(A free translation of the original in Portuguese)

Raia Drogasil S.A.

Parent company and consolidated financial statements
At December 31, 2019
and independent auditor's report

São Paulo, February 19, 2020. **RD – People, Health and Well-being** (Raia Drogasil S.A. – B3: RADL3) announces today its results for the 4[rd] quarter of 2019 (4Q19) and for the year of 2019. The Company's parent company and consolidated financial statements for the years ended December 31, 2019 and 2018 have been prepared in accordance with the accounting practices adopted in Brazil, including the rules issued by the Brazilian Securities Commission (CVM) and the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), and are in conformity with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and provide all the significant information related solely to the financial statements, which is consistent with the information used by management. The financial statements were prepared in Reais and all growth rates, unless otherwise stated, relate to the same period of 2018.

Starting in 2019, our financial statements are prepared in accordance with IFRS 16. In order to better represent the economics of the business, the figures in this report are presented under IAS 17 / CPC 06, the previous reporting standard. Reconciliation with IFRS 16 can be found on the "IFRS 16" section.

ANNUAL CONSOLIDATED HIGHLIGHTS*:

- **DRUGSTORES:** 2,073 stores in operation (240 organic openings, 42 Onofre and 34 closures)
- **MARKET SHARE:** 1.3 percentage point national increase, with a 2.4 gain in São Paulo
- **GROSS REVENUE:** R$ 18.4 billion, 18.5% growth (9.2% retail same-store sales growth)
- **GROSS MARGIN:** 28.2% of gross revenue, a 0.4 percentage point decrease
- **EBITDA:** R$ 1,343.6 million, a margin of 7.3% and an increase of 12.4%
- **NET INCOME:** R$ 587.3 million, 3.2% of net margin, an increase of 7.0%
- **CASH FLOW:** R$ 1.5 million positive free cash flow, R$ 188.4 million of cash consumption
- ***3Q19 results were adjusted to consider Onofre's operations only after their respective integration.**

RADL3

R$ 119.90/share

NUMBER OF SHARES

330,386,000

MARKET CAP

R$ 39,613 (million)

CLOSING

February 18, 2020

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Summary	2018	2019	4Q18	1Q19	2Q19	3Q19	4Q19
(R$ thousand)							
# of Stores - Retail + 4Bio	1,825	2,073	1,825	1,873	1,917	1,995	2,073
Organic Openings	240	240	70	62	47	52	79
Onofre Stores		42				42	
Store Closures	(25)	(34)	(13)	(14)	(3)	(16)	(1)
# of Stores (average)	1,713	1,938	1,801	1,849	1,897	1,960	2,044
Headcount (EoP)	36,510	41,450	36,510	36,192	37,395	39,029	41,450
Pharmacist Count (EoP)	6,959	7,840	6,959	7,106	7,389	7,663	7,840
# of Tickets (000)	223,423	255,899	59,425	58,634	62,840	66,270	68,156
Gross Revenue	15,519,133	18,396,046	4,178,909	4,153,923	4,440,683	4,771,280	5,030,160
Gross Profit	4,445,521	5,183,302	1,197,788	1,161,663	1,289,285	1,321,350	1,411,003
% of Gross Revenues	28.6%	28.2%	28.7%	28.0%	29.0%	27.7%	28.1%
Adjusted EBITDA	1,195,191	1,343,595	311,109	270,070	363,688	359,420	350,431
% of Gross Revenues	7.7%	7.3%	7.4%	6.5%	8.2%	7.5%	7.0%
Adjusted Net Income	548,614	587,148	154,404	105,494	160,486	152,476	168,692
% of Gross Revenues	3.5%	3.2%	3.7%	2.5%	3.6%	3.2%	3.4%
Net Income	509,313	542,914	121,531	102,058	151,334	146,247	143,275
% of Gross Revenues	3.3%	3.0%	2.9%	2.5%	3.4%	3.1%	2.8%
Free Cash Flow	(139,933)	1,471	29,103	(210,518)	42,872	120,717	48,400

LETTER TO OUR SHAREHOLDERS

Fiscal 2019 was a strong year for **RD**. The price investments initiated in 2018 and the reversal of the industry´s store opening peak observed in 2017 and 2018 led to mature stores growth significantly ahead of inflation. Additionally, we opened 240 new stores with strong marginal returns, entered Amazonas, our 23rd state, acquired and quickly integrated and turned around Onofre, gained significant market share, increased our scale advantage, and advanced in our digital transformation.

We ended 2019 with R$ 18.4 billion in revenues, an increase of R$ 2.9 billion and a growth of 18.5%. We opened 240 new stores, acquired another 42 from Onofre, quickly rebranded to Raia or Drogasil, and closed 34, ending the year with 2,073 stores. Our net addition totaled 248, of which 206 stores were organic, versus 106 for the rest of ABRAFARMA. Consequently, our market share reached 13.7% in the 4Q19, a 1.3 percentage point annual increase, with strong gains in every region. We opened two new Distribution Centers, in Fortaleza (CE) and in Guarulhos (SP), our largest and most automated facility, and relocated the one in RJ to its metropolitan region. Finally, we also generated 4.9 thousand new employment positions, a headcount increase of 14% in the year.

In a year with significant top line acceleration, we posted mature store growth of 5.2% for the average of the year and of 7.3% for the 4Q19, a real growth of 0.9% and of 3.0%, respectively, which is allowing us to start 2020 with a strong sales momentum. Our adjusted EBITDA reached R$ 1,343.6, an increase of 12.4%, and a margin of 7.3%, a loss of 0.4 percentage point driven by our investments in pricing. Our adjusted net income amounted to R$ 587.3 million, an increase of 7.0%. We generated R$ 1.5 million in free cash flow, as our R$ 656.5 million in investments were more than fully supported by our cash flows from operations. We accrued R$ 211.5 million in interest on equity, a payout of 39.0%, in addition to a share appreciation of 97.5% in the year.

In 2019, inspired by our Purpose of *"taking close care of people´s health and well-being during all times of their lives"*, we started an ambitious digital transformation, which will allow us to shift our focus from disease-caring to the promotion of health and wellness. We will strive to promote healthy habits and prevention by offering our customers adherence programs, medication and refill reminders, vaccination and other health services. In addition to supporting our customers in taking care of their health and wellness, we will also support them in maximizing their savings and time through value-added services such as subscriptions, smart coupons and pre-approval for PBM programs. We also want to empower our customers, so that they can buy from us anytime, anywhere, in a frictionless manner, including in-store purchases, click-and-collect, and fast ship-from-store deliveries.

To accomplish this transformation, we can leverage: (i) an active base of 36 million customers, which account for 95% of our revenues, with full demand visibility; and (ii), 2,073 stores in 23 states, the largest own-store footprint in Brazil, serving 88% of the Brazilian A-class population within a 1.5 km radius, which constitute a very powerful foundation to support our strategy.

Already in the initial year, we have reached several milestones of our digital transformation. Our digital sales (e-commerce and click-and-collect) accounted for 2.3% of total revenues in the 4Q19, with a total growth of 163% and an organic growth, not including Onofre, of 61% in the quarter. In the 4Q19, the growth in digital sales contributed with 0.6 percentage point to our mature-store growth. Finally, we ended 2019 with 1.2 million app downloads and with an increase of 0.3 million downloads per month in the 4Q19.

We have also advanced in the organizational and infra-structure requirements to support our digital transformation. We ended 2019 with a new data lake up-and-running, and started the conversion of our systems into microservices and their migration to the cloud. We have also deployed seven agile teams to improve our digital offering, including fully dedicated data scientists and design experts that help us in understanding and improving the customer journey. Finally, we have successfully integrated Onofre´s digital brand into our operations, allowing its demand to be serviced at a lower cost through our store network.

In the 4Q19, 67% of our digital transactions were fulfilled in-store, either through click-and-collect, which is available in 100% of our stores, or ship-from-store, which we do from 131 stores in 27 cities in up to 4 hours. Of these, 61 stores are already doing 1-hour deliveries, which will be expanded in the near future. We also offer next-day delivery in circa 450 cities all over Brazil.

The importance of digital goes far beyond the sales that are made through this channel, since its adoption boosts the customers lifetime value across all channels, including the stores. For our customers who have already gone digital, their improved experience and our increased capacity to engage with them have resulted so far in a 40% increase in their overall spending, which was driven by a 26% higher purchasing frequency and a 12% higher average ticket.

The overall revenues from digital customers amounted to 5.6% of our total 4Q19 sales, of which 2.3% were digital revenues (e-commerce and click-and-collect), and 3.3% were normal in-store purchases. As we improve our apps, promote their adoption, increase our geographic footprint and reduce the lead time of our ship-from store deliveries, omnichannel customers will account for an increasingly higher percentage of total sales, which will translate in increased loyalty, higher share of wallet and overall spending, which will drive higher mature-store sales growth, operating leverage and a leap in value creation.

CHALLENGES AND OPPORTUNITIES FOR 2020

Our priority for 2020 is instilling in the Company an obsession for measuring, understanding and enhancing customer loyalty. Our strategy will be focused on driving customer acquisition, engagement, retention and monetization. We will also focus on talent development and sustainability, which are paramount for our long-term success.

Increase customer acquisition: Our store network has a pivotal role in acquiring customers and building loyalty. We ended 2019 with 2,073 stores, of which 1,387 were opened in the last 8 years. We opened 240 new stores per year both in 2018 and in 2019 across 23 states, which delivered real marginal returns around 20%, and acquired Onofre in 2019, adding another 42 stores. Onofre´s quick integration and turnaround allowed those stores to break-even already in the initial month of integration and to reach margins above the Company´s average in December. As our capillarity increased with organic growth and M&A, so has new customer acquisition, share of wallet and frequency from existing customers. In 2020, we will open another 240 new stores. We will also expand our new super popular model, building on the success we already have with popular stores, as we already operate 424 under this format, 76 of which were opened in 2019. *Univers*, our PBM, has been another important vehicle for customer acquisition, by delivering significant new account growth as well as higher activation within existing clients. Finally, *RD Brands* is another important customer acquisition and monetization instrument, by offering mix differentiation with significant value-for-money, which will keep driving growth on top of the current 6% participation on the front-store revenues, with high margins.

Build customer loyalty and engagement: The cornerstone of our strategy is enhancing customer loyalty and engagement by offering a seamless omnichannel experience. We strive to create a level of convenience and loyalty through digitalization that increases customer lifetime value across all channels. We will increase the number of agile teams from 7 to 20. Our teams will be focused on fully understanding the consumer journey, so that we can leverage mobile technology and analytics to improve their experience and eliminate pain points. We will also incentivize app adoption through virtual promotions, by enhancing in-store convenience through the apps, by expanding both 4-hour and 1-hour ship-from-store deliveries, as well as through click-and-collect. Finally, we will boost our loyalty program, which will focus on health and wellness promotion and in prevention. We have partnered with GPA, Brazil´s leading food retailer, in order to launch *Stix*, a loyalty coalition with a common currency, to be anchored by the leaders of the two highest-frequency retail segments in Brazil, which we believe will allow us to significantly strengthen customer loyalty.

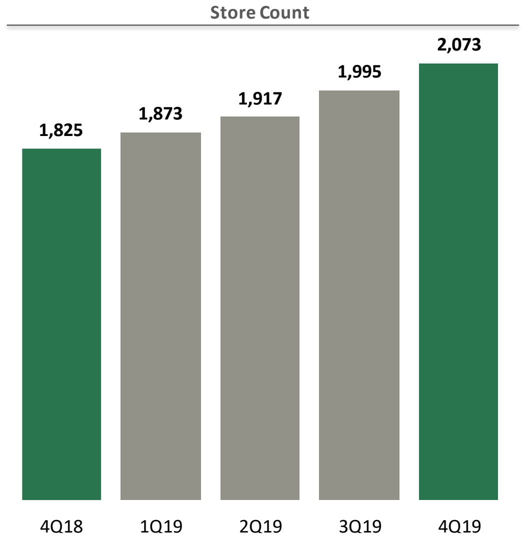
Sustain mature-store sales growth above inflation and fast market share gains: In 2018, as the market became more competitive, we started investing in pricing. While we saw a great increase in customer traffic, the lower average prices led to a mature store decline of 1.3%. In 2019, with the easier comp base and less competitive net openings (106 net store additions by other ABRAFARMA chains, versus 248 for RD, including 42 acquired Onofre stores), our mature store comps reached 5.2% for the year and 7.3% in the 4Q19, ahead of inflation. We are starting 2020 with strong momentum, but the comp base will get more challenging as the year unfolds. Still, we expect to sustain mature store growth ahead of inflation for the whole year and for the years ahead, as a result of our competitive prices and of our digital transformation, which should translate in sustainable sales growth from new customer acquisition as well as from increased loyalty and spending from existing customers. As we grow mature stores ahead of inflation, we expect to generate operating leverage and sales expense dilution. In spite of the increased G&A expenses required to support our digitalization, our expectation is to increase our EBITDA margin for 2020. Finally, we are committed to sustain fast market share gains like we did in 2019, where we gained 1.3 percentage point in the year.

Invest in leadership development and succession planning: In 2019, we invested significantly in strengthening our corporate structure. With the acquisition of Onofre, we added more than 100 new professionals who brought new capabilities to RD. For 2020, we will invest in the development of our executives and in succession planning both at the C-level and at the director level. We are also strengthening our People Committee, which reports to our board, by bringing external people to contribute with new experiences.

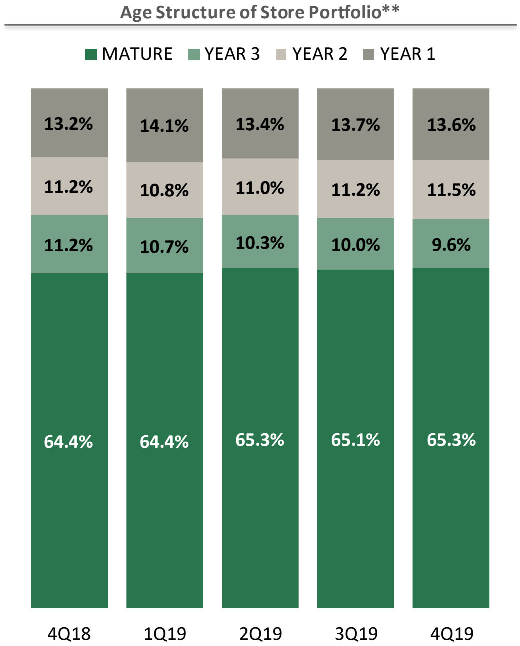
Build a Regenerative Sustainability Agenda: In 2019, we strengthened our management structure and board oversight for sustainability. We built a dedicated area and instituted a committee reporting to the board. We are building a long-term aspiration and roadmap, aligned with the UN Sustainable Development Goals, shifting our focus from compensating damages to creating a positive impact for the environment and the communities we serve. While the journey is only beginning, we have already accomplished important milestones, such as the measuring of our carbon footprint, joining the UN Global Pact and UN Women, as well as auditing our supply chain by focusing on own-brand manufacturers. We believe that a strategic approach to Sustainability is key to mitigate risks, foster innovation and to create long-term value for our stakeholders.

Finally, we would like to thank our shareholders for the continued support, our more than 41 thousand employees for the relentless commitment, and the millions of customers that, every month, entrust us with their health and well-being. We would like to reiterate our commitment to keep on creating value for our shareholders, opportunities for our employees and well-being for our clients by always living-up to our Purpose of ***Taking Close Care of People´s Health and Well-being during all Times of their Lives***.

STORE DEVELOPMENT



	4Q18	1Q19	2Q19	3Q19	4Q19
Openings	70	62	47	52	79
Onofre				42	
Closures	(13)	(14)	(3)	(16)	(1)



*Includes three 4Bio units.
**Stores acquired from Onofre were added to our base as Year 1.

We opened 240 new stores organically, added 42 stores from Onofre's acquisition and closed 34 stores in 2019 (79 openings and 1 closure in the 4Q19), ending the year with 2,073 stores in operation, including three 4Bio units.

We have reached our guidance of 240 gross openings for 2019, and reiterate our gross openings guidance of 240 stores for 2020. At the end of the period, a total of 34.7% of our stores were still maturing and had not yet achieved their full revenue and profitability potential.

Of the 34 stores closed in 2019 (1 in the 4Q19), 7 stores were still in the maturation process and represent corrections of mistakes that are normal in such large-scale expansion. We recorded 20 closures driven by the optimization of our store portfolio (1 in the 4Q19), with positive return expectations associated to them. Lastly, we closed 7 popular stores that could not be converted to the new, larger format.

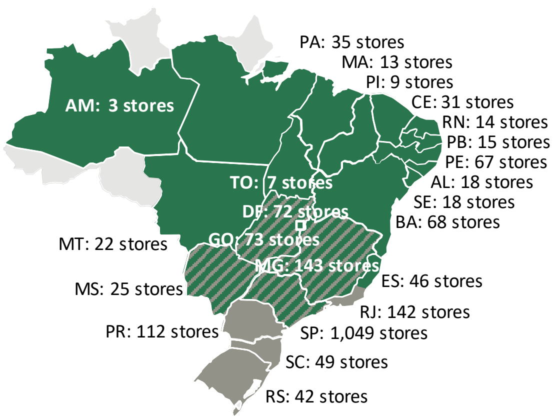
Our national market share reached 13.7% in the quarter, which represented a 1.3 percentage point increase when compared to the 4Q18. Of this increase, 0.3 percentage point was due to the Onofre acquisition. This performance was due to the effectiveness of the pricing investments we have made since the 2Q18, especially in generics, and the sharp reversion of the accelerated store opening cycle undertaken by several competitors in 2017 and 2018.

We have increased our market share in the quarter in all six core regions where we operate, driven by our strong mature-store sales growth and by our expansion. São Paulo was our main highlight, as we recorded a market share of 26.3%, a 2.4 percentage points increase, including Onofre, and a strong recovery despite the decentralization of our openings to other core regions in recent years.

We have also achieved strong market share gains in the North, where we reached a market share of 3.6%, a 1.9 percentage point gain, and in the Northeast, where we reached a market share of 8.8%, an increase of 1.8 percentage point. Finally, we recorded a market share of 15.9% in the Midwest, an increase of 0.7 percentage point, a market share of 8.3% in the South, an increase of 1.0 percentage point and a market share of 9.4% in the Southeast (excluding São Paulo), an increase of 0.6 percentage point.

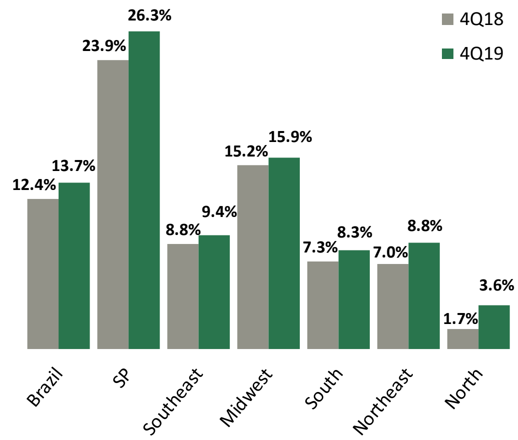
In 2019, we have marked our presence in 23 states which represent 98.7% of the Brazilian pharmaceutical market by entering the state of Amazonas, where we currently have 3 stores.

Geographic Presence



Total: 2,073 stores
Raia: 913 stores
Drogasil: 1,157 stores
* 4Bio: 3 stores

Retail Market Share

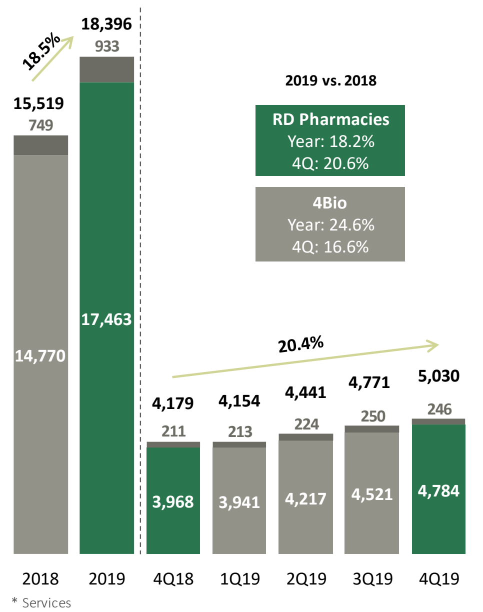


Organic LTM Openings	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
São Paulo	82	75	79	76	73	76	67	65	76
Other States	128	137	141	154	167	182	176	166	164
Total	210	212	220	230	240	258	243	231	240
São Paulo %	*39.0%*	*35.4%*	*35.9%*	*33.0%*	*30.4%*	*29.5%*	*27.6%*	*28.1%*	*31.7%*

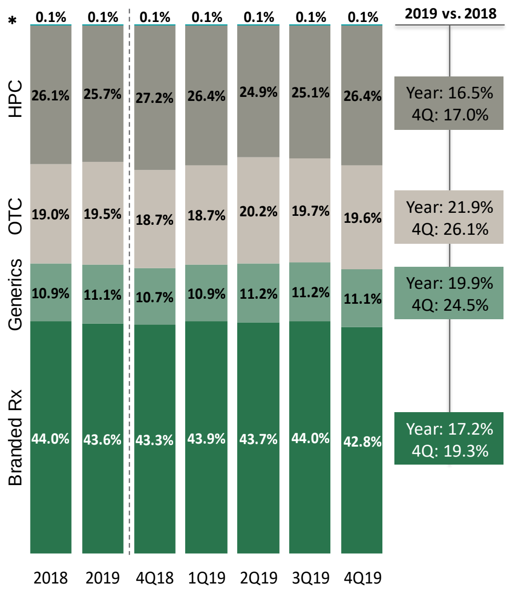
Source: IQVIA.

GROSS REVENUE

Consolidated Gross Revenue



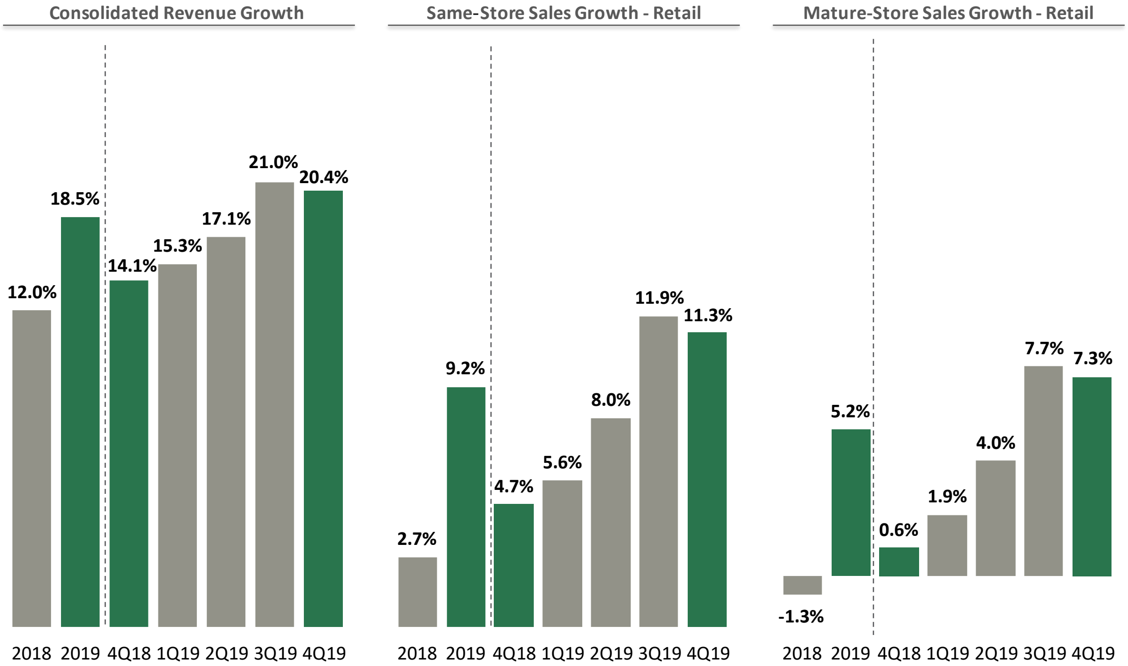
Retail Sales Mix



We ended 2019 with consolidated gross revenue of R$ 18,396.0 million (R$ 5,030.2 in the quarter), an 18.5% increase over 2018 (20.4% in the quarter). Our drugstores increased 18.2% (20.6% in the quarter), while 4Bio grew 24.6% (16.6% in the quarter).

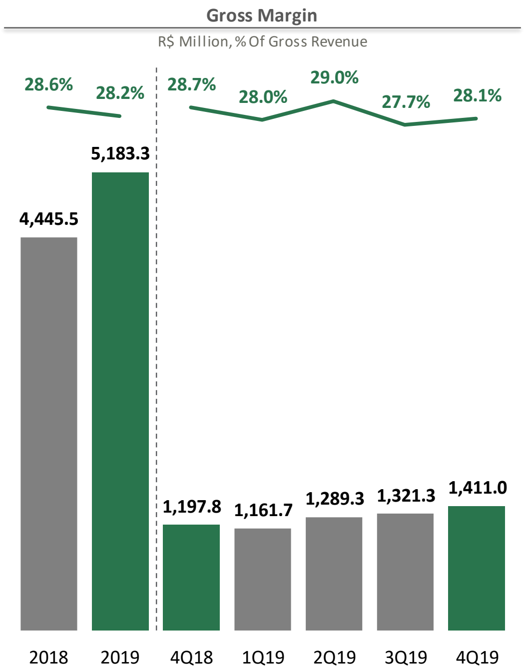
OTC was the highlight of the year, growing 21.9% (26.1% in the quarter) and gaining 0.5 percentage point of participation (0.9 in the quarter). Generics grew 19.9% (24.5% in the quarter), and gained 0.2 percentage point (0.4 in the quarter). Branded Rx grew 17.2% (19.3% in the quarter) and lost 0.4 percentage point of participation (0.5 in the quarter). Lastly, HPC grew 16.5% (17.0% in the quarter) and lost 0.4 percentage point in the sales mix (0.8 in the quarter).

OTC was driven by a stronger winter season and new product launches, while Generics experienced significant volume growth as a result of our pricing strategy. Lastly, HPC underperformance was due to poor summer performance from adverse weather.



We recorded a same-store sales growth of 9.2% and of 5.2% in mature stores. In the 4Q19, same store sales increased by 11.3%, while mature stores increased 7.3%. These figures do not consider Onofre's stores and e-commerce operations. We recorded a positive calendar effect of 0.3% in the quarter. Digital sales contributed with 0.6 additional percentage points in the quarter. Finally, the Brazilian pharmaceutical market grew by 9.0% in the last twelve months ended in December 2019, according to IQVIA, a testament to the defensive nature of our industry.

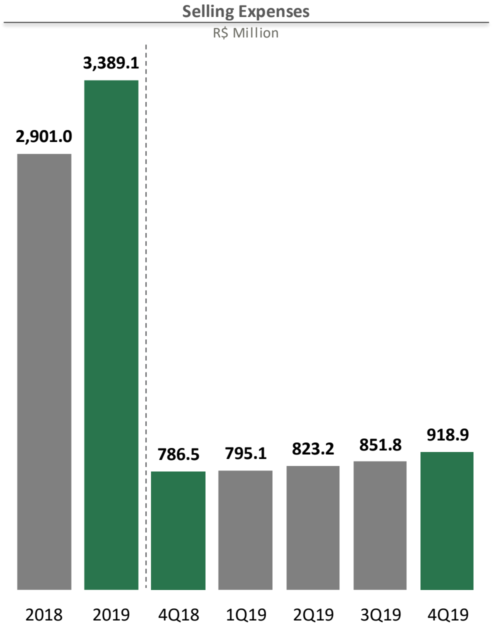
GROSS PROFIT

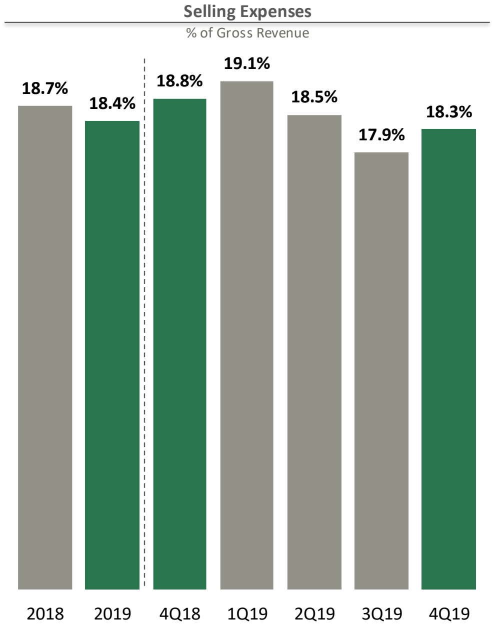


Our gross margin reached 28.2%, a 0.4 percentage point pressure versus 2018. In the 4Q19, we recorded a gross margin of 28.1%, a 0.6 percentage point pressure over the 4Q18. The pressure comes mainly from our aggressive pricing strategy.

SELLING EXPENSES

In 2019, selling expenses totaled R$ 3,389.1 million, equivalent to 18.4% of gross revenue, a 0.3 percentage point decrease over 2018.





