RAIA S.A.	DROGASIL S.A.
CNPJ/MF n.º 60.605.664/0001-06	CNPJ/MF n.º 61.585.865/0001-51

MATERIAL FACT

As set forth in article 157, paragraph 4, of Law 6404/76, as amended, CVM Instruction No. 358/2002, and CVM Instruction No. 319/1999, the managements of Raia S.A. ("Raia") and Drogasil S.A. ("Drogasil", and, jointly with Raia, the "Companies") publicly declares, in accordance with the Material Fact disclosed on August 2, 2011, that the merger of shares of Raia into Drogasil will be submitted to the Companies' shareholders at extraordinary general meetings, as provided for in article 252 of Law 6404/76, as described below (the "Merger of Shares").

1. Reasons and explanation of the Merger of Shares

The Merger of Shares aims at joining the activities of Raia and Drogasil, considering that both Companies operate drugstores in Brazil and are interested in joining their activities in order to concentrate their synergies to continue and increase their market shares in the drugstore segment in Brazil, aiming at generating benefits to the consumers.

Following the Merger of Shares, Raia will become a wholly-owned subsidiary of Drogasil and will maintain its own legal personality and equity. Raia's shareholders will receive common shares issued by Drogasil, under the terms set forth in the Explanation Protocol.

Drogasil will not be the successor of Raia in any of the assets, rights or obligations, since Raia will maintain its own legal personality and equity, without legal succession.

The integration of both Companies is originated from shared values and visions by two Companies with great tradition in the drugstore market (Raia operating for 106 years and Drogasil operating for 76 years in the market) and by the shareholders who exercise the control of Raia and Drogasil.

Drogasil, upon conclusion of the Merger of Shares, will remain listed on the BM&FBOVESPA's Novo Mercado segment and shall have a free float of approximately 50% (fifty percent) of its capital stock, representing a company with high liquidity level.

The Companies' managements believe that the Merger of Shares will result in the combination of assets, talents and skills which will allow the Companies to generate synergies in order to increase significantly the competition power of both trademarks with the consumers and generate economic benefits to the company, shareholders and consumers, such as: gains in scale which will be generated by the business combination of both Companies; strong culture integration and group strategies, which tends to improve the capacity to perform the integration necessary to ensure the good development of businesses; reduce the costs in administrative, operational and selling areas, benefiting from the synergies and possible adjustment of physical disposal of the areas; optimize customer care; share business practices in order to reduce the operational, market, credit and liquidity risks; and improve the customer care models in order to improve the services provided to customers, by creating a new organic expansion plan, following the operational and administrative integration.

2. Corporate and Business Acts

On August 2, 2011, the Merger Agreement was entered into by and among Raia and Drogasil and the shareholders who exercise the control of each company, the execution of which was previously authorized by the Board of Directors of Raia and Drogasil at the meetings held on August 2, 2011.

On October 24, 2011, the Board of Directors of Raia and Drogasil approved the proposal of Merger of Shares, authorized the execution of the Explanation Protocol and requested the respective Extraordinary General Meetings to approve the proposal of Merger of Shares.

3. Replacement Ratio, Number and Type of Shares attributable to Raia's shareholders and rights of Shares

The replacement ratio was freely discussed, agreed and settled between the independent parties and properly reflects the best evaluation of Drogasil and Raia based on their respective economic values, in view of the nature of their activities, based on several economic, operational and financial assumptions applicable to the Companies.

In this regard, Raia's shareholders will receive 2.29083790 common shares issued by Drogasil for each common share issued by Raia, totaling 142.065.980 (one hundred and forty-two million, sixty-five thousand nine hundred and eighty) new, book-entry common shares, with no par value, and Raia will become a wholly-owned subsidiary of Drogasil.

The above mentioned replacement ratio was negotiated between the managements of Raia and Drogasil on a fair and equal basis to the shareholders of both Companies, in accordance with the exchange assumptions described below.

