International Conference Call
Grupo Fleury
1st Quarter 2010 Earnings Results
May 14, 2010

Operator: Good morning everyone. Welcome to Fleury Group 2010 1st Quarter conference call. Mr. Mauro Figueiredo, CEO and Mr. Fábio Marchiori, CFO and Head of IR of Fleury Group will present the results. We also have Omar Hauache, Business Executive Director, for the Q&A session.

This event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After Fleury Group's remarks, there will be a question and answer session. At that time further instructions will be given. Should any participant need assistance during this call, please press star zero (*0) to reach the operator.

This event is also being broadcast live via webcast and may be accessed through Investor Relation Website at www.fleury.com.br/ir, where the presentation is also available. Those following the presentation via webcast may post their questions in advance on our website. They will be answered during the Q&A session as long as we have enough time.

Before proceeding, let me mention that forward statements are based on the beliefs and assumptions of Fleury Group's Management and on information currently available to the Company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors and analysts should understand that conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward looking statements.

Now I will turn the conference over to Mr. Mauro Figueiredo, CEO of Fleury Group. Mr. Mauro, you may begin your presentation.

Mr. Mauro Figueiredo: Good morning to everyone. We are happy to present the 1Q results of Fleury Group. This is the English presentation, the Portuguese presentation will happen later on today. The financial highlights of 1Q show you a gross revenue growth of 11.2% and progressive and consistent gains in profitability in different lines of profitability.

The gross profit margin achieved 42.2%, representing a 14.3% increase compared to the same period, 1Q09.

Ebitda, non-adjusted Ebitda increased 16.7%, achieving 22% margin to net revenue and net income reached R$ 24 million, which represents 114% increase compared to last year.

The graph shows you the gross revenue per year and growth in the quarter, 1Q, reaching R$ 217 million. It is interesting to mention an increase of 12.9% at the patient service centers, almost 19% of hospital-based diagnostics and even more at the preventive disease management slide I will show you later.

The operational highlights are 1Q I would like to emphasize the continuation of the integration of the companies acquired in the last year. We completed the integration of Biesp in São Paulo state and one imaging company that was acquired last year, Centro de Mastologia in Rio de Janeiro and both integrations were completed in 1Q with the unification of front-end IT platforms.

Another highlight is the optimization, the continuous optimization of our patient service center network, with special attention to Rio operation, where we shut down 10 satellite small patient service centers.

Another important improvement is the completion of the unification of sample processing facilities in São Paulo. We had two big sample processing facilities, these two facilities were merged. It was almost a year project to merge these two facilities and the completion of the unification happened in 1Q this year, producing, we will see, gains for the future.

Weinmann Laboratories that was acquired last October was incorporated and will now be followed by the integration that will happen in the following quarters. Actually Weinmann and the company that we acquired yesterday are the only two examples of remaining companies to be integrated in our group.

Giving you more detail about the gross revenue, patient service centers, as I mentioned, grew 12.9%. Is interesting to mention the average revenue per patient service center that expanded 16.2% and the number of patients in our premises grew 6.4%.

As I mentioned before, diagnostic operations in hospitals is continuing to show an interesting increase in revenues and profitability. That operation grew almost 19% in 1Q.

The preventive and therapeutic medicine increased almost 52% and that if we exclude the hospital, the ambulatory surgery operation that was discontinued last year as a result of our IPO operation.

And then you see more details about the gross revenue per business unit comparing this quarter to last year's quarter and the growth in revenues.

If we look in more details in medical diagnostics, medical diagnostics business unit is composed by patient service centers and diagnostic operations in hospitals and lab-to-lab. This compound of business lines grew 11.5% and, as I mentioned before, patient service centers 12.9 and hospital-based operations almost 19%.

The geographic expansion that we performed this quarter has to do with the acquisition of Weinmann that allowed us to introduce ourselves into the South region of Brazil, Rio Grande do Sul State, which added 26 patient service centers and two operations in hospitals, the best hospitals in Porto Alegre, which is the capital, called Moinhos de Vento and another hospital called Ernesto Dorneles and also regional lab-to-lab operations as well.

The imaging and other medical specialties revenue increased by 11.2% and the clinical analysis revenue increased 11.7 and that has to do with Weinmann acquisition. If we exclude that effect, imaging and other specialties grew more than clinical analysis, as has been happening year by year and you see the relative proportions of imaging and clinical analysis comparing quarters and years from 06 to 09.