We recorded a dilution of 0.3 percentage point in personnel and of 0.1 in pre-operating and acquiring expenses each. On the other hand, rentals and logistics were pressured by 0.1 percentage point each.

These dilutions were mainly driven by the gain of operating leverage due to mature store sales performance above inflation throughout the year. The pressure in logistics was the result of increased freight expenses due to our expansion into the North and the opening of three new DCs throughout the year.

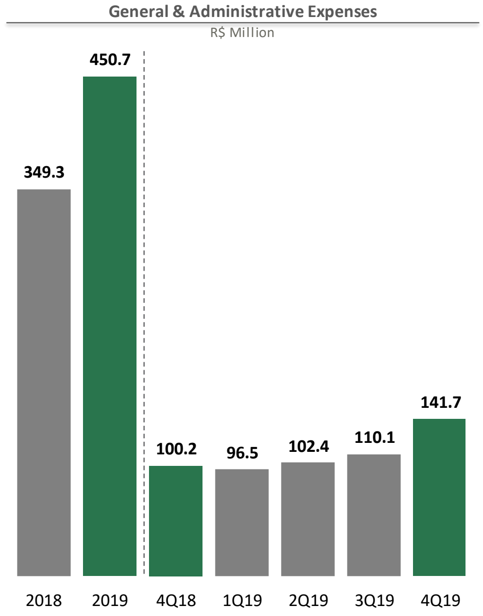
In the quarter, selling expenses totaled R$ 918.9 million, equivalent to 18.3% of gross revenue, a 0.5 percentage point dilution over the 4Q18, also a result of the operating leverage gain due to mature store performance above inflation. We recorded a 0.5 percentage point dilution in personnel and another 0.1 percentage point in pre-operating expenses, partially offset by a 0.1 percentage point pressure from logistics.

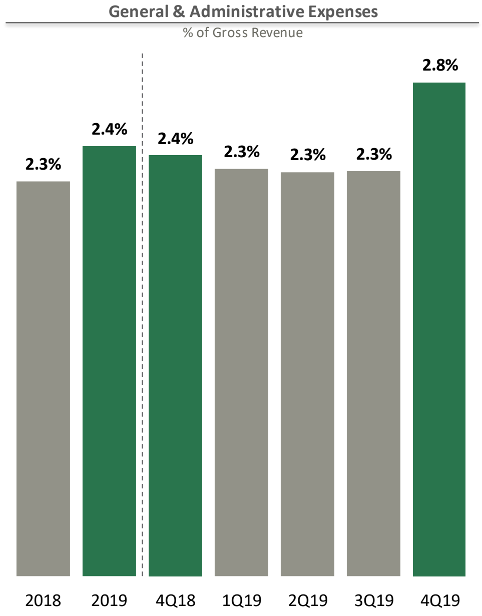
GENERAL & ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to R$ 450.7 million in 2019, equivalent to 2.4% of gross revenue, a 0.1 percentage point pressure over 2018, mainly due to labor contingencies, an increase in the provisions for variable compensation, in light of the performance in the year, and to our investments in digital.

In the 4Q19, general and administrative expenses amounted to R$ 141.7 million, equivalent to 2.8% of gross revenue, a 0.4 percentage point pressure. We recorded a peak of 0.3 percentage point in labor contingencies, due to the revision of the provisioning criteria on the base of ongoing claims. In addition, we recorded a one-time 0.1 percentage point pressure related to provision increases for variable compensation due to the good performance of the year.

Excluding these one-time effects, G&A would have totaled 2.4%, which we believe to be our current navigation level, already taking into account the investments made in digital, including consultancy services and an increase in our corporate structure.

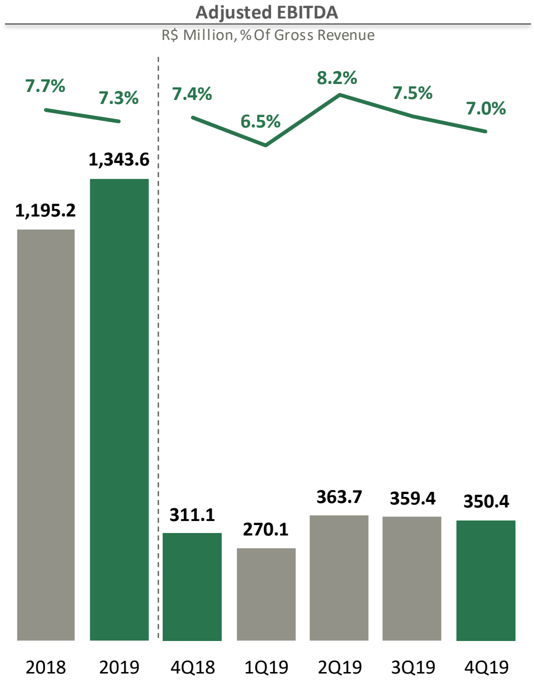




EBITDA

Our adjusted EBITDA reached R$ 1,343.6 million in 2019, an increase of 12.4% and an EBITDA margin of 7.3%, representing a 0.4 percentage point pressure compared to the previous year. In the 4Q19, we achieved an adjusted EBITDA of R$ 350.4 million, an increase of 12.6% and an EBITDA margin of 7.0%, a 0.4 percentage point pressure. This pressure was due to a 0.6 percentage point loss in gross margins and a one-off 0.4 percentage point pressure in G&A expenses, partly offset by a dilution of 0.5 percentage point in selling expenses. Without the non-recurring effects, the EBITDA margin would have been 7.4% in the quarter.

New stores opened in the year, as well as those in the opening process and the ones acquired from Onofre, reduced the EBITDA by R$ 6.0 million in 2019 (an R$ 11.9 million increase in the quarter). Considering only the 1,791 stores in operation since the end of 2018 and the full absorption of logistics, general and administrative expenses by such stores, our EBITDA would have totaled R$ 1,349.6 million (R$ 338.5 million in the quarter), equivalent to an EBITDA margin of 7.6% (7.3% in the quarter).



RD Pharmacies reached an adjusted EBITDA of R$ 1,329.1 (R$ 349.2 million in the quarter) and a margin of 7.6% (7.3% in the quarter), a 0.4 percentage point pressure over 2018 (0.4 percentage point pressure in the quarter).

Finally, 4Bio reached an EBITDA of R$ 14.5 million (R$ 1.2 million in the quarter) and a margin of 1.6% (0.5% in the quarter), a 0.6 percentage point margin pressure (1.8 percentage point pressure in the quarter).

EBITDA RECONCILIATION AND NON-RECURRING EXPENSES

EBITDA Reconciliation	1Q19	2Q19	3Q19	4Q19	2019
(R$ million)					
Net Income	**102.1**	**151.3**	**465.2**	**143.3**	**861.9**
(+) Income Tax	16.6	41.3	(17.0)	13.0	**53.8**
(+) Financial Result	28.4	32.8	32.9	22.4	**116.5**
EBIT	**147.0**	**225.4**	**481.1**	**178.7**	**1,032.2**
(+) Depreciation and Amortization	117.8	124.4	131.8	133.3	**507.3**
EBITDA	**264.9**	**349.8**	**612.9**	**311.9**	**1,539.5**
(+) Asset write-off	2.4	0.6	6.3	7.7	**16.9**
(+) Restructuring Expenses		1.2	4.5	10.5	**16.1**
(+) Consulting and Advisory Expenses	5.2	4.3		5.9	**15.3**
(+) Distribution Center closure - Barra Mansa	1.6	7.8	3.3		**12.8**
(+) Labor contingencies from previous years				3.7	**3.7**
(-) INSS credits from previous years			(4.6)		**(4.6)**
(-) Non-recurring tax credits	(4.0)			(4.1)	**(8.1)**
Non-recurring / non-operating Expenses - RD	**5.2**	**13.9**	**9.4**	**23.6**	**52.1**
(+) Other Net Operating Losses			84.8	12.5	**97.2**
(-) Negative Goodwill Gain			(357.7)	2.4	**(355.3)**
Non-recurring / non-operating Expenses - Onofre			**(272.9)**	**14.9**	**(258.0)**
Total non-recurring / non-operating Expenses	**5.2**	**13.9**	**(263.5)**	**38.5**	**(205.9)**
(+) EBITDA non-integrated operations			10.0		**10.0**
Adjusted EBITDA	**270.1**	**363.7**	**359.4**	**350.4**	**1,343.6**

In 2019, we recorded R$ 52.1 million in non-recurring/non-operating expenses, of which R$ 23.6 million were incurred in the 4Q19.

In the 4Q19, we recorded R$ 10.5 million in restructuring expenses, of which R$ 5.7 million refer to a one-time financial compensation to our directors due to the elimination of the vehicle benefit policy.

We've also recorded R$ 7.7 million in asset write-offs related to store closures, R$ 5.9 in strategic consulting expenses and R$ 3.7 million in labor contingencies from previous years. Also, we recorded R$ 4.1 million in tax credits from previous fiscal periods or non-recurring.

Finally, we have recorded a non-recurring expense of R$ 14.9 million related to Onofre. This amount is comprised by a R$ 2.4 million loss in negative goodwill stemming from Onofre's incorporation, plus another R$ 12.5 million in other net operating losses.

DEPRECIATION, NET FINANCIAL EXPENSES AND INCOME TAXES

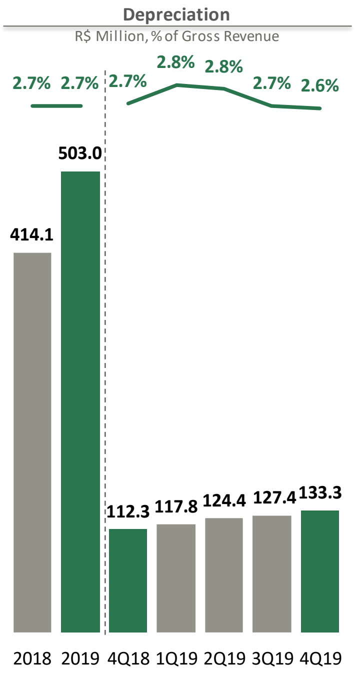
Depreciation expenses amounted to R$ 503.0 million in 2019 (R$ 133.3 million in the quarter), equivalent to 2.7% of gross revenue (2.6% in the quarter) stable when compared to the previous year (0.1 percentage point dilution in the quarter).

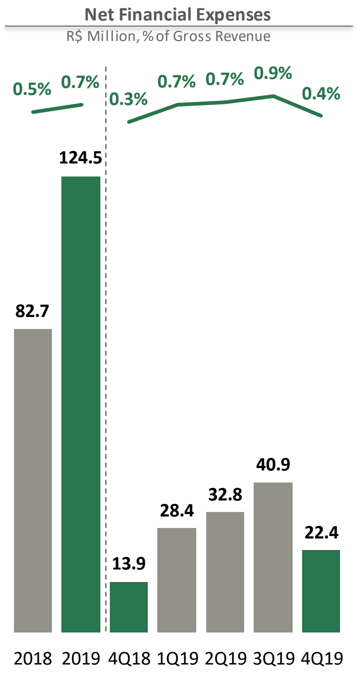
Net Financial expenses totaled R$ 124.5 million in 2019 (R$ 22.4 million in the quarter), representing 0.7% of gross revenue (0.4% in the quarter), a 0.2 percentage point pressure over the previous year (0.1 percentage point pressure in the quarter). Net Present Value Adjustment penalized the financial result by R$ 56.7 million in 2019 (R$ 15.7 million in the quarter).

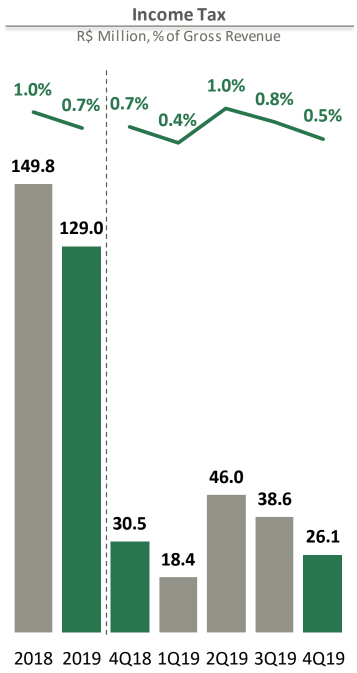
In addition, we recorded R$ 5.7 million in net financial expenses from the option to acquire 4Bio (R$ 4.1 million net financial income in the quarter), versus R$ 11.1 million net financial income in 2018 (R$ 15.3 million net financial income in the 4Q18). It is important to mention that the R$ 4.1 million of net financial income registered in the 4Q19 was a result of a R$ 5.1 million in financial income related to a reduction in the expected value of the remaining 45% of 4Bio due to lower projected margins between 2019 and 2023, less R$ 1.0 million of interests accrued on the option. This impairment analysis is done once a year in the fourth quarter.

Excluding the NPV adjustments and the financial income on the option to acquire 4Bio, the interest accrued on net debt amounted to R$ 62.1 million in 2019 (R$ 10.8 million in the quarter) or 0.3% of gross revenue (0.2% of gross revenue in the quarter), stable versus 2018.

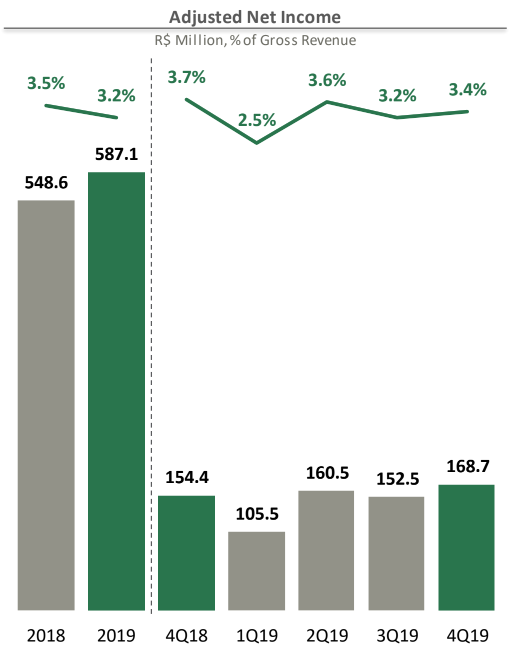
We booked R$ 129.0 million in income taxes (R$ 26.1 million in the 4Q19), equivalent to 0.7% of gross revenue (0.5% in the 4Q19).





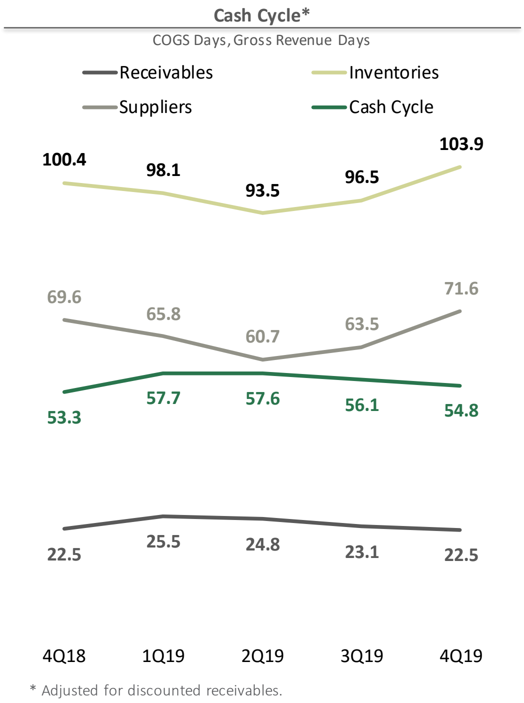


NET INCOME



Adjusted Net income totaled R$ 587.1 million in 2019, equivalent to a net margin of 3.2% (R$ 168.7 million in the quarter, a net margin of 3.4%). This represented a 7.0% increase in net income and a 0.3 percentage point net margin pressure over the previous year (9.3% increase and a 0.3 percentage point contraction in the quarter).

CASH CYCLE



Our cash cycle in the 4Q19 was 1.5 day higher when compared to the same period of the previous year. Inventories increased by 3.5 days mainly due to the opening of three new DCs, including our largest one in Guarulhos (SP). In addition, accounts payable increased 2.0 days. Lastly, receivables remained stable when compared to the same period of 2018.

CASH FLOWS

We recorded a positive free cash flow of R$ 1.5 million and a total cash consumption of R$ 188.4 million in 2019. Our operating cash flow totaled R$ 657.9 million, which fully funded the R$ 656.5 million in investments undertaken in the period. Resources from operations totaled R$ 1,183.3 million, equivalent to 6.4% of gross revenue, while we recorded a working capital consumption of R$ 525.4 million.

In the 4Q19, we recorded a positive free cash flow of R$ 48.4 million and a total cash consumption of R$ 46.5 million. Our operating cash flow totaled R$ 202.2 million, which fully funded the R$ 153.8 million in investments undertaken in the period.

Resources from operations totaled R$ 268.9 million, equivalent to 5.3% of gross revenue, while we recorded a working capital consumption of R$ 66.7 million.

Of the R$ 656.5 million invested in the year, R$ 361.4 million corresponded to new store openings, R$ 72.9 million to the renovation or expansion of existing stores and R$ 214.8 million to investments in infrastructure, of which R$ 111.6 million were due to opening or reallocation of 3 DCs, including the DC of Guarulhos, the company's biggest facility.

Net financial expenses totaled R$ 67.8 million in 2019 (R$ 6.7 million in expenses in the quarter), excluding the NPV adjustments. These were more than fully offset by the R$ 95.0 million in tax shields related to the net financial expenses and to the interest on equity accrued in the period, which shall be paid in the following quarters (R$ 18.9 million in the quarter).

We accrued R$ 211.5 million in interest on equity in 2019 (R$ 49.0 million in the quarter) versus R$ 209.5 million in 2018 (R$ 56.0 million in the 4Q18), reflecting a payout of 39.0% over the Net Income adjusted for Onofre, through the full usage of the legal interest on equity limit.

Cash Flow	4Q19	4Q18	2019	2018
(R$ million)				
Adjusted EBIT	**217.2**	**198.8**	**826.3**	**781.1**
NPV Adjustment	(17.3)	(16.6)	(55.5)	(50.4)
Non-Recurring Expenses	(38.5)	(49.8)	205.9	(59.5)
Income Tax (34%)	(54.9)	(45.0)	(332.1)	(228.2)
Depreciation	133.3	112.3	507.3	414.1
Others	29.1	61.4	31.4	68.0
Resources from Operations	**268.9**	**261.1**	**1,183.3**	**925.1**
Cash Cycle*	(60.4)	17.9	(418.8)	(344.4)
Other Assets (Liabilities)**	(6.3)	(29.0)	(106.5)	(17.6)
Operating Cash Flow	**202.2**	**250.0**	**657.9**	**563.0**
Investments	**(153.8)**	**(220.9)**	**(656.5)**	**(703.0)**
Free Cash Flow	**48.4**	**29.1**	**1.5**	**(139.9)**
Interest on Equity	(93.0)	(86.4)	(186.6)	(173.6)
Income Tax Paid over Interest on Equity	(14.1)	(15.2)	(30.5)	(29.5)
Net Financial Expenses***	(6.7)	1.5	(67.8)	(32.9)
Share Buyback	-	-	-	(46.9)
Income Tax (Tax benefit over financial expenses and interest on equity)	18.9	17.6	95.0	81.5
Total Cash Flow	**(46.5)**	**(53.5)**	**(188.4)**	**(341.4)**

*Includes adjustments to discounted receivables.

**Includes adjustments for the incorporation of Onofre's assets and liabilities.

***Excludes NPV adjustments.

INDEBTEDNESS

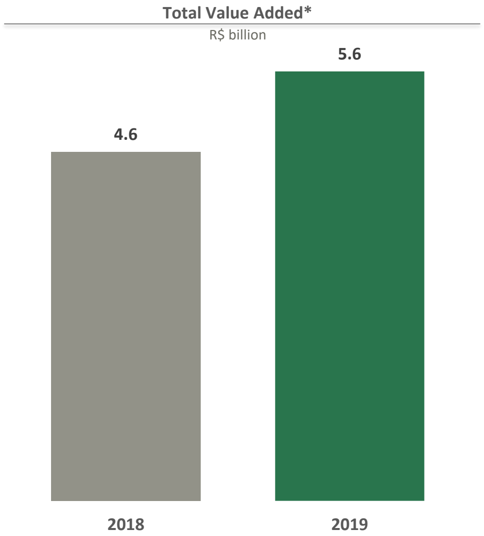
At the end of the year, we recorded an adjusted net debt position of R$ 923.4 million, versus R$ 735.0 million recorded at the end of 2018. The Adjusted Net Debt to EBITDA totaled 0.7x, 0.1x higher than the same period of last year in spite of the significant investment undertaken in the year, especially in logistics.

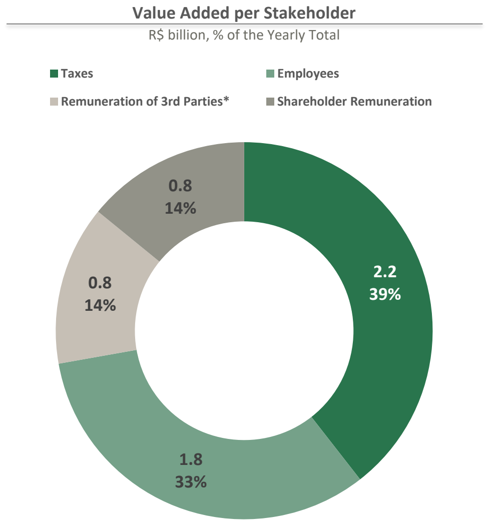
This net debt includes R$ 42.1 million in liability related to the exercise of the put option granted and/or call option obtained for the acquisition of the remaining 45% minority stake of 4Bio. This liability reflects the estimated valuation of 4Bio considering the amendment to 4Bio's purchase and sale agreement, as announced to the market in September 24, 2019, which will now occur in two different stages: the 1st call/put option on 2/3 of the remaining shares (30% of total 4Bio shares) exercisable in 2021; and the 2nd call/put option on 1/3 of the remaining shares (15% of total 4Bio shares) exercisable in 2024. Other conditions of the agreement remain unchanged. The estimated valuation of 4Bio will be revisited every year-end to reflect changes in the financial outlook of the Company. In addition, we had R$ 54.1 million in discounted receivables recorded in the quarter.

Net Debt	4Q19	3Q19	2Q19	1Q19	4Q18
(R$ million)					
Short-term Debt	228.7	247.5	274.7	280.8	272.9
Long-term Debt	897.8	989.9	705.0	797.5	570.2
Total Gross Debt	**1,126.5**	**1,237.4**	**979.7**	**1,078.3**	**843.1**
(-) Cash and Equivalents	299.2	406.7	145.4	243.6	241.6
Net Debt	**827.3**	**830.7**	**834.3**	**834.7**	**601.6**
Discounted Receivables	54.1	-	118.3	65.9	97.0
Put/Call options to acquire 4Bio (estimated)	42.1	46.2	38.2	37.3	36.4
Adjusted Net Debt	**923.4**	**876.9**	**990.8**	**937.9**	**735.0**
Adjusted Net Debt / EBITDA	0.7x	0.7x	0.8x	0.8x	0.6x

Our gross debt totaled R$ 1,126.5 million, of which 91.4% corresponds to the debentures issued in 2017, 2018 and 2019, as well as a Certificate of Real Estate Receivables and 8,6% corresponds to BNDES (Brazilian Economic and Social Development Bank) lines. Of our total debt, 79.7% is long-term, while 20.3% relates to its short-term parcels. We ended the quarter with a total cash position (cash and marketable securities) of R$ 299.2 million.

SHARED VALUE CREATION



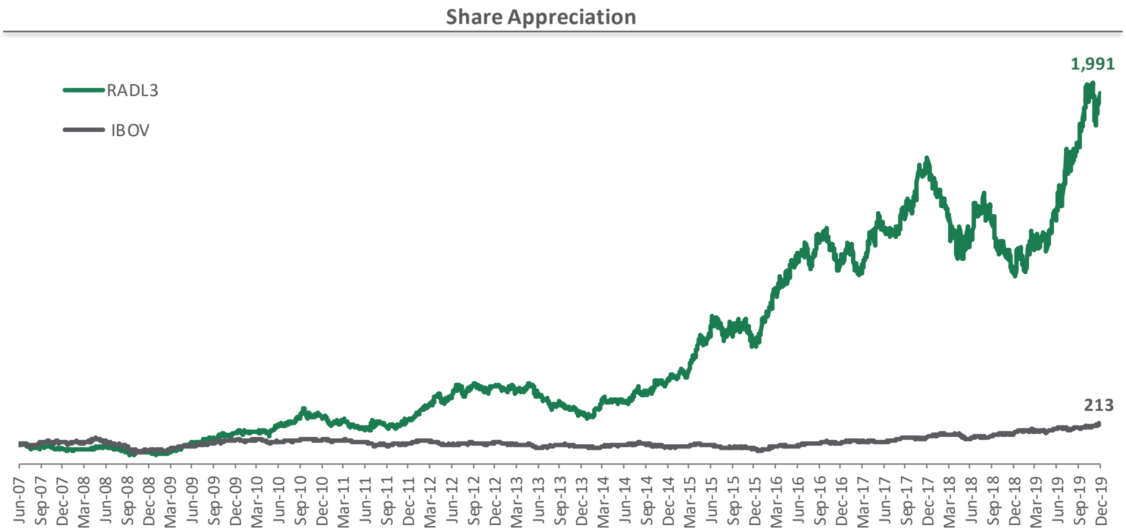


* Considers effective rentals and interest expenses

Being a Company focused towards People, Health and Well-being, our goals stretch beyond profit generation and encompass value creation for all stakeholders. As such, in 2019, the Company shared R$ 5.6 billion in added value, an increase of 23% over the previous year, split as follows: R$ 2.2 billion was shared with our government, in the federal, state and municipal levels in the form of taxes, R$ 1.8 billion was shared with our employees, R$ 0.8 billion went to landlords and financial institutions and R$ 0.8 billion to our shareholders' remuneration, of which R$ 0.6 billion was reinvested in the business.

TOTAL SHAREHOLDER RETURNS

Our share price increased 97.5% in 2019, 65.6 percentage points above the IBOVESPA, which increased by 31.9%. Since the IPO of Drogasil, we achieved a cumulative share appreciation of 1,891.1% versus a return of only 113.2% for the IBOVESPA. Including the payment of interest on equity, we generated an average annual total return to shareholders of 28.9%.



Considering the IPO of Raia in December of 2010, the cumulative return amounted to 665.4% versus an increase of only 70.6% of the IBOVESPA. Considering the payment of interest on equity, this resulted in an average annual total return to shareholders of 26.5%. Lastly, our shares recorded an average daily trading volume of R$ 77.1 million in the quarter.

IFRS 16

Starting in 2019, our financial statements are prepared in accordance with IFRS 16. In order to preserve historic comparability, the figures in this report are presented under IAS 17 / CPC 06, the previous reporting standard, which we believe best represents the economic performance of our operations.

It is important to mention that due to a change in the discount rate used to calculate the present value of the liabilities regarding financial leases, the Company booked a retroactive adjustment in the 4Q19 IFRS 16 results. Further details regarding this matter can be found in Section 15 ("Leases") of our Annual Financial Statements.

