recurring expenses.

In April and May we recorded a reduction in social charges on labor, a line which was classified in the 2Q13 as part of Taxes, Discounts and Returns since it was calculated as a percentage of revenues. In order to maintain historical comparability, we reclassified such charges to Sales Expenses.

2013 HIGHLIGHTS:

Drugstores: 967 stores in operation (131 openings and 24 closures in 2013)

Gross Revenues: R$ 6.5 billion, 15.6% of growth (9.3% for same-store sales)

Gross Margin: 26.8% of gross revenues, a 0.1 percentage point margin increase

Adjusted EBITDA: R$ 357.0 million, an increase of 9.6%, an EBITDA margin of 5.5%

Adjusted Net Income: R$ 175.8 million, 2.7% of net margin

Cash Flow: R$ 45.3 million positive free cash flow, R$ 22.3 million total cash flow

RADL3: **R$ 16.00/share**

Number of Shares: **330,386,000**

Market Cap: **R$ 5,268 million**

Closing: **March 14th, 2014**

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Summary	2012	2013	4Q12	1Q13	2Q13	3Q13	4Q13
(R$ thousand)							
# of Stores (end of period)	864	967	864	895	906	931	967
Store Openings	101	131	42	36	25	29	41
Store Closures	(13)	(24)	(6)	(4)	(10)	(6)	(4)
Net Reopenings/(Suspensions)	0	(4)	0	(1)	(4)	2	(1)
# of Stores (average)	803	902	843	879	897	920	950
Head Count	20,113	21,482	20,113	20,274	21,195	21,268	21,482
Pharmacist Count	3,004	3,322	3,004	3,073	3,207	3,260	3,322
# of Tickets	125,548	133,923	32,205	30,958	33,596	34,567	34,803
Gross Revenues	5,593,835	6,464,103	1,479,979	1,438,405	1,604,091	1,682,958	1,738,649
Gross Profit (Adjusted)	1,494,258	1,732,297	400,578	382,340	433,760	451,785	464,412
% of Gross Revenues	26.7%	26.8%	27.1%	26.6%	27.0%	26.8%	26.7%
EBITDA (Adjusted)	325,845	357,035	83,094	66,165	103,472	90,791	96,607
% of Gross Revenues	5.8%	5.5%	5.6%	4.6%	6.5%	5.4%	5.6%
Net Income (Adjusted)	147,761	175,810	34,784	26,486	58,634	42,623	48,067
% of Gross Revenues	2.6%	2.7%	2.4%	1.8%	3.7%	2.5%	2.8%
Free Cash Flow	(180,708)	45,276	(72,350)	(48,490)	(34,819)	57,736	70,849

LETTER TO OUR SHAREHOLDERS

The 2013 fiscal year was marked by challenges related to our results that ended up frustrating our financial expectations for the year. However, 2013 was also a year of major breakthroughs towards the fulfillment of the vision that guided the formation of Raia Drogasil, by laying the foundation that will allow us to push forward the consolidation of the Brazilian drugstore industry as well as to spearhead a prosperity cycle starting in 2014.

We ended the year with R$ 6.5 billion in gross revenues, a 15.6% growth when compared to 2012. We opened 131 stores and closed 24 as part of a portfolio optimization program. Our organic growth, along with the same-store sales growth, generated a revenue increase of R$ 0.9 billion in 2013, approximately the total revenues of the eighth largest chain in Brazil, thus expanding our industry leadership. We reiterate our guidance of 130 new store openings in 2014 and our belief in being able to sustain significant growth for many years to come, both through our current store formats and through new and innovative formats such as Farmasil, which remains in the pilot stage with 15 stores in operation by the end of 2013.

Our adjusted EBITDA totaled R$ 357.0 million, a 5.5% margin over gross revenues. This represented a margin reduction of 0.3 percentage point when compared to 2012, which was mainly due to a mature store growth of only 4.7% versus an inflation (CPI) of 5.9% in 2013, thus reducing the operating leverage at our stores. Our adjusted net income amounted to R$ 175.8 million, a net margin of 2.7%, while our cash flow from operations reached R$ 282.1 million. We invested R$ 236.8 million in fixed assets with strong financial discipline, by seeking marginal returns consistent with our track record while generating a positive free cash flow of R$ 45.3 million in the year.

On July 23, Raia Drogasil underwent an important management change with the appointment of Marcilio D'Amico Pousada as our new CEO. Marcilio brought 25 years of deep retail experience and a renewed focus on execution and in store operations.

This renewed focus on execution brought significant progress to our integration. We concluded an exhaustive upgrade in our proprietary retail platform, in which we incorporated every vital feature of both Droga Raia and Drogasil to be shared across our brands, and in September, we finally started the rollout. By the end of 2013, we had already migrated 53 Drogasil stores and two distribution centers to the new unified platform, paving the way to the full unification of our corporate systems on February 28th, 2014, as well as to the unification of our store check-out system, the final step of the integration that shall be completed by the second semester of 2014.

Our new unified retail platform will be instrumental in allowing us to reach a new level of execution, by entailing the full integration of our logistics network and by providing several advanced proprietary features such as in pricing, promotions, inventory management and in CRM, among others, that will be shared across all our stores and brands. Furthermore, it will also result in fully unified management processes and organizational structure at our back office.

This emphasis in execution went beyond the integration: we undertook a bold store renovation program (175 stores in 2013 and 216 scheduled for 2014), significantly strengthened our product assortment and merchandising at Drogasil, implemented differentiated services for specific customer segments at Droga Raia, systematically trained our staff, and boosted advertising in recent markets to consolidate our brand, among other initiatives. At the corporate level, we implemented a rigorous cost management program and a new variable compensation model based on global and individual performance targets, which entail full accountability by each executive.

Following a year of significant challenges and accomplishments, we believe our successful integration and renewed focus on execution bring us closer to the initial goal of Raia Drogasil: combining unique assets and competencies to be shared across two iconic brands in Brazilian retail, which will empower us to achieve leaps in execution, in customer service and in value creation to our shareholders.

CHALLENGES FOR 2014

Since the inception of Raia Drogasil on November 2011, we have strived to maintain the identity and the core strengths of each brand while leveraging our assets and competencies across the entire Organization.

We believe our systems integration is generating major breakthroughs, positioning Raia Drogasil for delivering strong value creation to our clients, employees and shareholders.

Therefore, we have established four main priorities for 2014:

Sustainable Growth with Financial Discipline: we intend to continue opening 130 stores per year in the upcoming years with strong financial discipline by seeking high marginal returns, in line with our track record, and by maintaining our financial self-sufficiency through a positive free cash flow generation, such as in 2013. With fiercer competition and a denser presence year after year, we intend to combine the increase in our density in mature markets with the entry into new markets, especially in the Northeastern region. Moreover, it will be paramount to invest in new store formats such as Farmasil, still in the pilot stage to validate its business model, as well as in different formats for Raia and Drogasil, either through compact stores or thorough larger formats.

Productivity Gains: with the completion of the integration of our corporate systems and with the beginning of the unification of our store check-out systems, we intend to do undertake a comprehensive review of our processes, especially in our stores, in order to simplify our activities, to enhance our productivity and to improve our service standards to our customers. The sustainable margin expansion that we expect will depend upon the effective dilution of our sales expenses under a scenario of inflationary pressures. Therefore, our focus will be on initiatives that promote sustainable growth above inflation for our mature stores and that may allow us to reduce sales expenses without affecting our service standards. At the corporate level, we will intensify the control of our administrative expenses, which will also be vital to our margin expansion. Another major focus will be in increasing our gross margins by strengthening our category management and purchasing structure and by boosting the penetration of generics and of proprietary brands.

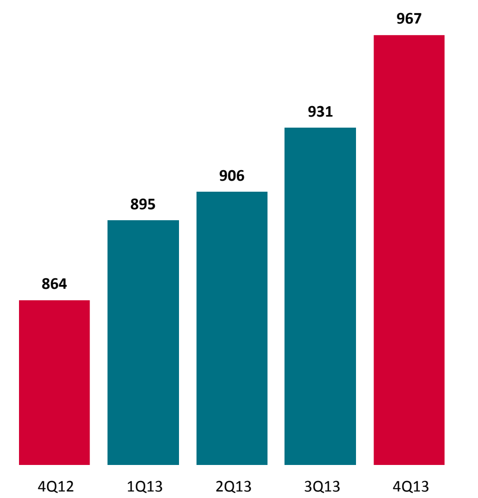
Omni channel: we are one of the leaders in phone sales and in e-commerce in our industry. However, we still manage it as a stand-alone operation, without any integration with our stores. We are strong believers in an integrated omni channel operation aimed at enhancing the shopping experience of our clients and at providing a holistic relationship with them. This is a mid-term journey, but we are already moving in this direction. In 2013, we consolidated Droga Raia's phone sales and e-commerce operations as a single service under the ***drogaraia.com*** brand and launched the ***drogasil.com*** service in December. Furthermore, we also unified our fulfillment for both brands in a single site, and we are already planning the upgrade of our IT infrastructure in 2014, laying the foundation to reach our vision in the following years.

Compensation Alignment: we have significantly improved our management model in 2013 through a management compensation program based on global and individual targets with full accountability by each executive. We intend to enhance this model in 2014 by paying bonuses in restricted shares, which depends on the approval by our General Assembly. We intend to turn our main executives (CEO, VPs and directors) into shareholders, in order to align long-term interests as well as to establish an efficient retention mechanism for our main talents.

STORE DEVELOPMENT

We opened a total of 131 new stores in 2013 and closed 24, ending the year with 967 stores in operation, including the temporary suspension of four stores for rebranding.

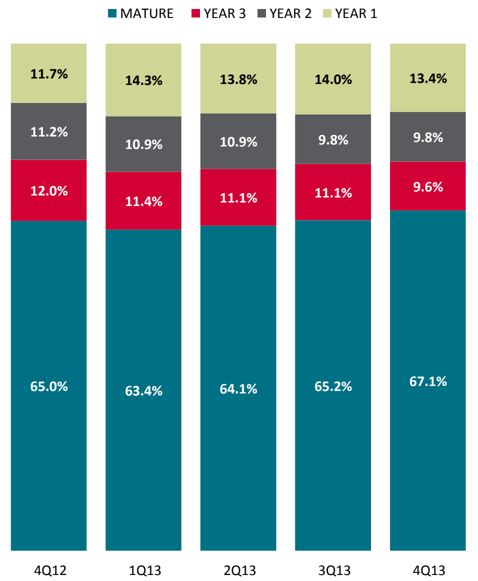
Store Count*



	4Q12	1Q13	2Q13	3Q13	4Q13
Opened	42	36	25	29	41
Closed	(6)	(4)	(10)	(6)	(4)
Reopenings/(Suspentions)	0	(1)	(4)	2	(1)

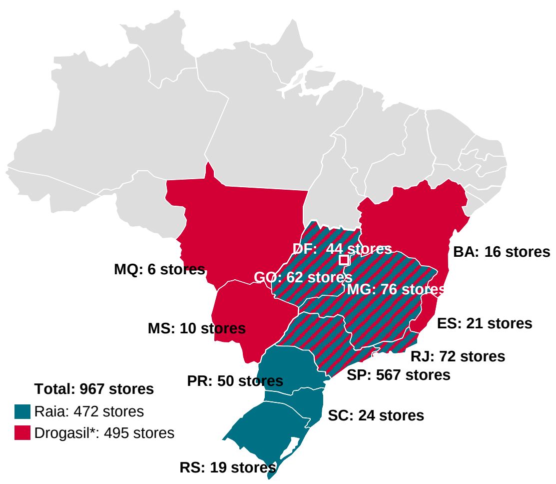
* Does not include suspended stores, which have been temporarily closed to be rebranded.

Age Structure of Store Portfolio

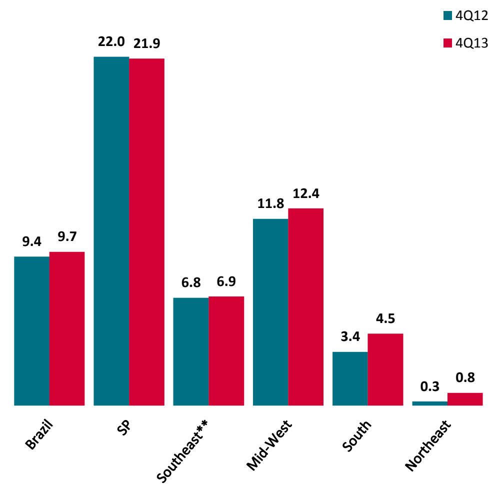


At the end of the period, 32.8% of our stores were still in the process of maturation, and had not yet reached their full potential in terms of revenues and profitability.

Geographic Presence



Market Share (December '13)***



PHARMACEUTICAL MARKET DISTRIBUTION BY REGION (DECEMBER' 2013)

Brazil	SP	Southeast**	Mid-West	South	Northeast
100.0%	27.5%	24.6%	8.5%	17.3%	17.7%

Source: IMS Health
* Includes Farmasil stores
** Excludes São Paulo
*** Comparable Market Share, excluding new informants added to the panel during 2013. Our national market share including the full panel was of 9.4%

We ended 2013 with a comparable market share of 9.7%, a 0.3 percentage point increase versus the previous year.

Our operations in São Paulo lost 0.1 percentage point of market share, due to the underperformance of one of our brands. We recorded a market share gain in every other region where we operate.

We highlight the increase in the Northeast, where we reached a market share of 0.8% (even though we only operate in Bahia), a 0.5 percentage point gain when compared to the same period of 2012.

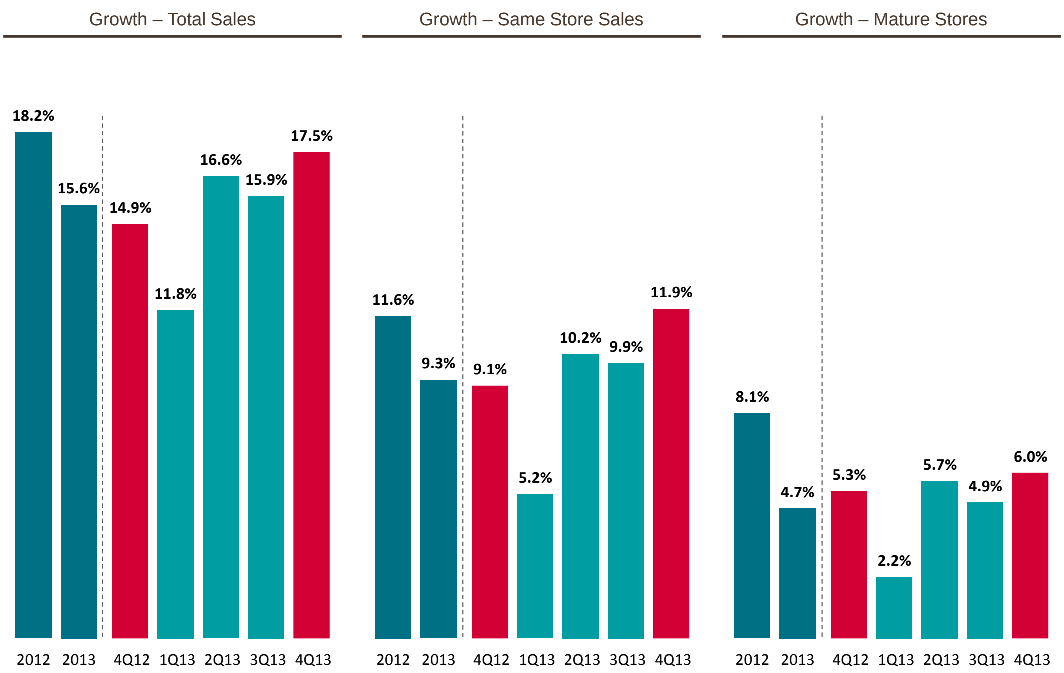
We also recorded a 1.1 percentage point increase in the South, due to the consolidation of our brand that led to the acceleration of store maturation in recent markets, as well as in the Mid-West, due to an acquisition in Goiás and to our progress in Mato Grosso and in Mato Grosso do Sul, offsetting a market share loss in Distrito Federal, where we have not opened stores in the last three years.