The replacement of Raia's shares for Drogasil's shares considered the following assumptions:

(a) all options granted for the acquisition of shares under possible plans for acquisition and/or subscription of shares issued by Drogasil and Raia will be exercised or cancelled before the Merger of Shares, or will be held in treasury, which means that such shares will have no effect for the purposes set forth in the Explanation Protocol;

(b) Raia or Drogasil will not perform any declaration and/or payment of dividends or interest on own capital until conclusion of the Merger of Shares, except for (i) interest on own capital declared by Drogasil's Board of Directors on March 21, 2011, in the total gross amount of R$ 8.15 million (equivalent to R$ 0.043403358 per share issued by Drogasil), which respective payment will be carried out on December 1, 2011 based on the shareholding position of March 21, 2011; (ii) interest on own capital declared by Drogasil's Board of Directors on June 21, 2011, in the total gross amount of R$ 8.40 million (equivalent to R$ 0.044734750 per share issued by Drogasil), which respective payment will be carried out on December 1, 2011 based on the shareholding position of June 21, 2011; and (iii) interest on own capital declared by Raia's Board of Directors on October 24, 2011, in the total gross amount of R$ 12.890 million (equivalent to R$ 0.207853425 per share issued by Raia), which respective payment will be carried out on December 1, 2011 based on the shareholding position of October 25, 2011;

(c) the information included in the financial statements published by the Companies properly reflect their financial condition;

(d) the reference forms of both Companies filed with CVM are updated and include all information deemed significant to the Companies' businesses and contingencies; and

(e) there is not any material fact not disclosed to the market by the Companies, except for the material facts related to the Merger of Shares.

The common shares issued by Drogasil and attributable to the Raia's shareholders in replacement for their shares held in Raia, will have the same rights attributed to the Drogasil's outstanding shares, and Raia's shareholders will fully exercise all benefits, including dividends and capital payments to be declared by Drogasil, it being understood that Raia's shareholders will not be entitled to interest on own capital already declared by Drogasil as indicated above, as well as the Drogasil's shareholders will not be entitled to the interest on own capital already declared by Raia as indicated above.

The tables below compare the political and equity advantages of the shares held by the controlling shareholders and other shareholders of Raia and Drogasil, respectively, before and after the Merger of Shares:

Rights of Raia's shares before the Merger of Shares		**Rights of Raia Drogasil's shares after the Merger of Shares**	
Controlling shareholders	**Other shareholders**	**Controlling shareholders**	**Other shareholders**
Right to one vote per share	Right to one vote per share	Right to one vote per share	Right to one vote per share
Minimum mandatory dividend of 25% of adjusted net	Minimum mandatory dividend of 25% of adjusted net	Minimum mandatory dividend of 25% of adjusted net	Minimum mandatory dividend of 25% of adjusted net

income	income	income	income

Rights of Drogasil's shares before the Merger of Shares		Rights of Raia Drogasil's shares after the Merger of Shares	
Controlling shareholders	**Other shareholders**	**Controlling shareholders**	**Other shareholders**
Right to one vote per share	Right to one vote per share	Right to one vote per share	Right to one vote per share
Minimum mandatory dividend of 25% of adjusted net income	Minimum mandatory dividend of 25% of adjusted net income	Minimum mandatory dividend of 25% of adjusted net income	Minimum mandatory dividend of 25% of adjusted net income

The fractions of common shares resulting from the replacement of the position of each Raia's shareholder, if any, will be rounded down to the closest integral number, within 10 (ten) business days, to be sold at the auction to be held in BM&FBOVESPA, under the terms of the notice to the shareholders to be disclosed after the Extraordinary General Meetings of the Companies which approved the Merger of Shares. The net amounts accrued from such sale will be allocated to the holders of the shares proportionally to their interest in each share sold.

4. Evaluation Criteria of Raia's Shares

Raia's shares to be merged by Drogasil were evaluated by Deloitte Touche Tohmatsu Consultores Ltda., headquartered at Rua Alexandre Dumas, 1981, in the City of São Paulo, in the State of São Paulo, enrolled with CNPJ/MF under no. 02.189.924/0001-03 ("Appraisal Company"), which performed its Economic and Financial Evaluation at the base date of June 30, 2011, considering the economic value methodology and criteria through the Discounted Cash Flow (DCF), in accordance with the appraisal report issued by the Appraisal Company ("Appraisal Report").

The Appraisal Company and its personnel responsible for the evaluation declared (i) not to be interested, directly or indirectly, in the Companies involved with the Merger of Shares or operation, as well as not to have with regard to the Appraisal Company any conflict or joint interest, in the present or potentially, with the controlling shareholders of the Companies or minority shareholders of any of the Companies, respective partners thereof or the operation itself or any other material fact which could represent conflict of interests; and (ii) that no controlling shareholder or administrator of the Companies directed, limited, hampered or performed any act which affected or could have affected the access to, use of or knowledge of any business information, assets, documents or methodology deemed relevant to the respective conclusions.

The equity variations in Raia and Drogasil up to the date of the conclusion of the Merger of Shares will be supported by the respective Company.