	IAS 17					IFRS 16					Change	
Income Statement *(R$ million)*	**1Q19**	**2Q19**	**3Q19**	**4Q19**	**2019**	**1Q19**	**2Q19**	**3Q19**	**4Q19**	**2019**	**Δ 4Q19**	**Δ 2019**
Gross Revenue	**4,153.9**	**4,440.7**	**4,771.3**	**5,030.2**	**18,396.0**	**4,153.9**	**4,440.7**	**4,771.3**	**5,030.2**	**18,396.0**	**0.0**	**0.0**
Gross Profit	**1,161.7**	**1,289.3**	**1,321.3**	**1,411.0**	**5,183.3**	**1,161.7**	**1,289.3**	**1,321.3**	**1,411.0**	**5,183.3**	**0.0**	**0.0**
Gross Margin	28.0%	29.0%	27.7%	28.1%	28.2%	28.0%	29.0%	27.7%	28.1%	28.2%	0.0%	0.0%
Selling Expenses	(795.1)	(823.2)	(851.8)	(918.9)	(3,389.1)	(650.1)	(672.5)	(692.1)	(788.5)	(2,803.2)	130.4	585.9
G&A	(96.5)	(102.4)	(110.1)	(141.7)	(450.7)	(96.0)	(101.9)	(109.8)	(141.4)	(449.0)	0.3	1.6
Total Expenses	**(891.6)**	**(925.6)**	**(961.9)**	**(1,060.6)**	**(3,839.7)**	**(746.1)**	**(774.4)**	**(801.8)**	**(929.9)**	**(3,252.2)**	**130.7**	**587.5**
as % of Gross Revenue	21.5%	20.8%	20.2%	21.1%	20.9%	18.0%	17.4%	16.8%	18.5%	17.7%	-2.6%	-3.2%
Adjusted EBITDA	**270.1**	**363.7**	**359.4**	**350.4**	**1,343.6**	**415.6**	**514.9**	**519.5**	**481.1**	**1,931.1**	**130.7**	**587.5**
as % of Gross Revenue	6.5%	8.2%	7.5%	7.0%	7.3%	10.0%	11.6%	10.9%	9.6%	10.5%	2.6%	3.2%
Non-Recurring Expenses / Revenues	(5.2)	(13.9)	(9.4)	(38.5)	(67.0)	(5.2)	(13.1)	(8.9)	(37.8)	(65.1)	0.7	1.9
Depreciation and Amortization	(117.8)	(124.4)	(127.4)	(133.3)	(503.0)	(254.0)	(265.7)	(284.9)	(209.2)	(1,013.8)	(75.9)	(510.9)
Financial Results	(28.4)	(32.8)	(40.9)	(22.4)	(124.5)	(55.2)	(59.7)	(68.8)	(151.1)	(334.9)	(128.7)	(210.4)
Income Tax	(16.6)	(41.3)	(35.4)	(13.0)	(106.2)	(10.6)	(35.6)	(27.2)	12.0	(61.5)	24.9	44.7
Net Income	**102.1**	**151.3**	**146.2**	**143.3**	**542.9**	**90.5**	**140.7**	**129.7**	**94.9**	**455.8**	**(48.3)**	**(87.1)**
as % of Gross Revenue	2.5%	3.4%	3.1%	2.8%	3.0%	2.2%	3.2%	2.7%	1.9%	2.5%	-1.0%	-0.5%

	4Q19		Change
Balance Sheet *(R$ million)*	**IAS 17**	**IFRS 16**	**Δ 4Q19**
Assets	**9,212.5**	**12,248.3**	**3,035.8**
Current Assets	**5,766.1**	**5,756.0**	**(10.1)**
Taxes Receivable	155.4	145.6	(9.8)
Other Accounts Receivable	244.7	244.4	(0.3)
Non-Current Assets	**3,446.4**	**6,492.2**	**3,045.8**
Taxes Receivable	58.3	68.1	9.8
Other Credits	334.9	334.4	(0.5)
Property, Plant and Equipment	1,777.7	4,814.3	3,036.5
Liabilities and Shareholder's Equity	**9,212.5**	**12,248.3**	**3,035.8**
Current Liabilities	**3,573.8**	**4,078.5**	**504.7**
Financial Leases	0.0	566.6	566.6
Taxes Payable	102.6	102.7	0.1
Dividend and Interest on Equity	103.8	68.3	(35.6)
Other Accounts Payable	162.8	136.3	(26.5)
Non-Current Liabilities	**1,516.9**	**4,093.4**	**2,576.5**
Financial Leases	0.0	2,618.0	2,618.0
Income Tax and Social Charges Deferred	165.5	124.0	(41.5)
Shareholder's Equity	**4,121.8**	**4,076.4**	**(45.4)**
Income Reserves	1,428.7	1,372.0	(56.7)
Additional Dividend Proposed	30.4	41.6	11.3

Cash Flow *(R$ million)*	IAS 17					IFRS 16					Change	
	1Q19	**2Q19**	**3Q19**	**4Q19**	**2019**	**1Q19**	**2Q19**	**3Q19**	**4Q19**	**2019**	**Δ 4Q19**	**Δ 2019**
Adjusted EBIT	**152.3**	**239.2**	**217.6**	**217.2**	**826.3**	**161.6**	**249.2**	**234.6**	**271.9**	**917.3**	**54.8**	**91.0**
NPV Adjustment	(10.1)	(10.7)	(17.4)	(17.3)	(55.5)	(10.1)	(10.7)	(17.4)	(17.3)	(55.5)	0.0	0.0
Non-Recurring Expenses	(5.2)	(13.9)	263.5	(38.5)	205.9	(5.2)	(13.9)	263.5	(38.5)	205.9	0.0	0.0
Income Tax (34%)	(46.5)	(73.0)	(157.7)	(54.9)	(332.1)	(49.7)	(76.4)	(163.4)	(73.5)	(363.0)	(18.6)	(30.9)
Depreciation	117.8	124.4	131.8	133.3	507.3	254.0	265.7	283.5	209.2	1,012.4	75.9	505.1
Rental Expenses	0.0	0.0	0.0	0.0	0.0	(145.5)	(151.9)	(169.6)	(131.4)	(598.4)	(131.4)	(598.4)
Others	2.7	(2.3)	1.9	29.1	31.4	5.9	1.8	8.5	48.4	64.6	19.3	33.2
Resources from Operations	**210.9**	**263.8**	**439.7**	**268.9**	**1,183.3**	**210.9**	**263.8**	**439.7**	**268.9**	**1,183.3**	**0.0**	**0.0**
Cash Cycle*	(186.1)	(133.5)	(38.9)	(60.4)	(418.8)	(186.1)	(133.5)	(38.9)	(60.4)	(418.8)	0.0	0.0
Other Assets (Liabilities)**	(32.9)	71.2	(138.5)	(6.3)	(106.5)	(32.9)	71.2	(138.5)	(6.3)	(106.5)	0.0	0.0
Operating Cash Flow	**(8.1)**	**201.6**	**262.2**	**202.2**	**657.9**	**(8.1)**	**201.6**	**262.2**	**202.2**	**657.9**	**0.0**	**0.0**
Investments	**(202.4)**	**(158.7)**	**(141.5)**	**(153.8)**	**(656.5)**	**(202.4)**	**(158.7)**	**(141.5)**	**(153.8)**	**(656.5)**	**0.0**	**0.0**
Free Cash Flow	**(210.5)**	**42.9**	**120.7**	**48.4**	**1.5**	**(210.5)**	**42.9**	**120.7**	**48.4**	**1.5**	**0.0**	**0.0**
Interest on Equity	(1.2)	(92.4)	(0.0)	(93.0)	(186.6)	(1.2)	(92.4)	(0.0)	(93.0)	(186.6)	0.0	0.0
Income Tax Paid over Interest on Equity	0.0	(8.5)	(7.9)	(14.1)	(30.5)	0.0	(8.5)	(7.9)	(14.1)	(30.5)	0.0	0.0
Net Financial Expenses***	(16.0)	(19.8)	(25.2)	(6.7)	(67.8)	(16.0)	(19.8)	(25.2)	(6.7)	(67.8)	0.0	0.0
Share Buyback	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income Tax (Tax benefit over financial expenses and interest on equity)	24.8	24.9	26.3	18.9	95.0	24.8	24.9	26.3	18.9	95.0	0.0	0.0
Total Cash Flow	**(202.9)**	**(52.9)**	**113.8**	**(46.5)**	**(188.4)**	**(202.9)**	**(52.9)**	**113.8**	**(46.5)**	**(188.4)**	**0.0**	**0.0**

*Includes adjustments to discounted receivables.

**Includes adjustments for the incorporation of Onofre's assets and liabilities.

***Excludes NPV adjustments and Interest over Leases.

Consolidated Adjusted Income Statement *(R$ thousand)*	**4Q18**	**4Q19**	**2018**	**2019**
Gross Revenue	**4,178,909**	**5,030,160**	**15,519,133**	**18,396,046**
Taxes, Discounts and Returns	(181,845)	(245,045)	(717,688)	(893,150)
Net Revenue	**3,997,064**	**4,785,115**	**14,801,445**	**17,502,896**
Cost of Goods Sold	(2,799,277)	(3,374,112)	(10,355,924)	(12,319,594)
Gross Profit	**1,197,788**	**1,411,003**	**4,445,521**	**5,183,302**
Operational (Expenses) Revenue				
Sales	(786,502)	(918,902)	(2,901,011)	(3,389,057)
General and Administrative	(100,177)	(141,670)	(349,318)	(450,650)
Operational Expenses	**(886,679)**	**(1,060,572)**	**(3,250,330)**	**(3,839,707)**
EBITDA	**311,109**	**350,431**	**1,195,191**	**1,343,595**
Depreciation and Amortization	(112,310)	(133,256)	(414,134)	(502,963)
Operational Earnings before Financial Results	**198,799**	**217,176**	**781,058**	**840,632**
Financial Expenses	(31,415)	(43,722)	(154,437)	(200,562)
Financial Revenue	17,512	21,291	71,783	76,070
Financial Expenses/Revenue	**(13,903)**	**(22,431)**	**(82,654)**	**(124,491)**
Earnings before Income Tax and Social Charges	**184,896**	**194,745**	**698,404**	**716,141**
Income Tax and Social Charges	(30,492)	(26,052)	(149,790)	(128,993)
Net Income	**154,404**	**168,692**	**548,614**	**587,148**

Consolidated Income Statement *(R$ thousand)*	**4Q18**	**4Q19**	**2018**	**2019**
Gross Revenue	**4,178,909**	**5,030,160**	**15,519,133**	**18,396,046**
Taxes, Discounts and Returns	(181,845)	(245,045)	(717,688)	(893,150)
Net Revenue	**3,997,064**	**4,785,115**	**14,801,445**	**17,502,896**
Cost of Goods Sold	(2,799,277)	(3,374,112)	(10,355,924)	(12,319,594)
Gross Profit	**1,197,788**	**1,411,003**	**4,445,521**	**5,183,302**
Operational (Expenses) Revenue				
Sales	(786,502)	(918,902)	(2,901,011)	(3,389,057)
General and Administrative	(100,177)	(141,670)	(349,318)	(450,650)
Other Operational Expenses, Net	(49,807)	(38,511)	(59,548)	(67,022)
Operational Expenses	**(936,486)**	**(1,099,083)**	**(3,309,878)**	**(3,906,728)**
EBITDA	**261,302**	**311,920**	**1,135,643**	**1,276,573**
Depreciation and Amortization	(112,310)	(133,256)	(414,134)	(502,963)
Operational Earnings before Financial Results	**148,992**	**178,665**	**721,510**	**773,610**
Financial Expenses	(31,415)	(43,722)	(154,437)	(200,562)
Financial Revenue	17,512	21,291	71,783	76,070
Financial Expenses/Revenue	**(13,903)**	**(22,431)**	**(82,654)**	**(124,491)**
Earnings before Income Tax and Social Charges	**135,089**	**156,234**	**638,856**	**649,119**
Income Tax and Social Charges	(13,558)	(12,959)	(129,544)	(106,205)
Net Income	**121,531**	**143,275**	**509,313**	**542,914**

Assets	**4Q18**	**4Q19**
(R$ thousand)		
Current Assets		
Cash and Cash Equivalents	241,568	299,226
Accounts Receivable	937,389	1,189,019
Inventories	3,087,275	3,851,389
Taxes Receivable	84,852	155,395
Other Accounts Receivable	156,848	244,699
Anticipated Expenses	21,893	26,369
	4,529,826	5,766,096
Non-Current Assets		
Deposit in Court	25,770	30,001
Taxes Receivable	44,578	58,304
Other Credits	2,484	334,911
Property, Plant and Equipment	1,546,960	1,777,735
Intangible	1,202,388	1,245,441
	2,822,180	3,446,391
ASSETS	7,352,005	9,212,488

Liabilities and Shareholder's Equity	**4Q18**	**4Q19**
(R$ thousand)		
Current Liabilities		
Suppliers	2,141,274	2,653,237
Loans and Financing	272,939	228,661
Salaries and Social Charges Payable	237,542	296,673
Taxes Payable	92,964	102,672
Dividend and Interest on Equity	24,843	92,946
Provision for Lawsuits	2,512	26,008
Other Accounts Payable	141,370	160,632
	2,913,443	3,560,828
Non-Current Liabilities		
Loans and Financing	570,211	897,815
Provision for Lawsuits	48,877	67,114
Income Tax and Social Charges deferred	237,757	166,234
Other Accounts Payable	46,949	386,449
	903,794	1,517,612
Shareholder's Equity		
Common Stock	1,808,639	2,500,000
Capital Reserves	116,363	129,768
Revaluation Reserve	12,022	11,848
Income Reserves	1,522,073	1,429,597
Accrued Income	0	0
Equity Adjustments	(30,230)	(30,230)
Non Controller Interest	34,911	51,421
Additional Dividend Proposed	70,990	41,643
	3,534,769	4,134,047
LIABILITIES AND SHAREHOLDERS' EQUITY	7,352,005	9,212,488

Cash Flow	4Q18	4Q19	2018	2019
(R$ thousand)				
Earnings before Income Tax and Social Charges	**135,089**	**156,234**	**638,856**	**908,588**
Adjustments				
Depreciation and Amortization	112,310	133,255	414,134	507,269
Compensation plan with restricted shares, net	3,186	3,224	12,515	13,439
Interest over additional stock option	(15,294)	(4,097)	(11,135)	5,734
P,P&E and Intangible Assets residual value	4,894	7,881	12,166	24,474
Provisioned Lawsuits	52,844	14,291	49,167	3,892
Provisioned Inventory Loss	(1,644)	(432)	(2,680)	(585)
Provision for Doubtful Accounts	(635)	1,773	(4,739)	1,658
Provisioned Store Closures	2,784	(1)	1,556	(6,505)
Interest Expenses	14,082	15,673	56,699	66,746
Debt Issuance Costs Amortization	495	728	(2,388)	2,718
Gains from business combination	0	2,407	0	(356,628)
	308,111	**330,936**	**1,164,151**	**1,170,800**
Assets and Liabilities variation				
Clients and Other Accounts Receivable	117,695	11,136	1,133	(252,043)
Inventories	(278,729)	(388,669)	(567,001)	(674,930)
Other Short Term Assets	(2,153)	51,795	(10,091)	130,307
Long Term Assets	1,326	(30,456)	(45,438)	(369,517)
Suppliers	275,702	371,197	318,449	465,192
Salaries and Social Charges	(51,094)	(49,532)	34,743	45,442
Taxes Payable	(15,209)	(35,761)	(69,041)	(34,692)
Other Liabilities	3,242	3,713	922	9,194
Rents Payable	5,960	2,336	12,885	3,917
Cash from Operations	**364,851**	**266,695**	**840,712**	**493,670**
Interest Paid	(23,770)	(26,985)	(43,478)	(41,764)
Income Tax and Social Charges Paid	(14,937)	(56)	(118,381)	(111,143)
Net Cash from (invested) Operational Activities	**326,144**	**239,654**	**678,853**	**340,763**
Investment Activities Cash Flow				
Cash acquired from business combination	0	0	0	283,685
P,P&E and Intangible Acquisitions	(220,912)	(153,582)	(702,985)	(656,697)
P,P&E Sale Payments	7	(219)	17	237
Net Cash from Investment Activities	**(220,905)**	**(153,801)**	**(702,968)**	**(372,775)**
Financing Activities Cash Flow				
Funding	16,994	21,866	423,954	738,923
Payments	(67,777)	(122,220)	(202,597)	(462,651)
Share Buyback	0	0	(46,925)	0
Interest on Equity and Dividends Paid	(86,444)	(92,955)	(173,622)	(186,601)
Net Cash from Funding Activities	**(137,227)**	**(193,309)**	**810**	**89,671**
Cash and Cash Equivalents net increase	**(31,988)**	**(107,456)**	**(23,305)**	**57,658**
Cash and Cash Equivalents in the beggining of the period	**273,556**	**406,683**	**264,873**	**241,568**
Cash and Cash Equivalents in the end of the period	**241,568**	**299,226**	**241,568**	**299,226**

PROFIT ALLOCATION

Following the legal and statutory provisions, we propose the following allocation for the retained earnings which amount to R$ 772,943 thousand:

- Legal Reserve	R$ 38,612 thousand
- Statutory Reserve	R$ 407,066 thousand
- Interest on Capital (R$ 0.636121831 per share)	R$ 211,501 thousand
- Tax Incentive Reserve	R$ 95,593 thousand
- Additional proposed dividend	R$ 20,171 thousand

We also propose that the interest on capital, net of Withholding Income Tax (IRRF), be ascribed to the mandatory dividend.

INDEPENDENT AUDITOR

In compliance with the CVM Instruction 381/2003 and Circular Letter 01/2007,of the Superintendence for Relationships with Companies (SNC)/Superintendence for Accounting and Auditing Standards (SEP), the Company informs herein that, during 2019, in addition to the external audit services related to the financial statements for 2019, PricewaterhouseCoopers Auditores Independentes has provided the following services:

Consulting service for the issuance of comfort letter for the Certificate of Real Estate Receivables (CRI), amounting to R$ 77 thousand (5.3% of the total paid for the external audit service), signed on March 11, 2019, with term until the settlement of the process.

Consulting service related to the project of cybernetic security analysis, amounting to R$ 78 thousand (5.3% of the total paid for the external audit service), signed on November 14, 2019, with a four-week period.

Professional due diligence services, amounting to R$ 118 thousand (8.2% of the total paid for the external audit service), signed on January 16, 2019, with a four-week period.

Consulting service, amounting to R$ 458 thousand (31.6% of the total paid for the external audit service), realized during the year 2019.

The aforementioned services totaled R$ 730 thousand, that is, 50.4% of the total paid for the external audit service related to the financial statements.

The Company informs that its policy for hiring services not related to external audit takes into account the principles which preserve the auditor's independence. These principles are based on the fact that the independent auditor should not audit its own work, carry out management-related tasks, advocate for its client, or provide services which are not allowed by the standards in effect, thus maintaining the independence in the work carried out

PricewaterhouseCoopers Auditores Independentes is not aware of any relationship between the parties that could be considered as conflicting as regards its independence.

(A free translation of the original in Portuguese)

Independent auditor's report

To the Management and Stockholders
Raia Drogasil S.A.

Opinion

We have audited the accompanying parent company financial statements of Raia Drogasil S.A. ("Company" or "Parent company"), which comprise the balance sheet as at December 31, 2019 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Raia Drogasil S.A. and its subsidiary ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2019 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

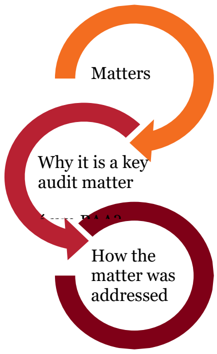
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Raia Drogasil S.A. and of Raia Drogasil S.A. and its subsidiary as at December 31, 2019, and the financial performance and the cash flows for the year then ended, as well as the consolidated financial performance and the cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the parent company and consolidated financial statements section of our report. We are independent of the Company and its subsidiary in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the parent company and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



In relation to the auditor's report issued for the previous year, we added a new key audit matter related to the acquisition of Drogaria Onofre Ltda. which took place on July 1, 2019, which generated a gain from bargain purchase, in the amount of R$ 355,263 thousand.

Why it is a Key Audit Matter

Trade discounts and commercial agreements in the purchase of goods
Note 4(t)

As a retailer, the Company negotiates individual commercial agreements with its suppliers which can be of a peculiar or complex nature.

Due to the existence of different categories of commercial agreements, of which a substantial portion is linked to the resale of goods to obtain benefits for the Company, specific procedures and controls are required to estimate the amounts to be recognized and the period during which their effects should be recognized in the cost of goods sold.

Consequently, we consider that the recognition of the effects of the commercial agreements, specifically regarding completeness and correct period, remains an area of focus in our audit.

How the matter was addressed in the audit

Our audit procedures considered, among others, the following:

. Updating of the understanding of the business processes and internal controls established by the management to identify, monitor and account for the commercial agreements;

. Testing on the operational effectiveness of the main existing controls on the commercial agreements;

. Understanding of the main terms of the individually significant contracts or with characteristics, and their corresponding performance obligations, as well as the recalculation, on a sampling basis, of the amounts considering in the light of the commercial agreements, in addition to checking their subsequent financial settlement;

. Testing of the recognition of the effect in the correct accrual period;

We consider that the conclusions and disclosures by management are consistent with the data and documents obtained in our audit.

Internal control and information technology environments

The Company operates its pharmaceutical retail business through 11 distribution centers and more than 2,070 own stores, located in 23 states of Brazil and represented in the market by its two main brands: Droga Raia and Drogasil.

Its operational structure requires a robust system of internal controls and information technology (IT) capable of allowing its management to fully monitor the daily operations and decision-making process on a centralized manner, as well as to monitor and compile the quantitative, financial and tax information of its operations.

This area remains the focus of our audit because we observed the existence of manual and automated controls in operation, at different stages of maturity and documentation. The evaluation of the effectiveness of these controls is crucial in the audit process and in the definition of the intended approach to obtain the necessary evidence, since controls or processes may, eventually, cause incorrect processing of information and, consequently, result in improper presentation of the financial statements.

We updated our understanding and tested the effectiveness of the main controls and information systems that are important for the preparation of financial reports.

In order to obtain necessary and sufficient evidence related to the systems and applications, we performed tests to evaluate the integrity and accuracy of the information generated by the systems, including the automated reports and, when necessary, we applied computer-assisted procedures to allow a broader range of tests and evidence.

Additionally, we applied unpredictability elements to certain procedures performed and we reviewed the accounting entries that are specific in relation to the exceptions of access identified, complementing the procedures directed to the risk of transgression of controls.

The results of these procedures provided appropriate and sufficient audit evidence in the context of the parent company and consolidated financial statements.

Lease agreements

Notes 4(l), 4(w)(v) and (vi) and Note 15

In conducting its business, the Company uses assets from third-parties which rights of use were obtained through lease agreements that, according to the new accounting pronouncement of lease (IFRS 16 / CPC 6 (R2)), resulted in the accounting record of a lease liability and a corresponding right-of-use asset, initially, on January 1, 2019.

Management developed a manual control that processes a high volume of transactions and which was parameterized using several assumptions that contain a high level of judgment (lease terms, incremental borrowing rate, among other aspects), and with impacts on the determination of the amounts of lease liabilities and right-of-use asset as of December 31, 2019, and depreciation and interest expenses for the year then ended.

In our audit, we considered the following main procedures:

. Evaluation of the methodology and criteria adopted by management in the preparation of the inventory of lease agreements, with the purpose of segregating the agreements with lease elements from those that only represent a service providing;

. Understanding and testing of procedures applied by the management for the categorization of the lease agreements and to segregate the lease agreements that are within the scope of the exemptions provided for in IFRS 16/CPC 6 (R2);

. For each of the categories of lease agreements, we carried out tests that comprised of :

The lease agreement remained as an area of focus in our audit due to the aforementioned aspects and because it has a material impact on the accounting records and disclosures presented in the notes to the financial statements.

.. Evaluation of the criteria adopted by management to define the periods of agreements considered, with reference to cancellation and renewal clauses;

.. Evaluation of the criteria adopted by management to determine the discount rate (incremental borrowing rate) used to measure the lease liability.

.. Recalculation of selected agreements considering, among other aspects, the original information of the agreements, amendments to contracts, cancellations and remeasurement of lease liabilities in the "anniversaries" of the agreements;

. Review of the disclosures in the explanatory notes.

We consider that the criteria and assumptions taken into consideration by the management are consistent with the data and documents selected in our audit and with the disclosures in the explanatory notes.

Gain from bargain purchase
Notes 4(u), 4(w)(vii) and Note 5

On February 26, 2019, the Company announced the acquisition of 100% of the quotas of Drogaria Onofre Ltda. ("Onofre") and, after fulfilment of all the precedent conditions, which occurred on July 1st, 2019, it acquired the control of Onofre.

Concomitantly with the purchase process, the Company engaged a specialized and independent company to assist management determining the fair value of the assets acquired and liabilities assumed, which considers a set of assumptions. As a result of the appraisal, it was recorded a gain from bargain purchase in the amount of R$ 355,263 thousand.

The recognition of a gain of such nature requires a careful assessment by Company´s management as to the accuracy in calculating the amounts involved do that the gain represents a result that meets the accounting standards.

We consider this topic as one of our key audit matters since the assumptions used in determining the assets obtained and liabilities assumed have an immediate impact on the result of the gain from bargain purchase.

We performed, among other procedures, the reading of the main documents related to the acquisition of Onofre, analyzed the relevant corporate documents and the main events that led management to conclude on the effective acquisition date.

We also carried out an understanding of the procedures established by management to determine the completeness and integrity of the database, the calculations for allocation of the purchase price and subsequent determination of the gain from bargain purchase.

We applied review procedures on the Onofre´s equity balance at June 30, 2019, considered in the purchase price allocation, including recording the effects of the new accounting standards applicable from January 1, 2019 in the acquisition balance. We also carried out a review of management´s work in relation to the assessment of possible differences in accounting practices between the Company and Onofre.

We assessed the professional competence and objectivity of the external specialists hired by management to issue the purchase price allocation report in the business combination.

With the support of our specialists, we evaluated the reasonableness of the methodology and discussed the main assumptions adopted in the identification and measurement of the fair value of the assets acquired and liabilities assumed in the acquisition, comparing them with available historical information or with observable market and/or related industry segment.

In addition, we assessed the main accounting and tax impacts arising from the measurement at fair value of the assets acquired and liabilities assumed in the business combination upon determination of the amount of gain from bargain purchase, and its corresponding tax effects, as well as reading the disclosures made by management in the financial statements.

Our audit procedures demonstrated that the judgments and assumptions utilized in the process of identifying and measuring the fair value of the assets acquired and liabilities assumed in the acquisition, which are the basis for determining the gain from bargain purchase, are reasonable and the disclosures are consistent with the data and information obtained.

Other matters

Statements of Value Added

The parent company and consolidated Statements of Value Added for the year ended December 31, 2019, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in the Technical Pronouncements CPC 09 - "Statement of Value Added". In our opinion, these Statements of Value Added have been properly prepared, in all material respects, in accordance with the criteria established in the Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

Raia Drogasil S.A.

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

The Company's management is responsible for the other information that comprises the Management Report.

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

In connection with the audit of the parent company and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the financial reporting process of the Company and its subsidiary.

Auditor's responsibilities for the audit of the parent company and consolidated financial statements

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

- Identify and assess the risks of material misstatement of the parent company and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiary.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company and consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiary to express an opinion on the parent company and consolidated financial statements. We are responsible for the direction, supervision and performance of the Company and its subsidiary audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, February 19, 2020

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Renato Barbosa Postal
Contador CRC 1SP187382/O-0

Raia Drogasil S.A.

Balance sheet at December 31, 2019 and 2018

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Parent Company		Consolidated	
Assets	**2019**	**2018**	**2019**	**2018**
Current Assets				
Cash and cash equivalents (Note 6)	294,863	238,153	299,226	241,568
Trade receivables (Note 7)	1,049,906	805,649	1,189,019	937,389
Inventory (Note 8)	3,771,335	3,019,527	3,851,388	3,087,275
Income taxes recoverable (Note 9)	3,579	327	5,815	4,868
Other taxes recoverable (Note 9)	132,192	76,193	139,802	79,984
Other receivables	241,268	154,791	244,427	156,847
Prepaid expenses	25,791	21,657	26,369	21,894
	5,518,934	4,316,297	5,756,046	4,529,825
Non-current liabilities				
Judicial deposits (Note 16)	30,001	25,770	30,001	25,770
Taxes recoverable (Note 9)	58,304	44,345	68,099	44,345
Amounts receivable from subsidiary	56,103	41,357		
Arbitration restricted asset (Note 5)	332,927		332,927	
Other receivables	1,480	2,198	1,481	2,717
Investments (Note 10)	60,263	40,108		
Property and equipment (Note 11a)	4,805,939	1,543,685	4,814,260	1,546,960
Intangible assets (Note 11b)	1,211,915	1,167,942	1,245,441	1,202,388
	6,556,932	2,865,405	6,492,209	2,822,180
Total assets	**12,075,866**	**7,181,702**	**12,248,255**	**7,352,005**

	Parent Company		Consolidated	
Liabilities and Equity	**2019**	**2018**	**2019**	**2018**
Current Liabilities				
Trade payables (Note 13)	2,532,293	2,033,620	2,653,236	2,141,274
Borrowing (Note 14)	228,661	256,033	228,661	272,939
Leases payable (Note 15)	565,204		566,646	
Salaries and social charges	291,073	232,300	296,674	237,541
Taxes and contributions	88,126	84,679	94,362	89,471
Income tax and social contribution payable (Note 17)	8,309	3,147	8,309	3,493
Dividends and interest on capital (Note 19d)	68,255	24,843	68,255	24,843
Provision for legal claims (Note 16)	26,008	2,512	26,008	2,512
Other payables	133,529	139,752	136,334	141,372
	3,941,458	2,776,886	4,078,485	2,913,445
Non-current liabilities				
Borrowing (Note 14)	897,815	570,211	897,815	570,211
Leases payable (Note 15)	2,615,451		2,617,987	
Provision for legal claims (Note 16)	67,114	48,877	67,114	48,877
Deferred income tax and social contribution (Note 17b)	142,810	239,102	123,986	237,757
Payables to Subsidiary's shareholder (Note 10)	42,113	36,380	42,113	36,380
Arbitration liability (Note 5)	332,900		332,900	
Other obligations	11,192	10,389	11,436	10,568
	4,109,395	904,959	4,093,351	903,793
Total liabilities	8,050,853	3,681,845	8,171,836	3,817,238
Equity (Note 19)				
Attributable to owners of the parent				
Share capital	2,500,000	1,808,639	2,500,000	1,808,639
Capital reserves	129,768	116,363	129,768	116,363
Revenue reserves	1,371,984	1,522,073	1,371,984	1,522,073
Additional proposed dividends	41,643	70,990	41,643	70,990
Carrying value adjustments	(18,382)	(18,208)	(18,382)	(18,208)
	4,025,013	3,499,857	4,025,013	3,499,857)
Noncontrolling interests			51,406	34,910
Total equity	4,025,013	3,499,857	4,076,419	3,534,767
Total liabilities and equity	**12,075,866**	**7,181,702**	**12,248,255**	**7,352,005**

Raia Drogasil S.A.