Finally, we recorded a slight market share gain of 0.1 percentage point in the Southeast (not including São Paulo), leveraged by our growth in Rio de Janeiro and Espírito Santo.

It is important to highlight that these figures have been adjusted by IMS Health in order to preserve historical comparability by excluding new informants who have been added to the panel during 2013. Considering the inclusion of the new informants, our national market share by year-end was of 9.4%.

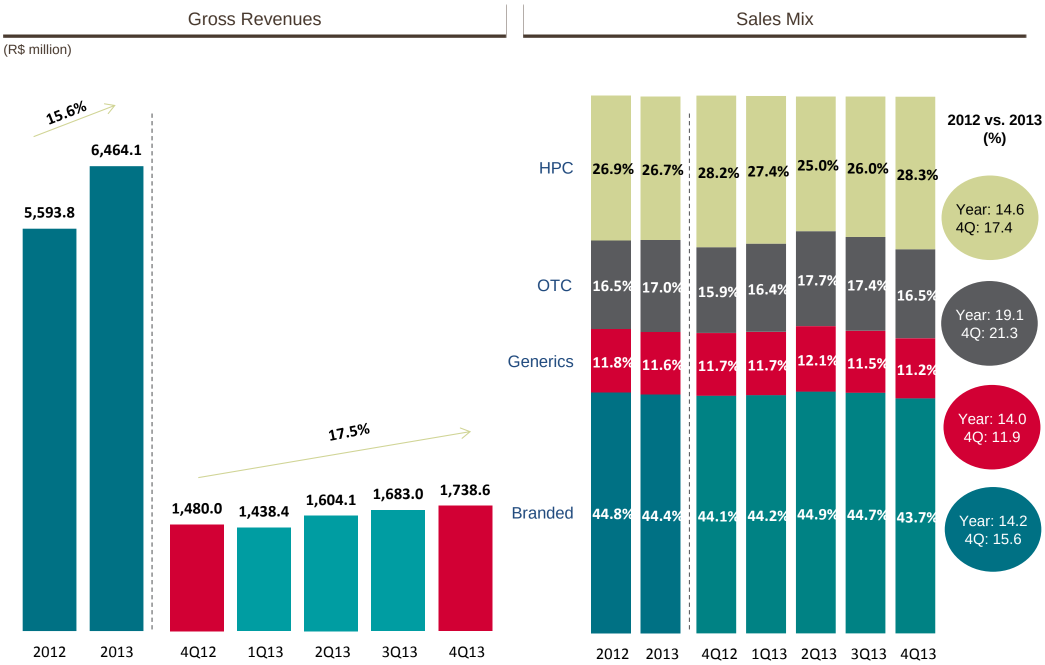
GROSS REVENUES

We ended 2013 with gross revenues of R$ 6,464.1 million, a 15.6% increase over 2012.



Excluding the stores that were closed or temporarily suspended during the year, our revenues would have grown 16.8%, an increase of 1.2 percentage point. We recorded an average growth of 9.3% for our same-store sales, while our mature stores grew by 4.7%.

We ended the 4Q13 with a revenue growth of 17.5%, which corresponded to an increase in same-store sales of 11.9% and in mature stores of 6.0%, in line with inflation (CPI). We experienced a positive calendar effect of 0.4% in the quarter when compared to the previous year.



OTC was the main highlight of the year and of the quarter by growing 19.1% and 21.3%, respectively, which amounted to an increase in the sales mix of 0.5 percentage point in 2013 and of 0.6% in the quarter. The absence of new relevant launches has penalized the participation of generics in our sales mix.

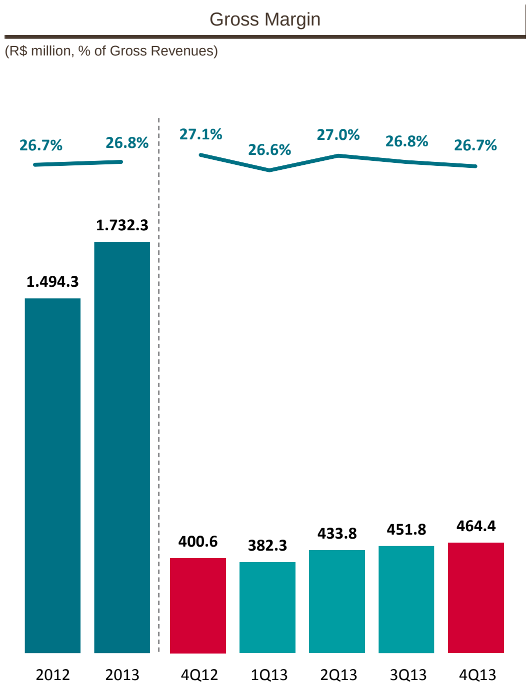
It is important to highlight that the sales mix classification hereby adopted differs from the one previously reported, which employed different criteria for Raia and for Drogasil. The main changes have been the reclassification of health-related and convenience products at Drogasil, which migrated from HPC to OTC, as it is done in Raia, and the reclassification of OTC generics at Raia to the generics category, as it is done at Drogasil. For a better understanding, we have reclassified the full data series.

GROSS PROFIT

We recorded in 2013 a gross margin of 26.8%, a 0.1 percentage point increase when compared to 2012.

We ended the 4Q13 with a gross profit of R$ 464.4 million, equivalent to 26.7% of gross margin, a 0.4 percentage point decrease. The reduction in gross margin stemmed mainly from the strong comp base of the 4Q12.

It is important to highlight that in December we returned to the tax substitution regime in the state of São Paulo, and as a result, all our purchases are now done with the taxes withheld by our suppliers and passed to us as part of the cost of goods sold, instead of paying our own ICMS (state taxes) when shipping to the stores. This change will allow us to fully recover our margin loss that we recorded during the adoption of the previous tax regime of approximately 0.4 percentage point. We estimate that our gross margin will be fully normalized from the 2Q14, after the full rotation of our inventories.



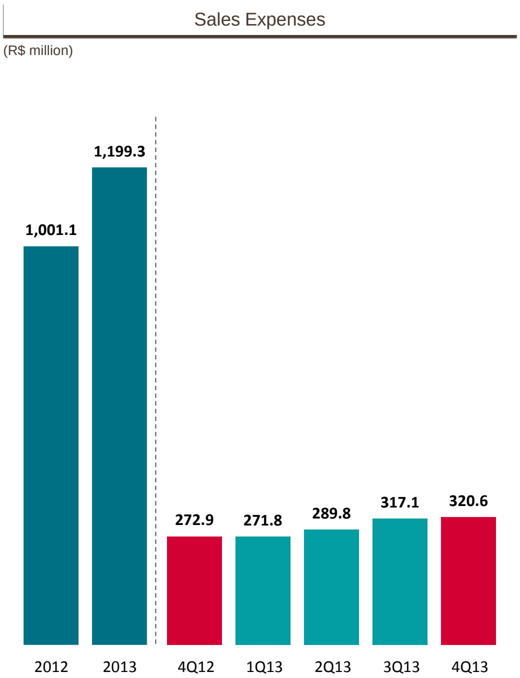
SALES EXPENSES

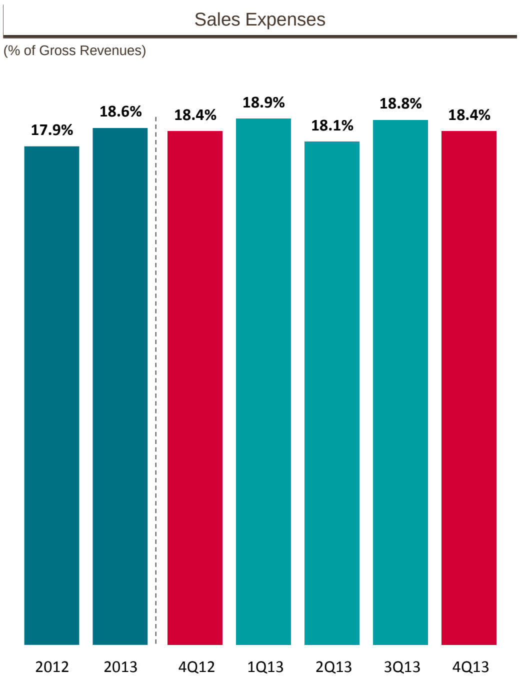
Sales expenses totaled R$ 1,199.3 million in the year, amounting to 18.6% of gross revenues.

The main drivers to this 0.7 percentage point increase were the inflation pressure on payroll (0.3 percentage point) and on rentals (0.2 percentage point). Additionally, we increased marketing expenses (0.2 percentage point) in order to accelerate store maturation in recent markets, mainly in the Southern and Mid-Western regions.

The annual salary readjustment for our employees in São Paulo (stores, DCs and administrative) exceeded inflation by 2.2 percentage points, pressuring personnel expenses. Additionally, the steep appraisal of the Brazilian property market over the years has pressured our rental expenses, especially due to the at-market renegotiation of expired contracts.

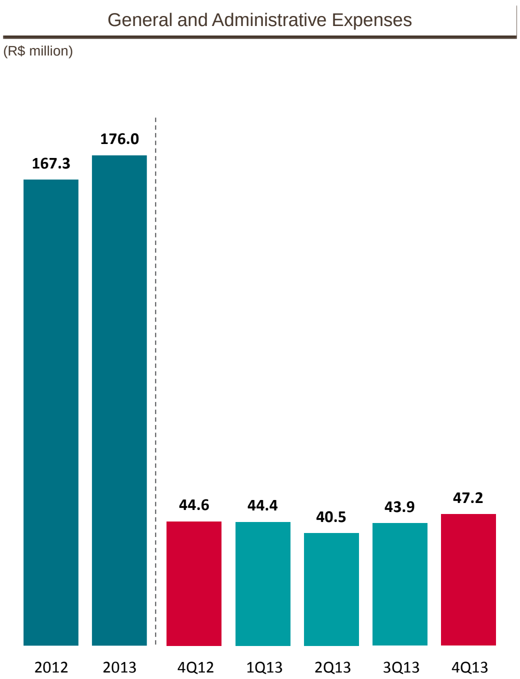
In the 4Q13, sales expenses totaled 18.4% of gross revenues, in line with the previous year, due to a greater expense absorption that stemmed from mature stores growth (6.0%) in line with inflation (5.9%) and from efficiency gains allowed by the optimization of our store portfolio. Marketing (0.2%), rental (0.1%) and new stores (0.1%) expenses were compensated by a dilution in personnel expenses (0.1%) and in other expenses (0.3%).

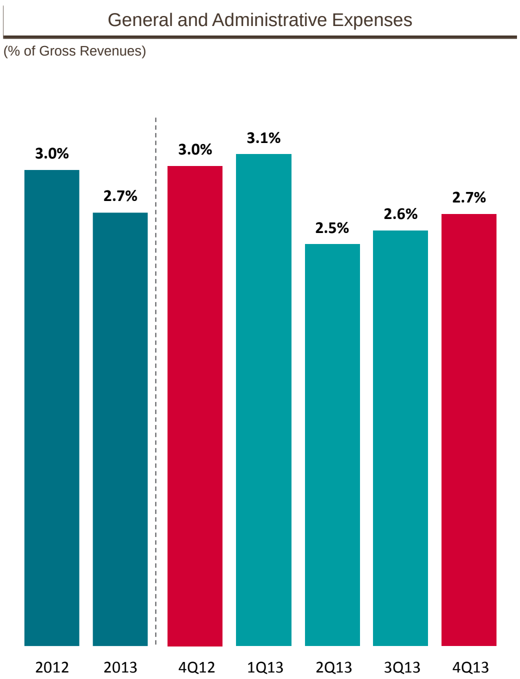




GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to R$ 176.0 million in 2013, equivalent to 2.7% of gross revenues, a 0.3 percentage point dilution when compared to the previous year.





In the 4Q13, general and administrative expenses totaled R$ 47.2 million, equivalent to 2.7% of gross revenues, generating in the quarter the same 0.3 percentage point reduction verified over the full year.

This expense dilution reflects operating leverage achieved through the growth of our operations, as our general and administrative expenses in the 4Q13 remained constant in real terms (5.8% increase versus an inflation of 5.9%).

These efficiency gains have been intensified since the formation of Raia Drogasil in the 4Q11, as we increased our store portfolio by 19.8% and reduced 1.0% of general and administrative expenses in real terms ever since by realizing back-office synergies.

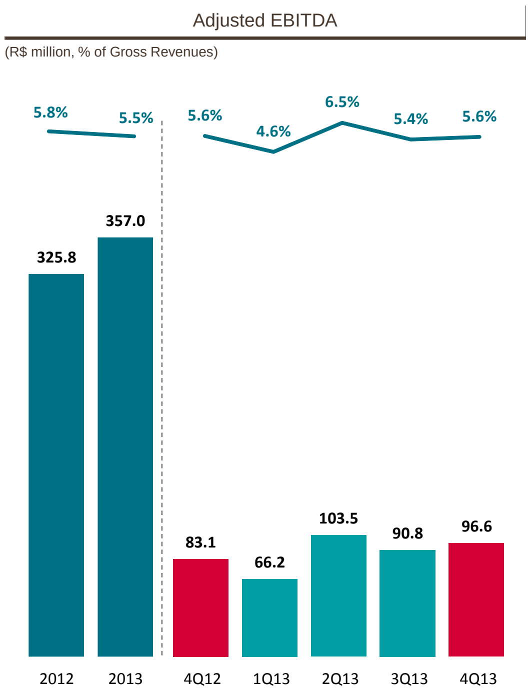
The amounts reported do not include non-recurring expenses, such as store closures, consulting, legal and accounting and severance payments.

EBITDA

We recorded an EBITDA of R$ 357.0 million in 2013, a 9.6% increase and a margin decrease of 0.3 percentage point. The 0.7 percentage point increase in selling expenses was partially offset by a 0.1 percentage point improvement in gross margins and by a 0.3 percentage point dilution in general and administrative expenses.

In the 4Q13, we recorded an EBITDA growth of 16.2%, and maintained our margin at 5.6%, in line with the previous year. We were able to fully compensate the reduction in gross margins (0.3 percentage point) by maintaining the same level of sales expenses and diluting general and administrative expenses (0.3 percentage point).

Stores in the opening, closing or suspension process during the year reduced our EBITDA by R$ 35.4 million in 2013 (R$ 7.6 million in the quarter). Therefore, if we considered only the 836 stores in operation since the end of 2012 (864 stores at year-end, less 28 stores closed or suspended in 2013) and the full absorption of logistics as well as general and administrative expenses by such stores, our adjusted EBITDA would have totaled R$ 392.4 million (R$ 104.2 million in the 4Q13), equivalent to an EBITDA margin of 6.8% over the respective gross revenues (6.4% in the quarter).