If we consider the patient service centers average revenue, we reached in 1Q and increase of 16.2% in increase of revenue compared to last year and that is even a higher growth than the growth that we observed in 09 compared to 08. That is something that we pay great attention and has been able to produce an interesting increase in revenue, average revenue per patient service center.

The number of patients in our premises grew 6.4% and then it is part of the reason of our growth in revenue along with mix of procedures for services that we provide and small price increases based on the alignments and based on the negotiations of last year.

Operations in hospitals is a strong source of revenues and growth. We grew almost 19% in 1Q and now we are present, as I mentioned before, in two other hospitals in Porto Alegre. It is interesting to see that the average revenue per test is more or less stable throughout the years and the volume is increasing and that the increase of operations is the reason for the growth in the revenues.

The lab-to-lab and clinical trials if you consider the whole business there is a reduction of 1.6% in 1Q compared to 09 and that has to do with the … in lab-to-lab has to do with the choice that we have done before for high-complexity tests or esoteric tests, so the reduction in volumes of low complexity tests, where value-added is very small and we see margins decreasing over the years, so because we made a choice for high-complexity tests we see a reduction in the revenue with an increase in profitability.

As I mentioned before, Weinmann lab-to-lab operation also caused a small reduction in the average revenue per test because of the commercial and complexity aspects of that operation.

Clinical trials business was discontinued. We are phasing out that business line. It will take one to two years from now to completely shutdown this operation, to complete the contracts with the (inaudible 10:36) and to start … organizations and that is the reason why we see a drop in the revenues affecting the whole group for that small operation. Overall business line revenue decreased 17.4% as a result of discontinuation of clinical trials business.

In the preventive and therapeutic medicine if we exclude the ambulatory surgery operation that we call Fleury Hospital-Dia we grew this operation 52%, composed by three main lines of business: one is chronic disease management; health assessment for employers and health promotion programs for employers as well.

In chronic disease management the service is increasing the number of lives contracted very rapidly. We closed 1Q with 13,000 lives contracted, we have expanded even more in this present quarter. The health assessment revenue grew 33% with 27% increase in the number of health assessments and the health promotion services grew 32%. So there are strong signs of growth in that business line. We are very optimistic about the potential for growth in particular for chronic disease management.

We now will go into details of financials, costs and profitability and I will now hand over to Fábio Marchiori, the CFO and IR of the group.

Mr. Fábio Marchiori: Thanks Mauro, and good morning to everyone. The first slide that would like to present to you is like number 11. We show the evolution of the cost of services provided by the group. As you will quickly conclude from the figures, we continue to manage our cost of services very effectively and capture savings from several sources, with particular emphasis in the unification of the call center, which was completed in 4Q09 and the unification of the several processing facilities in São Paulo, which was completed during this quarter, 1Q10.

As a result you notice that although the costs grew by circa 9% in absolute terms achieving R$ 180 million in this quarter, it has decreased by 110 bps as a percentage of net revenues. Just as a reference, consumer price index in the same period was close to 5%.

If we now take a closer look in each of the lines mentioned in the table, I will quickly explaining which are the main cost drivers and their variation: the first line is personnel and medical services and you see the cost increased by 14% mainly due to organic growth in the period, expansion and enrichment of the mix of services provided and of course salary inflation.

If you see the line materials and outsourcing the cost increased by 7% mainly due to the change in the mix of tests, which of course has increased the proportion of more complex ones, which is partially offset by effective negotiations with our strategic suppliers.

If you go to the third line which is general services, rent and utilities, this is where we can more clearly grasp the effect of the unification of the sample processing facilities: you see a net cost reduction of R$ 1.2 million in the quarter.

And finally in the fourth line, the general expenses, the main items in this I include payments to health base, which is related to our operations in chronic disease management business line, and of course call center costs. We in the group see potential for further decline in this cost of services as a percentage of net revenue for the future, due to mainly three factors: the first one dilution of fixed costs as we grow, since the group has some spare capacity in the diagnostic medicine business unit. The dilution of fixed costs in preventive therapeutic medicine, mainly in the chronic disease management services as we grow in scale, and of course the third reason further savings from negotiations with our suppliers.

If we move to the next slide, slide number 12, we will now see what happens in terms of operational expenses. If you take a look at the income statement you will see that this figure increased by 12%, achieving 49 million in the quarter or 24.1% of net revenue.