Statement of income
Years ended December 31, 2019 and 2018
All amounts in thousands of reais, except earnings per capital share (A free translation of the original in Portuguese)

	Parent Company		Consolidated	
	2019	**2018**	**2019**	**2018**
Net sales revenue (Note 20)	16,697,637	14,119,368	17,565,600	14,801,445
Cost of sales	(11,586,282)	(9,742,023)	(12,367,239)	(10,355,923)
Gross profit	5,111,355	4,377,345	5,198,361	4,445,522
Operating income (expenses)				
Selling expenses (Note 21)	(3,693,581)	(3,219,908)	(3,754,770)	(3,261,896)
General and administrative expenses (Note 21)	(509,901)	(390,767)	(533,393)	(402,568)
Other operating income/(expenses) (Note 22)	230,936	(59,392)	208,271	(59,548)
Equity in the results of investees (Note 10)	(14,436)	8,391		
	(3,986,982)	(3,661,676)	(4,079,892)	(3,724,012)
Profit before finance results	1,124,373	715,669	1,118,469	721,510
Finance results				
Finance income (Note 23a)	71,299	68,163	76,945	71,783
Finance costs (Note 23b)	(402,577)	(148,009)	(411,246)	(154,437)
	(331,278)	(79,846)	(334,301)	(82,654)
Profit before income tax and social contribution	793,095	635,823	784,168	638,856
Income tax and social contribution (Note 17)				
Current	(117,057)	(120,401)	(109,113)	(120,410)
Deferred	96,202	(12,975)	113,680	(9,133)
	(20,855)	(133,376)	4,567	(129,543)
Profit for the year	**772,240**	**502,447**	**788,735**	**509,313**
Attributable to:				
Owners of the Company			772,240	502,447
Noncontrolling interests			16,495	6,866
			788,735	**509,313**
Earnings per share - basic (Note 18)	2.34432	1.52531		
Earnings per share - diluted (Note 18)	2.33807	1.52473		

The accompanying notes are an integral part of these financial statements.

Raia Drogasil S.A.

Statement of comprehensive income
Years ended December 31, 2019 and 2018
All amounts in thousands of reais, except earnings per capital share (A free translation of the original in Portuguese)

	Parent Company		Consolidated	
	2019	**2018**	**2019**	**2018**
Profit for the year	772,240	502,447	788,735	509,313
Components of comprehensive income				
Other comprehensive income				
Total comprehensive income for the year	772,240	502,447	788,735	509,313
Attributable to:				
Owners of the Company			772,240	502,447
Noncontrolling interests			16,495	6,866
Total			**788,735**	**509,313**

The accompanying notes are an integral part of these financial statements.

Raia Drogasil S.A.

Statement of changes in equity 2019 and 2018

All amounts in thousands of reais, except amounts per capital share (A free translation of the original in Portuguese)

			Capital reserves			Revenue reserves					Carrying value adjustments				
	Share capital	Special restatement	Premium on issue/sale of shares	Treasury shares	Restricted shares and other	Legal	Statutory	Tax incentives	Retained earnings	Additional dividend proposed	Revaluation reserve	Transactions with non-controlling interest	Total	Noncontrolling interests	Total equity
At January 1st, 2018	1,808,639	10,191	134,584	(12,808)	18,863	90,397	1,137,752	326		52,602	12,197	(30,230)	3,222,513	27,859	3,250,372
Dividend for 2017 approved at the Annual General Meeting (AGM) of March 28, 2018										(52,602)			(52,602)		(52,602)
Realization of revaluation reserve, net of income tax and social contribution									175		(175)				
Interest on capital expired									476				476		476
Treasury shares – repurchase (Note 19c)				(46,925)									(46,925)		(46,925)
Restricted share plan - granted (Note 19d)					12,459								12,459		12,459
Restricted share plan - delivered (Note 19d)			3,115	4,267	(7,382)										
Profit for the year									502,447				502,447	6,866	509,313
Allocation of profit															
Legal reserve						25,122			(25,122)						
Statutory reserve							227,179		(227,179)						
Interest on capital proposed - R$ 0.636121831 per share (Note 19e)									(138,510)				(138,510)		(138,510)
Tax incentive reserve (Note 19b)								41,297	(41,297)						
Interest on capital proposed									(70,990)	70,990					
Dividend proposed by subsidiary														185	185
At December 31, 2018	1,808,639	10,191	137,699	(55,466)	23,940	115,519	1,364,931	41,623		70,990	12,022	(30,230)	3,499,858	34,910	3,534,768
Capital increase with part of the Company's capital reserve (Note 19a)	691,361						(691,361								
Dividend for 2018 approved at the Annual General Meeting (AGM) of April 10, 2019										(70,990)			(70,990)		(70,990)
Realization of revaluation reserve, net of income tax and social contribution									174		(174)				
Interest on capital expired									529				529		529
Restricted share plan - granted (Note 19d)					13,367								13,367		13,367
Restricted share plan - delivered (Note 19d)			(1,960)	17,290	(15,330)										
Restricted shares - delivery of 4Bio shares (Note 10)				35	3								38		38
Profit for the year									772,240				772,240	16,495	788,735
Allocation of profit															
Legal reserve						38,612			(38,612)						
Statutory reserve							407,066)		(407,066						
Interest on capital proposed - R$ 0.641606932 per share (Note 19e)									(190,029)				(190,029)		(190,029)
Tax incentive reserve (Note 19b)								95,593	(95,593)						
Additional interest on capital proposed									(21,472)	21,472					
Additional dividend proposed									(20,171)	20,171					
At December 31, 2019	2,500,000	10,191	135,739	(38,141)	21,980	154,131	1,080,636	137,216		41,643	11,848	(30,230)	4,025,013	51,405	4,076,418

The accompanying notes are an integral part of these financial statements.

Raia Drogasil S.A.

Statement of cash flows
Years ended December 31, 2019 and 2018
All amounts in thousands of reais (A free translation of the original in Portuguese)

	Parent Company		Consolidated	
	2019	2018	2019	2018
Cash flows from operating activities				
Profit before income tax and social contribution	793,095	635,823	784,168	638,856
Adjustments				
Depreciation and amortization (Note 21)	1,033,227	411,710	1,041,033	414,134
Compensation plan with restricted shares, net	13,367	12,459	13,440	12,515
Interest on additional stock option (Note 10)	5,733	(11,135)	5,733	(11,135)
Loss (profit) on sale/write-off of property and equipment and intangible assets	19,395	12,166	47,120	12,166
Reversal (provision) for legal claims (Note 16)	3,892	49,167	3,892	49,167
(Reversal) provision for inventory losses	(662)	(2,680)	(585)	(2,680)
(Reversal) provision for impairment of trade receivables	(970)	(4,427)	739	(4,739)
(Reversal) provision for store closures	(12,403)	1,556	(6,504)	1,556
Interest expenses (Note 14)	(65,625)	57,227	66,746	56,700
Interest expenses – Leases (Note 15)	215,722		216,100	
Amortization of transaction costs of debentures (Note 14)	2,717	1,625	2,717	1,625
Gain on bargain purchase (Note 5)	(355,263)		(355,263)	
Equity in the results of investees (Note 10)	14,436	(8,391)		
	1,797,911	1,155,100		1,168,165
Changes in assets and liabilities				
Trade and other receivables	(244,044)	41,303	(250,834)	1,133
Inventory	(660,429)	(537,908)	(667,147)	(567,001)
Other current assets	130,277	(2,440)	130,307)	(10,091)
Long term receivables	(162,605)	(44,919)	(370,089)	(45,438)
Trade payables	456,920	281,441	465,192	318,449
Salaries and social charges	46,744	33,466	45,443	34,743
Taxes and contributions	(31,999)	(74,837)	(25,442)	(69,041)
Other obligations	9,624	361	9,559	921
Rentals payable	(17,803)	12,850	(17,838)	12,885
Cash provided by operations	1,324,596	864,417	1,138,487	844,725
Interest paid (Note 14)	(60,756)	(43,410)	(62,133)	(43,478)
Income tax and social contribution paid	(111,143)	(114,532)	(111,143)	(118,381)
Net cash provided by operating activities	1,152,697	706,475	965,211	682,866
Cash flows from investing activities				
Cash acquired in business combination			283,685	
Purchases of property and equipment and intangible assets	(282,987)	(700,762)	(286,646)	(702,985)
Proceeds from sale or property and equipment	315	17	221	17
Loans granted to subsidiary	(14,745)	(2,784)		
Cash from merged company (Note 6)	69,856			
Net cash used in investing activities	(227,561)	(703,529)	(2,740)	(702,968)
Cash flows from financing activities				
Borrowing (Note 14)	543,123	394,985	738,647	419,223
Repayments of borrowings (Note 14)	(250,477)	(195,142)	(462,651)	(201,879)
Leases paid	(758,749)		(778,108)	
Interest paid – leases (Note 15)	(215,722)		(216,100)	
Repurchase of shares		(46,925)		(46,925)
Interest on capital and dividends paid	(186,601)	(173,622)	(186,601)	(173,622)
Net cash used in financing activities	(868,426)	(20,704)	(904,813)	(3,203)
Net decrease in cash and cash equivalents	56,710	(17,758)	57,658	(23,305)
Cash and cash equivalents at the beginning of the year	238,153	255,911	241,568	264,873
Cash and cash equivalents at the end of the year	**294,863**	**238,153**	**299,226**	**241,568**

The accompanying notes are an integral part of these financial statements.

Raia Drogasil S.A.
Statement of value added
Years ended December 31 2019 and 2018:
All amounts in thousands of reais (A free translation of the original in Portuguese)

	Parent Company		Consolidated	
	2019	2018	2019	2018
Revenue				
Gross sales and services	17,362,325	14,653,024	18,313,292	15,387,120
Other income	1,141	840	1,148	840
Provision for (reversal) of impairment of trade receivables	(970)	4,427	(739)	4,739
	17,362,496	14,658,291	18,313,701	15,392,699
Inputs acquired from third parties				
Cost of sales and services	(10,449,152)	(8,852,571)	(11,237,209)	(9,465,921)
Materials, energy, outsourced services and other	(1,072,628)	(825,111)	(1,121,677)	(847,753)
Impairment of assets	206	(13,706)	206	(13,706)
	(11,521,574)	(9,691,388)	(12,358,680)	(10,327,380)
Gross value added	5,840,922	4,966,903	5,955,021	5,065,319
Depreciation and amortization	(1,004,597)	(411,710)	(1,012,403)	(414,134)
Net value added generated by the entity	4,836,325	4,555,193	4,942,618	4,651,185
Value added received through transfer				
Equity in the results of investees	(14,436)	8,391		
Finance income	73,594	68,878	79,265	72,499
Other	358,110	3,851	358,216	3,851
	417,268	81,120	437,481	76,350
Total value added to distribute	**5,253,593**	**4,636,313**	**5,380,099**	**4,727,535**
Distribution of value added				
Personnel	1,812,996	1,571,197	1,847,845	1,593,983
Direct remuneration	1,395,459	1,241,768	1,416,111	1,254,227
Benefits	287,171	220,149	299,333	229,421
Unemployment compensation fund	130,366	109,280	132,401	110,335
Taxes and contributions	2,160,967	1,817,920	2,226,327	1,871,384
Federal	479,422	491,858	462,775	493,019
State	1,653,314	1,303,630	1,734,837	1,355,729
Municipal	28,231	22,432	28,715	22,636
Providers of capital	507,390	744,749	517,192	752,855
Interest	401,209	146,255	409,517	152,234
Rentals	106,181	598,494	107,675	600,621
Interest on capital and dividends	772,240	502,447	788,735	509,313
Interest on capital	190,029	138,510	190,029	138,510
Dividends and interest on capital proposed	41,643	70,990	41,643	70,990
Profits reinvested for the year	540,568	292,947	540,568	292,947
Noncontrolling interests in retained earnings			16,495	6,866
Value added distributed and retained	**5,253,593**	**4,636,313**	**5,380,099**	**4,727,535**

The accompanying notes are an integral part of these financial statements.

All amounts in thousands of reais unless otherwise stated

1. Operations

Raia Drogasil S.A. ("Company" or "Raia Drogasil") is a publicly-held company listed on the Novo Mercado ("New Market") listing segment of B3 S.A. - Brasil, Bolsa, Balcão, under ticker RDL3, with its headquarters in the capital of the state of São Paulo.

Raia Drogasil S.A. and its subsidiary 4Bio S.A. (together "Consolidated" or "Group") are mainly engaged in the retail sale of medicines, perfumery, personal care and beauty products, cosmetics and dermocosmetics and specialty medicines.

The Company acquired Drogaria Onofre Ltda. ("Onofre") on July 1st, 2019, and on August 1st, 2019 Onofre was merged into Raia Drogasil, as described in Note 5.

The Group conducts its sales through 2,073 stores (1,825 stores - 2018), distributed in 23 Brazilian states (22 states - 2018), as follows:

	Consolidated	
State	**2019**	**2018**
São Paulo	1,049	952
Minas Gerais	143	125
Rio de Janeiro	142	127
Paraná	112	103
Goiás	73	68
Distrito Federal	72	68
Bahia	68	59
Pernambuco	67	52
Santa Catarina	49	43
Espírito Santo	46	37
Rio Grande do Sul	42	32
Pará	35	19
Ceará	31	21
Mato Grosso do Sul	25	23
Mato Grosso	22	16
Alagoas	18	14
Sergipe	18	15
Paraíba	15	15
Rio Grande do Norte	14	15
Maranhão	13	9
Piauí	9	7
Tocantins	7	5
Amazonas	3	
Total	**2,073**	**1,825**

Raia Drogasil's stores are supplied by eleven distribution centers located in eight States: São Paulo, Rio de Janeiro, Minas Gerais, Paraná, Goiás, Pernambuco, Bahia and Ceará. The Company discontinued the operations of the distribution center in Barueri (SP), and two distribution centers in Rio de Janeiro (RJ) and Belo Horizonte (MG), arising from the acquisition of Onofre. The Company's e-commerce demand is met by the Distribution Centers of Butantã (SP), Paraná, Bahia, Minas Gerais and Rio de Janeiro.

The subsidiary 4Bio Medicamentos S.A. ("4Bio") markets its products through telesales and the delivery is made directly to the customer's location or through its three call centers in the states of São Paulo and Tocantins.

2. Presentation of financial statements

In conformity with Rule 505/2006 issued by the CVM, authorization to issue these financial statements was granted by the Company's Board of Directors on February 19, 2020.

The financial statements are presented in thousands of Brazilian reais (R$), which is the Group's functional and presentation currency.

The Company's parent company and consolidated financial statements for the years ended December 31, 2019 and 2018 have been prepared in accordance with the accounting practices adopted in Brazil, including the rules issued by the Brazilian Securities Commission (CVM) and the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), and are in conformity with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and provide all the significant information related solely to the financial statements, which is consistent with the information used by management.

The parent company financial statements are disclosed together with the consolidated financial statements.

The consolidated financial statements include the Company's financial statements and the financial statements of its subsidiary 4Bio. The consolidated financial statements have been prepared in accordance with consolidation practices and applicable legal provisions.

As mentioned in Note 1, with the acquisition of Onofre on July 1st, 2019 and merger on August 1st, 2019, the Company accounted for equity in the results of subsidiary and consolidated the balances of the subsidiary Onofre until the date of its merger on August 1. Therefore, the consolidated statements of income, cash flows and value added include 12 months of operations of the Company and 12 months of operations of the subsidiary 4Bio, as well as 1 month of operation of Onofre.

The accounting practices adopted by the Subsidiary were applied uniformly and consistently with those adopted by the Company. Where applicable, all transactions, balances, income and expenses between the Subsidiary and the Company are fully eliminated in the consolidated financial statements.

The financial statements include accounting estimates and requires management to exercise its judgment in the process of applying the Company's accounting policies regarding provision for inventory losses, provision for the impairment of trade receivables, appreciation of financial instruments, taxes recoverable, the amortization and depreciation periods for property and equipment and intangible assets, estimate of impairment of intangible assets with indefinite useful life, provision for legal claims, fair value measurement of financial liabilities, determination of provision for taxes, recognition of revenues from commercial agreements, among others. The significant estimates and judgments are disclosed in Note 4(w).

The presentation of the parent company and consolidated statements of value added is required by the Brazilian corporate legislation and the accounting practices adopted in Brazil for listed companies, while it is not required by IFRS. Therefore, under the IFRS, the presentation of such statements is considered supplementary information, and not part of the set of financial statements.

The Group adopted all standards, revised standards and interpretations issued by the IFRS and CPC that were effective as at December 31, 2019.

3. New accounting procedures, amendments to and interpretations of standards

The following accounting pronouncements were adopted for the first time to financial reporting periods beginning on or after January 1st, 2019:

(a) CPC 06 (R2) / IFRS 16 – Leases

In January 2016, IASB issued IFRS 16 - Leases and in December 2017 CPC 06 (R2) - Lease Transactions was issued effective for financial reporting periods beginning on or after January 1st, 2019, replacing IAS 17 / CPC 06 - "Leases" and related interpretations.

This standard introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Exemptions are available for leases with term of less of less than one year and low-value items.

Lessor accounting remains similar to the previous standard - i.e. lessors continue to classify leases as finance or operating leases.

The Company chose the modified retrospective approach, which does not require the restatement of comparative figures, thus not impacting equity, as well as not changing the calculation of dividends and allow the adoption of practical expedients.

(b) IFRIC 23 - Uncertainty over income tax treatments

The interpretation clarifies how the recognition and measurement requirements of IAS 12 are applied when there are uncertainties about the treatment of income taxes (Corporate Income Tax - IRPJ and Social Contribution on Net Profit - CSLL). Management did not identify impacts arising from the adoption of such interpretation, as it restricts only to the requirement of the new geography for disclosure of contingencies involving income tax and social contribution.

There are no other IFRSs or IFRIC interpretations that are issued but not yet effective that would be expected to have a material impact on the Group in the years subsequent to December 31, 2019.

4. Significant accounting practices

The significant accounting practices adopted in the preparation of these financial statements are described below:

(a) Consolidation

Subsidiaries are all entities that the Company controls. They are fully consolidated from the date on which control is transferred to the Company and deconsolidated from the date that control ceases.

Identifiable assets acquired and liabilities assumed for the acquisition of subsidiaries in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. Non-controlling interests are determined on each acquisition. Acquisition-related costs are expensed as incurred.

Transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the proportion acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded directly in equity, in "carrying value adjustments".

(i) Payables to Subsidiary's shareholder

On the acquisition of 55% of the shares of 4Bio Medicamentos Ltda. (currently named 4Bio Medicamentos S.A. or 4Bio), the Company and the founder shareholder signed an agreement with call option and put option for the total remaining shares held by the founder shareholder whose strike price will be calculated based on adjusted multiples of EBITDA of 4Bio for the years 2021 to 2023:

The financial liability (non-current liability) represented by the share purchase obligation arising from the option granted is recognized at present value (in line item Payables to Subsidiary's shareholder) and separately from the consideration transferred, through the adoption of the present access method, in which the non-controlling interest is already recognized, since the non-controlling stockholder is exposed to risks and has access to the returns associated with its interest, against "carrying value adjustments" in equity.

Over time, the re-establishment of the value of the call option for additional shares arising from the present value adjustment is recognized in the statement of income, in line item finance costs.

In the last quarter of the year or on the occurrence of a significant change in assumption during the year, assumptions that comprise the fair value of the option are revised/updated in order to reflect the fair value of the financial liability at year end. Any adjustments are recorded in the line item of Payables to Subsidiary's shareholder (Note 10) against finance costs.

(c) Cash and cash equivalents

These include cash on hand, bank deposits and highly liquid short-term investments, readily convertible into a known cash amount and posing low risk of any change in value. The financial investments included in cash equivalents are classified in the category of "amortized cost".

(d) Financial instruments

The Group classifies its financial assets into the following measurement categories:

- Measured at fair value (either through other comprehensive income or through profit or loss); and
- Measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets at fair value through other comprehensive income include:

- Equity investments that are not held for trading on initial recognition and that the Group irrevocably elected to recognize in this category. These investments are strategic and the Group considers this classification as being the most relevant;

- Debt investments, in which the contractual cash flows consist basically in principal and interest and the Group's business model objective is achieved by collecting contractual cash flows and selling financial assets.

The Group classifies the following assets at fair value through profit or loss:

- Debt investments that do not qualify for measurement at amortized cost or at FVOCI;

- Equity investments held for trading; and

- Equity investments for which the entity did not elect to recognize gains and losses through other comprehensive income.

For financial assets measured at fair value, gains and losses will be recognized in profit or loss or in other comprehensive income. For debt investments, this will depend on the business model in which the investment is held. For equity investments that are not held for trading, this will depend on whether the Group has or not an irrevocable option, on initial recognition, of accounting for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments and only when the business model for managing such assets is changed.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade- date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has substantially transferred all the risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows;

- Where those cash flows represent solely payments of principal and interest are measured at amortized cost;

- Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss;

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss; and

- FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FTVPL. A gain or loss on a debt investment that is subsequently measured at FTVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

The Group records the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Expected credit losses from customers are measured using weighted estimates of probable credit losses based on historical losses and projections of related assumptions. Credit losses are measured at present value based on all cash shortfalls (i.e. the difference between the cash flows due to the Company under a contract and the cash flows the Company expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset.

The Group assesses at year-end if there is objective evidence that the financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

In accordance with CPC 48 / IFRS 9, expected losses are measured using one of the following criteria:

- 12-month expected credit losses: these are credit losses that result from possible default events within 12 months after the balance sheet date; and

- Lifetime expected credit losses: these are credit losses that result from all possible default events over the expected life of a financial instrument.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where currently there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right should not be contingent on future events and should be applicable in the normal course of business and in the case of default, insolvency or bankruptcy of the company or the counterpart.

Fair value hierarchy

The Group classifies and discloses the fair value of financial instruments based on measurement techniques.

Level 1: prices (unadjusted) quoted in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques that use data that have a significant effect on the recorded fair value that are not based on observable market data.

(e) Trade receivables

Trade receivables are recorded at the original sales amount, less credit card charges, when applicable, and provision for the impairment of trade receivables. Provision for the impairment of trade receivables is set up when there is strong evidence that the Group will not be able to collect all the amounts due. The provision is determined as the difference between the carrying amount and the recoverable amount (Note 7).

(f) Inventories

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

(g) Income tax and social contribution

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% and 9%, respectively.

The provision for income tax and social contribution is based on the taxable profit for the year, which differs from profit as reported in the statement of income because it is subject to adjustments that permanently affect the calculation base, such as the exclusion of items that are never taxable or deductible.

Deferred taxes are recognized on the projections of future results prepared and based on the Group's assumptions and future economic scenarios, which will be taxed in periods subsequent to the recognition in the Company's statement of income and, therefore, may be subject to changes. This assumption includes balances of income tax and social contribution tax losses, when applicable.

The book value of deferred tax assets is reviewed at each reporting date and written off in case the study used to determine the expectation of its realization is changed.

Deferred taxes are recognized based on the transaction that triggered it, in the statement of income or directly in equity.

(h) Judicial deposits

Judicial deposits are presented in non-current assets when there is no expectation of loss or as a deduction from the corresponding liability when they cannot be redeemed, unless there is a favorable outcome for the Group in the dispute. Judicial deposits are monetarily restated.

(i) Property and equipment

Property and equipment are stated at acquisition cost, net of accumulated depreciation and/or impairment losses, if any. Depreciation is calculated using the straight-line method, over the useful life of the assets, according to the rates shown in Note 11(a) Net book value and the useful life of the assets, as well as depreciation methods, are reviewed at year-end and adjusted prospectively, when applicable.

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

A property and equipment item is written off when sold or when no future economic benefit is expected to arise 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 statement of income of the year in which the asset is written off. When revalued assets are intended for sale, the amounts included in the revaluation reserve are recorded in retained earnings upon disposal.

Repair and maintenance service costs are recorded in the statement of income when incurred.

(j) Intangible assets

(1) Goodwill on company acquisition

Goodwill arises on the acquisition of subsidiaries and represents the excess of (i) the consideration transferred; (ii) the amount of any non-controlling interest in the acquiree; and (iii) the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognized directly in the statement of income.

Goodwill on the acquisition of investments prior to 2009 (Drogaria Vison) was calculated as the difference between the acquisition amount and the book value of the acquired entity's net assets. The goodwill is based on expected future profitability. Up to December 2008, goodwill was amortized based on the term, extent and proportion of projected results, 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 (CGU) level.

(2) Points of sale

These include points of sale acquired from store lease agreements, stated at acquisition cost and amortized using the straight-line method at the annual rates mentioned in Note 11(b) which take into consideration the lease agreement terms, not exceeding twenty years.

(3) Software use licenses and IT system development

Software use licenses are stated at acquisition cost and amortized using the straight-line method over their estimated useful lives, at the rates shown in Note 11 (b).

The ongoing costs of software development or maintenance are expensed as incurred. Costs directly attributable to identifiable and exclusive software programs, controlled by the Group 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 11(b).

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

For intangible assets with finite useful lives, the amortization period and method are reviewed at least at each financial year end.

(k) Impairment of non-financial assets

Property and equipment and other non-current assets, including intangible assets, are reviewed annually to identify evidence of impairment, and also whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets with indefinite useful lives, 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, the recoverable amount is calculated so as to determine whether an impairment loss should be recognized. When such a 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 the net sale price or value in use of the asset. The impairment of present and future transactions is recognized in the statement of income as expenses, reflecting the purpose of the asset item affected.

For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (CGU's). The Company's CGUs are the stores.

(l) Leases

In adopting CPC 06 (R2) / IFRS 16, the Group recognized lease liabilities involving leases that had already been classified as "operating leases" observing the principles of IAS 17 - "Leases". These liabilities were measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at January 1st, 2019. The weighted average of the lessee's nominal incremental borrowing rate applied to lease liabilities at January 1st, 2019 was 6.69% p.a. Details on rates per contractual period are stated in Note 15.

For leases previously classified as finance leases, the Group recognized the carrying amount of the lease asset and liability immediately before the transition to the carrying amount of the right-of-use asset and the lease liability on the date of initial application. The measurement principles of CPC 06 (R2) / IFRS 16 apply only after this date. The remeasurements of the lease liabilities were recognized as adjustments to the respective right-of-use assets immediately after the date of initial application.

The Group is qualified as a lessee after evaluating whether a contract is, or contains, a lease, according to the following assumptions:

(i) The lessor cannot have a substantive right to replace the asset with an alternative asset during the lease term;
(ii) The Group has substantially all the economic benefits of a contract's assets if it benefits from most of the benefits from the main product, by-product and other benefits that the asset may generate;
(iii) The Group has the right to direct the use of the asset, managing how and for what purposes it will be used during the period of use or when these decisions are predetermined in the contract and the Group will operate the asset during the entire period of the contract, without the lessor having the right to amend these operating instructions.

(m) Provisions

Provision is recognized when the Group 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. Provision for legal proceedings is recorded reflecting the 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.

(n) Employee and management 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 Group does not have the following benefit plans: Income Tax Deductible Private Pension Plan (PGBL), Non-Income Tax Deductible Private Pension Plan (VGBL), a defined benefit private pension plan and/or any retirement or post-employment assistance plan.

Part of the benefits granted to the officers include a restricted share plan, classified as an equity instrument. The fair value of share-based payments is recognized in income in accordance with the concession period, against equity Note 19 (d).

(o) Capital and income reserves

The legal reserve is set up at 5% of profit for the year, pursuant to Law 6,404/76, until it reaches 20% of the capital. In the year in which the legal reserve balance, plus the capital reserve amount, exceeds 30% of the capital, the allocation of part of the profit for the year to the legal reserve is not required.

The statutory reserve is established in the Company's bylaws, limited to 65% of the profit for the year, to set up the "Statutory Income Reserve", which has the purpose and objective of improving the Company's working capital, observing that its balance, except the Contingency Reserve and the Unrealized Income Reserve, cannot exceed 100% of the capital. Once this limit is reached, the General Meeting will decide on the excess amount, in accordance with Article 199 of the Corporation Law, and shall apply it in the capital contribution or capital increase or in the payment of dividends.

(p) Dividend

According to the Company's bylaws, stockholders are entitled to minimum mandatory dividend corresponding to 25% of adjusted net income each year, calculated under the terms of the Brazilian Corporation Law.

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

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

(q) Tax incentive reserve

The Company and its subsidiary enjoy ICMS tax incentives that, pursuant to supplementary Law 160/17, are classified as investment grant. In light of such Law, the Company's management is allocating the amounts described in Note 19 (e) to the tax incentive reserve, in the line item of income reserve, subject to approval at the Annual General Meeting. The tax incentive amounts are not part of the calculation base of the minimum mandatory dividend, and can only be incorporated into capital in conformity with Law 6,406/76.

(r) Interest on capital

Based on the Company's bylaws, distributions of dividends and interest on capital to the Company's stockholders are recognized as a liability in the financial statements at year end. Any amount that exceeds the minimum required is only provided for on the date it is approved at a general meeting.

The tax benefit of interest on capital is recognized in the statement of income.