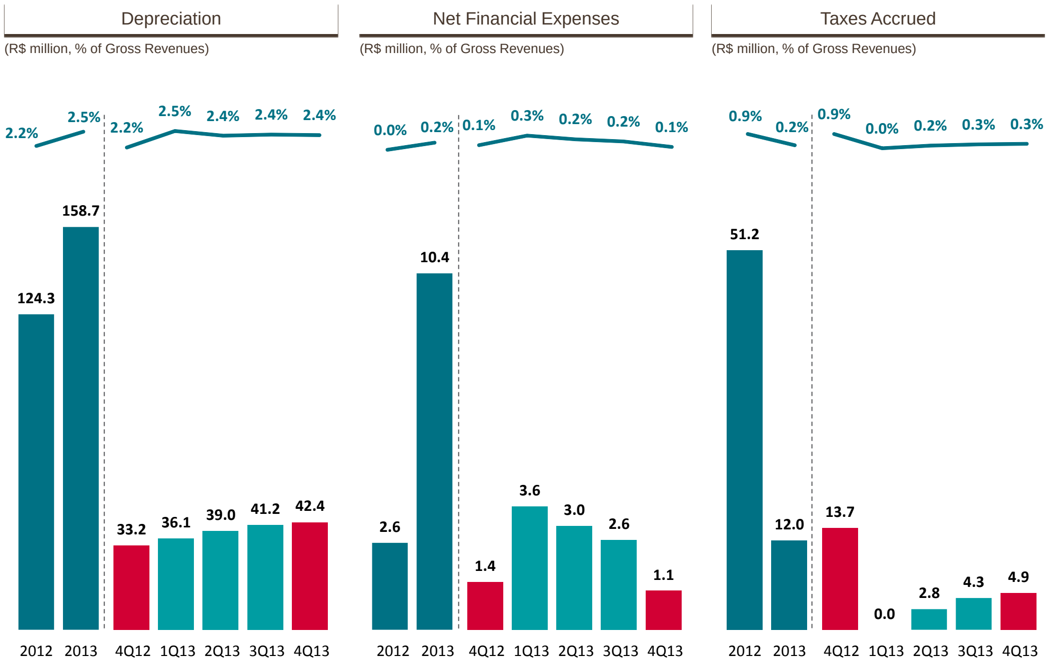


DEPRECIATION, NET FINANCIAL EXPENSES AND INCOME TAXES

Net financial expenses increased by 0.2 percentage point, reflecting an average net debt increase in the year. In the quarter, our net financial expenses remained in line with that of the previous year.

Depreciation expenses have totaled R$ 158.7 million in 2013, equivalent to 2.5% of gross revenues, an incremental pressure of 0.3 percentage point due to the acceleration of our store opening pace since the end of 2012. In the quarter, depreciation expenses reached R$ 42.4 million, or 2.4% of gross revenues, an increase of 0.2 percentage point compared to same period of the previous year.

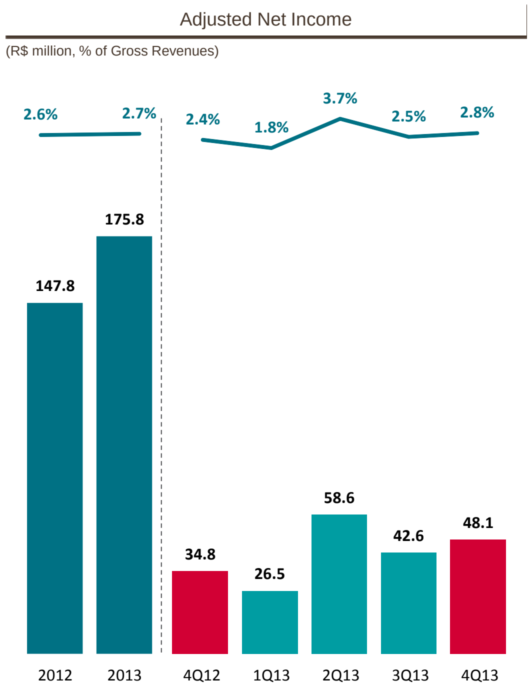
The tax shield from the goodwill amortization amounted to R$ 42.8 million in 2013 (R$ 10.7 million in the quarter), reducing the taxes accrued by 0.7% (0.6% in the quarter), from 0.9% in 2012 to 0.2% in 2013. It is important to mention that the goodwill amortization has been reflected in our adjusted net income since the 4Q12.



ADJUSTED NET INCOME

We recorded an adjusted net income of R$ 175.8 million in 2013, a 2.7% net margin and a 0.1 percentage point increase in the year. In the 4Q13 we recorded an adjusted net income of R$ 48.1 million, equivalent to 2.8% of net margin, a 0.4 percentage point increase versus the 4Q12.

Our lower EBITDA margin (0.3 percentage point) and the increases recorded both in depreciation (0.3 percentage point) and in net financial expenses (0.2 percentage point) were offset by lower tax payments stemming from the tax shield from the goodwill amortization (0.7 percentage point).



NON-RECURRING EXPENSES

In 2013 we incurred in R$ 48.5 million in non-recurring expenses (R$ 14.5 million in the 4Q13), according to the table below:

Adjustments *(R$ million)*	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**2013**
Integration Expenses	**(10.2)**	**(8.1)**	**(12.3)**	**(17.5)**	**(48.1)**
Legal and Accounting	(1.6)	(0.8)	(0.5)	(0.2)	(3.2)
Consulting	(0.7)	(1.9)	(0.7)	(3.7)	(7.1)
Store and Raia Office Closures	(2.2)	(1.6)	(4.4)	(7.3)	(15.5)
Farmácia Popular Program	(5.5)	(3.7)	(2.2)	(1.8)	(13.3)
Severance	(0.1)	(0.0)	(4.5)	(4.4)	(9.1)
Expenses from Previous Years	**4.5**	**0.0**	**(7.8)**	**3.0**	**(0.4)**
Gains (Losses) from Previous Years	4.5	0.0	(7.8)	3.0	(0.4)
Total	**(5.7)**	**(8.1)**	**(20.2)**	**(14.5)**	**(48.5)**

We recorded in the year R$ 9.1 million in severance payments (R$ 4.4 million in the 4Q13), including a provision for changes to be effected in 2014, and R$ 15.5 million in asset write-offs (non-cash) from store closures as part of our store portfolio optimization program. We also booked R$ 7.1 million in consulting expenses (R$ 3.7 million in the quarter reflecting the systems integration roll-out) and R$ 3.2 million in legal and accounting expenses related to the incorporation of Raia (R$ 0.2 million in the 4Q13).

Additionally, we booked R$ 13.3 million (R$ 1.8 million in the quarter) in expenses to subsidize the Farmácia Popular program in stores that had not yet recovered their licenses. Farmácia Popular is a government program in which selected drugs are sold with little or no co-pays, as the government subsidizes its cost. Due to the fact that the Droga Raia stores lost their licenses after the incorporation and that it took several months to reclaim them, we decided to assume this cost during the transition in order to minimize disruptions to our clients, which damage could far exceed the subsidized amounts. It is important to mention that we have fully recovered these licenses and these subsidies have ended in 2013.

We expect a very low level of non-recurring expenses in 2014, which will be mainly consulting expenses as we finish our systems integration. We have concluded our store optimization program, will not bear any further expenses related to the Farmácia Popular Program, and do not anticipate additional severance expenses in 2014, since they have already been provisioned in the 4Q13.

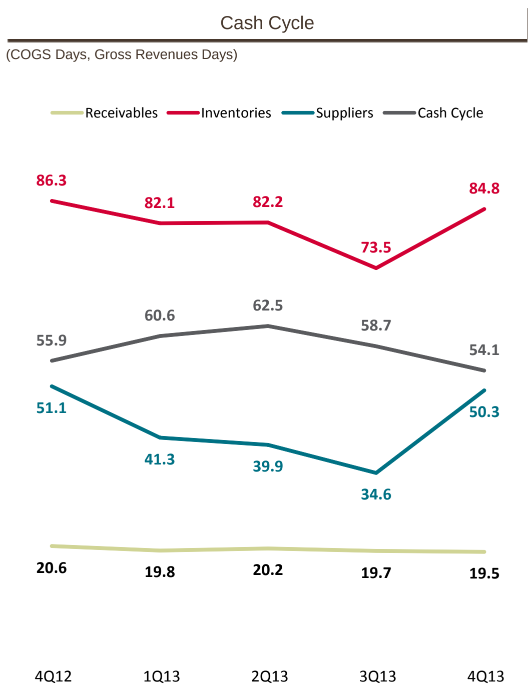
CASH CYCLE

We ended 2013 with a reduction of 1.8 day when compared to 2012. It is important to highlight that the return to the tax substitution regime in December has increased inventories by 4.1 days, due to the required payment of taxes on inventories. On a comparable basis, excluding the effect of this change in tax regime, we recorded a reduction of 5.9 days when compared to 2012, reflecting an improvement in operating efficiency.

This cash cycle improvement stemmed from a reduction of 1.5 day in inventories, already incorporating the taxes on inventories, and of 5.6 days on a fully comparable basis, which already reflects the improvement in our purchasing strategy implemented between 2Q13 and 3Q13.

It is important to highlight that our average days of suppliers, which had significantly decreased during the last two quarters as we reduced our purchases and ceased to generate invoices for several generics manufacturers, has already returned to their historical levels as our inventory replenishment normalized.

Finally, days of receivables was reduced by 1.1 day due to a favorable calendar effect.



CASH FLOW

We recorded a positive free cash flow of R$ 45.3 million in 2013, a significant improvement over the cash consumption of R$ 180.7 million recorded in 2012. Our operating cash flow (R$ 282.1 million) has fully financed the investments (R$ 236.8 million) undertook in the period.

Cash Flow *(R$ million)*	4Q13	4Q12	2013	2012
Adjusted EBIT	**54.2**	**49.9**	**198.3**	**201.5**
Non-Recurring Expenses	(14.5)	(26.5)	(48.5)	(40.9)
Income Tax (34%)	(13.5)	(8.0)	(50.9)	(54.6)
Taxshield from Goodwill Amortization	2.6	-	22.3	-
Depreciation	42.4	33.2	158.7	124.3
Others	15.0	13.6	24.7	36.0
Resources from Operations	**86.2**	**62.3**	**304.6**	**266.4**
Cash Cycle*	14.2	(57.2)	(107.2)	(216.1)
Other Assets (Liabilities)	31.9	35.6	84.7	27.0
Operating Cash Flow	**132.4**	**40.7**	**282.1**	**77.3**
Investments	**(61.5)**	**(113.0)**	**(236.8)**	**(258.0)**
Free Cash Flow	**70.8**	**(72.3)**	**45.3**	**(180.7)**
Interest on Equity	(16.4)	(21.4)	(29.3)	(34.1)
Net Financial Expenses	(1.1)	(1.4)	(10.4)	(2.5)
Income Tax (Tax benefit over financial expenses and interest on equity)	5.1	0.5	16.8	14.5
Total Cash Flow	**58.5**	**(94.6)**	**22.3**	**(202.9)**

* Cash cycle includes variation in accounts receivables, inventories and suppliers

** Does not include financing cash flow

In the 4Q13, we generated a free cash flow of R$ 70.8 million. Resources from operations amounted to R$ 86.2 million, which corresponded to 5.0% of our gross revenues, while working capital employed totaled R$ 46.1 million. We recorded a positive operating cash flow of R$ 132.4 million in the period.

Fixed asset investments amounted to R$ 236.8 million in the year versus R$ 258.0 million in 2012, including R$ 151.9 million in store development, R$ 7.0 million in rebranding, R$ 36.8 million in existing stores renovation, and R$ 41.1 million in infrastructure.

We generated a total cash flow, including net financial expenses and interest on own equity, of R$ 22.3 million in 2013 (R$ 58.5 million in 4Q13), versus a cash consumption of R$ 202.9 million recorded in 2012 (R$ 94.6 million in 4Q12).

We booked R$ 10.4 million in net financial expenses (R$ 1.1 million in the quarter) and paid R$ 29.3 million in interest on own equity, which were offset by the respective tax shield of R$ 16.8 million in the period (R$ 5.1 million in the quarter). Finally, we accrued R$ 38.9 million in interest on own equity in 2013 (R$ 14.0 million in the quarter).

INDEBTEDNESS

At the end of the year our net debt amounted to only R$ 2.9 million. Our total gross debt totaled R$ 244.8 million, of which 100% is comprised by BNDES (Brazilian Economic and Social Development Bank) lines. Of our total indebtedness, 65.7% is long-term and 34.3% relates to the short-term parcels of our long-term debt. We ended the quarter with a total cash position (cash and marketable securities) of R$ 241.9 million.

On October 15th, BNDES granted us a new financing line of R$ 706.0 million to fund a five-year investment program (2013-2017). The resources shall be claimed annually to reimburse investments previously made. We have already received R$ 106.9 million between December, 2013 and January, 2014, and expect to receive another R$ 14.0 million in the upcoming months. We estimate that a total of R$ 140.0 million per year shall be reimbursed between 2014 and 2017. It is important to mention that the actual amounts may vary, since they depend on the investments actually made over the term of the contract. The cost of this line varies by the type of investment, but, on average, we expect it to be similar to the Brazilian Interbank Deposit Certificate Rate (CDI).

SUSTAINABILITY

We employ over 900 disabled people as part of the *Lado a Lado* (Side by Side) social inclusion program, of which the vast majority works at our stores with direct contact with our customers. Additionally, the social programs conducted at our stores have raised approximately R$ 3.3 million to social causes in 2013.

In 2013, Droga Raia has raised over R$ 1.7 million to the Instituto Ayrton Senna (an education-driven NGO) and to the GRAACC (a youth cancer excellence center) through the sale of the Sorria magazine. Since the beginning of the project in 2008, we have raised a total of R$ 12,2 million to the GRACC, a significant contribution in funding a new hospital within its complex in São Paulo.

Also in 2013, we launched at Drogasil the “Bem +” social magazine, leveraging our learning with the “Sorria” magazine and boosting our capacity to mobilize social resources. Already in its first year, “Bem +“ sold over 260,000 copies and contributed with approximately R$ 0.9 million to Obra do Berço, an NGO focused on supporting unassisted families. Also at Drogasil, the Troco Solidário (Solidary Change) program has raised over R$ 0.7 million by suggesting that clients round up their purchases in order to donate the difference to AACD (an NGO focused on children with disabilities).

Finally, we discarded over 22 tons of expired or unused medications returned by our customers with the due sanitary measures as part of a pioneering and voluntary waste management program developed by us in Brazil, which is now available at 231 Droga Raia stores. We estimate that, if inappropriately discarded, the collected volume could have contaminated up to nine million liters of water.

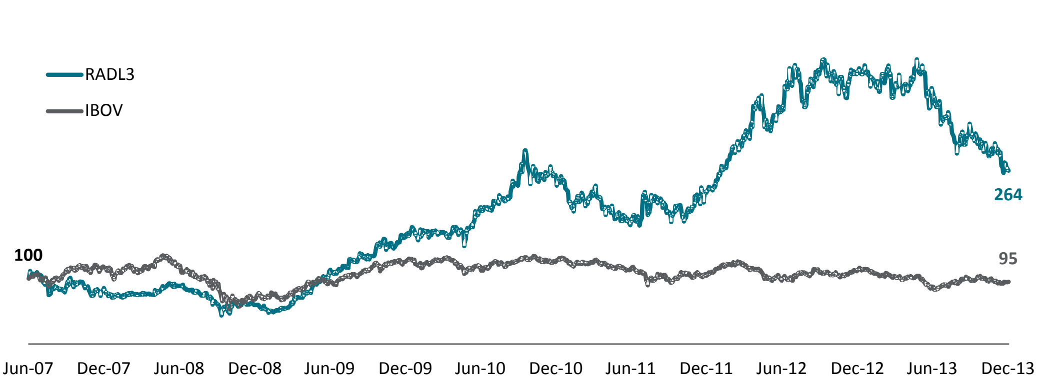
CAPITAL MARKETS

Considering our share price on December 31st of R$ 14.78, we have posted a negative return of 35.9% in the year, 20.4 percentage points below the IBOVESPA, that was down by 15.5% over the same period.

In 2013, our average daily trading volume was of R$ 22.9 million.

Share Evolution

(Base 100)



Since the IPO of Drogasil, we achieved a cumulative increase of 163.9% when compared to a negative return of 5.3% of the IBOVESPA over the same period, a compound annual return of 14.2% in the period.