However, we would like to disclose relevant information about this figure: the first item I would like to analyze is the general and administrative, which grew by 6.5%. If you analyze only the cash items - I mean, excluding depreciation and accrued profit-sharing - the figure would be R$ 32.9 million in 1Q10 compared to 31.1 million in 1Q09, which is an increase of 5.8% in absolute terms, even considering expenses from the Centro de Mastologia Rio de Janeiro and Weinmann, which is a dilution of 80 bps as a percentage of net revenue.

As a result of savings synergies and restructuring, group's general and administrative expenses continue to decline, reaching 16.2% of the net income.

If we talk about the profit-sharing plan which aims to stimulate all personnel to deliver ambitious targets in terms of financial results and the gross revenue - I mean Ebitda, I mean net profit and free cash flow - and also to continuously improve the operational processes to increase customer satisfaction while delivering innovation sustainability, we have accrued 2.5 million during this quarter, which is 0.4 million below 1Q09. The reason for this difference of 0.4 is an excess of provisions made in 2009 which are being used this year.

Depreciation has increased from 6.8 million to 8 million, of course mainly due to investments necessary to support the organic growth as well as property and equipment from Weinmann, the laboratory that we acquired in 4Q last year. This figure shall increase between 40% and 50% in the following quarters as a result of our aggressive expansion plan.

Other operational expenses grew by 3 million compared to 1Q09 mainly due to bad debtors provision, which was 4.4 million during the quarter and 1.4 million above the figure accrued in 1Q09, and also a nonrecurring 1 million write-off of fixed assets.

No let us move to slide number 13. The next slide is just a repetition of the first chart of this presentation and the only point I would like to highlight is the fact that although we do not adjust our Ebitda to exclude nonrecurring items, we usually disclose this information. So just for your information in 1Q10 we have spent circa R$ 3 million nonrecurring with the restructuring due to integration of areas and closing of patient service centers mainly in Rio de Janeiro and there is another non-cash 1 million which has just been mentioned, the fixed assets write-off.

As previously mentioned our Ebitda margin has achieved 22%, 100 bps ahead of the same period in 2009.

Let us now move to the next slide, slide number 14, and in the next slide we focus bottom-line results. As previously mentioned, the net income has increased by 114% reaching 23.5 million or 11.5% of net revenue. This significant improvement in the result is the result of two effects: first one is increase in operating profit by R$ 5.5 million and the net finance income is the second effect of 3.7 million due, of course, to the change in capital structure as a result of the proceeds from the IPO.

The net income would have been even higher, I would say circa 26.5 million if we had not written off 3.1 million of deferred income tax due to nonrecurring temporary differences that became permanent.

Speaking of income tax, effective rate for the quarter was 13% as we continue to amortize goodwill for fiscal purpose. The effective tax rate forecast for 2010 remains in the range of 16%, 17%.

Finally slide number 15 is just a summary of the results. If I can highlight the points, increase in gross and net revenue by more than 11%; gross margin improvement to 42.2%; Ebitda margin of 22%, which is 100 bps ahead of 1Q09; and net income of almost 23.5 million, more than twice 1Q09 figure, a margin of 11.5% of net revenue.

Finally slide number 16 is public information, is the performance of our shares in the red line compared to the Brazilian stock exchange index in the blue line. A price of yesterday on May 13 was closed at R$ 17.7 per share, which represents a good evolution above the IPO price.

Now I would like to handle back to Mauro to continue with this presentation.

Mr. Figueiredo: Ok. Now we would like to give you some details about the acquisition we just announced. The acquisition is very interesting, very important for us and the importance of the acquisition goes much beyond the revenues and the results that the acquisition brings us.

To talk about the details and the importance and the alignment with our strategic delivery I will hand over to Omar Hauache, Executive Director for Preventive and Therapeutic Medicine and is the responsible for all the M&A activity in our group.

Mr. Omar Hauache: Good morning. I will talk about DI, the acquisition we just performed. So if you follow the slide 18 you will see that we followed all the criteria that we consider important for screening targets for acquisitions.

But most important than only adding R$ 15 million to our revenues as Mauro just said, this was a very strategic acquisition and by that we mean that due to the fact that we strengthen even more our imaging medical team, we are very proud telling you that now this medical team is composed by 60 highly qualified physicians who are experts on the imaging field. This will strengthen even more our medical team at Fleury.

This team has strong knowledge background regarding imaging operations in hospitals. Now we can integrate this knowledge regarding clinical tests and imaging exams in a hospital such as Oswaldo Cruz here in São Paulo or any other hospital that he may enter from now on. This will probably allow us to significantly increase our growth in this business line.