(s) Revenue recognition

CPC 47 / IFRS 15 establishes a comprehensive framework for determining whether, when, and for how much revenue is recognized from the identification of performance obligations, the transfer of control of the product or service to the customer and the determination of the selling price. As of January 1st, 2018, it replaces CPC 30 / IAS 18 - Revenue, CPC 17 / IAS 11 - Construction Contracts and IFRIC 13 - Customer Loyalty Programmes. The new standard is applicable to all contracts with customers, except rental contract (rental income), financial instruments (interest) and insurance contracts, to which specific rules apply.

This standard establishes a model that aims to identify whether the criteria for revenue recognition have been satisfied and comprise the following aspects:

(i) Identification of a contract with a customer;

(ii) Determination of the performance obligations;

(iii) Determination of the transaction price;

(iv) Allocation of the transaction price; and

(v) Recognition of revenue at a point in time or over time, in accordance with the satisfaction of the performance obligations.

Sales of goods (medicines, perfumery and self-service products)

The Group's revenues derive mainly from the sale of medicines, perfumery products and a series of self-service products (OTC - Over the Counter - drugs, food products, etc.) to the final consumer. Being a Company that operates in the retail industry of medicines, where the consumer self-service of the goods at our stores where prices and discounts are informed by consulting the Company's employees or obtained in places where the products are exposed and considering that the transfer of control processes take place when delivering directly to the final consumer at the points of sales, it was concluded that there is a single performance obligation and, therefore, there is no complexity involved in defining performance obligations and transferring control of products and services to consumers.

Additionally, the other transactions of the Company subject to the assessment under CPC 47 / IFRS 15 are represented by variable consideration related to commercial agreements where products can be sold together with other products or with discounts, which are substantially negotiations promoted by suppliers at the Company's points of sale. The sales revenue recognized in the financial statements comprises the fair value of the transactions carried out that, according to the nature of the negotiations, consider amounts of sales and receipts from consumers supplemented by receipts from suppliers.

Revenue is recognized net of trade discounts and returns.

Returns and cancellations

For contracts that permit a customer to return an item, in accordance with CPC 47 / IFRS 15, revenue is recognized to the extent that it is probable that a significant reversal will not occur. The amount of revenue recognized is accounted for net of expected returns and cancellations.

Significant financing component

In accordance with CPC 47 / IFRS 15, in determining the transaction price, the Company shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the Company with a significant benefit of financing the transfer of goods or services to the customer. In these circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

Non-current 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.

(t) Trade discounts and commercial negotiations on the purchase of goods

The Group's variable consideration refers mainly to trade agreements where products can be sold together with other products or with discounts that are substantially negotiations promoted by suppliers at the Group's points of sale in different ways. These negotiations are individual and distinct between suppliers and may present characteristics of complex nature. The main categories of commercial agreements are:

(i) financial discounts granted by laboratories upon the sale to consumer and associates to the Benefits Program – this refers to benefits granted by the Group's supplier to the Group's final consumer aimed at establishing a process of loyalty of the consumer to the product or medicine. In most cases, from the moment a final consumer is registered in the supplier system, the final consumer benefits from a discount granted by the Group's supplier, paying for the product a price different from the price for the same product if it was not associated to a benefits program. Such discount offered by the supplier to the Group's customer is calculated in real time and recognizes, at the moment of sale of the product to the consumer, an amount receivable from the supplier equivalent to the amount of the discount granted.

For transactions of this nature, the Group recognizes as reduction in cost of goods sold against an amount receivable from special plans or reduction of contract liabilities.

(ii) marketing and advertising funds, such as display in stores and publicizing of offers at catalogues - these refer to Group's sales programs planned jointly with its suppliers. The supplier has interest in promoting its products at the Group's stores chain and sales points. For this, it negotiates forms of payment different from the Group in order that the final price of the product to the consumer be advantageous without any loss to the gross sales margins for the same products under other conditions than promotional ones. These negotiations normally occur with the Group's purchasing area together with the sales area for alignment with the Group's sales strategies.

From the moment the performance obligation is satisfied (sale of the product associated to the promotion), the Group recognizes the result of these commercial agreements as a credit to cost of sales, against an amount receivable from agreements or reduction of contract liabilities.

(iii) rebates for volume targets, measured both upon purchases and sales – refer to bonus programs granted to the Group associated to targets of purchase and sale of products from a certain supplier. The Group considers the benefit obtained as a reduction of the amounts payable to suppliers, with a corresponding entry in the inventory account, from the moment in which it concludes that it is highly probable that the benefit obtained will not be subject to reversal.

In the cases (ii) and (iii) above, these refer to different forms of negotiation that have as main purpose the purchase of products at the lowest cost offered by the independent supplier as proposed in the product purchase transaction.

(u) Gain on bargain purchase

A bargain purchase occurs in a business combination where the price paid to acquire the business is less than the fair value of the equity of the acquired company, represented by the assets acquired and liabilities assumed. A gain on bargain purchase is recognized in the statement of income for the year.

Before recognizing a gain on bargain purchase, the Company must carry out a review of the amounts calculated in the measurement of the value to ensure that all assets acquired and all liabilities assumed were correctly identified.

Recognizing the unusual nature of this gain in business combinations, the Company reviews the procedures used to ensure that the measurement of the amounts to be recognized on the acquisition date are properly measured for the following cases:

(i) identifiable assets acquired and liabilities assumed;
(ii) consideration transferred to obtain control of acquired company.

After confirming the adequacy of the value of the gain on bargain purchase, the Company records the transaction in the Company's financial statements, net of tax effects. Income tax and social contribution recorded in a bargain purchase are paid at the rate of 1/60th.

(v) Segment reporting

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

(w) Significant accounting judgments, estimates and assumptions

When applying Group accounting practices, management must make judgments and prepare estimates related to the 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 the related effects are recognized in the period in which these are reviewed and in any future periods affected.

Key estimates and assumptions concerning sources of uncertainty in future estimates and other important sources of estimation uncertainty at the balance sheet are discussed below.

(i) Taxes recoverable

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

(ii) Fair value of financial instruments

When the fair value of financial assets and liabilities stated in the balance sheet cannot be obtained from active markets, it is determined using valuation techniques, including the discounted cash flow method. The data for this method are based on market practice, whenever possible. However, when this is not possible, a certain level of judgment is required to establish the fair value. Judgment includes the consideration of the data used, concerning areas such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(iii) Impairment

There are specific rules to assess the recoverability of assets, particularly property and equipment, goodwill and other intangible assets. At the year-end date, the Group performs an analysis to determine whether there is evidence that the long-lived asset amounts may not be recoverable in accordance with the CGUs. To determine whether goodwill is impaired, it is necessary to estimate the value in use of the CGUs to which goodwill has been allocated. The calculation of value in use requires that management estimate expected future cash flows from the CGUs and an adequate discount rate to calculate present value. Significant assumptions used for determining the value in use of the different CGUs are detailed in Note 11(b)(ii).

(iv) Provision for tax, civil and labor risks

The Group is party to various legal and administrative proceedings, as mentioned in Note 16. Provision is recorded for all litigation contingencies the likelihood of loss of which is estimated as probable, in an amount that can be reliably estimated. The assessments of the likelihood of loss include the evaluation of available evidence, the hierarchy of laws, available case law, recent court decisions and their importance in the legal system, as well as the opinion of outside legal advisors and the Group's compensation history.

(v) Lessee's incremental borrowing rate

The Group is unable to determine the implicit discount rate to be applied to its lease agreements. Therefore, the lessee's incremental borrowing rate is used to calculate the present value of the lease liabilities on the initial recognition of the agreement.

The lessee's incremental borrowing rate is the interest rate that a lessee would have to pay when borrowing for the acquisition of an asset similar to that which is the subject of the lease agreement, for a similar term and when pledging a similar guarantee, with the funds required to obtain an asset with a similar value to the right-of-use asset and in a similar economic environment.

This rate shall be obtained through a high degree of judgment and shall be an element of the lessee's credit risk, the operating lease agreement term, the nature and quality of the guarantee offered, and the economic environment in which the transaction takes place. The rate calculation process shall preferentially use information that is readily observable from which to make the necessary adjustments to determine the incremental borrowing rate.

The adoption of CPC 06 (R2) / IFRS 16 allows the incremental rate to be determined for a grouping of agreements, since this choice is associated with the validation that the grouped contracts have similar characteristics.

The Group adopted the aforementioned practical expedient of determining groupings for its lease agreements under this scope, as it understands that the effects of their application do not differ materially from its application to individual leases. The size and composition of the portfolios were defined according to the following assumptions: (a) similar assets and (b) remaining terms with respect to the similar initial application date.

(vi) Determination of the lease term

When determining a lease term, Management considers all the facts and circumstances that create an economic incentive for the exercise of an extension option or for the non-exercise of a termination option. Extension options (or periods after termination options) are included in the lease term only when there is reasonable certainty that the lease will be extended (or that it will not be terminated).

For leases of distribution centers and stores, the following factors are usually the most relevant:

- If the termination (or non-extension) incurs significant fines, it is reasonably certain that the Group will use the extension (or will not terminate the agreement).

- If leasehold improvements are made to third-party properties with a significant residual balance, it is reasonably certain that the Group will extend (or not terminate) the lease.

- In addition, the Group considers other factors, including past practices regarding the periods of use of specific types of assets (leased or Company-owned), the duration of leases, and the costs and business disruption required to replace a leased asset.

Most options for extending office, residential properties and vehicle leases were not included in the lease liabilities because the Group can replace these assets without significant cost or business interruption.

This assessment is reviewed if an event or significant change in circumstances occurs that affects the initial assessment, and when it is under the control of the lessee, such as, whether an option is actually exercised (or not exercised) or if the Group is obliged to exercise it (or not exercise it). During the current year, the financial effect of the review of the lease terms in order to reflect the effect of the exercise of the extension and termination resulted in an amount of R$ 54,737 in recognized lease liabilities and right-of-use assets, note 15.

(vi) Gain on bargain purchase

In determining the gain on bargain purchase, the fair values of the assets acquired and liabilities assumed are taken into account, which are compared with the related amounts paid. As part of the business combination process, the Company is required to measure the fair value of the assets acquired and liabilities assumed and compare these with the related amounts paid.

These are measurements that involve assumptions and critical judgments in determining the fair values of assets and liabilities and that, as they result in a gain to be recorded in income for the year, require careful evaluation by Management to ensure that they do not result in a future reversal of a portion of the gain recorded in the transaction. Therefore, this is a critical estimate made by the Company's Management.

5. Business combinations

(a) Acqusition of Drogaria Onofre Ltda.

As disclosed in the financial statements at December 31, 2018, on February 26, 2019 the Company entered into an agreement for purchase of share units ("CVQ") with CCI Foreign, S.a.r. and Beauty Holdings, L.L.C., comprising 100% of the share units of Drogaria Onofre Ltda. ("Onofre").

The acquisition of Onofre occurred on July 1st, 2019, when all the conditions precedent set forth in the CVQ were fulfilled.

In connection with the acquisition of Drogaria Onofre Ltda., the Company engaged a specialized independent firm to advise Management in determining the fair value of assets and liabilities assumed at July 1st, 2019 for purposes of determining the gain on bargain purchase (negative goodwill).

The accounting standard CPC 15 (R1) / IFRS 3, which addresses business combination, requires the identification of the accounting acquirer in a business acquisition. In this case, the Company's shareholders started holding control over Onofre on July 1st, 2019, date in which the agreements were formalized, and such date was considered as the "acquisition date" for purposes of accounting recognition of the transaction.

The consideration assumed by Raia Drogasil for the acquisition of Onofre is based on the commitment undertaken to be responsible for the rights (assets) and obligations (liabilities) of Onofre. There was no financial disbursement in the acquisition agreement.

All amounts in thousands of reais unless otherwise stated

Management adopted the balance sheet as at June 30, 2019 as the opening balance sheet for purposes of allocating the effects of the acquisition. The details of the fair values of the net assets acquired and liabilities assumed and the consequent preliminary measurement of the discount/bargain purchase are shown below:

Assets and Liabilities	**June 30, 2019 (Fair value)**
Current assets	**497,387**
Cash and cash equivalents	283,685
Trade receivables	44,608
Inventory	96,371
Taxes recoverable	63,613
Other	9,110
Non-current assets	**392,033**
Judicial deposits	4,133
Indemnification asset	127,037
Property and equipment	196,418
Intangible assets	62,487
Other	1,958
Total assets	**889,420**
Current liabilities	**(121,531)**
Trade payables	(53,777)
Leases	(27,959)
Social security and labor obligations	(13,686)
Tax obligations	(4,205)
Provision for contingencies	(16,841)
Other	(5,063)
Non-current liabilities	**(410,219)**
Leases	(58,036)
Provision for contingencies	(10,831)
Probable and possible contingencies – Business combination	(17,254)
Deferred income taxes (surplus value of inventories)	(2,407)
Obligations with former controlling shareholders (b)	(324,098)
Total liabilities	**(534,157)**
Total assets, net	**355,263**
Amount paid	
Gain obtained on acquisition	**355,263**
Net assets acquired	178,089
Surplus/deficit allocated to assets and liabilities	177,174

As in the circumstances of determining a gain on the acquisition of a business, the Company's Management determined a preliminary gain on the acquisition of a business considered and subject to possible adjustments according to the measurement period provided for in CPC 15.

The preliminary gain resulting from the acquisition, of R$ 355,263, was recognized as revenue for the year, in the line item of Other operating income; simultaneously, deferred income tax (25%) and social contribution (9%) were recognized on this amount, pursuant to legislation in effect for cases of discount/gain on bargain purchase calculation.

All amounts in thousands of reais unless otherwise stated

The surplus/deficit value allocated to the assets and liabilities of Onofre determined in the report are shown below:

Surplus/deficit allocated to assets and liabilities	**R$**
Inventory [(i)]	21,237
Property and equipment [(ii)]	10,447
Intangible assets [(iii)]	38,114
Indemnification asset [(iv)]	127,037
Contingencies – Business combination [(v)]	(17,254)
Deferred income taxes (surplus value of inventories) [(vi)]	(2,407)
Total impact of the fair value	**177,174**

(i) Refer to inventory of goods. The balance of inventory available for sale was adjusted to fair value considering the average turnover, historical margin of the sales channels, and the expected Selic rate.

(ii) Comprises the set of property and equipment items of Onofre, comprising land, buildings, facilities, machinery and equipment, furniture and fittings, hardware, vehicles, leasehold improvements and construction in progress. The account balance was adjusted to fair value, according to the appraisal of the net assets.

(iii) Includes the intangible asset identified as the "Onofre Trademark" which was valued considering the following assumptions:

- Remaining useful life estimate - estimated at 21.5 years to reach a 90% economic benefit concentration for projected cash flow at present value;
- The estimated rate of royalties - applied to projected revenue was 1.3% based on profit sharing methodologies and royalty transactions;
- Total revenue - Projected by Raia Drogasil Management pursuant to the Business Enterprise Value (BEV - Company Valuation);
- Discount rate - For the calculation of the present value of the projected intangible asset cash flow, a discount rate of 15.1% was applied, estimated based on the WACC calculated for the company, plus a risk premium; and
- Tax amortizations benefit (TAB) - tax benefit generated by the possible amortization of said fair value of the asset over its estimated useful life.

It is worth highlighting that from the surplus of R$ 38,114 allocated to Onofre trademark, the Company wrote in the period ended December 31, 2019, an impairment in the amount of R$ 22,665 related to the surplus allocated to the stores since they are being migrated to the Droga Raia or Drogasil brands. The write-off was recognized in profit or loss for the period in the line item other operating expenses.

(iv) Refers to the amount of the consideration transferred in a transaction, as bank guarantee (letter of guarantee), to cover the liabilities arising from the legal dispute involving the former shareholders of Onofre and CVS, as follows: (i) arbitral proceeding at the Brazil-Canada Chamber of Commerce Arbitration and Mediation Center; and (ii) advance production of evidence in progress at the 23rd District Court of São Paulo, as established in the SPA. Considering that part of the liability related to such obligations with the former controlling shareholders is guaranteed by a financial investment linked to the lawsuits amounting to R$ 197,061, the fair value of R$ 127,037 was determined by the difference between the materialized balance of the liability provisions with former controlling shareholders and the restricted financial investments, limited to R$ 167,000.

(v) Refer to contingencies classified as possible in the balance sheet of Onofre for Business Combination purposes, according to CPC 15 / IFRS 3, the fair value or possible losses is being included in the preliminary purchase price allocation.

Pursuant to CPC 15 and IFRS 3, an acquirer shall recognize, at the acquisition date, a contingent liability assumed in a business combination, even if it is not probable that outflows (incorporating economic benefits) shall be required for the fair amount assumed in the negotiation in the assumption of settlement of the provision for contingency.

All amounts in thousands of reais unless otherwise stated

The Company concluded that the fair values of contingencies for possible losses are close to the expected disbursement amounts and are allocated in the acquisition price for the determination of the fair value of Onofre's equity.

(vi) Refer to deferred income taxes recorded in relation to 1/3 of the surplus value of inventories "written off" before the merger of Onofre.

The result of such operation is substantially due to the fact that the Seller no longer desires to operate in Brazil.

(b) Payables to former controlling shareholders assumed by Seller

The liability classified in non-current in the amount of R$ 332,900 (R$ 324,098 on June 30, 2019) refers to obligations with former shareholders of Onofre with the Seller and settlement depends on an arbitral decision. In the agreement for acquisition of Onofre by Raia Drogasil, it was agreed that the financial investments and the letter of guarantee (indemnification asset) in the amounts of R$ 202,356 (R$ 197,061 on June 30, 2019) and R$ 130,571 (R$ 127,037 on June 30, 2019), respectively, shall remain linked to the arbitration liability as a guarantee of settlement. Accordingly, Raia Drogasil shall not be harmed by, or benefit from, this transaction as from the acquisition date (July 1st, 2019) until the date of its complete settlement. The updated amount of R$ 332,927is classified as restricted arbitration asset under the non-current group.

As established in the CVQ, the Sellers shall be responsible for conducting the arbitral proceeding until its complete termination and the Company shall be held harmless for any losses or gains resulting from the resolution of the arbitration. Accordingly, the income earned from July 1st, 2019 with monetary restatement of the mentioned assets and liabilities, as well as the corresponding taxes levied on said transactions, shall be calculated and eliminated from income against the balance sheet accounts, which amount at December 31, 2019 represents a reimbursement to Sellers in the amount of R$ 27.

(c) Merger of Drogaria Onofre Ltda. on August 1st, 2019

On August 1st, 2019, an Extraordinary General Meeting was held, which approved the proposal for the merger of Drogaria Onofre Ltda. into Raia Drogasil, which was based on the appraisal report at book value on Onofre's net assets as of December 31, 2019, prepared by a specialized independent expert.

With the acquisition of Onofre on July 1st, 2019 and merger on August 1st, 2019, the Company recorded the results of one month of Onofre's operations in the Company's consolidated financial statements for the year ended December 31, 2019. See Note 10.

The balances merged by the Company at August 1st, 2019 are shown as follows:

Balances merged	**August 1st, 2019**
Current assets	274,373
Non-current assets	529,285
Current liabilities	(107,003)
Non-current liabilities	(398,653)
Net assets merged	**298,002**

All amounts in thousands of reais unless otherwise stated

6. Cash and cash equivalents

	Parent Company		Consolidated	
Cash and cash equivalents items	**2019**	**2018**	**2019**	**2018**
Cash and banks	121,382	113,417	123,597	115,002
Investment fund		2,381		2,381
Automatic investments (i)	45,766	59,860	47,156	59,860
Bank Deposit Certificates - CDB (ii)	2,892	25,344	2,892	25,344
Debentures held under repurchase agreements (iii)	124,823	37,151	125,581	38,981
Total	**294,863**	**238,153**	**299,226**	**241,568**

On the merger date of July 1st, 2019, the amount of Onofre's cash equivalents merged was R$ 69,856.

(i) Refers to a short-term fixed income fund with automatic redemptions where the financial assets of the portfolio have an average term of 10 days.

(ii) Investments in bank deposit certificate have daily liquidity and grace period of 30 days.

(iii) Refers to a fixed income investment with income linked to the variation of the Interbank Deposit Certificate - CDI, backed by publicly offered debentures issued by companies, with commitment of repurchase by the Bank and resale by the Group, according to the conditions previously established where financial institutions which negotiated these securities guarantee credit risk, of low risk to the Group, and immediate liquidity without loss of income.

The financial investments are distributed at the banks Bradesco, Santander, Itaú and Banco do Brasil.

The Group's exposure to interest rate risks on financial investments is disclosed in Note 25 (a).

7. Trade receivables

	Parent Company		Consolidated	
Trade receivables items	**2019**	**2018**	**2019**	**2018**
Trade receivables	1,051,156	806,541	1,192,449	938,744
(-) Provision for impairment of trade receivables	(1,250)	(892)	(3,430)	(1,355)
Total	**1,049,906**	**805,649**	**1,189,019**	**937,389**

All amounts in thousands of reais unless otherwise stated

The ageing of trade receivables is as follows:

	Parent Company		Consolidated	
Maturities	**2019**	**2018**	**2019**	**2018**
Not yet due	1,046,380	799,003	1,173,928	923,872
Overdue				
Between 1 and 30 days	1,745	2,784	8,612	7,679
Between 31 and 60 days	2,077	2,982	4,469	3,678
Between 61 and 90 days	178	610	1,041	1,147
Between 91 and 180 days	776	1,128	2,774	1,937
Between 181 and 360 days		34	1,625	431
Provision for impairment of trade receivables	(1,250)	(892)	(3,430)	(1,355)
Total	**1,049,906**	**805,649**	**1,189,019**	**937,389**

Days sales outstanding, represented by credit and debit cards and partnerships with companies and the government, are approximately 36 days, term that is considered part of the normal conditions inherent in Group's operations. A substantial portion of the amounts overdue for more than 31 days are represented by collection through special plans and PBMs.

The changes in the Company's provision for the impairment of trade receivables are as follows:

	Parent Company		Consolidated	
Changes in expected losses	**2019**	**2018**	**2019**	**2018**
Opening balance	(892)	(3,889)	(1,355)	(4,664)
Additions	(8,196)	(5,684)	(12,607)	(8,354)
Reversals	3,097	1,722	5,261	4,241
Losses	4,741	6,959	5,271	7,422
Closing balance	**(1,250)**	**(892)**	**(3,430)**	**(1,355)**

Trade receivables are classified as financial assets at amortized cost and are therefore measured as described in Note 4(d).

8. Inventory

	Parent Company		Consolidated	
Inventory items	**2019**	**2018**	**2019**	**2018**
Goods for resale (i)	3,783,236	2,984,574	3,863,289	3,052,322
Goods held by third parties (ii)		44,825		44,825
Consumables	1,215	1,268	1,215	1,268
Provision for inventory losses	(13,116)	(11,140)	(13,116)	(11,140)
Total inventory	**3,771,335**	**3,019,527**	**3,851,388**	**3,087,275**

(i) Upon the merger of Onofre, the amount of inventory products added to the Company's inventory was R$ 90,759.

All amounts in thousands of reais unless otherwise stated

(ii) In the fourth quarter, the Company's goods located in third parties' warehouses were transferred to the new DC in Guarulhos, and there was also an increase in the internal capacity for storage.

Changes in the provision for goods losses are as follows:

	Parent Company		Consolidated	
Changes in expected losses	**2019**	**2018**	**2019**	**2018**
Opening balance	(11,140)	(13,821)	(11,140)	(13,821)
Additions	(8,737)	(2,857)	(8,737)	(2,857)
Write-offs	6,761	5,538	6,761	5,538
Closing balance	**(13,116)**	**(11,140)**	**(13,116)**	**(11,140)**

For the year ended December 31, 2019, cost of goods sold recognized in the statement of income was R$ 11,586,282 (R$ 9,742,023 – 2018) for the parent company and R$ 12,367,239 (R$ 10,355,923 - 2018) for the consolidated accounts, including the amount of the write-offs of goods inventories recognized as losses for the year amounting to R$ 105,483 (R$ 89,277 - 2018) for the Parent Company and R$ 106,773 (R$ 89,557 - 2018) for the consolidated accounts.

The effect of the recognition, reversal or write-off of the provision for inventory losses is included in cost of sales in the statement of income.

9. Taxes recoverable

	Parent Company		Consolidated	
Taxes recoverable items	**2019**	**2018**	**2019**	**2018**
Taxes on profit recoverable				
Withholding Income Tax (IRRF)	2,022	113	2,022	113
Corporate Income Tax (IRPJ)	1,557	214	8,763	3,518
Social Contribution on Net Profit (CSLL)			2,974	1,237
Subtotal	3,579	327	13,759	4,868
Other taxes recoverable				
Value Added Tax on Sales and Services (ICMS) – credit balance	78,044	37,679	83,812	41,470
ICMS – Refund of ICMS withheld in advance	25,519	186	25,519	186
ICMS on acquisitions of fixed assets	77,023	58,410	77,023	58,410
Social Integration Program (PIS)	1,535	4,228	2,219	4,228
Social Contribution on Revenue (COFINS)	7,814	19,474	10,823	19,474
Social Investment Fund - 1982 - securities issued to cover court-ordered debts	561	561	561	561
Subtotal	190,496	120,538	199,957	124,329
Total	**194,075**	**120,865**	**213,716**	**129,197**
Current assets	135,771	76,520	145,617	84,852
Non-current assets	58,304	44,345	68,099	44,345

The ICMS credits amounting to R$ 78,044 and R$ 25,519 (R$ 37,679 and R$ 186 - Dec/2018) for the Parent Company and R$ 83,812 and R$ 25,519 (R$ 41,470 and R$ 186 - Dec/2018) for the Consolidated are the result of applying different ICMS rates and of refunds of ICMS-ST (the substitute taxpayer regime) on goods receiving and shipping operations carried out by the Company's distribution centers in the states of Pernambuco and Rio de Janeiro, in order to supply their branches located in other Brazilian states. The respective tax credits have been progressively consumed in the last months, mainly due to goods that are not under the substitute taxpayer regime.

Final and unappealable – Exclusion of ICMS from the PIS and COFINS tax bases – Ordinary proceeding distributed by Drogasil S.A. in April 1986

On March 15, 2017, the Federal Supreme Court (STF) concluded the judgment on the merits of Appeal to Supreme Court No. 574,706, with general repercussion effects, thereby entitling taxpayers to the right of excluding ICMS from the PIS and COFINS tax bases.

The Company filed a legal proceeding in 1986 claiming the right to exclude ICMS from the PIS and FINSOCIAL tax bases, on which a final unappealable ruling has already been rendered. As such, this proceeding was returned to the court of origin in May 2019. It should be highlighted that the effects of this ruling also apply to COFINS since the proceeding acknowledges FINSOCIAL succession by COFINS.

It is worth remembering that the criteria for calculating the credits and the modulation of the effects of the decision of the aforementioned Appeal are still awaiting the judgment of the Appeal for Clarification filed by the General Prosecution Unit of the National Treasury in RE 574,706, scheduled for April 1st, 2020.

Therefore, in order to assure greater legal certainty for the purpose of recovering credits from past periods, the Company opted to momentarily adopt the criterion determined by the Brazilian Federal Revenue under the terms of COSIT Private Letter Ruling 13/18 and Normative Instruction (IN) 1,911/19, having determined credits in the amount of R$ 4,809.

As these amounts correspond to the period from 2013 to 2017, the principal (R$ 3,503) was recorded in the non-recurring result and the monetary restatement (R$ 1,306) in the finance results for the year.

If the amount of the ICMS is considered as shown in the invoice, the Company should record the approximate amount of R$ 46,000 corresponding to the period from 2013 to 2017.

The Company awaits judgment of the Appeal for Clarification filed by the General Prosecution Unit of the National Treasury in RE 574.706, in order to evaluate the best strategy to be adopted, within the possibilities of settlement of decision and/or offset of calculated credits.

10. Investments

(a) Business combination – 4Bio

In 2015, the Company acquired a 55% equity interest in 4Bio Medicamentos S.A. ("4Bio") and obtained its control on October 1st, 2015.

The Agreement establishes the granting of call and put options for all the remaining shares, corresponding to 45% of the total, currently held by the founding stockholder, to be exercised after January 2021 and the fair price of which will be calculated based on the average of the adjusted EBITDAs of 4Bio for the years ended December 31, 2018 and 2019 and year ending December 31, 2020, the fair value of which at December 31, 2019 corresponds to R$ 42,113 (R$ 36,380 – 2018).

On September 24, 2019, the Company and the Equity Investment Fund Kona ("Kona") signed an amendment to the original purchase and sale agreement changing the period of exercise of the call options held by the Company and of the put options held by Kona, related to the remaining 45% of 4Bio, adopting the following criterion:

From:

- Call and put options of the shares, equivalent to 45% of the capital, will be exercisable after January 1st, 2021, having as reference the average of adjusted EBITDAs of 4Bio for the years ended December 31, 2018 and 2019 and year ending December 31, 2020;

All amounts in thousands of reais unless otherwise stated

To:

- 1st call and put options of the shares, equivalent to 30% of the capital, will be exercisable after January 1st, 2021 and June 30, 2021, having as reference the average of adjusted EBITDA of 4Bio for the years ended December 31, 2018 and 2019 and year ending December 31, 2020;

- 2nd call and put options of the shares, equivalent to 15% of the capital, will be exercisable after January 1st, 2024, having as reference the average of adjusted EBITDAs of 4Bio for the years ending December 31, 2021, 2022 and 2023.