5. Composition of capital stock of Drogasil before and after the Merger of Shares

The capital stock of Drogasil before the Merger of Shares is R$ 285,400,100.00 (two hundred and eighty-five million, four hundred thousand and one hundred reais), divided into 188,320,020 (one hundred and eighty-eight million, three hundred and twenty thousand and twenty) registered, book-entry common shares, with no par value.

The capital stock of Drogasil after the Merger of Shares will be of R$ 908,639.254.57 (nine hundred and eight million, six hundred and thirty-nine thousand, two hundred and fifty-four reais and fifty-seven cents), divided into 330,386,000 (three hundred and thirty million, three hundred and eighty-six thousand) registered, book-entry common shares, with no par value.

With the Merger of Shares, the total shares issued by Raia will be owned by Drogasil.

6. Increase in Drogasil's Net Equity Value

The total economic and financial value of Raia's shares to be merged into Drogasil amounts to R$ 1,522,000,000.00 (one billion, five hundred and twenty-two million reais), which amount is confirmed by the Appraisal Report. This amount will be fully allocated to Drogasil as follows: (a) R$ 623,239,154.57 (six hundred and twenty-three million, two hundred and thirty-nine thousand, one hundred and fifty-four reais and fifty-seven cents) to the capital stock; and (b) R$ 898,760,845.43 (eight hundred and ninety-eight million, seven hundred and sixty thousand, eight hundred and forty-five reais and forty-three cents) to the capital reserve, representing a capital increase from R$ 285,400,100.00 (two hundred and eighty-five million, four hundred thousand and one hundred reais) to R$ 908,639,254.57 (nine hundred and eight million, six hundred and thirty-nine thousand, two hundred and fifty-four reais and fifty-seven cents), with the issuance of 142,065,980 (one hundred and forty-two million, sixty-five thousand, nine hundred and eighty) registered, book-entry common shares, with no par value, to be subscribed by Raia's administrators, on behalf of Raia's shareholders, as set forth in Article 252, Paragraph 2, of Law nº 6.404/76, and paid upon the transfer of the shares issued by Raia to Drogasil's equity.

7. Amendments to the By-Laws

The wording of *caput* of Article 4, of Drogasil's Bylaws, will be amended to reflect the capital increase in connection with the approval of the Merger of Shares, which will be effective with the following wording:

"*Article 4 – The Company's capital stock fully subscribed and paid amounts to R$ 908,639,254.57 (nine hundred and eight million, six hundred and thirty-nine thousand, two hundred and fifty-four reais and fifty-seven cents), divided into 330,386,000 (three hundred and thirty million, three hundred and eighty-six thousand) registered, book-entry common shares, with no par value.*"

We also emphasize the following:

(a) the corporate name of Drogasil will be changed to “Raia Drogasil S.A.”;

(b) Drogasil’s Bylaws will be widely amended due to the Merger of Shares, effective with the wording attached to the Explanation Protocol, as from Drogasil’s Extraordinary General Meeting which approves the Merger of Shares and the amendment to its Bylaws;

(c) following the approval of the Merger of Shares, the necessary measures will be undertaken to cancel the registry as a publicly-held company of Raia and its Bylaws will be properly amended in accordance with its new position as the wholly-owned subsidiary of Drogasil.

8. <u>Appointment of specialized company responsible for the Appraisal Report</u>

Drogasil’s administrators appointed the Appraisal Company as the specialized company responsible for the evaluation of the Raia’s shares to be merged into Drogasil in connection with this operation. The appointment described herein must be approved by the Drogasil’s shareholders at the Extraordinary General Meeting requested to discuss the Explanation Protocol. As a result, the Appraisal Company delivered to Drogasil the Appraisal Report attached to the Explanation Protocol.

9. <u>Corporate acts and Withdrawal Right</u>

The following corporate acts must be performed to validate the Merger of Shares:

(a) Raia’s Extraordinary General Meeting to approve, amongst other matters: (i) the Merger of Shares under the terms and conditions of the Explanation Protocol; and (ii) performance, by Raia’s administrators, of the measures deemed necessary for the implementation of the Merger of Shares, including the subscription of Drogasil’s capital increase and the completion of the transfer of all common shares held by Raia’s shareholders to Drogasil;

(b) Drogasil’s Extraordinary General Meeting to, amongst other matters: (i) approve the Merger of Shares under the terms and conditions of the Explanation Protocol; (ii) appreciate and confirm the appointment of the Appraisal Company as the responsible for the evaluation of the shares issued by Raia to be merged into Drogasil’s equity, as well as for the drafting of the respective Appraisal Report and approval of the Appraisal Report; (iii) approve Drogasil’s capital increase with the issuance of 142,065,980 (one hundred and forty-two million, sixty five thousand, nine hundred and eighty) new registered, book-entry common shares, with no par value; (iv) approve the change of Drogasil’s corporate name to Raia

Drogasil S.A.; and (v) approve the amendment to Drogasil's Bylaws, due to the Merger of Shares.