Skipping to slide 19, the DI Group has 22 years of operations in the city of São Paulo. It is formed by this group of 60 highly qualified physicians and is currently present in the Hospital Alemão Oswaldo Cruz, where also are in charge of clinical analysis testing and also at Hospital do Coração. These are two very reputed hospitals in São Paulo.

The LTM gross revenue totaled 14.9 million with an Ebitda margin of 16.3%. So the total price for the acquisition was 11.5 million, which is equivalent to 0.77x LTM revenue or 4.9x the LTM Ebitda.

Payment methods will be described by Fábio later on, but it is important to say that it was 4.1 million right now with retention of 1.4 million as an escrow account for contingencies, but the remaining 6 million will be paid within the next 24 months and this is conditioned upon the permanence of the current partners in operation for the next two years.

What are the gains expected from the acquisition? - now we are on slide 20 - This will allow us to diversify Fleury Group's operations in hospitals, which was previously restricted to clinical analysis. So now we add imaging diagnostics to our operation in hospitals and we know that this represents higher value-added services, enabling the delivery of integrated diagnostic solutions to these clients.

As I said before, this will strengthen the group's team of medical professionals in imaging diagnostics and for sure this will allow greater opportunities for integrated growth.

If you take a look at the figure on the right bottom part of the slide, you will get to know that now with DI making part of our group, imaging and other exams represents 35% of our revenues in the diagnostic area.

So I pass on the word to Fábio, who will talk about the proposed terms of the acquisition.

Mr. Figueiredo: Thanks Omar. Of course this is just a very brief highlight because you have seen the numbers already. We believe this was a win-win acquisition. The net revenue of this company, DI, was around R$ 14 million; Ebitda is around 2.3 million, so it is … we paid almost 5x the Ebitda from the group. How will we make the payments? There was a down payment made yesterday of R$ 4.1 million out of 11.5 million, which is the price agreed for this acquisition. We will retain R$ 6 million to stimulate the physicians to continue with the group, although they are happy to work with us; and there is an escrow account of 1.4 million that will be held just to avoid the kind of problems with contingencies and this will be held for maximum of five years.

So that is what we have to say about this presentation. In the next slide you find some contact details if you need of course further details in the future, my name, myself and João Patah. But now I would like to open for questions from the audience.

Q&A Session

Operator: Excuse me. Ladies and gentlemen we will now begin the Question and Answer session. If you have a question please press the star key followed by the one key (*1) on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, press star two (*2).

Our first question comes from Mr. Rafael Frade with Bradesco.

Mr. Rafael Frade: Hi, good morning all. I have three questions, the first one is related to the growth in patient service centers. You posted a growth of 11.3% and I imagine that a significant part of this growth came from Weinmann acquisition.

I would like that you to talk a little more about that, because it seems that the group is growing, organically growing a little less than in the past and I would like to understand a little more about that, if there is any significant difference between Fleury brand and the other brands.

The second question is related to the integration of technical areas. You said that this integration concluded in 1Q and I would like to know if you have some estimates about the synergies for that going forward.

And the third question is about this acquisition from DI Group, I would like to know if you think that now you can expand the imaging services for the hospitals you already work with clinical analysis and how much do you think that is the addressable will market for this service, how much hospitals do you think that make sense to Fleury.

Mr. Figueiredo: Thank you Rafael. Regarding growth of course there is an impact because of Weinmann acquisition, but actually there is a composition of a comparison between business in operation that increase the revenues, the impact of Weinmann and the increase of revenues of other operations.

Weinmann has a positive effect. If we look at more mature operations - Fleury is one of those, it is included - we present organic double-digit growth, so Fleury and other mature operations we are continuing to deliver double-digit growth.

The reason you see a growth not beyond 11.3 - because if we have this with Weinmann we would see more than 11.3 - the reason is because we decreased some operations in other regional brands. If we compare 2010 to 2009 and especially in some areas where we terminated some contracts, we reduced the number of clients, so the base of comparison is what makes it … makes you see 11.3%.

And also the lab-to-lab we reduced; the ambulatory surgery center that we discontinued, that has an effect in the gross revenue. Remember, we are a business, we are group that provides services in different areas of medical services. We are not only, exclusively a diagnostic services company; very recently we provided ambulatory surgery center, we shut down this operation, that has an effect in the revenue; the clinical trials operation that we decided to discontinue, again, there is this effect.