Considering the IPO of Raia in December of 2010, the cumulative return in the period amounted to 41.1% when compared to a decrease of 24.2% by the IBOVESPA, a compounded annual return of 12.0%. These figures do not include dividends and interest on own capital paid over the period.

Adjusted Income Statement	**4Q12**	**4Q13**	**2012**	**2013**
(R$ thousand)				
Gross Revenues	**1,479,979**	**1,738,649**	**5,593,836**	**6,464,103**
Taxes, Discounts and Returns	(53,446)	(58,677)	(213,108)	(220,462)
Net Revenues	**1,426,533**	**1,679,972**	**5,380,728**	**6,243,641**
Cost of Goods Sold	(1,025,955)	(1,215,560)	(3,886,470)	(4,511,345)
Gross Profit	**400,578**	**464,412**	**1,494,258**	**1,732,297**
Operational (Expenses) Revenues				
Sales	(272,853)	(320,641)	(1,001,103)	(1,199,257)
General and Administrative	(44,631)	(47,164)	(167,310)	(176,005)
Other Operational Expenses, Net				
Operational Expenses	**(317,484)**	**(367,805)**	**(1,168,413)**	**(1,375,262)**
EBITDA	**83,094**	**96,607**	**325,845**	**357,035**
Depreciation and Amortization	(33,162)	(42,446)	(124,327)	(158,736)
Operational Earnings before Financial Results	**49,932**	**54,161**	**201,518**	**198,299**
Financial Expenses	(4,826)	(4,975)	(18,902)	(20,310)
Financial Revenues	3,421	3,830	16,352	9,863
Financial Expenses/Revenues	**(1,405)**	**(1,145)**	**(2,550)**	**(10,447)**
Earnings before Income Tax and Social Charges	**48,527**	**53,016**	**198,968**	**187,852**
Income Tax and Social Charges	(13,743)	(4,949)	(51,207)	(12,042)
Net Income	**34,784**	**48,067**	**147,761**	**175,810**

Income Statement	**4Q12**	**4Q13**	**2012**	**2013**
(R$ thousand)				
Gross Revenues	**1,479,979**	**1,738,649**	**5,593,835**	**6,464,103**
Taxes, Discounts and Returns	(53,446)	(58,677)	(213,107)	(231,184)
Net Revenues	**1,426,533**	**1,679,972**	**5,380,728**	**6,232,919**
Cost of Goods Sold	(1,025,955)	(1,215,560)	(3,888,079)	(4,512,743)
Gross Profit	**400,578**	**464,412**	**1,492,649**	**1,720,176**
Operational (Expenses) Revenues				
Sales	(275,705)	(320,641)	(1,002,330)	(1,188,077)
General and Administrative	(47,146)	(47,164)	(171,450)	(176,463)
Other Operational Expenses, Net	(21,090)	(14,470)	(33,918)	(47,066)
Operational Expenses	**(343,941)**	**(382,275)**	**(1,207,698)**	**(1,411,606)**
EBITDA	**56,637**	**82,137**	**284,951**	**308,570**
Depreciation and Amortization	(33,162)	(42,446)	(124,327)	(158,736)
Operational Earnings before Financial Results	**23,475**	**39,691**	**160,624**	**149,834**
Financial Expenses	(4,826)	(4,975)	(18,902)	(20,310)
Financial Revenues	3,421	3,830	16,352	9,863
Financial Expenses/Revenues	**(1,405)**	**(1,145)**	**(2,550)**	**(10,447)**
Earnings before Income Tax and Social Charges	**22,070**	**38,546**	**158,074**	**139,387**
Income Tax and Social Charges	(20,663)	(10,727)	(53,219)	(38,402)
Net Income	**1,407**	**27,818**	**104,855**	**100,985**

Assets	**2012**	**2013**
(R$ thousand)		
Current Assets		
Cash and Cash Equivalents	166,963	241,885
Accounts Receivable	335,771	373,260
Inventories	973,396	1,132,620
Taxes Receivable	96,316	38,658
Other Accounts Receivable	116,772	108,953
Following Fiscal Year Expenses	4,646	8,200
	1,693,864	1,903,574
Non-Current Assets		
Deposit in Court	11,010	10,763
Taxes Receivable	9,614	11,859
Other Credits	1,178	728
Property, Plant and Equipment	454,322	536,629
Intangible	1,170,198	1,150,539
	1,646,322	1,710,518
ASSETS	3,340,186	3,614,093

Liabilities and Shareholder's Equity	**2012**	**2013**
(R$ thousand)		
Current		
Suppliers	575,587	671,455
Loans and Financing	60,712	83,944
Salaries and Social Charges Payable	92,899	116,352
Taxes Payable	40,489	65,920
Dividend and Interest on Equity	5,451	9,464
Provision for Lawsuits	4,129	4,912
Other Accounts Payable	84,009	67,956
	863,276	1,020,003
Non-Current Assets		
Loans and Financing	131,460	160,881
Provision for Lawsuits	9,721	8,021
Income Tax and Social Charges deferred	64,021	93,980
Other Accounts Payable	7,049	4,224
	212,251	267,107
Shareholder's Equity		
Common Stock	908,639	908,639
Capital Reserves	1,039,935	1,039,935
Revaluation Reserve	13,127	12,941
Income Reserves	294,721	357,169
Additional Dividend Proposed	8,237	8,298
	2,264,659	2,326,983
LIABILITIES AND SHAREHOLDERS' EQUITY	3,340,186	3,614,093

Cash Flow	4Q12	4Q13	2012	2013
Earnings before Income Tax and Social Charges	**22,070**	**38,546**	**158,074**	**139,387**
Adjustments				
Depreciations and Amortization	33,162	42,446	124,327	158,736
P,P&E and Intangible Assets residual value	5,203	5,227	6,896	9,888
Provisioned Lawsuits	6,575	524	7,738	2,856
Provisioned Inventories Loss	2,681	5,854	5,909	15,267
Allowance for Doubtful Accounts	3,713	200	5,614	(1,039)
Interest Expenses	4,314	4,383	16,164	17,326
	77,718	**97,180**	**324,722**	**342,421**
Assets and Liabilities variation				
Accounts Receivable	(19,527)	(21,396)	(90,974)	(28,592)
Inventories	(146,672)	(189,940)	(164,330)	(174,492)
Other Short Term Assets	(26,997)	24,868	5,014	60,648
Long Term Assets	67,469	(10,960)	36,745	(2,868)
Suppliers	108,951	225,556	39,220	95,868
Salaries and Social Charges	(27,689)	(22,907)	439	23,455
Taxes Payable	(8,135)	31,306	(21,855)	25,898
Other Liabilities	29,917	6,758	3,699	(28,695)
Rent Payable	1,083	2,861	2,934	6,273
Cash from Operations	**56,118**	**143,326**	**135,614**	**319,916**
Income Tax and Social Charges Paid	(12,034)	(2,544)	(30,280)	(14,173)
Net Cash from (invested) Operational Activities	**44,084**	**140,782**	**105,334**	**305,743**
Investment Activities Cash Flow				
P,P&E and Intangible Acquisitions	(113,360)	(61,559)	(259,639)	(238,207)
P,P&E Sale Payments	313	14	1,680	1,397
Net Cash from Investment Activities	**(113,047)**	**(61,545)**	**(257,959)**	**(236,810)**
Financing Activities Cash Flow				
Funding	62,184	80,278	108,746	106,399
Payments	(19,877)	(19,620)	(81,829)	(60,420)
Interest Paid	(3,423)	(4,026)	(13,219)	(10,651)
Interest on Equity and Dividends Paid	(21,362)	(16,351)	(34,081)	(29,339)
Net Cash from Funding Activities	**17,522**	**40,281**	**(20,383)**	**5,989**
Cash and Cash Equivalents net increase	**(51,441)**	**119,518**	**(173,008)**	**74,922**
Cash and Cash Equivalents in the beggining of the period	**218,404**	**122,367**	**339,971**	**166,963**
Cash and Cash Equivalents in the end of the period	**166,963**	**241,885**	**166,963**	**241,885**

A free translation from Portuguese into English of Independent Auditor's Report on Individual Financial Statements prepared in Brazilian currency

Independent auditor’s report on financial statements

The Shareholders, Board of Directors and Officers
Raia Drogasil S.A.
São Paulo – SP

We have audited the accompanying financial statements of Raia Drogasil S.A. (“Company”), which comprise the balance sheet as of December 31, 2013 and the related income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices adopted in Brazil, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audit conducted in accordance with Brazilian and International Auditing Standards. These standards require that auditors comply with ethical requirements and that audit be planned and carried out to obtain reasonable assurance that the financial statements are free of material misstatements.

An audit includes procedures selected to obtain audit evidence of the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the Company’s financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes the evaluation of the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion on the financial statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Raia Drogasil S.A. as of December 31, 2013, the results of its operations and its cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

Other matters

Statements of value added

We have also audited the statements of value added for the year ended December 31, 2013, prepared under the management's responsibility, which presentation is required by the Brazilian corporate law for publicly held companies. These statements have been subject to the same auditing procedures previously described and, in our opinion, are presented fairly, in all material respects, in relation to the overall financial statements.

São Paulo, March 17, 2014.

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

Alexandre Rubio
Accountant CRC-1SP223361/O-2

Patricia Nakano Ferreira
Accountant CRC-1SP234620/O-4

A free translation from Portuguese into English of Individual Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil, prepared in Brazilian currency.

Raia Drogasil S.A.

Balance sheets

December 31, 2013 and 2012

In thousands of reais – R$

Assets	**2013**	**2012**
Current assets		
Cash and cash equivalents (Note 5)	241,885	166,963
Trade accounts receivable (Note 6)	373,259	335,771
Inventories (Note 7)	1,132,620	973,396
Taxes recoverable (Note 8)	38,658	96,316
Other receivables	108,953	116,772
Prepaid expenses	8,200	4,646
	1,903,575	1,693,864
Noncurrent assets		
Judicial deposits (Note 11)	10,763	11,010
Taxes recoverable (Note 8)	11,859	9,614
Other receivables	728	1,178
Property and equipment (Note 9-a)	536,629	454,322
Intangible assets (Note 9-b)	1,150,539	1,170,198
	1,710,518	1,646,322
Total assets	3,614,093	3,340,186

Liabilities and equity	**2013**	**2012**
Current liabilities		
Trade accounts payable	671,455	575,587
Loans and financing (Note 10)	83,944	60,712
Payroll and related charges	116,352	92,899
Taxes, charges and contributions	65,920	40,489
Dividend and interest on equity (Note 14-b)	9,464	5,451
Provision for legal proceedings (Note 11)	4,912	4,129
Other payables	67,957	84,009
	1,020,004	863,276
Noncurrent liabilities		
Loans and financing (Note 10)	160,881	131,460
Provision for legal proceedings (Note 11)	8,021	9,721
Deferred income and social contribution taxes (Note 12-b)	93,980	64,021
Other payables	4,224	7,049
	267,106	212,251
Total liabilities	1,287,110	1,075,527
Equity (Note 14)		
Capital	908,639	908,639
Capital reserves	1,039,935	1,039,935
Revaluation reserve	12,941	13,127
Income reserves	357,170	294,721
Additional dividend proposed	8,298	8,237
Total equity	2,326,983	2,264,659
Total liabilities and equity	3,614,093	3,340,186

See accompanying notes.

Raia Drogasil S.A.

Income statements
Years ended December 31, 2013 and 2012
In thousands of reais – R$, except earnings per share

	Raia Drogasil S.A.		Consolidated
	2013	**2012**	**2012**
Net sales revenue (Note 15)	6,232,919	2,976,048	5,380,728
Cost of goods sold (Nota 16)	(4,512,743)	(2,132,085)	(3,888,079)
Gross profit	1,720,176	843,963	1,492,649
(Expenses)/operating income			
Selling expenses (Note 16)	(1,188,077)	(529,962)	(1,002,330)
General and administrative expenses (Note 16)	(176,463)	(81,083)	(171,450)
Depreciation and amortization (Note 16)	(158,736)	(59,072)	(124,327)
Other operating expenses (Note 17)	(47,066)	(24,442)	(33,918)
Equity pickup		(6,419)	
	(1,570,342)	(700,978)	(1,332,025)
Operating income before financial income	149,834	142,985	160,624
Financial income			
Financial income (Note 18-a)	9,863	9,090	16,352
Financial expenses (Note 18-b)	(20,310)	(11,238)	(18,902)
	(10,447)	(2,148)	(2,550)
Income before income and social contribution taxes	139,387	140,837	158,074
Income and social contribution taxes (Note 12-a)			
Current	(8,347)	(33,858)	(40,811)
Deferred	(30,055)	(2,124)	(12,408)
	(38,402)	(35,982)	(53,219)
Net income for the year	100,985	104,855	104,855
Earnings per share in R$ – basic (Note 13)	0.30566	0.31737	0.31737
Earnings per share in R$ – diluted (Note 13)	0.30566	0.31737	0.31737

The Company has no other comprehensive income which should be presented in these financial statements.

See accompanying notes.

Raia Drogasil S.A.

Statements of comprehensive income
Years ended December 31, 2013 and 2012
In thousands of reais – R$, except earnings per share

	Raia Drogasil S.A.		Consolidated
	2013	**2012**	**2012**
Net income for the year	100,985	104,855	104,855
Components of comprehensive income			
Other comprehensive income			
Total comprehensive income for the year	100,985	104,855	104,855

See accompanying notes.

Raia Drogasil S.A.

Statements of changes in equity
December 31, 2013 and 2012
In thousands of reais – R$, except earnings per share

	Capital	Capital reserves: Special monetary restatement	Capital reserves: Premium on issue/sale of options	Capital reserves: Other	Revaluation reserve	Income reserves: Legal	Income reserves: Statutory	Retained earnings	Additional dividends proposed	Total
At December 31, 2011	908,639	10,191	1,029,418	326	13,325	14,375	215,162		9,738	2,201,174
Dividend for 2011 approved at the GSM of April 27, 2012									(9,738)	(9,738)
Realization of revaluation reserve, net of income and social contribution taxes					(198)			198		
Interest on equity expired								131		131
Net income for the year								104,855		104,855
Allocation of income										
Statutory reserve							65,184	(65,184)		
Interest on equity proposed - R$0.121070505 per share (Note 14-b)								(31,763)		(31,763)
Additional interest on equity proposed								(8,237)	8,237	
At December 31, 2012	908,639	10,191	1,029,418	326	13,127	14,375	280,346		8,237	2,264,659
Dividend for 2012 approved at the GSM of April 29, 2013									(8,237)	(8,237)
Realization of revaluation reserve, net of income and social contribution taxes					(186)			186		
Interest on equity expired								178		178
Net income for the year								100,985		100,985
Allocation of income										
Statutory reserve							62,449	(62,449)		
Interest on equity proposed - R$0.117741067 per share (Note 14-b)								(30,602)		(30,602)
Additional interest on equity proposed								(8,298)	8,298	
At December 31, 2013	908,639	10,191	1,029,418	326	12,941	14,375	342,795		8,298	2,326,983

See accompanying notes.

Raia Drogasil S.A.