It was also established that Mr. André Kina will continue as CEO of 4Bio at least until the end of 2023.

Considering the new facts and circumstances, the fair value of the financial liability at December 31, 2019 was remeasured to R$ 42,113 (R$ 36,380 - Dec/2018).

The fair value of the additional stock options recorded in Parent Company and Consolidated, of R$ 42,113 (R$ 36,380 - Dec/2018) is classified as Level 3 in the fair value hierarchy. The main fair value measurements have as reference: (i) a discount rate of 11.81% in December 2019 (10.07% - Dec/2018), (ii) an average growth rate of EBITDA of 39.01% in December 2019 (38.38% in Dec/2018), considering the average of the EBITDAs projected for 2018 to 2020 and the multiple provided for in contract.

The goodwill of R$ 12,907 for the parent company and of R$ 25,563 for the consolidated accounts arising from the acquisition represents the future economic benefits expected from the business combination.

(b) Changes in investments – 4Bio

At December 31, 2019 and 2018, the Company's investment balance is as follows:

Company name	Main activity	Interest (%)	12/31/2019	12/31/2018
4Bio Medicamentos S.A.	Retail of special medicines	55%	60,263	40,108

Changes in the investment balance in the subsidiary, presented in the parent company financial statements, are as follows:

	Parent Company	
Changes in investments – 4Bio	**2019**	**2018**
Opening balance	40,108	31,489
Capital increase in subsidiary (i)		228
Equity in the results of subsidiary	20,160	8,391
Restricted share compensation plan	(5)	
Closing balance	**60,263**	**40,108**

(i) This refers to the capitalization of the dividends proposed in 2017, without changing the equity interest in the subsidiary.

All amounts in thousands of reais unless otherwise stated

For the purposes of calculating the equity of 4Bio, the Company has adjusted the assets, liabilities and related changes in the statement of income of 4Bio based on the allocation of purchase price at the acquisition date. The table below shows the effects on the profit for the year of 4Bio for the purposes of determining the equity in the results of subsidiaries for December 31, 2019 and 2018:

	Parent Company	
Equity in the results of subsidiary – 4Bio	**2019**	**2018**
Profit for the year	20,734	8,965
Amortization of surplus arising from the business combination	(574)	(574)
Adjusted profit of 4Bio	**20,160**	**8,391**

Adjusted equity	**2019**	**2018**
Investment at book value (55%)	45,081	24,348
Allocation of the purchase price (surplus of assets)	3,454	4,324
Deferred income tax liability on allocation adjustments	(1,174)	(1,471)
Restricted share compensation plan	(5)	
Total adjusted equity	47,356	27,201
Goodwill based on expected future profitability	12,907	12,907
Investment balance	**60,263**	**40,108**

(c) Business combination – Onofre

With the acquisition of 100% of Onofre's share units on July 1st, 2019 and its incorporation by Raia Drogasil on August 1st, 2019, as described in Note 5, the Company recorded one month of equity in the results of subsidiaries (July/2019) for Onofre.

Changes in the investment balance in the subsidiary Onofre, presented in the parent company financial statements, are as follows:

Changes in investments – Onofre	**Parent Company**
Gain on bargain purchase	355,263
Equity in the results of subsidiary - July/2019	(26,518)
Amortization of surplus	(8,078)
Brand write-off of Onofre stores	(22,665)
Investment write-off due to incorporation	(298,002)
Final investment balance – Onofre	

The table below shows the effects of the investment in Onofre on the profit or loss for the period, for the purposes of determining the equity in the results of subsidiaries for the year:

Equity in the results of subsidiary - Onofre	**Parent Company**
Loss of the subsidiary Onofre (July/2019)	(26,518)
Amortization of surplus arising from the business combination	(8,078)
Equity in the results of subsidiary	**(34,596)**

(d) Incorporation of company - Stix Fidelidade S.A.

Raia Drogasil S.A. ("RD") together with Grupo Pão de Açúcar ("GPA") announce the first Brazilian coalition of retailers with national companies through the creation of the company Stix Fidelidade, ("Stix"). Stix was born with a platform of products and services for the accumulation and redemption of points, in order to offer discounts and advantages to the loyal customers of the two Companies, in addition to having the support of more than 3 thousand establishments across the country through the Drogasil, Droga Raia, Extra and Pão de Açúcar brands.

The Stix Fidelidade program will focus on offering valuable and affordable benefits to participants in a wide range of segments, building customer loyalty and generating value for companies that will integrate its platform.

The program will be launched from the 2nd half of 2020, for customers who make their purchases at Droga Raia, Drogasil, Extra and Pão de Açúcar stores, accumulating Stix points.

Stix Fidelidade shareholding structure will be represented by 66.7% of Grupo Pão de Açúcar ("GPA") and 33.3% of Raia Drogasil ("RD"), it will be an autonomous company, with a Board of Directors formed by members appointed by the shareholders.

All amounts in thousands of reais unless otherwise stated

11. Property and equipment and intangible assets

a) Property and equipment

Changes in the parent company's property and equipment are as follows:

Changes	Land	Buildings	Furniture, fittings and facilities	Machinery and equipment	Vehicles	Leasehold improvements / Right-of-use assets (i)	Total
Cost							
At January 1st, 2018	27,440	41,917	642,058	367,753	59,183	981,290	2,119,641
Additions			185,815	78,529	4,622	350,268	619,234
Disposals and write-offs			(10,057)	(5,044)	(149)	(126,442)	(141,692)
Expected losses on store closures			(1,342)			(1,492)	(2,834)
At December 31, 2018	**27,440**	**41,917**	**816,674**	**441,238**	**63,656**	**1,203,624**	**2,594,349**
Additions	11,790	29,505	166,504	179,513	6,057	3,898,687	4,292,056
Disposals and write-offs	(3,584)		(13,511)	(23,083)	(1,652)	(211,111)	(252,941)
Expected losses on store closures			(2,067)			(3,087)	(5,154)
At December 31, 2019	**35,646**	**71,422**	**967,400**	**597,668**	**68,061**	**4,888,113**	**6,628,310**
Accumulated depreciation							
Average annual depreciation rates (%)		2.5 - 2.7	7.4 - 10	7.1 - 15.8	20 - 23.7	13 – 20	
At January 1st, 2018		(20,985)	(221,374)	(170,137)	(16,711)	(416,521)	(845,728)
Additions		(1,083)	(66,979)	(50,494)	(7,120)	(211,576)	(337,252)
Disposals and write-offs			7,133	4,465	82	119,608	131,288
Expected losses on store closures			536			492	1,028
At December 31, 2018		**(22,068)**	**(280,684)**	**(216,166)**	**(23,749)**	**(507,997)**	**(1,050,664)**
Additions		(3,148)	(90,529)	(78,987)	(8,673)	(805,593)	(986,930)
Disposals and write-offs			9,466	6,522	1,114	196,441	213,543
Expected losses on store closures			516			1,164	1,680
At December 31, 2019		**(25,216)**	**(361,231)**	**(288,631)**	**(31,308)**	**(1,115,985)**	**(1,822,371)**
Net balance							
At December 31, 2018	27,440	19,849	535,790	225,072	39,907	695,627	1,543,685
At December 31, 2019	35,646	46,206	606,169	309,037	36,753	3,772,128	4,805,939

All amounts in thousands of reais unless otherwise stated

Changes in the consolidated property and equipment are as follows:

Changes	Land	Buildings	Furniture, fittings and facilities	Machinery and equipment	Vehicles	Leasehold improvements / Right-of-use assets (i)	Total
Cost							
At January 1st, 2018	27,440	41,917	643,187	368,944	59,436	982,512	2,123,436
Additions			186,175	78,975	4,622	350,969	620,741
Disposals and write-offs			(10,057)	(5,044)	(149)	(126,442)	(141,692)
Expected losses on store closures			(1,342)			(1,492)	(2,834)
At December 31, 2018	**27,440**	**41,917**	**817,963**	**442,875**	**63,909**	**1,205,547**	**2,599,651**
Additions	11,790	29,505	166,735	180,463	6,151	3,904,622	4,299,266
Disposals and write-offs	(3,584)		(13,512)	(23,083)	(1,652)	(211,111)	(252,942)
Expected losses on store closures			(2,067)			(3,087)	(5,154)
At December 31, 2019	**35,646**	**71,422**	**969,119**	**600,255**	**68,408**	**4,895,971**	**6,640,821**
Accumulated depreciation							
Average annual depreciation rates (%)		2.5 - 2.7	7.4 - 10	7.1 - 15.8	20 - 23.7	13 – 20	
At January 1st, 2018		(20,985)	(221,731)	(170,611)	(16,913)	(416,920)	(847,160)
Additions		(1,083)	(67,093)	(50,690)	(7,135)	(211,846)	(337,847)
Disposals and write-offs			7,133	4,465	82	119,608	131,288
Expected losses on store closures			536			492	1,028
At December 31, 2018		**(22,068)**	**(281,155)**	**(216,836)**	**(23,966)**	**(508,666)**	**(1,052,691)**
Additions		(3,148)	(90,677)	(79,278)	(8,608)	(807,382)	(989,093)
Disposals and write-offs			9,466	6,522	1,114	196,441	213,543
Expected losses on store closures			516			1,164	1,680
At December 31, 2019		**(25,216)**	**(361,850)**	**(289,592)**	**(31,460)**	**(1,118,443)**	**(1,826,561)**
Net balance							
At December 31, 2018	27,440	19,849	536,808	226,039	39,943	696,881	1,546,960
At December 31, 2019	35,646	46,206	607,269	310,663	36,948	3,777,528	4,814,260

All amounts in thousands of reais unless otherwise stated

b) Intangible assets

Changes in the Company's intangible assets are as follows:

Changes	**Points of sale**	**Software license and systems implementation**	**Goodwill on business acquisition (Vison Ltda)**	**Goodwill on business acquisition (Raia S.A.)**	**Trademarks**	**Customers portfolio**	**Total**
Cost							
At January 1st, 2018	266,379	109,542	22,275	780,084	158,354	41,700	1,378,334
Additions	47,328	39,942			1,397		88,667
Disposals and write-offs	(35,128)	(9,394)					(44,522)
Expected losses on store closures	362	(12)					350
At December 31, 2018	**278,941**	**140,078**	**22,275**	**780,084**	**159,751**	**41,700**	**1,422,829**
Additions	49,843	96,836			16,900		163,579
Disposals and write-offs	(39,039)	(31,414)			(98)		(70,551)
Expected losses on store closures	(1,606)	6					(1,600)
At December 31, 2019	**288,139**	**205,506**	**22,275**	**780,084**	**176,553**	**41,700**	**1,514,257**
Accumulated amortization							
Average annual amortization rates (%)	17.0 - 23.4	20	Indefinite useful life	Indefinite useful life	Indefinite useful life	6.7 - 25	
At January 1st, 2018	(138,359)	(44,493)	(2,387)			(37,637)	(222,876)
Additions	(49,194)	(24,804)				(460)	(74,458)
Disposals and write-offs	33,162	9,384					42,546
Expected losses on store closures	(107)	8					(99)
At December 31, 2018	**(154,498)**	**(59,905)**	**(2,387)**			**(38,097)**	**(254,887)**
Additions	(53,921)	(60,610)			(293)	(460)	(115,284)
Disposals and write-offs	36,672	30,506					67,178
Expected losses on store closures	654	(3)					651
At December 31, 2019	**(171,093)**	**(90,012)**	**(2,387)**		**(293)**	**(38,557)**	**(302,342)**
Net balance							
At December 31, 2018	124,443	80,173	19,888	780,084	159,751	3,603	1,167,942
At December 31, 2019	117,046	115,494	19,888	780,084	176,260	3,143	1,211,915

All amounts in thousands of reais unless otherwise stated

Changes in the consolidated intangible assets are as follows:

Changes	**Points of sale**	**Software license and systems implementation**	**Goodwill on business acquisition (Vison Ltda)**	**Goodwill on business acquisition (Raia S.A.)**	**Goodwill on business acquisition (4Bio)**	**Trademarks**	**Raia S.A. customers portfolio**	**4Bio customer relationship**	**Total**
Cost									
At January 1st, 2018	266,379	110,494	22,275	780,084	25,563	163,423	41,700	8,463	1,418,381
Additions	47,328	40,658				1,397			89,383
Disposals and write-offs	(35,128)	(9,395)							(44,523)
Expected losses on store closures	362	(12)							350
At December 31, 2018	**278,941**	**141,745**	**22,275**	**780,084**	**25,563**	**164,820**	**41,700**	**8,463**	**1,463,591**
Additions	49,843	97,903				16,900			164,646
Disposals and write-offs	(39,039)	(31,416)				(98)		(535)	(71,088)
Expected losses on store closures	(1,606)	6							(1,600)
At December 31, 2019	**288,139**	**208,238**	**22,275**	**780,084**	**25,563**	**181,622**	**41,700**	**7,928**	**1,555,549**
Accumulated amortization									
Average annual amortization rates (%)	17.0 - 23.4	20	Indefinite useful life	Indefinite useful life	Indefinite useful life	Indefinite useful life	20	6.7 – 25	
At January 1st, 2018	(138,359)	(44,892)	(2,387)			(2,281)	(37,637)	(1,809)	(227,365)
Additions	(49,195)	(25,052)				(1,014)	(460)	(566)	(76,287)
Disposals and write-offs	33,163	9,385							42,548
Expected losses on store closures	(107)	8							(99)
At December 31, 2018	**(154,498)**	**(60,551)**	**(2,387)**			**(3,295)**	**(38,097)**	**(2,375)**	**(261,203)**
Additions	(53,921)	(61,016)				(1,307)	(460)	(566)	(117,270)
Disposals and write-offs	36,673	30,506						535	67,714
Expected losses on store closures	654	(3)							651
At December 31, 2019	**(171,092)**	**(91,064)**	**(2,387)**			**(4,602)**	**(38,557)**	**(2,406)**	**(310,108)**
Net balance									
At December 31, 2018	124,443	81,194	19,888	780,084	25,563	161,525	3,603	6,088	1,202,388
At December 31, 2019	117,047	117,174	19,888	780,084	25,563	177,020	3,143	5,522	1,245,441

All amounts in thousands of reais unless otherwise stated

With the adoption of CPC 06 (R2) / IFRS 16, the Company began to record, as from January 1st, 2019, the right-of-use assets related to lease agreements. Accordingly, the additions for the period include the amount of R$ 3,174,315 in Parent company and R$ 3,178,480 consolidated related to the leased right-of-use assets. See details in Note 15.

At the merger date, the amounts of the groups of merged property and equipment and intangible assets of Onofre were as follows (amounts net of the related accumulated depreciation):

Property and equipment	**160,520**
Land	8,206
Buildings	27,736
Furniture, fittings and facilities	16,794
Machinery and equipment	15,529
Vehicles	664
Leasehold improvements / Rights of use - Leases	91,591
Intangible assets	**39,190**
Points of sale	3,136
Software and systems implementation	20,664
Trademarks	15,390
Total	**199,710**

Goodwill on acquisition of companies

The goodwill arising on acquisition of companies is tested annually for impairment.

Goodwill on acquisition of Drogaria Vison Ltda.

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

The goodwill is based on the expected future profitability, as assessed by an independent expert, and was amortized from April to December 2008. As provided for in CPC Guidance (OCPC) 02, beginning in 2009, goodwill is no longer amortized, but is tested annually for "impairment".

Goodwill on acquisition of Raia S.A.

The Company recorded goodwill of R$ 780,084 arising from the business combination with Raia S.A., which occurred on November 10, 2011, which is based on the expected future profitability arising from the difference between the amounts of assets assigned and received.

Goodwill on acquisition of 4Bio Medicamentos S.A.

The Company recorded goodwill of R$ 25,563 arising from the business combination with 4Bio Medicamentos S.A., which occurred on October 1st, 2015, whose amount was supplemented by the final adjustment of the price at March

31, 2016 of R$ 2,040, which is based on expected future profitability arising from the difference between the amounts of assets assigned and received.

(ii) Impairment testing of goodwill and intangible assets with indefinite useful life

At December 31, 2019, the Company assessed the recovery of the net book value of the goodwill on the acquisitions of Drogaria Vison Ltda., Raia S.A. and 4Bio Medicamentos S.A., through business combinations based on value in use, using the discounted cash flow model allocated to the related CGUs that gave rise to such goodwill.

The recoverable amount of the sales made by the CGUs 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, applied to cash flow projections is 17.58% (16.1% - Dec/2018) before taxes and 11.6% (11.6% - Dec/2018) after taxes for Drogaria Vison Ltda. and Raia S.A. And 17.9% (22.6% - Dec/2018) before taxes and 11.81% (16.1% - Dec/2018) after taxes for 4Bio Medicamentos S.A.. The impairment testing of Company intangible assets did not require the recognition of impairment losses.

Significant assumptions used in calculations based on value in use

The calculation of value in use for the CGUs referred to projected for the following five years is most 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. The average growth percentages were estimated at: (i) average for the next three years of 17.2% (6.39% - Dec/2018) with perpetuity of 3.7% (3.9% - Dec/2018) for Raia S.A., (ii) average for the next three years of 4.3% (3.62% - Dec/2018) with perpetuity of 3.7% (3.9% - Dec/2018) for Drogaria Vison Ltda., and (iii) average for the next three years of 31.76% (24.19% - Dec/2018) with perpetuity of 3.7% (3.9% - Dec/2018) for 4Bio.

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 the drug price adjustments authorized by the body controlled by the Brazilian Health Regulatory Agency (ANVISA) (March 31 of each year) affect them due to pre-existing inventories.

Discount rates

The discount rate reflects the current market assessment of risks relating to the management of funds generated by the related CGUs.

Drug price adjustment

Estimates of drug price adjustment are based on historical adjustments and expectations of the pharmaceutical market.

All amounts in thousands of reais unless otherwise stated

Growth rate adjustments

These are determined based on market rates, the historical performance of CGUs and expected future performance assessed by Group management.

Sensitivity analysis

If the gross margin used in the calculation were 1 p.p. lower than Management's estimates at December 31, 2019, and likewise if the discount rate applied to discounted cash flows was 1 p.p. higher than Management's estimates, even so no impairment amounts in the goodwill impairment analysis would be recorded.

The determination of impairment of goodwill depends on certain key assumptions as previously described, which are influenced by the market conditions prevailing at the timing in which such impairment is tested and, thus, it is not possible to determine whether impairment losses will occur in the future and, if they occur, if they would be material.

12. Employees benefits

(a) Profit sharing program

The Group has a profit sharing program intended mainly to measure the performance of employees during the year. On a monthly basis, a liability and an expense for profit sharing are recognized in income statement based on estimates of achievement of operating targets and specific objectives established and approved by Management. The recognition as liabilities is made in the account of salaries and social charges and in the statement of income the recognition is made in the account of selling expenses and general and administrative expenses (Note 21).

(b) Other benefits

Other short-term benefits are also granted to employees, such as life insurance, health and dental care, housing allowance, maternity leave and scholarship, which are recognized on an accrual basis and whose right is extinguished at the end of the employment relationship with the Group.

The Group does not grant post-employment benefits, severance pay benefits or other long-term benefits.

13. Trade payables

	Parent Company		Consolidated	
Trade payables items	**2019**	**2018**	**2019**	**2018**
Goods suppliers	2,460,616	1,962,589	2,579,860	2,069,087
Materials suppliers	10,196	9,429	10,400	9,610
Assets suppliers	11,926	18,932	12,359	19,224
Service providers	63,817	57,687	65,267	58,846
Adjustment to present value	(14,262)	(15,017)	(14,650)	(15,493)
Total	**2,532,293**	**2,033,620**	**2,653,236**	**2,141,274**

Certain suppliers have the option to assign Company notes, totaling R$ 963,125 (R$ 1,176,964 - 2018), without right of subrogation, to financial institutions. In this operation, the supplier can have a reduction of its finance costs since the financial institution takes into consideration the credit risk of the buyer. In these operations, there is no change in the average payment period when compared to the amounts payable to other suppliers. In addition, there is no obligation that results in expenses for the Company.

At the acquisition date, the amounts of trade payables merged by Drogaria Onofre Ltda. were: goods suppliers in the amount of R$ 44,288 and; materials suppliers in the amount of R$ 4,471.

All amounts in thousands of reais unless otherwise stated

14. Borrowing

(a) Breakdown

		Parent Company		Consolidated	
Borrowing items	**Average annual long-term interest rate**	**2019**	**2018**	**2019**	**2018**
BNDES - Sub-loan		**96,646**	**186,033**	**96,646**	**186,033**
Businesses	TLP + 2.09% (+ 2.12% - Dec/2018) p.a.	38,915	69,459	38,915	69,459
Businesses	SELIC + 2.37% (+2.35% - Dec/2018) p.a.	48,406	82,348	48,406	82,348
Machinery, equipment and vehicles	TLP + 2.02% (+2.02% - Dec/2018) p.a.	7,107	11,821	7,107	11,821
Machinery, equipment and vehicles	PSI + 9.54% (+9.54% - Dec/2018) p.a.	956	2,596	956	2,596
Machinery, equipment and vehicles	SELIC + 2.42% (+2.42% - Dec/2018) p.a.	33	53	33	53
Working capital	SELIC + 2.42% (+2.42% - Dec/2018) p.a.		17,703		17,703
Other		1,229	2,053	1,229	2,053
Debentures		**1,029,830**	**640,211**	**1,029,830**	**640,211**
1st issue of debentures	104.75% of CDI	167,696	235,424	167,696	235,424
2nd issue of debentures	104.50% of CDI	314,709	404,787	314,709	404,787
3rd issue of debentures – Certificate of Real Estate Receivables	98.50% of CDI	247,356		247,356	
4th issue of debentures	106.99% of CDI	300,069		300,069	
Borrowing					**16,906**
Other					16,906
Total		**1,126,476**	**826,244**	**1,126,476**	**843,150**
Current liabilities		228,661	256,033	228,661	272,939
Non-current liabilities		897,815	570,211	897,815	570,211

All amounts in thousands of reais unless otherwise stated

Non-current amounts mature as follows:

	Parent Company Consolidated
Payment forecast	**2019**
2021	154,458
2022	121,358
2023	71,578
2024 and thereafter	550,421
Total	**897,815**

(b) Characteristics of BNDES borrowing

Borrowing from the BNDES is used for the expansion of stores, acquisition of machinery, equipment, vehicles and also to finance the Company's working capital.

The subloans for the Social Project, Development of Own Brand and Acquisition of National Software are grouped in the Other line. Part of the Company's borrowing from BNDES has been taken out in the form of subloans, totaling R$ 96,646 (R$ 186,033 - Dec/ 2018), subject to the following restrictive covenants:

(i) Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) margin (EBITDA/Net operating revenue): equal to or higher than 3.6% and

(ii) Total net debt/Total assets: equal to or lower than 20%.

Covenants are measured annually and, at December 31, 2019 and 2018, the Company was in compliance with these covenants.

If these requirements were not met, the Company would have to provide BNDES with bank guarantees to ensure the performance of its obligations under the agreement.

The Group is not a party to any agreements containing non-financial covenants.

Characteristics of the debentures

On June 17, 2019, the Company carried out the 4th issue of non-convertible, simple unsecured debentures in a single series in the total amount of R$ 300,000 for public distribution with restricted efforts (CVM476), with settlement on July 12, 2019, with remuneration of 106.99% of CDI and payment term of 8 years. Interest payments will be semiannual and principal will be amortized in two equal annual and consecutive installments, the last installment to be paid on June 17, 2027. The funds will be used to improve the working capital.

Type of issue	Issue amount	Quantity outstanding	Issue	Maturity	Annual charges	Unit price
4th issue — single series	R$ 300,000	300,000	6/17/2019	2019-2027	106.99%	R$ 1

On February 1st, 2019, the Company approved, through the Extraordinary Meeting of the Board of Directors, the 3rd issue of non-convertible, simple unsecured debentures in a single series, in the total amount of R$ 250,000, with remuneration of 98.5% of CDI and payment term of 7 years. Interest payments will be semi-annual, and principal will be amortized in two equal annual and consecutive installments, the last installment to be paid on March 13, 2026. The funds raised will be used for the construction, expansion, development and renovation of certain properties indicated by the Company. This operation is linked to the real estate receivables certificates issued by Vert Companhia Securitizadora, which will be issued with guarantee in the "CRI" Debentures, object of a public offering of distribution under CVM 400.

All amounts in thousands of reais unless otherwise stated

Type of issue	Issue amount	Quantity outstanding	Issue	Maturity	Annual charges	Unit price
3rd issue — single series	R$ 250,000	250,000	3/15/2019	2019-2026	98.5%	R$ 1

The 2nd issue of debentures was carried out on April 2, 2018 and has maturity of 60 months (April/2023).

Type of issue	Issue amount	Quantity outstanding	Issue	Maturity	Annual charges	Unit price
2nd issue - 9 series	R$ 400,000	40,000	4/2/2018	2018-2023	104.5%(*)	R$ 10

(*) Weighted average rate of series.

The amortization of the principal related to the 2nd issue of debentures will occur in 9 semiannual consecutive installments, the first being from the 12nd month after the issue. The payment of the remuneration will occur on a semiannual basis, and the first payment is due in April 2019, and other payments always in April and October of each year, until the due date.

The characteristics of the debentures issued in 2017 were not changed, as shown in the table below:

Type of issue	Issue amount	Quantity outstanding	Issue	Maturity	Annual charges	Unit price
1st issue – Single Series	R$ 300,000	30,000	4/19/2017	2017 - 2022	104.75%	R$ 10

The costs incurred on the issues of the Company's debentures (2017 - 1st issue, 2018 - 2nd issue and 2019 - 3rd and 4th issues), including fees, commissions and other costs, totaled R$ 10,177 and are classified in line item of the respective debentures and are being recognized over the total period of the debt. At December 31, 2019, the amount to be recognized was R$ 7,626 (R$ 1,260 - Dec/2018), and is presented net in the debentures balance.

The Company's debentures are conditioned to the compliance with the following covenants:

(i) Net Debt / EBITDA: cannot exceed 3 times.

The calculation of net debt, the basis for determining the covenants calculation of the Company's debentures, comprises of the balances of borrowing and debentures. As described in Note 15 the lease obligations are being presented in a separate line item and therefore, do not compose the net debt calculation.

Covenants are measured quarterly and, in 2019 and 2018, the Company was in compliance with these covenants.

The non-compliance with the covenants for two consecutive quarters can be considered as a default event and consequently result in early maturity.

All amounts in thousands of reais unless otherwise stated

(d) Reconciliation of net debt

The analysis of and changes in net debt are as follows:

	Parent Company		Consolidated	
Analysis of and changes in net debt	2019	2018	2019	2018
Short-term borrowing	228,661	256,033	228,661	272,939
Long-term borrowing	897,815	570,211	897,815	570,211
Total debt	1,126,476	826,244	1,126,476	843,150
(-) Cash and cash equivalents	(294,863)	(238,153)	(299,226)	(241,568)
Net debt	**831,613**	**588,091**	**827,250**	**601,582**

			Parent Company
Changes in net debt	Borrowing	Cash and equivalents	Net debt
Net debt at January 1st, 2019	826,244	(238,153)	588,091
Capital contribution	543,123		543,123
Accrued interest	65,625		65,625
Payment of interest	(60,756)		(60,756)
Amortization of principal	(250,477)		(250,477)
Transaction cost	2,717		2,717
Increase in cash and cash equivalents		(56,710)	(56,710)
Net debt at December 31, 2019	**1,126,476**	**(294,863)**	**831,613**

			Consolidated
Changes in net debt	Borrowing	Cash and equivalents	Net debt
Net debt at January 1st, 2019	843,150	(241,568)	601,582
Capital contribution	738,647		738,647
Accrued interest	66,746		66,746
Payment of interest	(62,133)		(62,133)
Amortization of principal	(462,651)		(462,651)
Transaction cost	2,717		2,717
Increase in cash and cash equivalents		(57,658)	(57,658)
Net debt at December 31, 2019	**1,126,476**	**(299,226)**	**827,250**

15. Leases

The Group leases retail stores, distribution centers, land and real estate properties for its office space and retail stores. Operating real estate leases usually have term of 5 to 20 years, residential real estate leases usually have term of 2 years, and lease agreements for distribution/administrative centers usually have term of 5 to 20 years. Some leases include a renewal option for an additional period equal to the initial lease term, after the expiration of the lease agreement term. The Group also leases vehicles, with lease terms of 3 years. At the end of the lease agreement term, the Group conducts new negotiations of leases.

Some lease agreements provide for additional lease payments based on sales that the Group makes in the leased property in the period. The Group subleases part of some of the properties under operating leases.

The measurements associated with the right-of-use asset were made taking into account the following assumptions:

• Beginning of the lease term: the Group defined that the lease term begins on the date it becomes entitled to use the leased property. Thus, the Group determined the date of signature of the lease contracts, when it starts controlling the operating aspects of the leased property, such as its refurbishing, remodeling and preparation for the leasehold improvement;

• Lease term: period for which the Group contracted the lease. The Group adopted the term of each contract and assumptions detailed below or, when applicable, added by Law 8,245/91 ("Landlord-Tenant Law"), which grants to lessee (the Company and its subsidiary) the right to enforceable lease renewals (enforceable right) when certain conditions are satisfied.