You see, the final number, but even if you only consider patient service centers, because of the reduction in operations in other places that you are not going to see this so dramatically over the quarters, more in this comparison with 2010, that is the reason why you see 11.3.

But again, saying again, we can say that in general we have this 12.9% in the patient service center. That is a composition of increasing double-digit organically and mature operations reducing operations and not so mature operations.

Regarding the synergies, of course there is a tremendous synergy when we merge these two technical facilities, because these technical facilities were the biggest in our operations, so we merged these two facilities in just one in São Paulo, so that big facility is located in our headquarters and close to Congonhas airport.

We process high volume of tests for the entire São Paulo operation and all esoteric tests for the national network of patient service centers and hospitals, so it is a very big facility. Of course there are tremendous synergies when we locate all in the same location.

We are anticipating gains, of course, we are not disclosing the dimension of those gains, but of course you can expect gains not only in cost reduction but in increase in the quality of the services delivered, quality of the final results that we provide for the entire network of our operations.

Your question about the acquisition that we just announced I will pass to Omar to answer that.

Mr. Hauache: As you may know, it is not in the core business of the hospitals to perform imaging medical services or diagnostic services in general. So there is a trend for these hospitals to outsource these services and we are in a very good shape to capture all these opportunities.

And now we are even in better conditions because of this acquisition, because this acquisition, as I told you before, it comes with the presence of 60 medical experts in the imaging field and this will allow us to offer to these hospitals an integrated solution, because now we have a large experience background regarding clinical tests in hospitals and by adding this team of experts we can also provide integrated solutions regarding clinical tests and imaging services. It is hard to quantify how big is this opportunity, but I can tell you it is quite relevant and I am pretty much sure that we are in a very good shape to capture all this growth.

Mr. Frade: Ok very good, thank you.

Mr. Figueiredo: Thank you.

Operator: Excuse me. Our next question comes from Ms. Javier Martinez with Morgan Stanley.

Ms. Javier Martinez: Yes, Mauro, Fábio, thank you very much for the very clear release and presentation. I have two questions if I may, one for you and another for Omar, so the first one is on prices. I believe that you have most of the price revisions this year happening in June, August, so it seems like a really good timing for those negotiations.

Can you give us any color on that, how do you see it? Maybe you can say something or maybe a range that you expect … sounds like the initial guidance you gave us a few months ago may be conservative now, right?

Mr. Figueiredo: Ok. Regarding price, Javier - thank you for your question - just give you another disclosure, the impact of price increase in the numbers of this quarter is 2.4%. So there is 2.4% to do with price increasing if you compare to 09.

From now on we are pretty much optimistic regarding this price increase to at least keep what we have been achieving in the previous years, which is we are disclosing this, we have been able to increase in our more premium brands at least half the inflation and all other brands over the inflation.

We are optimistic to keep this because we are for non-premium brands with prices that are lower, most of the times, than our competitors and because there is a clear expansion in the services, in the sector, and because the relationship that we are carrying with all the MCOs the relationships are very, very good at this point.

And so we are optimistic to at least deliver the same that we have been able to achieve in the previous years, which is, again, over the inflation for not so mature brands or non-premium brands and at least half the inflation for Fleury brand. But for this quarter compared to 09 the price increase responds to 2.4% if you compare base to base.

Mr. Javier: Ok clear and the second question is for Omar and is regarding this DI acquisition I know it is not … I mean, it sounds like interesting, I know it is not a big one, but since it is the first one from the IPO time or since the IPO. I think it would be interesting to understand a little bit better some things just to get some color on how things may happen in the future.

The way I see it seems that you have bought a good platform, a very profitable company in a growing market and you managed to pay 4.9x Ebitda, less than 1x sales pass Ebitda, so pre-synergies right? So how is this possible, how do you convince those people to sell at those multiples and is this sustainable in the future? So should we keep expecting this kind of low multiples?

Mr. Hauache: Ok Javier, thanks for your question. Fleury is a very attractive brand. We are in very good alignment with all the physicians, we know these physicians a long time ago, we have been in touch with them for a long time and it is a reciprocal desire for both companies to work together.

So this is what we still like in the market when we usually prospect some opportunities: Fleury brand is very attractive; we are very selective regarding our acquisitions and this for sure contributes for us to pay these values.

And you ask me from now on, but our perspectives we believe that we are going to follow this criteria, we are going to follow the same line of acquisitions. We may be more flexible depending on the opportunity, of course, but we are very much in line with what we have been practicing so far.