Cash flow statements – indirect method
Years ended December 31, 2013 and 2012
In thousands of reais – R$

	Raia Drogasil S.A.		Consolidated
	2013	2012	2012
Cash flows from operating activities			
Net income before income and social contribution taxes	139,387	140,837	158,074
Adjustments			
Depreciation and amortization	158,736	59,072	124,327
Gain on disposal or write-off of property and equipment and intangible assets disposed of	9,888	3,844	6,896
Provision for legal proceedings	2,856	5,381	7,738
Provision for inventory loss	15,267	230	5,909
(Reversal of) allowance for doubtful accounts	(1,039)	3,189	5,614
Interest expenses	17,326	9,985	16,164
Equity pickup		6,419	
	342,421	228,957	324,722
Changes in assets and liabilities			
Accounts receivable	(28,592)	(68,831)	(90,974)
Inventories	(174,492)	(116,485)	(164,330)
Other current assets	60,648	(9,925)	5,014
Long-term receivables	(2,868)	47,642	36,745
Trade accounts payable	95,868	89,677	39,220
Payroll and related charges	23,455	(18,999)	439
Taxes, charges and contributions	25,898	(23,876)	(21,855)
Other payables	(28,695)	27,850	3,699
Rent payable	6,273	2,530	2,934
Cash from operating activities	319,916	158,540	135,614
Income and social contribution taxes paid	(14,173)	(28,680)	(30,280)
Net cash generated by operating activities	305,743	129,860	105,334
Cash flows from investing activities			
Additions to property and equipment and intangible assets	(238,207)	(187,885)	(259,639)
Proceeds from disposal of property and equipment	1,397	23	1,680
Cash from merged company		70,478	
Net cash used in investing activities	(236,810)	(117,384)	(257,959)

See accompanying notes.

Raia Drogasil S.A.

Cash flow statements – indirect method
Years ended December 31, 2013 and 2012
In thousands of reais – R$

Cash flows from financing activities			
Financing raised	106,399	77,561	108,746
Repayment of financing	(60,420)	(26,326)	(81,829)
Interest paid	(10,651)	(7,530)	(13,219)
Interest on equity and dividend paid	(29,339)	(34,081)	(34,081)
Net cash generated by (used in) financing activities	5,989	9,624	(20,383)
Net increase (decrease) in cash and cash equivalents	74,922	22,100	(173,008)
Cash and cash equivalents at beginning of year	166,963	144,863	339,971
Cash and cash equivalents at end of year	241,885	166,963	166,963

See accompanying notes.

Raia Drogasil S.A.

Statements of value added
Years ended December 31, 2013 and 2012
In thousands of reais – R$

	Raia Drogasil S.A.		Consolidated
	2013	**2012**	**2012**
Revenues			
Gross sales of goods, products and services	6,430,617	3,085,209	5,560,163
Other revenues	1,253	(1)	485
Reversal (setting up) of allowance for doubtful accounts	1,039	(3,189)	(5,614)
	6,432,909	3,082,019	5,555,034
Inputs acquired from third parties			
Cost of goods and products sold and services rendered	(4,198,839)	(1,955,848)	(3,587,770)
Materials, electric energy, third-party services and other	(296,236)	(135,597)	(256,979)
Loss of asset values	(1,996)	(293)	(1,134)
	(4,497,071)	(2,091,738)	(3,845,883)
Gross value added	1,935,838	990,281	1,709,151
Depreciation and amortization	(158,736)	(59,072)	(124,327)
Net value added produced by the Company	1,777,102	931,209	1,584,824
Value added received in transfer			
Equity pickup		(6,419)	
Financial income	9,863	9,090	16,352
	9,863	2,671	16,352
Total value added to be distributed	1,786,965	933,880	1,601,176
Distribution of value added			
Personnel	680,742	294,739	572,838
Salaries	547,971	239,364	457,199
Benefits	89,586	36,576	81,222
Unemployment compensation fund	43,185	18,799	34,417
Taxes, charges and contributions	685,387	387,019	657,562
Federal	252,358	132,409	247,222
State	424,075	250,100	402,911
Local	8,954	4,510	7,429
Debt remuneration	319,851	147,267	265,921
Interest and exchange gains	102,204	51,007	86,396
Rent	217,647	96,260	179,525
Equity remuneration	100,985	104,855	104,855
Interest on equity	30,602	31,763	31,763
Additional interest on equity and dividend proposed	8,298	8,237	8,237
Retained profit for the year	62,085	64,855	64,855
Value added distributed	1,786,965	933,880	1,601,176

See accompanying notes.

In thousands of reais – R$

1. Operations

Raia Drogasil S.A. ("Company") is a publicly-traded corporation, registered with the São Paulo State Stock Exchange – Novo Mercado, headquartered in São Paulo, capital of the state of São Paulo.

The Company is primarily engaged in the retail sale of medicine, perfumery, personal care and beauty products, cosmetics and dermocosmetics. Sales are carried out by 967 stores, located in the states of São Paulo, Minas Gerais, Rio de Janeiro, Goiás, Paraná, the Distrito Federal, Santa Catarina, Espírito Santo, Rio Grande do Sul, Bahia, Mato Grosso do Sul and Mato Grosso, as follows:

	2013
São Paulo	567
Minas Gerais	76
Rio de Janeiro	72
Goiás	62
Paraná	50
Distrito Federal	44
Santa Catarina	24
Espírito Santo	21
Rio Grande do Sul	19
Bahia	16
Mato Grosso do Sul	10
Mato Grosso	6
	967 (*)

(*) The number of stores is not included in the scope of our auditors.

Merger of subsidiary Raia S.A.

On November 30, 2012, Raia Drogasil S.A. merged subsidiary Raia S.A. in view of the similar activities carried out by both companies. The merger of the subsidiary's net assets at book value led to an optimization of the processes and maximization of the results, since this merger concentrated all selling, operating and administrative activities of both companies in a single organizational structure. This merger was approved at the Special Shareholders' Meeting held on November 30, 2012.

In thousands of reais – R$

The net assets merged, amounting to R$614,544 and referring to assets and liabilities, are as follows:

Balances	**11/30/2012**
Current assets	
Cash and cash equivalents	70,478
Trade accounts receivable	148,571
Taxes recoverable	16,490
Inventories	468,378
Prepaid expenses	4,518
Other receivables	69,538
	777,973
Noncurrent assets	
Judicial deposits	5,585
Deferred income and social contribution taxes	21,435
Taxes recoverable	3,323
	30,343
Property and equipment	208,637
Intangible assets	46,193
	254,830
Total assets	1,063,146
Current liabilities	
Trade accounts payable	(274,895)
Loans and financing	(23,157)
Payroll and related charges	(73,784)
Taxes, charges and contributions	(13,675)
Provision for legal proceedings	(1,690)
Other payables	(25,343)
	(412,544)
Noncurrent liabilities	
Loans and financing	(27,647)
Provision for legal proceedings	(4,376)
Other payables	(4,035)
	(36,058)
Total liabilities	(448,602)
Net assets	614,544
Net assets merged	(614,544)
Total	

Goodwill from acquisition of Raia S.A. in the amount of R$780,084 and related remaining fair values of assets acquired and liabilities assumed, calculated upon the business combination, previously recorded under Investments in the individual financial statements of the Company, were reclassified to Intangible assets (Note 9-b) in the financial statements of Raia Drogasil S.A., upon merger of subsidiary Raia S.A., i.e., on November 30, 2012.

2. Presentation of financial statements

In conformity with Rule No. 505/2006 issued by the Brazilian SEC (CVM), authorization to issue these financial statements was granted by Company Board of Directors on March 17, 2014.

These financial statements are presented in thousands of reais (R$), which is the Company's functional and reporting currency.

Company financial statements for the year ended December 31, 2013 were prepared and are presented in accordance with accounting practices adopted in Brazil, which comprise the rules set forth by the Brazilian SEC (CVM) and the accounting pronouncements issued by the Brazilian FASB (CPC).

The consolidated financial statements for the year ended December 31, 2012 were prepared in accordance with accounting practices adopted in Brazil, which comprise the CVM rules and accounting pronouncements issued by the Brazilian FASB (CPC), and are in conformity with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Considering the significance of the net assets of subsidiary Raia S.A. merged on November 30, 2012 (details are disclosure in Note 1) and in order to enable a full accurate understanding of the financial statements, the Company elected to present in these financial statements the income statements, statements of comprehensive income, cash flow statements, statements of value added and the related notes to the financial statements for the twelve-month period ended December 31, 2012 in a consolidated manner, based on its best understanding of accounting standards.

Up until November 30, 2012, in the individual financial statements investments in subsidiaries were stated by the equity method, pursuant to prevailing Brazilian legislation. Accordingly, these individual financial statements are not considered to be presented under International Financing Reporting Standards (IFRS), which require these investments to be stated at cost or fair value in Company separate financial statements.

The financial statements include estimates regarding provision for inventory loss, allowance for doubtful accounts, appreciation of financial instruments, depreciation deadlines and amortization of property and equipment and intangible assets, provisions for legal proceedings, and determination of provisions for taxes, among others.

The Company adopted all standards, revised standards and interpretations issued by the Brazilian FASB (CPC) that were effective as of December 31, 2013.

In thousands of reais – R$

3. Standards and interpretations of standards not yet in effect

(a) The amendment to the standard mentioned below, which is applicable to the Company, had been issued and was effective as at December 31, 2013. Said amendment, however, had no significant impact on Company quarterly information and/or financial statments:

Pronouncement or interpretation	**Major requirements**	**Applicable for annual periods beginning on or after**
Amendment to IFRS 13 (CPC 46)	Fair value measurement	January 1, 2013

(b) New or revised pronouncements not yet in effect, but which will be effective as from January 1, 2014 are as under:

(i) IAS 32 - Offsetting Financial Assets and Liabilities – Amendments to IAS 32 - These amendments clarify the meaning of “currently has a legally enforceable right to set-off the amounts recognized” and the criteria that would cause settlement mechanisms that are nor simultaneous (such as clearing house systems) to qualify for such offsetting. Management does not anticipate any material impact therefrom on Company financial statements.

(ii) Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) - These amendments introduce a consolidation exception for entities that meet the definition of ‘investment entity’ in IFRS 10. Under this exception, investment entities are required to measure their investments in subsidiaries at fair value through profit or loss. These pronouncements do not apply to the Company.

(iii) IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendment to IAS 39 - This amendment introduces a relief regarding discontinuance of hedge accounting where a derivative, which is designated as hedging instrument, is novated, if specific conditions are met. As disclosed in Note 22, the Company does not have transactions involving derivative financial instruments. As such, no material impact therefrom is anticipated on Company financial statements.

(c) New or revised pronouncements not yet in effect, but which will be in effect as from January 1, 2015 are as under:

(i) IFRS 9 Financial Instruments - reflects the first phase of the work carried out by the IASB referring to replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities, as defined in IAS 39. This standard was initially effective for annual periods beginning on or after January 1, 2013; however, the Amendments to IFRS9 – Mandatory Effective Date and Transition Disclosures, issued in December 2011, changed the mandatory effective date to January 1, 2015. In subsequent steps, the IASB will tackle issues such as accounting procedures for hedge instruments and impairment of financial assets. Management does not anticipate any material impact thereform on Company financial statements.

(ii) IFRIC 21 - Levies - provides guidance on when to recognize a liability for a tax or levy when the obligating event occurs. For a levy that is triggered upon reaching a given metric, the interpretation indicates that no liability should be recognized before the specified metric is reached. Management does not anticipate any material impact from IFRIC 21 on Company financial statements.

There are no other IFRS standards which have not become effective yet and could significantly impact the Company.

4. Summary of significant accounting practices

Significant accounting practices used for preparing these financial statements are outlined below:

(a) Consolidated financial statements

The consolidated income statements, statements of comprehensive income, cash flow statements and statements of value added include the financial information of Company and its direct subsidiary Raia S.A. up until merger of the subsidiary and were prepared in conformity with consolidation practices and applicable legal provisions.

As mentioned in Note 2, as a result of the full merger of direct subsidiary Raia S.A. by the Company on November 30, 2012, the presentation of the consolidated balance sheet as of December 31, 2012 is no longer applicable. The income statements, cash flow statements and statements of value added for the year ended December 31, 2012 include 12 months of profit or loss from the operations of Raia Drogasil S.A. and 1 (one) month of profit or loss from the operations of subsidiary Raia S.A.

(b) Cash and cash equivalents

These include cash, bank accounts and short-term investments with immediate liquidity, readily convertible into a known cash amount and posing low risk of any change in market value. Short-term investments included in cash equivalents are classified as “financial assets measured at fair value through profit or loss”.

(c) Financial instruments

(i) Financial assets

Classification and Measurement

The Company classifies its financial assets into three categories: measured at fair value through profit or loss, held to maturity and receivables. Management classifies Company financial assets based on the purpose for which they were acquired, determined upon initial recognition. Financial assets are initially recognized at fair value plus, in the case of investments not designated at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of financial assets.

(1) Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are those held for active and frequent trading. These are classified as current assets. Corresponding gains or losses deriving from fair value variations of financial assets measured at fair value through profit or loss are recorded under financial income (expenses) in the period when they occur.

(2) Assets held to maturity

These substantially include financial assets that may not be classified as loans and receivables for being quoted in an active market. In this case, these financial assets are acquired with the intent and financial capacity to hold to maturity. They are stated at acquisition cost, plus income earned, against net income for the period, using the effective interest rate method.

(3) Loans and receivables

These are loans granted and receivables that are nonderivative financial assets with fixed or determinable payments which, however, are not traded in an active market. They are recorded in current assets, except those with maturity date within over 12 months after balance sheet date, classified in noncurrent assets. Company loans and receivables comprise trade accounts receivable and other receivables.

(ii) Financial liabilities

Classification and Measurement

The Company classifies its financial liabilities under other financial liabilities. Management classifies the financial liabilities based on the purpose for which they were acquired, determined upon initial recognition. When recognized, they are initially stated at fair value, plus, in the case of loans and financing not designated at fair value through profit or loss, transaction costs directly attributable to acquisition of the financial liability.

Other financial liabilities

After initial recognition, loans and financing subject to interest are subsequently measured at amortized cost by the effective interest rate method. Gains and losses are recognized in the income statement upon derecognition of assets and liabilities, as well as through the amortization process by the effective interest rate method.

(iii) Fair value

Fair value of publicly quoted investments is based on current purchase prices. For financial assets with no active market or public quotation, the Company establishes the fair value by means of valuation techniques, which take into consideration the use of recently contracted operations with third parties. At balance sheet date, the Company assesses whether there is any objective evidence that a financial asset or group of financial assets is recorded at a value above its recoverable amount (impairment).

Fair value hierarchy

The Company classifies and discloses the fair value of financial instruments based on measurement techniques:

Level 1: prices (without adjustments) quoted in active markets for identical assets or liabilities.
Level 2: other techniques for which all data that has significant effect on the recorded fair value is observable, whether directly or indirectly.
Level 3: techniques that use data that has significant effect on the recorded fair value that is not based on observable market data.

(d) Accounts receivable

Trade accounts receivable are recorded at the original sales amount, less credit card charges, when applicable, and allowance for doubtful accounts; An allowance for doubtful accounts is set up when there is strong evidence that the Company will not be able to collect all the amounts due. The provision amount is the difference between book value and the recoverable amount.

(e) Inventories

Inventories are measured at the lower of cost or net realizable value. Cost is determined based on the weighted moving average. Net realizable value is the estimated selling price in the normal course of business, less selling expenses and provision for losses on products.

Discounts arising from commercial agreements in the form of reductions in the purchase price of inventory items are taken into consideration when measuring inventory costs, except when received specifically for recovering selling expenses. In this sense, amounts received as part of agreements that aim at reducing the purchase price of inventories are presented as a reduction of inventories and as a reduction of cost of goods sold upon realization (sale) of the inventory items.

(f) Taxes

Current and deferred income and social contribution taxes are calculated according to the criteria set forth by tax legislation currently in effect, at the statutory rates of 25% for income tax and 9% for social contribution.

The provision for income and social contribution taxes is based on taxable profit for the year. Taxable profit differs from income presented in the income statement, as it excludes revenues or expenses taxable or deductible in other years, in addition to excluding nontaxable items or nondeductible items permanently.

Deferred income and social contribution tax assets are computed and recognized on temporary differences between the tax bases and their carrying amounts in the financial statements.