As set forth in Article 252, Paragraphs 1 and 2, of Law 6404/76, the shareholders of Drogasil and Raia will be entitled to withdrawal rights if not in agreement with the approval of the Merger of Shares, or if were not able to attend the relevant Extraordinary General Meeting, and which expressly disclosed their intention to exercise such right, within 30 (thirty) days as of the publication of the minutes of the Extraordinary General Meeting which approves the Merger of Shares. The payment of the respective reimbursement will depend on the completion of the operation, as set forth in Article 230 of Law 6404/76, to be performed by Raia or Drogasil, as the case may be, to the respective shareholders, within 10 (ten) business days as of the end of the term to exercise such right. The reimbursement of the amounts will solely refer to the shares provenly held by the shareholder on August 2, 2011 – date of disclosure of the material fact regarding this operation, under the terms of CVM Instruction No. 358/2002.

Raia's dissenting shareholders in compliance with the above mentioned conditions will be entitled to reimbursement of the shares, in the amount of R$ 10.049836520 (ten reais point zero, four, nine, eight, three, six, five, two, zero cents) per share, as per the balance sheet dated as of June 30, 2011, with due regards to the right to draft a special balance sheet. On the other hand, Drogasil's dissenting shareholders in compliance with the above mentioned conditions will be entitled to reimbursement of the shares, in the amount of R$ 3.279912829 (three point two, seven, nine, nine, one, two, eight, two, nine cents) per share, as per the balance sheet dated as of June 30, 2011, with due regards to the right to draft a special balance sheet.

10. General provisions

The Explanation Protocol was entered into in connection with the Merger Agreement. The events described in the Explanation Protocol, as well as the other matters submitted to the Companies' shareholders at the Extraordinary General Meetings requested to approve the Explanation Protocol comprise legal businesses reciprocally dependent, and the parties intend that one business should not be effective without the completion of the others.

Drogasil does not hold interest in Raia, and Raia does not hold interest in Drogasil, and both are not subject to Article 264 of Law 6404/76.

Upon completion of the Merger of Shares, Drogasil will not assume the assets, rights, obligations and responsibilities assumed by Raia, which will maintain its legal personality, without succession.

The Explanation Protocol, the Appraisal Report, the Bylaws of Raia Drogasil, the documents required under CVM Instruction No. 481/2009 and the other documents will be available at the website of CVM (www.cvm.gov.br) and BM&FBOVESPA (www.bmfbovespa.com.br) and in the investor relations websites of Raia and Drogasil (www.drogaraia.com.br and www.drogasil.com.br, respectively), and in their respective head offices at Praça Panamericana, nº. 57, Alto de Pinheiros and Avenida Corifeu de Azevedo Marques, nº 3.097, Vila Butantã, both in the City of São Paulo, in the State of São Paulo.

The shares issued by each of the companies will continue to be normally traded until the end of the period for exercise of the withdrawal right, after which the companies will disclose a notice to the shareholders communicating the date to exchange the trading codes. The cancellation of Raia's registry as a publicly-held company will be requested after the completion of the Merger of Shares. Drogasil, in turn, will remain listed in the Novo Mercado segment of BM&FBOVESPA.

The Merger of Shares was submitted to the Brazilian competition authorities.

The goodwill arising from the Merger of Shares, in the total amount of R$ 898,760,845.43 (eight hundred and ninety-eight million, seven hundred and sixty thousand, eight hundred and forty-five reais and forty-three cents) ("Goodwill"), may be fiscally amortized by Drogasil, under the terms and conditions of applicable rules issued by CVM and Brazilian tax legislation. The conditions for eventual use of the Goodwill by Drogasil will be subsequently evaluated by Drogasil.

The costs and expenses to be incurred in connection with the Merger of Shares are estimated at R$ 25,138,000.00 (twenty-five million, one hundred and thirty-eight thousand reais), of which approximately R$ 24,846,000.00 (twenty-four million, eight hundred and forty-six thousand reais) refer to costs with the engagement of legal, accounting and financial advisors and approximately R$ 292,000.00 (two hundred and ninety-two thousand reais) refer to publication costs and others.

São Paulo, October 24, 2011

RAIA S.A.	DROGASIL S.A.
Eugênio De Zagottis	Cláudio Roberto Ely
Investor Relations Officer	General and Investor Relations Officer