(i) Commercial leases: given that type of contract involves variable terms, the following assumptions were considered:

o Contracts with original term of less than 10 years and that are already in a period after the main term of the contract: in this case the contract term shall be the residual period;

o Contracts with original term of less than 10 years and that still have the renewal period to go: in this case the contract term will be the residual period;

o Contracts with original term of less than 10 years and close to the expiry date (one year) of the main contract: in this case a renewal period will be included;

o Contracts with original term of less than 10 years and that have the right to first renewal: in this case a renewal period will be included;

o Contracts with original term of more than 10 years and close to the expiry date (one year): an additional renewal term will be considered in the contract term;

o Contracts with original term of more than 10 years and already within the renewal period: only the residual period of the contract will be considered;

(ii) Warehouses and Distribution Centers: contract term;

(iii) Residential real estate: contract term;

(iv) Vehicles: contract term.

(v) Equipment: contract term.

o Contracts with an indefinite term: occurs in contracts of residential properties. Considering that both the lessor and the lessee have the right to terminate the contract at any time, for these contracts, the Group's understanding is that the term to be considered is one year

The renewal options are assessed as probable only by the Group and not by the lessors. The Group assesses at the inception of the lease whether exercise of the renewal options is reasonably certain The Group reassesses whether exercise of the options is still reasonably certain if there is a significant event or a significant change in the circumstances under its control;

• Fixed payments in essence: these are payments during the lease term that the Company is or may be required to make. The Group determined that fixed payments in essence correspond to the amounts determined to be fixed by the lessor (minimum contractual rental amount). The Company did not consider, for the purposes of measuring the right-of-use asset and the lease liability, the variable lease payments based on sales, services and taxes, which are recorded as expenses in the statement of income for the year over the lease term;

• Variable payments: for these contracts, the Group recognizes a monthly lease expense;

• Fixed + variable payments: for such contracts, the Group segregates the components of lease payments and the fixed portion is included in the determination of the lease liability and the variable portion is recognized as a monthly lease expense, as well as payments related to property taxes payable by the lessor and insurance payments made by the lessor. These amounts are generally determined annually;

• Lessee's incremental borrowing rate: due to the differences between the information available to the lessors and lessees, it was not possible to determine the implicit discount rate to be applied to the Group's lease contracts. Accordingly, pursuant to CPC 06 (R2)/IFRS 16, a lessee's incremental borrowing rate was applied to calculate the present value of the lease liabilities on the initial recognition of the contract.

Initially, the Group applied the incremental borrowing rate (including for third party contracts), the real discount rate was estimated at 2.94% p.a., equivalent to the rate negotiated for debentures raised on April 2, 2018, as described in Note 14 (reference in a percentage of CDI projected to December 31, 2018. The Group opted for using the practical expedient to use a single real discount rate in accordance with the respective terms for contracts with similar characteristics.

With the issuance of CVM Circular Letter No. 02/2019, the Group started to adopt the nominal rate, ~ substantially similar to the debenture funding rate of April 2, 2018 (reference to a percentage of the CDI) projected for December 31, 2018, resulting in a nominal rate of 6.69% p.a., which corresponds to a rate adjusted to the lessee's credit risk and takes into account the term of the lease and the nature and quality of the guarantees offered.

The adoption of the nominal rate as of January 1, 2019, resulted in recalculations and accounting entries made in the statement of income for the year then ended.

• Depreciation of right-of-use asset: the lease agreements of the Group do not have clauses allowing it to buy the leased asset (store or distribution center) at the end of the lease term. In this way, the useful life of these assets, in the absence of impairment, shall the contractual term, whichever the shortest. The Group allocates depreciation of right-of-use asset on a systematic and straight-line basis. It should be emphasized that the Company will periodically review the useful life of the right-of-use asset, for any case of changes in its strategic business plans and in lessors' intention of not terminating the contract;

• Interest expenses on lease agreements: interest expenses are recognized as finance costs and allocated to each period during the lease term;

• Impairment of right-of-use asset: the Group will continue applying Technical Pronouncement CPC 01 – Impairment of Assets, and will periodically carry out an assessment of impairment indicators, based on managerial profitability measurement parameters of the stores and distribution centers.

The Group adopted CPC 06 (R2) / IFRS 16 on a cumulative retrospective basis, as from January 1, 2019, and therefore, has not restated the comparative information for 2018, as permitted by IFRS1. The transition method adopted followed these procedures: (i) the amount of the lease liability was calculated based on the present value of the remaining lease payments, discounted using the incremental rate on the Company's borrowings, on the date of first-time adoption, and (ii) the amount of the right-of-use asset on the initial application adoption date was measured retrospectively as if the new pronouncement had been applied since the start date. The reclassifications and adjustments resulting from the new lease standard were, therefore, recognized in the opening balance sheet as at January 1, 2019, with a corresponding entry under retained earnings on that same date.

All amounts in thousands of reais unless otherwise stated

In the financial statements for 2018, the Group presented, in Note 23, the commitments assumed with lease agreements in accordance with nominal future minimum payments of store rents, based on the terms established in the contracts signed. We present below the reconciliation of the commitments assumed with third parties and the initial adoption of CPC 06 (R2) / IFRS 16 on January 1, 2019:

	Parent Company 2019	Consolidated 2019
Commitments of operating leases disclosed at December 31, 2018	2,412,005	2,414,679
Adoption of CPC 06 (R2) / IFRS 16	762,310	763,801
Lease liability recognized at January 1st, 2019	**3,174,315**	**3,178,480**

Information on the leases for which the Group is a lessee is presented below:

As a lessee

Right-of-use asset

The changes in the Parent Company's right-of-use asset were as follows:

	Operating real estate	Residential real estate	Distribution/ administrative centers	Vehicles	Equipment	Total
At January 1, 2019	2,923,447	5,649	243,793	1,426		3,174,315
New agreements (i)	274,544	11,984	67,917	491	118	355,054
Remeasurements	63,786	(498)	(4,693)	2,766		61,361
Termination of agreements	(3,420)	(1,516)	(617)			(5,553)
Depreciation (ii)	(488,068)	(8,503)	(32,161)	(2,224)	(27)	(530,984)
At December 31, 2019	**2,770,289**	**7,116**	**274,239**	**2,459**	**91**	**3,054,193**

At Onofre merger date, the merged lease balances were: (i) right of use of R$ 75,853 and; (ii) accumulated depreciation of R$ 10,174.

The merged lease balances were adjusted according to the assumptions adopted by the Group. Accordingly, the adjustments made for the right of use and accumulated depreciation amounted to R$ 115,086 and to R$ 11,499, respectively.

All amounts in thousands of reais unless otherwise stated

The changes in the consolidated right-of-use asset were as follows:

	Operating real estate	Residential real estate	Distribution/ administrative centers	Vehicles	Equipment	Total
At January 1st, 2019	2,923,447	5,719	247,888	1,426		3,178,480
New agreements	274,544	12,114	69,980	491	118	357,247
Remeasurements	63,786	(534)	(5,727)	2,766		60,290
Termination of agreements	(3,420)	(1,516)	(617)			(5,553)
Depreciation	(489,511)	(8,545)	(33,498)	(2,224)	(27)	(533,806)
At December 31, 2019	**2,768,846**	**7,238**	**278,026**	**2,459**	**91**	**3,056,658**

Lease liabilities

We present below the changes in lease liabilities of the Parent Company:

	Operating real estate	Residential real estate	Distribution / administrative centers	Vehicles	Equipment	Total
At January 1st, 2019	(2,923,447)	(5,649)	(243,793)	(1,426)		(3,174,315)
New agreements	(274,544)	(11,984)	(67,917)	(491)	(118)	(355,054)
Remeasurements	(63,786)	498	4,693	(2,766)		(61,361)
Interest	(195,860)	(665)	(19,105)	(90)	(2)	(215,722)
Payments	574,813	9,399	39,506	2,062	17	625,797
At December 31, 2019	**(2,882,824)**	**(8,401)**	**(286,616)**	**(2,711)**	**(103)**	**(3,180,655)**

We present below the changes in lease liability of the consolidated:

	Operating real estate	Residential real estate	Distribution / administrative centers	Vehicles	Equipment	Total
At January 1st, 2019	(2,923,447)	(5,719)	(247,888)	(1,426)		(3,178,480)
New agreements	(274,544)	(12,114)	(69,980)	(491)	(118)	(357,247)
Remeasurements	(63,786)	534	5,727	(2,766)	1	(60,290)
Interest	(195,860)	(677)	(19,471)	(90)	(2)	(216,100)
Payments	558,718	9,956	56,746	2,047	17	627,485
At December 31, 2019	**(2,898,919)**	**(8,019)**	**(274,866)**	**(2,726)**	**(102)**	**(3,184,633)**

All amounts in thousands of reais unless otherwise stated

The maturities of lease liabilities are classified according to the following schedule:

	Parent Company	Consolidated
Analysis of maturities - Lease liabilities	**2019**	**2019**
Less than 1 year	(565,204)	(566,645)
1 – 5 years	(2,255,718)	(2,258,255)
Over 5 years	(359,733)	(359,733)
Total	**(3,180,655)**	**(3,184,633)**
Lease liabilities in the balance sheet At December 31		
Current [i]	(565,204)	(566,645)
Non-current [ii]	(2,615,451)	(2,617,988)

At the merger date, Onofre's merged lease liability balances were: (i) current liabilities of R$ 22,455 and; (ii) non-current liabilities of R$ 45,475.

The merged lease balances were adjusted according to the assumptions adopted by the Group. Accordingly, the adjustments made for current liabilities and non-current liabilities were R$ 21,528 and R$ 83,379, respectively.

Future payments to be made to the lessor may give the Group the right to be credited with PIS and COFINS. Therefore, the recorded amount of the right-of-use asset against the lease liability already includes potential future credit.

The potential right to PIS / COFINS recoverable embedded in future lease payments is presented below:

Future considerations	**Parent Company/ Consolidated**	**Potential PIS/ COFINS (9.25%)**
1 – 2 years	401,859	37,172
2 – 3 years	400,757	37,070
3 – 4 years	386,126	35,717
4 – 5 years	345,420	31,951
Over 5 years	1,015,922	93,973
Total	**2,550,084**	**235,883**

All amounts in thousands of reais unless otherwise stated

In compliance with CVM Circular Letter No. 02/2019 and CPC 06 (R2)/IFRS 16, as justified by the fact that the Group did not apply the nominal flow methodology due to the prohibition imposed by IFRS 16 for future inflation projection and in order to provide additional information to users, an analysis of the maturity of contracts and undiscounted installments at December 31, 2019 is as follows:

Year	Present Value, net	Interest included (future)	Amount of undiscounted installments
2020	405,636	194,166	599,802
2021	492,885	163,191	656,076
2022	496,088	129,058	625,147
2023	457,003	100,236	557,239
2024	405,877	74,474	480,351
2025	342,914	50,464	393,378
2026 and thereafter	584,230	110,240	694,470
Total	**3,184,633**	**821,829**	**4,006,462**

Amount recognized in the statement of income

	Parent Company	Consolidated
Amount recognized in the statement of income - lease	**2019**	**2019**
Amortization of right-of-use asset	530,984	533,806
Interest on lease liabilities	215,722	216,100
Adjustment for lease write-off	(37)	(37)
Variable payments not included in the measurement of lease liabilities	86,154	87,514
Revenue on subleases of right-of-use assets	(2,896)	(3,002)
Expenses related to short-term and/or low-value leases	20,047	20,047

Amount recognized in the statement of cash flow

	Parent Company	Consolidated
Statement of Cash Flows	**2019**	**2019**
Non-cash items		
Initial recognition of lease agreements	3,174,315	3,178,480
New agreements	355,054	357,247
Remeasurement	61,361	60,290
Termination of agreements	(5,553)	(5,553)
In operating activities:		
Lease monetary adjustment	215,722	216,100
In lease activities:		
Payment of lease liabilities	(758,749)	(778,108)

All amounts in thousands of reais unless otherwise stated

(i) Payment of variable leases based on sales

Some operating real estate leases contain variable lease payments based on a percentage of 2% to 12% of the sales made during the period in the leased operating real estate. These payment conditions are common for stores in the country where the Group operates. Variable lease payments for the year ended December 31, 2019 amounted to R$ 9,212 in Parent company and consolidated.

(ii) Leases fitting into exceptions and practical expedients

The lease agreements identified and that fall within the scope of exemption mainly refer to lease of printers, forklifts, cardiotech scales, power generators, electron aligners and photovoltaic plates.

The Group also leases equipment with contracts of up to one year. These leases are short-term and/or low-value leases. The Group opted not to recognize the right-of-use assets and the lease liabilities of such items.

As a lessor

The Group subleases some of the properties to third parties. The Group has classified these leases as operating leases because they do not transfer substantially all the risks and rewards of ownership of the assets.

The following table presents an analysis of maturities of lease payments, showing the undiscounted lease payments to be received after the balance sheet date:

	Parent Company Consolidated
Undiscounted lease payments	**2019**
Less than 1 year	2,079
1 - 2 years	1,637
2- 3 years	1,442
3- 4 years	1,105
4- 5 years	219
Over 5 years	920
Total	**7,402**

16. Provision for contingencies and judicial deposits

The Company and its subsidiary are subject to legal claims (tax, civil and labor) arising in the normal course of business. Management, supported by the opinion of its legal advisors and, where applicable, by specific opinions issued by experts, assesses the probable final outcomes of ongoing litigation and determines whether or not setting up of provision for contingencies is necessary. In the case of labor contingencies, the evolution of the lawsuits and the history of losses are determining factors to reflect the best estimate.

All amounts in thousands of reais unless otherwise stated

At December 31, 2019 and 2018, the Group had the following provision and corresponding judicial deposits relating to legal proceedings:

	Parent Company		Consolidated	
Judicial deposits items	**2019**	**2018**	**2019**	**2018**
Labor and social security	94,101	73,146	94,101	73,146
Tax	15,380	642	15,380	642
Civil	1,818	700	1,818	700
Subtotal	111,299	74,488	111,299	74,488
(-) Corresponding judicial deposits	(18,177)	(23,099)	(18,177)	(23,099)
Total	**93,122**	**51,389**	**93,122**	**51,389**
Current liabilities	26,008	2,512	26,008	2,512
Non-current liabilities	67,114	48,877	67,114	48,877

The balances were impacted by the incorporation of lawsuits originating from Onofre. In the case of tax lawsuits, the effect is due to lawsuits related to the reversal of PIS / COFINS and ICMS in inventory adjustments, PIS and COFINS on rebates and ongoing "REDF"- Brazilian Federal Revenue inspection.

Changes in the provision are as follows:

	Parent Company		Consolidated	
Changes in the provision	**2019**	**2018**	**2019**	**2018**
At January 1st	74,488	25,318	74,488	25,318
Additions of new lawsuits and review of estimate (i)	83,880	66,433	83,880	66,433
Write-offs for payments	(58,267)	(28,589)	(58,267)	(28,589)
Reversals due to changes in lawsuits	(14,262)	(889)	(14,262)	(889)
Revaluation of amounts (ii)	18,527	9,656	18,527	9,656
Monetary restatement	6,933	2,559	6,933	2,559
Closing balance	**111,299**	**74,488**	**111,299**	**74,488**

The provision for legal claims took into consideration the best estimate of the amounts involved, for the cases in which the likelihood of loss is estimated as probable, and a portion of these proceedings is guaranteed by pledged assets (Note 24).

(i) The balance refers to contingencies from the merger of Onofre in the following amounts: R$ 26,274 Labor R$ 16,090 Tax; and R$ 1,381 - Civil. Additionally, there was an adjustment of R$ 2,410 in labor contingencies due to differences in the accounting practices.

(ii) Refers to the revaluation of amounts according to the progress of the lawsuits.

Possible losses

At December 31, 2019 and 2018, the Group was party to legal proceedings of a tax and civil nature, the likelihood of loss in which is estimated as possible by Management and its legal advisors, amounting to R$ 33,138 (R$ 45,444 - 2018) for the Parent Company and for the consolidated, of which R$ 551 (R$ 1,379 - 2018) corresponds to civil proceedings, and R$ 32,587 (R$ 44,065 - 2018) to tax proceedings.

All amounts in thousands of reais unless otherwise stated

Judicial deposits

At December 31, 2019 and 2018, the Group had the following judicial deposit amounts for which no corresponding provision had been set up:

	Parent Company		Consolidated	
Analysis of judicial deposits	**2019**	**2018**	**2019**	**2018**
Labor and social security	14,353	10,461	14,353	10,461
Tax	12,572	11,409	12,572	11,409
Civil	3,076	3,900	3,076	3,900
Total	**30,001**	**25,770**	**30,001**	**25,770**

Labor contingencies

Labor claims in general relate to lawsuits filed by former employees questioning the payment of unpaid overtime and health hazard premium. The Group is also involved in proceedings arising from Raia S.A., as well as from Drogaria Onofre Ltda., which were filed by former employees of service providers claiming to have employment relationships directly with the Group, or in which the Group received a joint enforcement order for the payment of the labor rights claimed. There are also proceedings filed by professional unions for the payment of union dues, under the dispute regarding the legitimacy of the territorial base.

Tax contingencies

These represent administrative fines, tax rate differences on interstate transfers and tax collection proceedings.

Civil contingencies

The Group is a defendant in lawsuits regarding usual and unique matters arising in the course of its business, most of which seek indemnification for property damage and pain and suffering from consumption relations.

All amounts in thousands of reais unless otherwise stated

17. Income tax and social contribution

(a) Income tax and social contribution paid

At December 31, 2019 and 2018, effective income tax and social contribution are as follows:

	Parent Company		Consolidated	
Income tax and social contribution paid items	**2019**	**2018**	**2019**	**2018**
Profit before income tax and social contribution	793,095	635,823	784,168	638,856
Interest on capital	(211,501)	(209,500)	(211,501)	(209,500)
Taxable profit	581,594	426,323	572,667	429,356
Combined tax rate (25% for income tax and 9% for social contribution)	34	34	34	34
Theoretical tax expense	(197,742)	(144,950)	(194,707)	(145,981)
Permanent additions	(10,771)	(7,329)	(13,379)	(7,479)
Equity in the results of subsidiary	(4,908)	2,853		
Reduction of taxes due to incentives (P.A.T)	2,144	5,487	2,144	5,487
Investment grant (i)	32,502	14,041	27,720	21,877
Gain on bargain purchase (ii)	113,083		113,083	
Temporarily non-deductible provisions (iii)	43,737	12,975	60,143	12,975
Other (revaluation reserve + additional income tax exemption ceiling)	(90)	(158)	(9,106)	(127)
Tax incentives – donations	1,190	(3,320)	1,190	(3,320)
Result of current income tax and social contribution	(117,057)	(120,401)	(109,113)	(120,410)
Result of deferred income tax and social contribution	96,202	(12,975)	113,680	(9,133)
Income tax and social contribution expense	**(20,855)**	**(133,376)**	**4,567**	**(129,543)**
Effective tax rate	2.6%	21.0%	-0.6%	20.3%

(i) Beginning the third quarter of 2018, the Group considers as deductible for income tax purposes the gains arising from the ICMS tax benefits in the States of Bahia, Goiás and Pernambuco, established by supplementary law 160/17, agreement ICMS CONFAZ 190/17, and the amendment to Law 12,973/2014. The amount recognized in the quarter ended December 31, 2019 was R$ 5,280. In addition, the Company included in the income tax and social contribution for the third quarter a gain on ICMS tax benefits earned in fiscal years 2014 to 2017, resulting in a decrease in the income tax and social contribution calculation by R$ 13,967;

(ii) The business combination between Raia Drogasil and Onofre resulted in income tax and social contribution adjustment, related to the gain on bargain purchase in the amount of R$ 113,083 which will be taxed at the rate of 1/60 in subsequent periods;

(iii) The amount of R$ 43,737 refers to the balance of R$ 156,761 was recognized, related to deferred income tax and social contribution asset, net, due to the merger of the temporary adjustments balances recorded in part B of Onofre's Taxable Income Book (LALUR) since the merged company did not record deferred income arising from future taxable profits and R$ 113,248 for deferred IRPJ/CSLL liabilities for bargain purchase. Although deferred taxes were recognized, such amounts are justified, as there was no change in Part A of determination of actual profit of the Parent company.

(b) Deferred income tax and social contribution

Deferred income tax and social contribution assets amounting to R$ 265,670 at December 31, 2019 (R$ 66,826 – Dec/2018) for the parent company and R$ 286,630 at December 31, 2019 (R$ 70,844 – Dec/2018) for the consolidated accounts arose from temporarily non-deductible expenses that may be carried forward indefinitely, with estimated realization as disclosed in item (c) below.

Deferred income tax and social contribution liabilities amounting to R$ 408,480 at December 31, 2019 (R$ 305,928 - Dec2018) for the parent company and R$ 410,616 at December 31, 2019 (R$ 308,601 - Dec- 2018) for the consolidated accounts relate to tax charges on the remaining balances of: (i) the revaluation reserve; (ii) surplus value PPA Raia; and (iii) gain from a bargain purchase.

All amounts in thousands of reais unless otherwise stated

At December 31, 2019 and 2018, deferred income tax and social contribution were as follows:

	Balance sheet				**Statement of income**			
	Parent Company		**Consolidated**		**Parent Company**		**Consolidated**	
Temporary differences	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Revaluation at fair value of land and buildings	(6,886)	(6,976)	(6,886)	(6,976)				
Amortization of the goodwill on future profitability	(241,934)	(243,995)	(241,934)	(243,995)	(2,061)	17,594	(2,061)	17,594
Non-deductible intangible assets - merger of Raia S.A.	(54,115)	(54,957)	(54,115)	(54,957)	(842)	(2,525)	(842)	(2,525)
Non-deductible intangible assets - acquisition of 4Bio			(2,136)	(2,673)			(536)	(537)
Gain on bargain purchase – acquisition of Onofre	(105,545)		(105,545)		105,545		105,545	
Tax losses to be offset against future taxable profits			19,607	3,163			(16,444)	(3,163)
Adjustment to present value	(494)		(380)	160	494		(540)	
Adjustment to fair value	4,040	2,091	4,040	2,091	(1,949)	3,786	(1,949)	3,786
Provision for inventory losses	4,459	13,560	4,459	13,560	9,101	15,934	9,101	15,934
Provision for sundry obligations	14,200	10,713	14,217	10,775	(3,487)	(4,896)	(3,442)	(4,974)
Provision for employee profit sharing	18,324	14,254	18,785	14,730	(4,070)	(1,659)	(4,055)	(1,829)
Provision for contingencies	34,747	25,326	34,747	25,326	(9,421)	(16,693)	(9,421)	(16,693)
Provision for impairment of trade receivables	1,014	882	1,755	1,039	(132)	1,434	(716)	1,540
Lease (depreciation x consideration)	38,536		38,556		(38,536)		(38,556)	
Recording of deferred taxes – LALUR part B Onofre	141,213		141,213		(141,213)		(141,213)	
Other adjustments	9,631		9,631		(9,631)		(9,631)	
Deferred income tax and social contribution expense (benefit)					**(96,202)**	**12,975**	**(113,680)**	**9,133**
Deferred tax liabilities, net	**(142,810)**	**(239,102)**	**(123,986)**	**(237,757**				
Reflected in the balance sheet as follows:								
Deferred tax assets	265,670	66,826	286,630	70,844				
Deferred tax liabilities	(408,480)	(305,928)	(410,616)	(308,601)				
Deferred tax liabilities, net	**(142,810)**	**(239,102)**	**(123,986)**	**(237,757)**				
Reconciliation of deferred tax assets (liabilities), net								
At the beginning of the year	(239,102)	(226,217)	(237,756)	(228,715)				
Expense recognized in the statement of income	96,202	(12,975)	113,680	(9,132)				
Realization of deferred tax recognized in equity	90	90	90	90				
Balance at the end of the year	**(142,810)**	**(239,102)**	**(123,986)**	**(237,757)**				

All amounts in thousands of reais unless otherwise stated

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

The projections of future taxable profits are based on estimates relating to the Group's performance, the behavior of the market in which the Group operates and certain economic aspects, among other factors. Actual amounts may differ from these estimates. According to projections, the tax credit will be recovered according to the following schedule:

	Parent Company	Consolidated
Payment forecast	**2019**	**2019**
2020	40,875	40,875
2021	61,453	61,453
2022	64,865	64,865
2023 and thereafter	79,107	100,067
Total	**246,300**	**267,260**

(d) Uncertainty about IRPJ and CSLL tax treatment

The Company has 4 discussion with the Brazilian Federal Revenue at the administrative level, related to tax amortization of goodwill arising from the acquisition of companies in the amount of R$ 29,095. The current analysis of the prognosis, based on internal and external evaluation of its legal advisors, is that the decisions of higher courts of last instance shall be accepted (likelihood of acceptance greater than 50%), for this reason, it did not recognize any IRPJ/CSLL liability in relation to these lawsuits.

18. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potential common diluted shares.

The following table presents profit and stock information used for calculating basic and diluted earnings per share:

	Parent Company/ Consolidated	
Earnings per share items	**2019**	**2018**
Basic		
Profit for the year	772,240	502,447
Weighted average number of common shares	329,409	329,406
Basic earnings per share - R$	2,34432	1.52531
Diluted		
Profit for the year	772,240	502,447
Weighted average number of common shares adjusted for dilution effect	330,290	329,533
Diluted earnings per share - R$	2.33807	1.52473

All amounts in thousands of reais unless otherwise stated

19. Equity

(a) Capital

At December 31, 2019, the fully paid-up capital amounted to R$ 2,500,000 (R$ 1,808,639 - Dec/2018), represented by 330,386,000 common registered book-entry shares with no par value, of which 214,036,654 shares were outstanding (214,459,215 common shares - Dec/2018). On April 10, 2019, the Annual and Extraordinary General Meeting approved the Company's capital increase by R$ 691,361, through capitalization of part of the Company's statutory reserve, after allocation of the profit for the year ended December 31, 2018, without issuance of Company new shares and, therefore, without share bonus to the Company's stockholders and maintaining unaltered the interest of each shareholder in the Company's capital, pursuant to article 169 of Law 6,404/76.

Pursuant to the Company's bylaws, it is authorized to increase its capital up to the limit of 400,000,000 common shares, subject to the approval of the Board of Directors.

At December 31, 2019, the Company's ownership interest was as follows:

	Number of shares		Interest (%)	
Ownership interest	**2019**	**2018**	**2019**	**2018**
Controlling stockholders	115,619,912	114,880,213	35.00	34.77
Shares outstanding	214,036,654	214,459,215	64.78	64.91
Treasury shares	729,434	1,046,572	0.22	0.32
Total	**330,386,000**	**330,386,000**	**100.00**	**100.00**

The ownership interest of the controlling stockholders is represented by the families Pipponzi, Pires Oliveira Dias and Galvão and by the Holding Pragma.

The change in the number of outstanding shares of the Company was as follows:

Changes	Shares outstanding
At December 31, 2018	214,459,215
(Purchase)/sale of restricted shares, net	(422,561)
At December 31, 2019	**214,036,654**

At December 31, 2019, the Company's common shares were quoted at R$ 111.64 (closing quote) (R$ 57.15 at December 31, 2018).

(b) Tax incentive reserve

These refer to ICMS tax benefits obtained in the States of Bahia, Goiás and Pernambuco, as regulated by complementary law 160/17, ICMS CONFAZ 190/17 agreement and amendment of Law 12,973/2014. Set up in accordance with the provisions of article 195-A of the Brazilian Corporation Law (as amended by Law 11,638/07), this reserve receives the portion of government subsidy recognized in profit for the year, as a deduction from sales taxes and allocated to it from the retained earnings account, accordingly, they are not included in the calculation basis of the minimum mandatory dividend.

All amounts in thousands of reais unless otherwise stated

(c) Treasury shares

On August 3, 2017, the Board of Directors authorized the Company to repurchase, over a period of 365 days, its own registered common shares with no par value to be held in treasury and subsequently sold. The changes in treasury shares in the year ended December 31, 2019 are summarized below:

	Parent Company	
Changes in treasury shares	**Number of shares**	**Amount of shares**
At December 31, 2018	1,046,572	55,466
Shares delivered to executives related to the 3rd tranche of the 2015 grant, 2nd tranche of the 2016 grant and 1st tranche of the 2017 grant.	(284,552)	(15,080)
Shares delivered to executives related to the 4Bio's 1st tranche of the 2017 grant.	(666)	(35)
Shares delivered to executives related to the Exercise of the Share-based Compensation Plan.	(31,920)	(2,210)
At December 31, 2019	**729,434**	**38,141**

At December 31, 2019, the market value of the treasury shares, having as reference the quotation of R$ 111.64 per share at that date, corresponds to R$ 81,334.

(d) Restricted share plan

Since March 2014, the Company offers its officers the Long-Term Incentive Program with Restricted Shares (the "Restricted Share Plan"), which aims to offer an opportunity to receive variable remuneration provided that the officer remains for a predetermined period in the Company.

As stated in the Restricted Share Plan, a portion of their annual variable remuneration (profit-sharing), will be paid to the officer in cash and the remaining balance shall be paid only in Company shares ("incentive stock").