Deferred tax assets are recognized to the extent that future taxable profit is likely to be available against which deductible temporary differences can be used, based on income (loss) history and projections of future results prepared and based on Company assumptions and future economic scenarios which may, therefore, be subject to changes.

Book value of deferred tax assets is reviewed at each balance sheet date and written off, as taxable profit is no longer likely to allow deferred tax assets to be fully or partially used.

Deferred taxes related to items recorded directly in equity are also recognized in equity and not in the income statement. Deferred tax items are recognized based on the transaction that triggered the deferred tax, in the income statement or directly in equity.

(g) Judicial deposits

Judicial deposits are presented as a deduction from the value of a corresponding liability when the redemption of these deposits is not a possibility, unless a decision on the matter is handed down in favor of the Company. Judicial deposits are monetarily restated.

(h) Property and equipment

Property and equipment items are recorded at acquisition cost, net of accumulated depreciation and/or impairment losses, if applicable. Depreciation is calculated by the straight-line method over the useful life of assets, according to the rates shown in Note 9-a. Net book value and the useful life of assets, as well as depreciation methods, are reviewed at year end and adjusted prospectively, when applicable

Land and buildings include the head office, distribution center and certain own stores, and are stated at historical acquisition cost plus revaluation conducted in October 1987, based on valuation reports prepared by independent experts. The increase in book value arising from revaluation of land and buildings was credited to a specific reserve in equity, net of deferred income and social contribution taxes.

A property, plant and equipment item is written off when sold or when no future economic benefit is expected from its use or sale. Gains and losses on asset disposals are determined by comparing the disposal proceeds with the asset’s carrying amount, and are recognized in the income statement of the year in which the asset is written off. When revalued assets are intended for sale, the amounts included in revaluation reserve are recorded in retained earnings upon disposal.

Repair and maintenance services are recorded in the income statement when incurred.

(i) Intangible assets

(1) Goodwill on company acquisition

Goodwill on acquisition of investment in Drogaria Vison is prior to 2009 and was calculated as the difference between the acquisition amount and the book value of the acquired entity's equity. Goodwill is grounded on expected future profitability. Up until December 2008, goodwill was amortized based on the term, extent and proportion of projected income (loss), not exceeding ten years. As from January 2009, goodwill is no longer amortized and is now tested for impairment on an annual basis, at the cash generating unit.

(2) Points of sale

These include assignment of points of sale acquired from store lease agreements, stated at acquisition cost and amortized by the straight-line method at the annual rates mentioned in Note 9-b, which take into consideration the lease agreement terms, not exceeding fifteen years.

(3) IT systems development or licenses of use

Computer program licenses are stated at acquisition cost and amortized over their estimated useful lives, at the rates shown in Note 9-b.

Software development or maintenance costs are expensed as incurred. Costs directly attributable to identifiable and exclusive software programs, controlled by the Company, and likely to generate economic benefits greater than the related costs for more than one year, are stated as intangible assets and amortized on a straight-line basis over their useful lives, at the rates shown in Note 9-b.

Direct costs include salaries of the software development team members and the fair share of related general expenses.

The amortization period and method for a finite-lived intangible asset are reviewed at least at each financial year end.

Gains and losses arising from write-off of an intangible asset are measured as the difference between the net sale price and the book value of the asset, recognized in the income statement upon write-off of the asset.

(j) Impairment of assets

Property and equipment and other noncurrent assets, and finite-lived intangible assets, are tested annually in order to determine whether there is any evidence of impairment, or else, whenever there are any events or changes in circumstances that may indicate that the net book value of an asset exceeds its recoverable amount. Indefinite-lived intangible assets, such as goodwill, are tested for impairment at least on an annual basis, or whenever there is indication of loss in value. If that is the case, recoverable amount is calculated so as to determine whether there is any loss. When such loss is found, it is recognized in the amount at which the net book value of the asset exceeds its recoverable amount, which is the higher of net sale price or value in use of such asset. Impairment of present and future transactions is posted to the income statement as expenses consistently with the purpose of the asset item affected.

For the impairment-testing purposes, assets are grouped at the lowest levels for which there are separately identifiable cash flows (i.e., cash generating units – UGC).

(k) Leases

Leases in which a significant part of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made in connection with operating leases are recognized as expense over the lease term, on an accrual basis. The Company has no lease agreements classified as financial leases.

(l) Provisions

Provisions are recorded in the balance sheet when the Company has a present (legal or constructive) obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits. Provisions for legal proceedings are recorded based on best estimates of the risk involved in amounts deemed sufficient to cover probable losses. The proceedings rated as involving possible losses are disclosed in explanatory notes and those rated as remote losses are not provisioned or disclosed.

(m) Employee benefits

The employee benefit amounts resulting from profit sharing and bonus payments are recognized under payroll and related charges, in liabilities. Both programs have a formal plan and the amounts payable may be reasonably estimated before the information preparation period, and settled in the short term. The Company does not have the following benefit plans: Income Tax Deductible Private Pension Plan (PGBL), NonIncome Tax Deductible Private Pension Plan (VGBL) and/or defined benefit private pension plan.

(n) Loyalty program

The Company has a loyalty program named "*Muito Mais Raia*" whereby participants may accumulate credits to be used in future purchases.

The liabilities assumed arising from this program are recorded as deferred revenue in liabilities, and recognized at fair value, representing the estimated price that the Company would pay to a third party to assume the liability of the credits to be used in future purchases.

Deferred revenue is realized in the income statement when the credits are used by the clients. Credits which are not redeemed within the program period (five months after the month in which the credits accumulate) are written off since the liability ceased to exist. The Company calculates the estimated use of credits based on historical data.

(o) Capital and income reserves

The legal reserve is set up at 5% of net income for the year, pursuant to Law No. 6404/76.

The statutory reserve is established in Company articles of incorporation, limited to 65% of net income for the year, for the purpose of improving working capital.

(p) Dividend

Under Company articles of incorporation, shareholders are entitled to minimum mandatory dividend corresponding to 25% of adjusted net income each year, calculated under the terms of Brazilian corporate law.

Dividends above this limit are recorded in a specific equity account named "Additional dividend proposed" and remain in such account until a decision is reached at the General Shareholders' Meeting.

Amounts arising from realization of the revaluation reserve provide a basis for determining mandatory minimum dividend.

(q) Interest on equity

Interest on equity paid or accrued are recorded under Financial Expenses, in accordance with prevailing tax legislation. For reporting purposes, interest on equity is reclassified from Financial expenses and matched against Retained earnings.

(r) Revenue recognition

Revenue is recognized to the extent that future economic benefits are likely to flow to the Company in an amount that may be reliably measured. Revenue is measured at the fair value of the consideration received, excluding unconditional discounts, rebates and taxes or charges on sales and services.

Revenue from product sales is recognized when significant risks and rewards of ownership of the products are transferred to the buyer, which generally occurs upon delivery thereof. Revenue from services rendered is recognized upon effective provision of services by the Company.

(s) Present value adjustment

Noncurrent assets and liabilities are discounted to present value and so are current assets and liabilities whenever the effects are considered significant on the overall financial statements, at rates which more adequately reflect current market assessment. Management analyzed the asset and liability amounts and identified no balances or transactions for which this adjustment would be applicable or significant for reporting purposes.

(t) Segment information

The Company conducts its business activities considering a single operating segment, which is used as the base for managing the entity and decision-making.

(u) Significant accounting judgments, estimates and assumptions

When applying Company accounting practices, management must make judgments and prepare estimates related to carrying amounts of assets and liabilities not easily obtained from other sources. The estimates and respective assumptions are based on historical experience and other factors considered significant. Estimates and assumptions are continuously revised and related effects are recognized in the period in which these are reviewed and in any future periods affected.

Significant assumptions regarding sources of uncertainty in future estimates and other major sources of uncertainty in estimates as at balance sheet date are discussed below:

(1) Taxes

Tax credits recovery estimates were based on projections of taxable profits, taking into consideration various financial and business assumptions or considering the possibility that special conditions could be granted, such as special regimes, enabling the realization of credits. Consequently, these estimates may not materialize in the future considering the uncertainties inherent in these forecasts.

(2) Fair value of financial instruments

When the fair value of financial assets and liabilities in the balance sheet cannot be obtained in active markets, it shall be determined through measurement techniques, including the discounted cash flow method. These methods use observable market data, whenever possible; otherwise, a given judgment call is required in order to determine the fair value. Judgment includes consideration about the data used such as, for instance, liquidity risk, credit risk and volatility. Changes in the assumptions regarding these factors could affect the stated fair value of the financial instruments.

(3) Impairment

There are specific rules to assess the recoverability of assets, particularly property and equipment, goodwill and other intangible assets. At year end date, the Company performs an analysis to determine whether there is evidence that the long-lived asset amounts may not be recoverable in accordance with the cash generating units. To determine whether goodwill is impaired, it is necessary to estimate the value in use of the cash generating units to which goodwill was allocated. The calculation of value in use requires that management estimate expected future cash flows from the cash generating units and an adequate discount rate to calculate present value. Significant assumptions used for determining the value in use of the different cash generating units are detailed in Note 9-e.

(4) Provisions for tax, civil and labor contingencies

The Company is party to various legal and administrative proceedings, as mentioned in Note 11. Provisions are recorded for all litigation contingencies whose likelihood of loss is estimated as probable, in an amount that can be reliably estimated. Assessment of the likelihood of loss includes an evaluation of available evidence, the hierarchy of laws, available case law, recent court decisions and their relevance in the legal system, as well as the opinion of external legal advisors.

(v) Statements of value added (SVA)

The statements of value added are prepared and presented in accordance with CVM Resolution No. 557, of November 12, 2008, which approved Accounting Pronouncement CPC 09 – Statements of Value Added, issued by the Brazilian FASB (CPC).

(w) Cash flow statements

The cash flow statements were prepared under the indirect method and are presented in accordance with CVM Rule No. 641, of October 07, 2010, which approved accounting pronouncement CPC 03 – Statement of Cash Flows, issued by the Brazilian FASB (CPC).

In thousands of reais – R$

5. Cash and cash equivalents

	2013	2012
Cash and banks	37,875	43,399
Bank Deposit Certificates	64,181	7,766
Debentures held under repurchase agreements	109,100	87,432
Time deposits with special guarantee of the FGC (Credit Guarantee Fund)	30,729	28,366
	241,885	166,963

Investments in Bank Deposit Certificate (CDB) and Time Deposit with Special Guarantee (DPGE) of the Credit Guarantee Fund (FGC) are classified as “financial instruments held for trading” and are restated based on the Interbank Deposit Certificate (CDI) percentage variation, which reflects the realizable value.

In thousands of reais – R$

6. Trade accounts receivable

The aging list of trade accounts receivable is as follows:

	2013	**2012**
Falling due	365,350	325,694
Overdue:		
1 to 30 days	7,570	9,075
31 to 60 days	340	798
61 to 90 days	347	291
91 to 180 days	577	624
181 to 360 days	160	
Over 360 days	95	27
Allowance for doubtful accounts	(1,180)	(738)
	373,259	335,771

Day sales outstanding is approximately 40 days, considered part of the normal conditions inherent in Company operations. As such, no balances and transactions were identified for which the effect of the present value adjustment is considered significant.

Changes in the allowance for doubtful accounts are as follows:

	2013	**2012**
Opening balance	(738)	(650)
Additions	(3,175)	(778)
Additions from merger of Raia S.A.		(57)
Reversals	2,733	747
Closing balance	(1,180)	(738)

Accounts receivable are classified as “Receivables and are therefore measured as described in Note 4-c-i-3.

In thousands of reais – R$

7. Inventories

	2013	**2012**
Products for resale	1,150,176	974,455
Materials	8,624	9,854
Provision for inventory losses	(26,180)	(10,913)
Total	1,132,620	973,396

Company inventories are stated at cost.

Changes in the provision for inventory losses are as follows:

	2013	**2012**
Opening balance	(10,913)	(2,456)
Additions	(26,938)	(1,622)
Additions from merger of Raia S.A.		(8,225)
Reversals	11,670	1,390
Closing balance	(26,180)	(10,913)

For the year ended December 31, 2013, cost of sales recognized in the income statement in relation to continuing operations amounted to R$4,437,769 (R$2,115,029 and in the consolidated R$3,863,361 - 2012).

Inventories written off and recognized as loss in the year amounted to R$74,973 (R$17,056 and in the consolidated R$24,718 - 2012), posted to Cost of sales.

The effect of the set-up, reversal or write-off of the provision for inventory losses is recorded in the income statement under “cost of sales”.

In thousands of reais – R$

8. Taxes recoverable

	2013	2012
Current		
State VAT (ICMS) - credit balance	8,322	70,974
ICMS - Tax substitution		8,147
ICMS - Refund of ICMS withheld in advance (CAT Ruling No. 17/99)	22,234	10,889
ICMS - on capital expenditures	3,725	3,149
ICMS - other	205	502
Social Contribution Tax on Gross Revenue for Social Integration Program (PIS)	1	5
Contribution Tax on Gross Revenue for Social Security Financing (COFINS)	2	24
Withholding Income Tax (IRRF)	3,642	2,463
Corporate Income Tax (IRPJ)		40
Social Contribution on Net Profit (CSLL)	527	56
Social Security Tax (INSS)		67
	38,658	96,316
Noncurrent		
ICMS - on capital expenditures	11,298	9,053
Social Security Funding Tax (FINSOCIAL) - 1982 – securities issued to cover court-ordered debts	561	561
	11,859	9,614
Total	50,517	105,930

ICMS credits amounting to R$8,322 and R$22,234 (R$70,974 and R$10,889 – Dec/2012) arise from application of different ICMS rates and refund of ICMS-ST (tax substitution) on goods receiving and shipping operations by Company Distribution Centers in the states of São Paulo and Paraná, in order to supply its branches located in other Brazilian states.

Company management analyzed the use of ICMS credits under these special regimes and concluded that the credit balance amounts will be used in the short term.

In thousands of reais – R$

9. Property and equipment and intangible assets

a) Property and equipment

Changes in Company property and equipment are as under:

	Land	Buildings	Furniture, fixtures and facilities	Machinery and equipment	Vehicles	Leasehold improvements	Store renovation and modernization	Total
Cost								
Balance at January 1, 2012	24,637	32,662	64,910	33,321	10,596	100,767	10,174	277,067
Additions from merger	3,088	729	127,238	48,794	7,890	234,891		422,630
Additions		8,228	29,218	26,975	2,566	47,958	2,487	117,432
Disposals		(4)	(1,901)	(8,173)	(28)	(14,919)	(976)	(26,001)
Balance at December 31, 2012	27,725	41,615	219,465	100,917	21,024	368,697	11,685	791,128
Additions		438	48,684	22,560	2,285	120,172	1,107	195,246
Disposals			(3,913)	(732)	(2,109)	(107,695)	(1,813)	(116,262)
Balance at December 31, 2013	27,725	42,053	264,236	122,745	21,200	381,174	10,979	870,112
Accumulated depreciation								
Average annual depreciation rates (%)		2.5 - 2.7	7.4 - 10	7.1 - 15.8	20 - 23.7	17 - 21.6	20	
Balance at January 1, 2012		(14,374)	(19,806)	(17,857)	(4,991)	(40,261)	(4,652)	(101,941)
Additions from merger		(191)	(57,571)	(28,886)	(2,256)	(125,089)		(213,993)
Additions		(921)	(7,804)	(5,207)	(2,550)	(24,867)	(2,190)	(43,539)
Disposals			1,096	6,452	5	14,138	976	22,667
Balance at December 31, 2012		(15,486)	(84,085)	(45,498)	(9,792)	(176,079)	(5,866)	(336,806)
Additions		(1,110)	(21,307)	(12,135)	(4,083)	(62,978)	(2,254)	(103,867)
Disposals			2,030	598	1,997	100,761	1,804	107,190
Balance at December 31, 2013		(16,596)	(103,362)	(57,035)	(11,878)	(138,296)	(6,316)	(333,483)
Net balance								
At December 31, 2012	27,725	26,129	135,380	55,419	11,232	192,618	5,819	454,322
At December 31, 2013	27,725	25,457	160,874	65,710	9,322	242,878	4,663	536,629

In thousands of reais – R$

b) Intangible assets

Changes in Company intangible assets are as follows:

	Point of sale	Software use license and systems implementation	Goodwill on company acquisition (Vison)	Goodwill on company acquisition (Raia S.A.)	Trademarks	Customer portfolio	Other intangible assets	Total
Cost								
Balance at January 1, 2012	59,290	7,341	22,275					88,906
Additions from merger	97,640	43,033		780,084	151,700	41,700	3,103	1,117,260
Additions	65,616	4,802					35	70,453
Disposals	(7,265)	(616)						(7,881)
Balance at December 31, 2012	215,281	54,560	22,275	780,084	151,700	41,700	3,138	1,268,738
Additions	31,142	10,427					1,427	42,996
Disposals	(16,216)	(2)					(125)	(16,343)
Balance at December 31, 2013	230,207	64,985	22,275	780,084	151,700	41,700	4,440	1,295,391
Accumulated amortization								
Average annual depreciation rates (%)	17 - 23.4	20	Indefinite useful life	Indefinite useful life	Indefinite useful life	6.7 - 25	20	
Balance at January 1, 2012	(22,845)	(6,116)	(2,387)					(31,348)
Additions from merger	(27,859)	(20,388)				(9,923)	(607)	(58,777)
Additions	(13,383)	(1,376)				(764)	(10)	(15,533)
Disposals	7,118							7,118
Balance at December 31, 2012	(56,969)	(27,880)	(2,387)			(10,687)	(617)	(98,540)
Additions	(37,308)	(8,286)				(9,160)	(115)	(54,869)
Disposals	8,544	2					11	8,557
Balance at December 31, 2013	(85,733)	(36,164)	(2,387)			(19,847)	(721)	(144,852)
Net balance								
At December 31, 2012	158,312	26,680	19,888	780,084	151,700	31,013	2,521	1,170,198
At December 31, 2013	144,474	28,821	19,888	780,084	151,700	21,853	3,719	1,150,539

c) Goodwill on acquisition of Drogaria Vison Ltda.

Goodwill amounting to R$19,888 refers to acquisition of Drogaria Vison Ltda. on February 13, 2008, merged into the Company as from June 30, 2008.

Goodwill is grounded on expected future profitability, with estimated return in seven years, based on independent expert assessment, amortized from April to December 2008. As provided for in OCPC 02, as from 2009, goodwill is no longer amortized, and is tested annually for impairment.

d) Goodwill on acquisition of Raia S.A.

The Company recorded goodwill of R$780,084 from the business combination with Raia S.A., grounded on expected future profitability, arising from the difference between the assets assigned and received, with expected return in five and a half years. As provided for in OCPC 02, as from 2009, goodwill is no longer amortized, and is tested annually for impairment.

e) Impairment testing of goodwill and intangible assets with an indefinite useful life

At December 31, 2013, the Company assessed the recovery of the book value of the goodwill on the acquisitions of Drogaria Vison and Raia S.A., both through business combinations based on value in use, using the discounted cash flow model allocated to the related cash generating units that gave rise to such goodwill.

The recoverable amount of the sales made by the cash generating units that gave rise to goodwill was calculated based on value in use, considering cash projections from financial budgets approved by management over a five-year period. The projected cash flow was restated to reflect the changes in product and service demand. The discount rate, after taxes, applied to cash flow projections is 12.91% (13.35% - 2012).

The impairment testing of Company intangible assets did not indicate that impairment losses should be recognized.

Significant assumptions used in calculations based on value in use

The calculation of value in use for referred to cash generating units is more sensitive to the following assumptions:

Sales revenue and expenses

Drug price adjustment and inflation for other products sold; and

Selling expenses are adjusted pursuant to projected general inflation or contractual rates.

Gross margins

Gross margins are based on amounts for the most recent month, to avoid seasonal variations or changes in market conditions. These margins are increased in the periods in which they are impacted by drug price adjustments due to pre-existing inventories.

Discount rates

The discount rate reflects current market assessment of risks referring to management of funds generated by the related cash generating units.

Drug price adjustment

Estimates are obtained based on historical adjustments and expectations of the pharmaceutical market.

Growth rate estimates

These are determined based on market rates, historical performance of cash generating units and expected future performance assessed by Company management.

In thousands of reais – R$

10. Loans and financing

Financing for acquisition of	Average annual long-term interest rate	2013	2012
BNDES - FINAME			
Machinery, equipment and vehicles	TJLP + 3.62% (+ 3.62% - Dec/2012) p.a.		79
Ventures	TJLP + 3.70% (+ 3.80% - Dec/2012) p.a.	266	1,864
BNDES - FINEM			
Ventures	TJLP + 2.76% (+ 2.70% - Dec/2012) p.a.	16,298	34,572
Ventures	IPCA + 7.51% + 1.46% (+ 7.50% + 1.51% - Dec/2012) p.a.	17,734	24,939
Machinery and equipment	TJLP + 2.07% (+ 1.91% - Dec/2012) p.a.	816	2,072
Machinery and equipment	IPCA + 7.44% + 2.30% (+ 7.44% + 2.30% - Dec/2012) p.a.		2,063
BNDES - Subcredit			
Ventures	TJLP + 3.04% (+ 3.40% - Dec/2012) p.a.	106,168	62,857
Ventures	SELIC + 2.37% (+ 2.36% - Dec/2012) p.a.	33,552	16,938
Machinery, equipment and vehicles	Fixed 3.18% (+ 3.84% - Dec/2012) p.a.	11,568	9,184
Machinery, equipment and vehicles	TJLP + 1.79% (+ 1.79% - Dec/2012) p.a.	2,524	3,390
Working capital	TJLP + 4.15% (+ 4.15% - Dec/2012) p.a.	4,017	6,312
Working capital	SELIC + 3.07% (+ 3.06% - Dec/2012) p.a.	51,882	27,902
		244,825	192,172
Current liabilities		(83,944)	(60,712)
Noncurrent liabilities		160,881	131,460

Equipment financing under FINAME taken out with the Brazilian Development Bank (BNDES) is guaranteed by the financed items, while part of the FINEM transactions were secured by bank guarantees.

The objective of loans taken out with BNDES is the expansion of stores, purchase of machinery/equipment and vehicles, and working capital financing.

The agreements allow the bank guarantee to be replaced at any time by a different guarantee given by a top-tier institution.

In thousands of reais – R$

Part of the BNDES financing has been taken out as subcredits, in the amount of R$214,206 (R$139,161 - Dec/2012) subject to observance of the following two covenants:

(i) Adjusted EBITDA margin (adjusted EBITDA/net operating revenue): Equal to or above 3.6% and

(ii) Total net debt/total assets: equal to or below 20%.

Covenants are measured annually and at December 31, 2013 and 2012, the Company was compliant with referred to requirements.

In case of noncompliance with the requirements, bank guarantees would be given to BNDES to ensure observance of the agreement.

The Company is party to no agreements conditioned to compliance with nonfinancial requirements.

Noncurrent loans and financing mature as follows:

	2013
2015	14,410
2016	74,075
2017	40,779
2018	25,958
2019	5,659
	160,881

In thousands of reais – R$

11. Provision for legal proceedings and judicial deposits

The Company is party to legal proceedings arising in the normal course of business, on tax, civil and labor matters. Management, based on the opinion of its legal advisors and, as applicable, on specific opinions issued by experts, assesses the likelihood of loss regarding ongoing litigation and determines whether or not setting up a provision for legal proceedings is necessary.

At December 31, 2013 and 2012, the Company had the following liabilities and corresponding judicial deposits relating to legal proceedings:

	2013	**2012**
Labor and social security	12,668	9,729
Tax	457	454
Civil	4,801	4,887
	17,926	15,070
Corresponding judicial deposits	(4,993)	(1,220)
Total	12,933	13,850
Current liabilities	(4,912)	(4,129)
Noncurrent liabilities	8,021	9,721

Changes in this provision are as follows:

	2013	**2012**
Opening balance	13,850	2,106
Additions from merger of Raia S.A.		6,066
Additions	8,681	4,719
Write-offs	(4,650)	(1,807)
Revaluation of amounts	(4,295)	(589)
Monetary restatement	3,120	3,053
Appeal-related deposits	(3,773)	302
Closing balance	12,933	13,850

The provision for legal proceedings took into consideration the best estimate of the amounts involved, for the cases in which the likelihood of loss is estimated as probable by external and internal legal advisors, and a portion of these proceedings is guaranteed by pledged assets or judicial deposits (Note 19).

In thousands of reais – R$

Possible loss

At December 31, 2013 and 2012, the Company is party to legal proceedings of a tax, civil and labor nature, whose likelihood of loss is estimated as possible by management and its legal advisors, amounting to R$41,417 (R$25,074 - Dec/2012).

Judicial deposits

At December 31, 2013 and 2012, the Company had the following judicial deposit amounts for which no corresponding provision was set up:

	2013	2012
Labor and social security	3,005	3,728
Tax	7,135	6,637
Civil	623	645
Total	10,763	11,010

Labor contingencies

The legal proceedings of a labor nature refer to proceedings filed by former employees, questioning the payment of overtime and nonpaid severance pay. The Company is party to proceedings assumed upon acquisition of Raia S.A. filed by former employees of companies providing outsourced services, claiming to have an employment relationship directly with the Company or that the Company receive a joint enforcement order for the payment of the labor rights under discussion. The Company is also party to proceedings filed by professional unions in order to claim for union contributions, due to discussion regarding the legitimacy of the territorial base.

Tax contingencies

These are represented by various administrative fines, rate differences on interstate transfers and tax collection proceedings.

Civil contingencies

The Company is a defendant to claims that discuss usual and unique matters deriving from Company activity, most of which seek indemnification for property damage and pain and suffering from consumption relations, such as indemnification claims due to undue protest of notes and consumption relations.

In thousands of reais – R$

12. Income and social contribution taxes

(a) Effective income and social contribution taxes

At December 31, 2013 and 2012, effective income and social contribution taxes are as follows:

	Raia Drogasil S.A.		Consolidated
	2013	**2012**	**2012**
Income before income and social contribution taxes	139,387	140,837	158,074
Interest on equity	(38,900)	(40,000)	(40,000)
Taxable profit	100,487	100,837	118,074
Combined rate (income tax - 25% and social contribution tax - 9%)	34	34	34
Theoretical expenses	(34,166)	(34,285)	(40,145)
Permanent additions	(2,107)	(1,055)	(1,108)
Equity pickup		(2,182)	
Tax reduction incentives	203	1,540	1,669
Loss of tax loss benefit due to merger			(13,230)
Goods destruction process	(2,172)		
Other	(160)		(405)
Effective income and social contribution tax expense	(38,402)	(35,982)	(53,219)
Effective rate (%)	27.6	25.5	33.7

b) Deferred income and social contribution taxes

Deferred income and social contribution tax assets in the amount of R$38,314 at December 31, 2013 (R$29,970 - Dec/2012) arise from temporarily nondeductible expenses that do not expire, with estimated realization disclosed in item (c) below.

Deferred income and social contribution tax liabilities in the amount of R$132,294 at December 31, 2013 (R$93,991 - Dec/2012) refer to tax charges on the remaining balances of: (i) the revaluation reserve; (ii) goodwill on future profitability.

In thousands of reais – R$

At December 31, 2013 and 2012, deferred income and social contribution taxes refer to:

			Raia Drogasil S.A.		Consolidated
	Balance sheet			P&L	P&L
	2013	2012	2013	2012	2012
Revaluation at fair value of land and buildings	(7,449)	(7,545)			
Amortization of goodwill on future profitability	(51,842)	(7,953)	(43,889)	(4,662)	(4,662)
Appreciation of intangible assets - merger of Raia S.A.	(73,003)	(78,493)	5,490	457	6,037
Other	(1,969)	(1,765)	(204)	(32)	(32)
Provision for legal proceedings	6,095	5,055	1,040	1,760	2,560
Allowance for doubtful accounts	1,590	1,572	18	220	1,132
Provision for discretionary bonuses		2,506	(2,506)	(814)	1,588
Provision for officers' bonuses	1,636	376	1,260	(335)	(335)
Provision for internal campaigns	523		523	(401)	(401)
Provision for obsolete inventories	8,900	3,710	5,190	78	2,009
Provision for employees' profit sharing	2,955	1,795	1,160	605	605
Goodwill on profitability of Drogaria Vison	365	366	(1)		
Sundry provisions	5,191	2,080	3,111	1,660	1,660
Tax losses to be offset against future taxable profits	5,934		5,934		(16,108)
Provision for extraordinary expenses	101	1,688	(1,587)	(195)	331
Provision for losses on loans to employees					(1,199)
Tax benefit from goodwill on merger	6,993	12,587	(5,594)	(465)	(5,593)
Deferred income and social contribution tax expense (revenue)			(30,055)	(2,124)	(12,408)
Deferred tax assets (liabilities), net	(93,980)	(64,021)			

Reconciliation of deferred tax assets (liabilities), net	**2013**	**2012**
Opening balance	(64,021)	(4,484)
Additions from merger of Raia S.A.		(57,515)
Taxable revenue recognized in the income statement	(30,055)	(2,124)
Tax expense recognized in equity	96	102
Closing balance	(93,980)	(64,021)

(c) Estimated recovery of income and social contribution tax credits

The projections of future taxable profits are based on estimates relating to Company performance, among others, as well to the behavior of the market where the Company operates and certain economic aspects. Actual amounts may differ from the estimates adopted. According to projections, the tax credit amounting to R$38,314 will be fully realized by the end of 2014.

In thousands of reais – R$

(d) Brazilian IRS Revenue Procedure (IN RFB) No. 1397 of November 12, 2013 (Provisional Executive Order No. 627)

On September 17, 2013 and November 12, 2013, respectively, Brazilian IRS (RFB) Revenue Procedure No. 1397 (IN 1.397) and Provisional Executive Order (MP) No. 627 were published, to: (i) repeal the Transition Tax Regime (RTT) as from 2015 and creates a new tax model; (ii) amend Decree Law No. 1598/77 with respect to income tax calculation for legal entities and to the legislation concerning social contribution on net profit. The new tax regime instituted by MP No. 627 is effective as from 2014, for entities electing to adopt such model. Worth stressing, among the provisions of MP No. 627, those that address the distribution of profits and dividends, interest on equity calculation base and the equity pickup calculation criterion while RTT remains effective.

The Company analyzed the potential effects of MP No. 627 and IN No. 1397 and concluded that these effects are immaterial on Company operations and financial statements for the year ended December 31, 2013, based on our best understanding of referred to MP. The Company awaits any amendments to MP No. 627 in order to decide on its elective adoption as from 2014.

13. Earnings per share

Information used for calculating basic and diluted earnings per share is as follows:

	Raia Drogasil S.A.		Consolidated
	2013	**2012**	**2012**
Basic			
Net income	100,985	104,855	104,855
Weighted average number of common shares	330,386	330,386	330,386
Earnings per share in R$ – basic	**0.30566**	**0.31737**	**0.31737**
Diluted			
Net income	100,985	104,855	104,855
Weighted average number of common shares	330,386	330,386	330,386
Weighted average number of common shares adjusted by dilution effect	330,386	330,386	330,386
Earnings per share in R$ – diluted	**0.30566**	**0.31737**	**0.31737**

No dilutive effects were identified, which should be considered in net income for 2013 and 2012, and basic and diluted earnings per share were the same for both periods.