If the officer decides to use a portion of the total amount of the variable remuneration paid in cash to buy Company shares ("own shares") on the stock exchange, the Company will offer the officer an equal number of shares purchased on the stock exchange.

At its discretion, the Company may grant to this officer more Company shares, using as reference the number of own shares acquired by the officer on the stock exchange.

The shares offered to the officer through the Restricted Share Plan may not be sold, assigned or transferred to third parties for a period of four years from the date of the grant, provided that, every year, from the second, third and fourth anniversary of the grant date, the officers will acquire the right to receive a third of their restricted stock.

The changes of the restricted shares are summarized below:

	2019		2018	
Change in restricted shares	**Shares**	**Amount**	**Shares**	**Amount**
Opening balance	500,778	23,940	485,843	18,863
Granted shares for the period	213,689	13,367	239,516	12,459
Value of the shares at the delivery date	(317,138)	(15,330)	(224,582)	(7,382)
Closing balance	**397,329**	**21,977**	**500,778**	**23,940**

All amounts in thousands of reais unless otherwise stated

(e) Stockholders' remuneration

Under the Company's bylaws, stockholders are entitled to minimum dividend corresponding to 25% of adjusted annual profit. The dividend proposed, including interest on capital, is calculated as follows:

	Parent Company	
Changes in stockholders' remuneration	**2019**	**2018**
Profit for the year	772,240	502,447
Legal reserve	(38,612)	(25,122)
Realization of the revaluation reserve in the year	174	175
Investment grant reserve (Note 19b)	(95,593)	(41,297)
Dividend calculation basis (a)	638,209	436,203
Minimum mandatory dividends, according to statutory provision (25%)	159,552	109,051
Additional proposed dividends	20,171	
Interest on capital proposed	211,501	209,500
Withheld Income Tax on interest on capital	(30,477)	(29,459)
Compensation net of withheld income tax (b)	201,195	180,041
% distributed on the dividend calculation basis (b ÷ a)	31,52	41.27
Amount in excess of the mandatory minimum dividend	**41,643**	**70,990**

The Company's management allocated R$ 95,593 from its profit for the year ended December 31, 2019 to tax incentive revenue reserves, described in the accounting policy Note 4(q).

The Company recognized interest on capital of R$ 211,501 (R$ 209,500 - 2018), observing both the limit of the Long Term Rate - TLP variation in 2019 and 2018 and the expense deductibility limits for income tax and social contribution calculation, pursuant to Law 9,249/95.

At December 31, 2019 the amount of R$ 41,643 (R$ 70,990 – Dec-2018) in excess of the minimum mandatory dividend established in the Company's bylaws was recorded in equity as proposed additional dividend.

Changes in the dividend and interest on capital obligations were as follows:

	Parent Company	
Changes in dividend and interest on capital obligations	**2019**	**2018**
Opening balance	24,843	37,288
Additions	230,542	161,653
Payments	(186,602)	(173,622)
Write-offs	(528)	(476)
Closing balance	**68,255**	**24,843**

All amounts in thousands of reais unless otherwise stated

20. Net sales revenue

	Parent Company		Consolidated	
Net revenue items	**2019**	**2018**	**2019**	**2018**
Gross sales revenue				
Sales revenue	17,482,060	14,757,177	18,453,276	15,506,262
Service revenue	14,532	12,797	14,907	12,871
Total gross sales revenue	**17,496,592**	**14,769,974**	**18,468,183**	**15,519,133**
Taxes on sales	(664,698)	(533,656)	(747,690)	(585,676)
Returns, rebates and other	(134,257)	(116,950)	(154,893)	(132,012)
Net sales revenue	**16,697,637**	**14,119,368**	**17,565,600**	**14,801,445**

Taxes on sales primarily comprise ICMS at rates predominantly between 17% and 18%, for goods not subject to the tax substitute (ST) regime, service tax at 5%, and PIS (1.65%) and COFINS (7.60%) for goods not subject to the one-time taxation regime (Law 10,147/00).

The Company assessed the impacts of CPC 47/ IFRS15 and considering that the entity operates in the pharmaceutical retail segment and has only one performance obligation, therefore, with no complexity in this definition, both in the transfer of control of goods and services to consumers and in the transit into cash, as described in Note 4 – Significant accounting policies, concluded that there are no material accounting recognition impacts from the adoption of the standard.

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

The Group presented its statement of income using a classification based on the function of expenses. Information on the nature of these expenses is recorded in the statement of income as follows:

	Parent Company		Consolidated	
Nature of expenses	**2019**	**2018**	**2019**	**2018**
Personnel expenses	(2,126,272)	(1,813,139)	(2,167,200)	(1,839,906)
Occupancy expenses (i)	(270,287)	(697,370)	(272,414)	(699,902)
Service provider expenses	(202,228)	(160,960)	(205,892)	(162,044)
Depreciation and amortization (ii)	(1,004,597)	(411,710)	(1,012,403)	(414,133)
Other (iii)	(600,098)	(527,496)	(630,254)	(548,479)
Total	**(4,203,482)**	**(3,610,675)**	**(4,288,163)**	**(3,664,464)**

Classified in the statement of income as:

Function of expenses	**2019**	**2018**	**2019**	**2018**
Selling expenses	(3,693,581)	(3,219,908)	(3,754,770)	(3,261,896)
General and administrative expenses	(509,901)	(390,767)	(533,393)	(402,568)
Total	**(4,203,482)**	**(3,610,675)**	**(4,288,163)**	**(3,664,464)**

(i) These refer to expenses on property rental, condominium fees, electricity, water, communication and municipal real estate tax (IPTU).

(ii) Depreciation and amortization in 2019 totaled R$ 1,004,597 (R$ 411,710 - 2018) for the parent company, of which R$ 934,713 (R$ 360,428 - 2018) correspond to the sales area and R$ 69,884 (R$ 51,282 - 2018) to the administrative area, and R$ 1,012,401 (R$ 414,133 - 2018) in the consolidated, of which R$ 938,090 (R$ 360,884 - 2018) refers to the sales area and R$ 74,311 (R$ 53,249 - 2018) to the administrative area. These amounts are net of PIS and COFINS tax credits on the lease right of use, which resulted in an expense reduction in the amount of R$ 28,630 in 2019.

All amounts in thousands of reais unless otherwise stated

(iii) These refer mostly to expenses on card operator fees, transportation, materials, other administrative expenses, maintenance of assets, advertising and publicity.

22. Other operating income/(expenses) - consolidated

In 2019 other operating income (expenses) totaled (R$ 208,271) (R$ 59,548 – 2018) for the consolidated accounts. These amounts comprise non-recurring expenses/revenues, as follows:

	Consolidated	
Nature of expenses / revenues	**2019**	**2018**
Consulting and advisory expenses	(15,320)	(13,913)
Credits from prior years, mainly PIS and COFINS	8,193	10,698
Additional expenses due to the closure of the Barra Mansa distribution center	(12,767)	
Write-off of property and equipment and intangible assets due to the stores closure.	(16,922)	(1,530)
Hierarchical restructuring	(16,145)	(7,596)
Onofre integration	(95,001)	
Recognition of INSS credits from 2012 to 2015	4,625	
Gain on bargain purchase of Onofre	355,263	
Change in estimate for the setting up of a provision for labor contingencies	(3,655)	(47,207)
Total	**208,271**	**(59,548)**

23. Finance income and costs

(a) Finance income

	Parent Company		Consolidated	
Finance income items	**2019**	**2018**	**2019**	**2018**
Discounts obtained	3,354	1,880	3,426	1,997
Short term investment yields	6,695	10,104	7,070	10,104
Interest on intercompany loans	2,746	2,730		
Monetary gains	5,964	748	6,222	1,061
Other finance income	1	2	335	192
Taxes thereon (PIS/COFINS)	(780)	(716)	(798)	(716)
Present Value Adjustment (PVA) - finance income	53,319	53,415	60,690	59,145
Total finance income	**71,299**	**68,163**	**76,945**	**71,783**

All amounts in thousands of reais unless otherwise stated

(b) Finance costs

	Parent Company		Consolidated	
Finance cost items	**2019**	**2018**	**2019**	**2018**
Discounts granted to customers	(25)	(16)	(42)	(281)
Interest, charges and bank fees	(890)	(685)	(2,665)	(1,246)
Charges on debentures	(54,191)	(36,495)	(54,191)	(36,495)
Amortization of transaction costs	(1,722)	(582)	(1,722)	(582)
Charges on borrowings	(11,434)	(20,731)	(11,434)	(20,731)
Interest on leases	(215,722)		(216,100)	
Monetary variations (i)	(1.474)	3,155	(1.967)	2,635
Interest on payables to Subsidiary's Shareholder	(5,733)	11,135	(5,733)	11,135
PVA - finance costs	(111,386)	(103,790)	(117,392)	(108,872)
Total finance costs	**(402,577)**	**(148,009)**	**(411,246)**	**(154,437)**
Finance income (costs), net	**(331,278)**	**(79,846)**	**(334,301)**	**(82,654)**

24. Guarantees for lawsuits

The items of property and equipment were given as security for tax, social security and labor proceedings in the amount of R$ 103 (R$ 111 – Dec/2018) for the parent company and consolidated accounts.

All amounts in thousands of reais unless otherwise stated

25. Financial instruments and risk management policy

Financial instruments by category

	Parent Company		Consolidated	
Finance instruments items	**2019**	**2018**	**2019**	**2018**
Assets				
At amortized cost				
Cash and cash equivalents (Note 6)	294,863	238,153	299,226	241,568
Trade receivables (Note 7)	1,049,906	805,649	1,189,019	937,389
Other receivables	298,372	196,148	245,428	156,847
Judicial deposits (Note 16)	30,001	25,770	30,001	25,770
Arbitration restricted asset	332,927		332,927	
Subtotal	**2,006,069**	**1,265,720**	**2,096,601**	**1,361,574**
Total assets	**2,006,069**	**1,265,720**	**2,096,601**	**1,361,574**
Liabilities				
Liabilities at fair value through profit or loss				
Payables to Subsidiary's shareholder (Note 10)	42,113	36,380	42,113	36,380
Subtotal	**42,113**	**36,380**	**42,113**	**36,380**
Other liabilities				
Trade payables	2,532,293	2,033,620	2,653,236	2,141,274
Borrowing (Note 14)	1,126,476	826,244	1,126,476	843,150
Other payables	144,721	150,141	147,771	151,940
Leases payable	3,180,655		3,184,633	
Arbitration liability	332,900		332,900	
Subtotal	**7,317,045**	**3,010,005**	**7,445,016**	**3,136,364**
Total liabilities	**7,359,158**	**3,046,385**	**7,487,129**	**3,172,744**

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's risk management program focuses on the unpredictability of financial and operational markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Board of Directors provides principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of non-derivative financial instruments and investment of surplus cash.

(a) Market risk

Foreign exchange risk

All of the asset and liability operations of the Group are denominated in Brazilian reais; therefore, the Company is not exposed to foreign exchange risk.

Interest rate risk

Most of the BNDES transactions are entered into based on the TLP + interest and on the SELIC rate. Financial investments are entered into based on the CDI variations, which does not result in higher interest rate risk since these variations are not significant. Management understands that there is a low risk of significant changes in profit or loss or in cash flows.

All amounts in thousands of reais unless otherwise stated

(b) Credit risk

Credit risk arises from financial assets, i.e. cash and cash equivalents, short-term investments and trade receivables.

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

The risk ratings of the cash equivalents are in accordance with the main risk rating agencies, according to the table below:

	Parent Company		Consolidated	
Risk rating	**2019**	**2018**	**2019**	**2018**
Rating - National Scale				
brAAA	127,810	62,622	130,655	65,251
brAA+	16,454	14,680	16,578	15,464
brA	401	729	401	729
(*) n/a - Automatic investments	45,766	59,860	47,156	59,860
(*) n/a - Investment Funds		2,381		2,381
Total - National Scale	**190,431**	**140,272**	**194,790**	**143,685**

(*) Not applicable, since there is no risk rating for Automatic Investments and Funds.

The granting of credit on sales of goods follows a policy that aims at minimizing defaults. For the year ended December 31, 2019, credit sales represented 53% (52% - Dec/2018) for the parent company and 55% (54% - Dec/2018) for the consolidated accounts of which 93% (92% - Dec/2018) for the parent company and 86% (86% - Dec/2018) for the consolidated accounts related to credit card sales which, based on the history of losses, posed an extremely low risk. The remaining 7% (8% - Dec/2018) and 14% (14% - Dec/2018) for the consolidated accounts are credits from PBMs, special plans with companies and post-dated checks and bills for payment that pose a low risk, due to customer selectivity and the adoption of individual limits.

(c) Liquidity risk

The Group's management continuously monitors forecasts of the Company's liquidity requirements, in order to ensure that it has sufficient cash to meet operational needs. The Group invests its surplus cash in financial assets with appropriate maturities to provide the liquidity necessary to honor its obligations.

(d) Sensitivity analysis

The table below presents a sensitivity analysis of financial instruments that are exposed to losses.

All amounts in thousands of reais unless otherwise stated

The most probable scenario (scenario I), according to the assessment made by management, is based on a three-month horizon. Two further scenarios are presented, pursuant to CVM Instruction 475/08, in order to show a 25% and 50% deterioration in the risk variables considered (scenarios II and III).

Parent Company					
Operation	Risk	Notional amount	Scenario I (probable)	Scenario II	Scenario III
Short term investments - CDI	0.5% increase	173,481	867	1,084	1,301
Revenue			**867**	**1,084**	**1,301**
REFIS (SELIC)	0.5% increase	1,156	6	7	9
Expense			**6**	**7**	**9**

Consolidated					
Operation	Risk	Notional amount	Scenario I (probable)	Scenario II	Scenario III
Short term investments - CDI	0.5% increase	175,629	878	1,097	1,317
Revenue			**878**	**1,097**	**1,317**
REFIS (SELIC)	0.5% increase	1,156	6	7	9
Expense			**6**	**7**	**9**

The risk of variations om the TLP on BNDES operations which could result in material losses to the Group is not considered as probable by management.

(e) Capital management

The Group's objective relating to capital management is to maintain the Group's investment capacity, thus allowing it to grow its business and provide proper returns for stockholders.

The Group has adopted a policy of not leveraging its capital structure with borrowing, except for long-term credit facilities from BNDES (FINEM) and debentures at interest rates that are commensurate with the Group's profit levels.

Accordingly, this ratio corresponds to the net debt expressed as a percentage of total capital. The net debt, in turn, corresponds to total borrowing less cash and cash equivalents. The total capital is calculated through the sum of the equity, as shown in the individual and consolidated balance sheet, and the net debt, as presented below:

	Parent Company		Consolidated	
Capital management items	**2019**	**2018**	**2019**	**2018**
Short - and long-term borrowing	1,126,476	826,244	1,126,476	843,150
(-) Cash and cash equivalents	(294,863)	(238,153)	(299,226)	(241,568)
Net debt	**831,613**	**588,091**	**827,250**	**601,582**
Equity attributable to the stockholders of the parent company	4,025,013	3,499,857	4,025,013	3,499,857
Non-controlling interest			51,406	34,910
Total equity	4,025,013	3,499,857	4,076,419	3,534,767
Total capital	**4,856,626**	**4,087,948**	**4,903,669**	**4,136,349**
Gearing ratio	**17.12**	**14.39**	**16.87**	**14.54**

All amounts in thousands of reais unless otherwise stated

Adjusted net debt with lease liabilities	Parent Company 2019	Parent Company 2018	Consolidated 2019	Consolidated 2018
Net debt	831,613	588,091	827,250	601,582
Lease liabilities	3,180,655		3,184,633	
Adjusted net debt	**4,012,268**	**588,091**	**4,011,883**	**601,582**
Total equity	4,011,385	3,499,857	4,062,790	3,534,767
Total adjusted capital	**8,023,653**	**4,087,948**	**8,074,673**	**4,136,349**
Adjusted gearing ratio (%)	**50.01**	**14.39**	**49.68**	**14.54**

The increase in the financial leverage ratio on December 31, 2019 was mainly due to the issuance of debentures (Note 14) and the consequent use of funds obtained in the Company's investments and operations.

As described in Note 15, as from January 1st, 2019, the Group recognized in its balance sheet the obligations associated with lease agreements where it has control. On December 31, 2019, the balance of lease liabilities in the Parent Company and Consolidated, corresponded to R$ 3,180,655 and R$ 3,184,633, respectively. Considering the lease liability in the capital management calculation, the gearing ratio of the Company and the Group would be 50.01% in the Parent Company and 49,68% in the Consolidated.

(f) Fair value estimation

The carrying values of financial investments in the balance sheet approximate their fair values since the remuneration rates are based on the CDI variation. The carrying values of trade receivables and payables are measured at amortized cost and are recorded at their original amount, less the provision for impairment and present value adjustment, when applicable. The carrying values are assumed to approximate their fair values, taking into consideration the realization of these balances and settlement terms not exceeding 60 days.

Borrowings are classified as financial liabilities not measured at fair value and are carried at amortized cost and according to contractual conditions. The fair values of the borrowings approximate their carrying values since they refer to financial instruments with rate that approximate market rates. The estimated fair values are:

	Parent Company				Consolidated			
Fair value estimation	**Carrying amount**		**Fair value**		**Carrying amount**		**Fair value**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
BNDES	96,647	186,033	96,342	185,996	96,647	186,033	96,342	185,996
Debentures	1,029,829	640,211	1,029,829	640,256	1,029,829	640,211	1,029,829	640,256
Other						16,906		16,906
Total	**1,126,476**	**826,244**	**1,126,171**	**826,252**	**1,126,476**	**843,150**	**1,126,171**	**843,158**

For disclosure purposes, the fair value of financial liabilities is estimated by discounting future contractual cash flow at the interest rates available in the market that are available to the Group for similar financial instruments. The effective interest rates at the balance sheet dates are usual market rates and their fair value does not significantly differ from the balances in the accounting records.

All amounts in thousands of reais unless otherwise stated

At December 31, 2019, the Group had no material assets and liabilities measured at fair value at Level 1 and Level 2 in the fair value hierarchy. The following table presents the changes in Level 3 instruments for the year ended December 31, 2019:

	Parent company / consolidated	
	Payables to subsidiary's shareholder	
Changes in payables to subsidiary's shareholder	**2019**	**2018**
Opening balance	36,380	47,515
Expenses /(revenues) recognized in the statement of income:	5,733	(11,135)
Closing balance	42,113	36,380
Total expenses /(revenues) for the year recognized in the statement of income	**5,733**	**(11,135)**
Changes in unrealized expenses/(revenues) for the year included in the statement of income	**5,733**	**(11,135)**

26. Derivative financial instruments

The Group does not operate with derivative instruments, except in specific situations. At December 31, 2019 and 2018, the Group did not have any derivative transactions.

All amounts in thousands of reais unless otherwise stated

27. Transactions with related parties

(a) Transactions with related parties consist of transactions with the Company's stockholders and persons connected to them:

		Parent Company		Consolidated		Parent Company		Consolidated	
		Assets				Transacted amount			
Related parties	**Relationship**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Receivables									
Special plans (i)									
Regimar Comercial S.A.	Stockholder/Family	22	8	22	8	102	99	102	99
Heliomar Ltda.	Stockholder/Board Member	1	1	1	1	14	13	14	13
Rodrigo Wright Pipponzi (Editora Mol Ltda.)	Stockholder/Family		1		1	5	4	5	4
Natura Cosméticos S.A. (ii)	Stockholder / Related party	138	117	138	117	1,495	1,252	1,495	1,252
4Bio Medicamentos S.A. (v)	Subsidiary	39	18	39	18	320	300	320	300
Subtotal		200	145	200	145	1,936	1,668	1,936	1,668
Other receivables									
Commercial agreements									
Natura Cosméticos S.A. (ii)	Stockholder / Related party	148	102	148	102	830	719	830	719
Advances to suppliers									
Cfly Consultoria e Gestão Empresarial Ltda. (iii)	Family	261	414	261	414				
Zurcher, Ribeiro Filho, Pires Oliveira Dias e Freire – Advogados (iv)	Stockholder/Family	90	3	90	3				
Loan and other receivables									
4Bio Medicamentos S.A. (v)	Subsidiary	56,189	41,395			15,262	3,194		
Subtotal		56,688	41,914	499	519	16,092	3,913	830	719
Total receivables from related parties		**56,888**	**42,059**	**699**	**664**	**18,028**	**5,581**	**2,766**	**2,387**

All amounts in thousands of reais unless otherwise stated

		Parent Company		Consolidated		Parent Company		Consolidated	
		Liabilities				Transacted amount			
Related parties	**Relationship**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Payables									
Rentals (ii)									
Heliomar Ltda.	Stockholder/Board Member	21	21	21	21	237	219	237	219
Antonio Carlos Pipponzi	Stockholder/Board Member	8	7	8	7	95	92	95	92
Rosalia Pipponzi Raia	Stockholder/Board Member	8	7	8	7	95	92	95	92
Estate of Franco Maria David Pietro Pipponzi	Stockholder/Board Member		7		7		92		92
Cristiana Almeida Pipponzi	Stockholder/Board Member	3		3		32		32	
André Almeida Pipponzi	Stockholder/Board Member	2		2		31		31	
Marta Almeida Pipponzi	Stockholder/Board Member	2		2		31		31	
Subtotal		44	42	44	42	521	495	521	495
Service providers									
Zurcher, Ribeiro Filho, Pires Oliveira Dias e Freire Advogados (iv)	Stockholder/Family	1		1		8,963	6,209	8,963	6,209
Rodrigo Wright Pipponzi (Editora Mol Ltda.) (vii)	Stockholder/Family	1,972	924	1,972	924	13,631	10,952	13,631	10,952
Cfly Consultoria e Gestão Empresarial Ltda. (iii)	Family	154	34	154	34	2,780	2,573	2,780	2,573
FMA Assessoria e Consultoria (viii)	Stockholder/Board Member					40	110	40	110
Subtotal		2,127	958	2,127	958	25,414	19,844	25,414	19,844
Goods suppliers									
Natura Cosméticos S.A. (ii)	Stockholder / Related party		632		632	3,446	5,289	3,446	5,289
Subtotal			632		632	3,446	5,289	3,446	5,289
Total payables to related parties		**2,171**	**1,632**	**2,171**	**1,632**	**29,381**	**25,628**	**29,381**	**25,628**

All amounts in thousands of reais unless otherwise stated

(i) Refer to sales made by agreements whose transactions are executed into under commercial conditions equivalent to those practiced with other companies.

(ii) Purchase and sale of Natura Cosméticos S.A.'s products, which will be sold across the national territory and Raia Drogasil S.A. will receive a percentage on the products sold. Some members of the controlling block of Natura Cosméticos S.A. indirectly own shares of Raia Drogasil S.A..

(iii) Provision of services of aircraft operation to the owner Raia Drogasil S.A., which will pay the operator a monthly remuneration for the services of Operational Advisory, Compliance, Finance, Maintenance Coordination and Maintenance Technical Control.

(iv) Transaction related to Legal Advisory.

(v) During 2016, 2017 and 2019 loan transactions between Raia Drogasil S.A. (Lender) and 4Bio Medicamentos S.A. (Borrower) were carried out in the amounts of R$ 14,000, R$ 20,100 and R$ 12,000, respectively. All loan agreements are monetarily restated by 110% of the CDI, and mature in December 2020.

Other receivables comprises commissions on Raia Drogasil referrals S.A. (R$ 86).

(vi) Transactions related to rental of commercial properties for the implementation of stores.

(vii) These balances and transactions relate to service agreements for the development, creation and production of marketing materials for the institutional sales area, and the design of the Company's internal magazine.

(viii) Transactions related to sales representation services with trade associations.

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

(b) Key management compensation

Key management includes the Officers, Directors and members of the Supervisory Board. The compensation paid or payable for services rendered is as follows:

	Parent Company		Consolidated	
Compensation items	**2019**	**2018**	**2019**	**2018**
Fees and social charges	19,116	17,460	21,381	19,318
Bonuses and social charges	23,903	14,876	24,177	15,115
Fringe benefits	453	713	453	713
Total	**43,472**	**33,049**	**46,011**	**35,146**

All amounts in thousands of reais unless otherwise stated

28. Insurance coverage

The Company has adopted a policy of taking out insurance coverage at amounts deemed sufficient to cover any losses on assets or civil liability attributed to it taking into consideration the nature of its activities and the guidance of its insurance consultants.

The Group had the following insurance:

	Parent Company		Consolidated	
Insurance items	**2019**	**2018**	**2019**	**2018**
Inventory loss risks	361,907	182,449	420,223	217,837
Permanent assets	417,859	289,479	427,766	296,619
Loss of profits	242,556	242,556	335,743	293,670
Civil liability risks	38,424	38,424	40,000	40,000

All amounts in thousands of reais unless otherwise stated

29. Non-cash transactions

At December 31, 2019, the main transactions that did not involve the Group's cash were:

(i) the restatement of the financial liability arising from payables to subsidiary's shareholder (Note 10);
(ii) part of the compensation of key management personnel associated with the restricted share plan (Note 27);
(iii) the installment purchase of property and equipment items in the amount of R$ 11,926 (R$ 18,932 - Dec/ 2018);
(iv) Recognition of lease liability with a balancing item to the right-of-use asset on January 1st, 2019, adjusted to present value in the amount of R$ 3,178,480; additions of new agreements in the amount of R$ 357,247 and termination of agreements in the amount of (R$ 5,553).
(v) the acquisition of Onofre did not generate any financial disbursement. The fair values of the assets and liabilities assumed are shown below:

Assets and Liabilities	June 30, 2019 (Fair Value)
Current assets	**213,702**
Trade receivables	44,608
Inventory	96,371
Taxes recoverable	63,613
Other	9,110
Non-current assets	**392,033**
Judicial deposits	4,133
Indemnification asset	127,037
Property and equipment	196,418
Intangible assets	62,487
Other	1,958
Total assets	**605,735**
Current liabilities	**(121,531)**
Trade payables	(53,777)
Leases	(27,959)
Social security and labor obligations	(13,686)
Tax obligations	(4,205)
Provision for contingencies	(16,841)
Other	(5,063)
Non-current liabilities	**(410,219)**
Leases	(58,036)
Provision for contingencies	(10,831)
Probable and possible contingencies – Business combination	(17,254)
Deferred income taxes (surplus value of inventories)	(2,407)
Payables to former controlling shareholders	(324,098)
Total liabilities	**(534,157)**

30. Event occurring after the reporting period

On January 8, 2020, the Brazilian antitrust authority ("CADE") approved the implementation of an association between Raia Drogasil and the Pão de Açúcar Group to create Stix Fidelidade SA. On February 14, 2020, the 1st Extraordinary General Meeting was held where the capital formation of Raia Drogasil in Stix Fidelidade S.A. was defined in the amount of R$ 3,289.

Raia Drogasil S.A.

COMMENTS ON THE BUSINESS PROJECTION PERFORMANCE

In this section, pursuant to CVM Instruction 480/09, we compare the store opening projections for the Company with the data on store openings actually conducted every year, until the end of the current year. The projections for 2016 and 2017 were disclosed to the market on July 28, 2016, the projections for 2018 and 2019 were disclosed on November 9, 2017 and the projection for 2020 was disclosed on October 3, 2019.

YEAR	PRIOR PROJECTION	CURRENT PROJECTION	ACTUAL ACCUMULATED
2016	165 openings	200 openings	212 openings
2017	195 openings	200 openings	210 openings
2018		240 openings	240 openings
2019		240 openings	240 openings
2020		240 openings	

On July 28, 2016, we revised the prior projection of 165 openings in 2016 and 195 openings in 2017 to 200 store openings for both years. The Company has ended 2019 with 240 store openings and reiterates the projection of 240 openings for 2020.

Raia Drogasil S.A.

OFFICERS' REPRESENTATION ON FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

In accordance with article 25, paragraph 1, items V and VI, of CVM Instruction 480/09, the Company's officers represent that they have reviewed, discussed and agree with the conclusions expressed in the Independent Auditor's Report related to the individual and consolidated financial statements for 2019.

São Paulo, February 19, 2020.

Marcilio D'Amico Pousada
Chief Executive Officer

Eugênio De Zagottis
Officer

Antonio Carlos Coelho
Officer

Marcello De Zagottis
Officer

Fernando Kozel Varela
Officer

Renato Cepollina Raduan
Officer

Maria Susana de Souza
Officer

Antonio Carlos Marques de Oliveira
Controller and Accountant in charge
CRC-1SP215445/O-0

Raia Drogasil S.A.

SUPERVISORY BOARD'S OPINION

The Company's Supervisory Board, in exercising 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, 2019 and, based on the examinations performed and on clarifications provided by management, and also considering the favorable unqualified report issued by the independent auditor PricewaterhouseCoopers Auditores Independentes, the Supervisory Board members concluded that the documents above are fairly presented, in all material respects, and unanimously decided to submit them to the General Stockholders' Meeting to be convened pursuant to Law 6,404/76.

São Paulo, February 19, 2020.

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Gilberto Lério
Supervisory Board Member

____

Fernando Carvalho Braga
Supervisory Board Member

____

Mário Antonio Luiz Corrêa
Supervisory Board Member