In thousands of reais – R$

14. Equity

(a) Capital

At December 31, 2013, fully paid-up capital of R$908,639, represented by 330,386,000 common registered book shares with no par value, of which 192,804,770 are outstanding (184,715,125 shares at December 31, 2012).
Pursuant to Company Articles of Incorporation, the Board of Directors is authorized to increase capital up to the limit of R$400,000,000 common shares.

Changes in the number of outstanding shares are as follows:

	Outstanding shares
At December 31, 2012	184,715,125
Sale of restricted shares	8,089,645
At December 31, 2013	192,804,770

At December 31, 2013, Company common shares were priced at R$14.78 (closing quote).

(b) Payouts to shareholders

Under Company articles of incorporation, shareholders are entitled to minimum dividend corresponding to 25% of adjusted annual net income. The dividend proposed, including interest on equity, is calculated as follows:

	2013	**2012**
Net income for the year	100,985	104,855
Realization of revaluation reserve in the year	186	198
Dividend calculation base (a)	101,171	105,053
Mandatory minimum dividend under articles of incorporation (25%)	25,293	26,263
Dividend proposed		
Interest on equity proposed	38,900	40,000
Withholding Income Tax (IRRF) on interest on equity	(5,309)	(5,500)
Payout net of IRRF (b)	33,591	34,500
Amount in excess of mandatory minimum dividend	8,298	8,237
% paid out divided by the dividend calculation base (b ÷ a)	33.20	32.84

In thousands of reais – R$

The Company recognized interest on equity of R$38,900 (R$40,000 - 2012), observing the limit of the Long-Term Interest Rate (TJLP) variation in 2013 and 2012, and under the expense deductibility limits for income and social contribution tax calculations, pursuant to Law No. 9249/95.

Changes in dividend and interest on equity obligations are as follows:

	2013	2012
Opening balance	5,451	3,662
Additions	33,530	36,001
Payments	(29,339)	(34,081)
Write-offs	(178)	(131)
Closing balance	9,464	5,451

15. Net sales revenue

	Raia Drogasil S.A.		Consolidated
	2013	2012	2012
Gross sales revenue			
Products sold	6,455,070	3,095,066	5,586,139
Services rendered	9,033	4,883	7,697
	6,464,103	3,099,949	5,593,836
Taxes on sales	(197,812)	(109,292)	(179,566)
Returns	(33,372)	(14,609)	(33,542)
Net sales revenue	6,232,919	2,976,048	5,380,728

Taxes on sales are namely ICMS at predominantly 17% and 18%, ISS at 5%, PIS at 1.65% and COFINS at 7.65%.

In thousands of reais – R$

16. Information on nature of expenses recognized in the income statement

The Company presented its income statement using a classification of expenses based on the nature thereof. Information on the nature of these expenses recognized in the income statement is as follows:

	Raia Drogasil S.A.		Consolidated
	2013	2012	2012
Cost of sales	(4,512,743)	(2,132,085)	(3,888,079)
Personnel expenses	(803,348)	(354,800)	(688,965)
Expenses with service providers	(73,741)	(37,712)	(64,365)
Depreciation and amortization	(158,736)	(59,072)	(124,327)
Other (i)	(487,451)	(218,533)	(420,450)
	(6,036,019)	(2,802,202)	(5,186,186)

Classified in the income statement as:

	2013	2012	2012
Cost of sales	(4,512,743)	(2,132,085)	(3,888,079)
Selling expenses	(1,188,077)	(529,962)	(1,002,330)
General and administrative expenses	(176,463)	(81,083)	(171,450)
Depreciation and amortization	(158,736)	(59,072)	(124,327)
	(6,036,019)	(2,802,202)	(5,186,186)

(i) These refer mostly to expenses with rent, credit and debit card management charges, consumption accounts, materials for own use and consumption and condo fees.

17. Other operating expenses

In 2013, other operating expenses amounted to R$47,066 (R$ 24,442 and R$33,918 in the consolidated - 2012). These amounts comprise nonrecurring expenses, most of which was generated in Company merger process and due to bonuses paid to management members.

18. Financial income and expenses

(a) Financial income

	Raia Drogasil S.A.		Consolidated
	2013	2012	2012
Discounts obtained	555	88	487
Gains from short-term investments	8,204	8,523	14,720
Interest received	154	92	92
Monetary variation gains	945	383	1,049
Other financial income	5	4	4
Total financial income	9,863	9,090	16,352

In thousands of reais – R$

(b) Financial expenses

	Raia Drogasil S.A. 2013	Raia Drogasil S.A. 2012	Consolidated 2012
Discounts granted - customers	(3)		
Interest, charges and bank fees	(2,182)	(1,111)	(1,811)
Loan and financing charges	(17,338)	(9,933)	(15,859)
Monetary variation losses	(787)	(194)	(1,232)
Total financial expenses	(20,310)	(11,238)	(18,902)
Financial income	(10,447)	(2,148)	(2,550)

19. Procedural guarantees

Tax, social security and labor proceedings were guaranteed by the following property and equipment items:

	2013	2012
Furniture and facilities	108	155
Machinery and equipment	126	217
Vehicles		10
	234	382

20. Lease agreement commitments

The Company has entered into lease agreements whose terms range from one to twenty years. Lease expenses vary depending on the number of agreements entered into or terminated. Total monthly expenses with these lease agreements (including rent, condo fees and Property Tax – IPTU) amounted to R$19,163 (R$17,048 - Dec/2012) - Company.

At December 31, 2013 and 2012, future minimum store lease amounts payable (under cancellable operating leases) are as follows:

	2013	2012
First 12 months	165,421	145,269
From 13 to 60 months	401,971	356,111
Over 60 months	159,110	130,953
	726,502	632,333

In thousands of reais – R$

21. Financial instruments and risk management policy

Book value of Company financial instruments approximates fair value, as shown in the tables below.

At December 31, 2013 and 2012, the Company has short-term investments measured at fair value through profit or loss, which are classified as "level 1" Note 4-c-iii.

Financial assets

Major financial assets are cash and cash equivalents, short-term investments and accounts receivable:

	2013	2012
Fair value through profit or loss – held for trading		
Cash and cash equivalents (Note 5)	241,885	166,963
	241,885	166,963
Receivables		
Accounts receivable (Note 6)	373,259	335,771
Other receivables	108,953	116,772
	482,212	452,543
Total	724,097	619,506

Financial liabilities

Major financial liabilities are trade accounts payable, loans and financing and other accounts payable:

	2013	2012
Other financial liabilities		
Trade accounts payable	671,455	575,587
Loans and financing (Note 10)	244,825	192,172
Other payables	72,181	91,058
Total	988,461	858,817

The Company is exposed to financial risks arising from its operations, such as market risk, credit risk and liquidity risk. The risk management program adopted by the Company focuses on the unpredictability of financial markets and of those markets where the Company operates, while aiming at minimizing potential adverse effects on Company financial performance.

The Board of Directors establishes risk management principles, including specific areas such as interest rate risk, credit risk, as well as use of non-derivative financial instruments and investment of cash surplus.

(a) Market risk

Currency risk

All funding and investment operations of the Company are denominated in Reais (R$); therefore, the Company is not exposed to risk arising from exchange fluctuation.

Interest rate risk

Company exposure to interest rate risk refers substantially to obligations subject to rate variation. The understanding of Company management is that the sole risk which it is exposed to refers to the mismatch between BNDES financing (R$17,734) based on IPCA + interest, against investments in CDI.

Most of the BNDES operations are entered into based on the TJLP + interest and on the Selic rate. Short-term investments are entered into based on CDI variation, which does not result in a high interest rate risk, since these variations are not significant. Management understands that the risk of significant changes in net income and in cash flows is low.

(b) Credit risk

This refers to our financial assets, which are cash and cash equivalents, short-term investments and accounts receivable.

Cash and cash equivalents and short-term investments are maintained with sound financial institutions.

The granting of credit upon the sales of goods follows a policy which aims at minimizing default. At December 31, 2013, credit sales represented 47% of total sales, and 88% of this total refers to credit card sales which, in the opinion of the Company and based on historical losses, pose extremely low risk. The remaining 12%, which are credits from Drug Benefit Programs (PBMs), special plans with companies and postdated checks, pose low risk, due to client selectivity and adoption of individual limits.

(c) Liquidity risk

Management continuously monitors Company cash needs in order to ensure cash is sufficient to carry out its operations. Cash surplus is invested in financial assets with adequate maturity in order to ensure the liquidity necessary to honor its obligations.

In thousands of reais – R$

(d) Sensitivity analysis

Sensitivity analysis of Company financial instruments, from which losses may arise, is as follows.

The most probable scenario (scenario I), according to assessment by Management, is based on a three-month horizon. Additionally, another two scenarios are presented, under the terms of CVM Ruling No. 475/08, in order to present a 25% and 50% deterioration in the risk variable considered, respectively scenarios II and III.

Operation	Risk	Scenario I (probable)	Scenario II	Scenario III
Short-term investments - CDI	0.5% increase	1,020	1,275	1,530
Revenue		1,020	1,275	1,530
BNDES financing (IPCA + interest)	1% mismatch	177	221	266
REFIS (SELIC)	0.5% increase	9	11	14
Expense		186	232	280

The risk of TJLP variation on BNDES operations which may result in material losses is not estimated as probable by the Company.

(e) Capital management

Company objective relating to capital management is to maintain its investment capacity, thus allowing its growth as well as the generation of return on investments.

The Company adopts the policy of not leveraging its capital structure with loans and financing, except for long-term credit lines from BNDES (Finem/Finame), with interest rates that are commensurate with Company profit levels.

In view of this, the financial leverage index corresponds to the result from the division of net debt by equity. Net debt is the amount resulting from total financing less cash and cash equivalents, as under:

	2013	2012
Financing	244,825	192,172
Cash and cash equivalents	(241,885)	(166,963)
Net debt	2,940	25,209
Equity	2,326,983	2,264,659
Financial leverage ratio (%)	0.13	1.11

(f) Fair value estimate

The book value of trade accounts receivable and trade accounts payable are deemed to approximate fair value, taking into consideration these balances' realization and settlement terms, within 60 days.

For disclosure purposes, the fair value of financial liabilities is estimated by discounting future cash flows at the interest rate effective in the market, which is available for the Company for similar financial instruments. The interest rates in effect at balance sheet dates are usual market rates and their fail value does not significantly differ from the balances in the accounting records.

Short-term investments, represented by CDB investments and debentures under repurchase agreements (Note 5) measured at fair value through profit or loss, were valued based on the remuneration rate agreed upon with respective financial institution, considered a usual market rate.

22. Derivative financial instruments

The Company adopts the policy of not engaging in transactions involving derivative financial instruments.

In thousands of reais – R$

23. Transactions with related parties

(a) Transactions with related parties consist of operations with Company shareholders and individuals related thereto, who carried out the following transactions:

	Relationship	Raia Drogasil S.A.				Consolidated
		Current assets		Revenues		Revenues
		2013	2012	2013	2012	2012
Amounts receivable						
Agreements (i)						
Regimar Comercial S.A.	Shareholder / Family member	9	8	65	70	70
Heliomar S.A.	Shareholder / Board member	1	1	9	11	11
Rodrigo Wright Pipponzi (Editora Mol Ltda.) (iii)	Shareholder / Family member			2		1
		10	9	76	81	82
Lease of store space (i)						
Enox Publicidade S.A.	Shareholder / Board member		19		101	101
			19		101	101
		10	28	76	182	183

In thousands of reais – R$

				Raia Drogasil S.A.		Consolidated
	Relationship	**Current liabilities**		**Expenses**		**Expenses**
		2013	**2012**	**2013**	**2012**	**2012**
Amounts payable						
Rent (ii)						
Heliomar S.A.	Shareholder / Board member	13	14	160	157	157
Antonio Carlos Pipponzi	Shareholder / Board member	5	5	65	6	59
Rosalia Pipponzi Raia	Shareholder / Board member	5	5	65	6	59
Espólio of Franco Maria David Pietro Pipponzi	Shareholder / Board member	5	5	65	6	59
		28	29	355	175	334
Service providers (ii)						
Capullo Publicidade Ltda. as from Ago/12 (Tulipa up until Jul/12)	Shareholder / Family member		61	322	891	891
Zurcher, Ribeiro Filho, Pires Oliveira Dias e Freire - Advogados	Shareholder / Family member	45	61	2,661	1,365	1,365
Associação Obra do Berço (Literat Editora Ltda.) (iii)	Shareholder / Family member			1,042		
Rodrigo Wright Pipponzi (Editora Mol Ltda.) (iii)	Shareholder / Family member	131	267	5,920	375	4,325
		176	389	9,945	2,631	6,581
		204	418	10,300	2,806	6,915

In thousands of reais – R$

(i) Sales carried out through agreements and space rental contracts. These transactions are entered into under commercial conditions equivalent to those practiced with other companies.

(ii) Store rental, rendering of marketing and legal advisory services. These transactions are engaged under usual market conditions.

(iii) These balances and transactions regard service agreements for preparation, creation and production of marketing material for the institutional sales area and the concept of the Company's internal monthly magazine. These agreements are effective over an undetermined period of time and may be terminated by any of the parties without cost or penalties.

Additionally, we inform that there are no transactions other than the amounts presented above and that the related parties category refers to the entity's key management personnel.

(b) Key management personnel compensation

Key management personnel comprises Officers, Directors and Supervisory Board members. Compensation paid or payable for services rendered is as follows:

	Raia Drogasil S.A.		**Consolidated**
	2013	**2012**	**2012**
Earnings and social charges	10,637	5,709	8,707
Bonuses and social charges	15,634	10,692	11,996
Reversal of provision for bonuses	(4,753)	(7,873)	(7,873)
	21,518	8,528	12,830

24. Insurance coverage

The Company adopts the policy of taking out insurance coverage in amounts deemed sufficient by management to cover any losses on assets or civil liability attributed thereto. Based on the nature of its activities and the guidance provided by its insurance consultants, the Company has the following insurance coverage at December 31, 2013:

	2013	**2012**
Inventory loss risks	106,878	98,541
Permanent asset items	121,522	100,858
Loss of profits	24,100	24,100
Civil liability risks	12,423	10,474
	264,923	233,973

25. Noncash transactions

In 2013, the Company was engaged in no transactions not involving cash.

Raia Drogasil S.A.

EXECUTIVE BOARD'S STATEMENT ON THE FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

In accordance with items V and VI, paragraph 1, article 25 of CVM Ruling No. 480/09, the Executive Board declares that it has reviewed, discussed and agreed on the financial statements and the opinions expressed in the Independent Auditor's Report.

São Paulo, March 17, 2014.

Marcílio D'Amico Pousada
Chief Executive Officer

Antonio Carlos Coelho
Controller and Accountant in charge
CRC 1SP166428/O-9

Antonio Carlos de Freitas
Officer

Eugênio De Zagottis
Officer

Fernando Varela
Officer

Marcello De Zagottis
Officer

Renato Cepollina Raduan
Officer

Rosângela Lutti
Officer

Raia Drogasil S.A.

SUPERVISORY BOARD'S STATEMENT

The Company's Supervisory Board, in exercise of its duties and legal responsibilities, has examined the Financial Statements, Management Report and Management's Proposal for Profit Allocation for the year ended December 31, 2013 and, based on the examinations performed and on clarifications provided by management, and also considering the favorable unqualified report issued by independent auditor Ernst & Young Auditores Independentes S.S., the Supervisory Board members concluded that the documents above mentioned are fairly presented, in all material respects, and unanimously decided to submit them to the General Shareholders' Meeting to be convened pursuant to Law No. 6404/76.

São Paulo, March 17, 2014.

Gilberto Lério
Supervisory Board member

Fernando Carvalho Braga
Supervisory Board member

Mário Antonio Luiz Corrêa
Supervisory Board member