Mr. Martinez: And it is cash, I mean, for me it is amazing that you convinced those guys sell at those levels, but … ok, and Mauro regarding Vivian is the second manager leaving? Is there anything we should be concerned? She has any stock options, everything is okay?

Mr. Figueiredo: Well, one thing that differs us from the other companies in the sector or other competitors is this concept of team. We have a very large and very qualified team of professionals. The same that happened with Wagner that stayed with us for five years, did a tremendous job and had this transition that was very well accomplished, a transition that was planned for months and was a mutual agreement for the transition, the same happened here.

Vivian is with us for many years as it is in the announcement and she has plans, personal, professional; she wanted to live abroad, she is going to Spain to stay there for two years - she is a Spanish citizen, has her family there - and she has these personal and professional plans to spend some time, two years with the family there.

So we have been arranging this transition, again, for a few months with her. She has been with us for the planning of the transition. The person who is now in charge for medical diagnostics belongs to the group for 15 years, is now in charge for regional brands, the major operation in São Paulo, So Wilson is the new head of this business is very well experienced, has a medical background, is MBA, has administrative experience, is in charge of these regional brands for more than two years now, previously he had been in other positions in the organization.

So we are very confident on the transition. We foresee no impact at all - if not positive impact, because every transition brings new alternatives, new possibilities. It is very smooth, very well-planned, planned for months; it follows a decision that from start was a hard decision because of these personal and professional plans. So we are very confident that we can see only improvements for the future.

Mr. Martinez: And may this have any relevant impact on the stock options or something like that?

Mr. Figueiredo: No, because it is so early in the stock option program that she would not get this. So there is no impact at all, so nothing changes.

Mr. Martinez: Ok thank you, thank you very much.

Mr. Figueiredo: Thank you.

Operator: Excuse me. Our next question comes from Mr. João Carlos with BTG Pactual Bank.

Mr. João Carlos: Good morning everybody. I am sorry, I would like to get back to one of the points that Rafael mentioned on his question on the patient service center business. We have seen the growth in revenues of 13% year over year with revenue per patient service center growing 16%.

I just wanted to understand because the consolidated figures we have this 13% growth, however we also have Weinmann here, so we could assume that potentially the growth ex-Weinmann would be something close to half of it like 6%.

With the 16% growth in patient service center … per patient service center revenue, I just wanted to understand if the impact here is from the closure of the 10 units that you did in the quarter and how did this revenue transfer could eventually happen or if I may, if actually what we have here was a reduction in the market share in those specific markets? So just trying to understand if these numbers are a little bit better.

The second question is on the lab-to-lab business. Even if we consider the discontinuation of the clinical trial business, revenues were pretty much flat year over year. So what other growth opportunities here in specifically lab-to-lab?

And the third one is … the third question is regarding the capital disbursement. The Capex was roughly R$ 10 million, we had this guidance of (inaudible 40:44) how would that evolve throughout the year? Thank you very much.

Mr. Figueiredo: Thank you João Carlos for all very good questions. Regarding revenues, as I mentioned the explanation is exactly what is contained in your question: it has to do with the closure of 10 patient service centers in Rio. So the average revenue grew 16%, but if you look at the final result it is only 13% if you compare base to base.

And there is a composition of different things again: so remember in 09 we were pretty much involved in the integration of all the operations, so 09 was a very busy, very heavy year for integration, for unification of IT, back office and front office platforms, for the merger and integration of technical facilities. We were in that phase.

And particularly by beginning of 09 we were in a phase of selecting clients as well. So there are big operations in Bahia, in Pernambuco, contracts with other … specific HMOs, specific hospitals that we shut down using all the effect. But what I can tell you for those regions there is no … of course there was … revenues you would assume this is a decrease in the market share; but actually it has more to do with specific contracts, it has not to do with market share.

If you go for the regions where we did the integration first, for instance, Pernambuco (it was the first to be integrated in the platforms and operational), now we see an expansion in the operation close to 10% and a gain in profitability if we compare base to base. So more and more we will begin to disclose in more details, but what I can tell you has to do with selection of contracts, decrease in specific regions and the effect of the integration.

The opportunities for expansion in different regions are very clear and that is the reason why our plans for expansion, organic expansion, involve all areas we are in. So Fábio will comment on the Capex, but the amount of money that we are spending this year and next year is for the entire patient service center network in all different states that we operate, because we see clear opportunities in all of them.

So what we are going to see in 2010 or 2011 is the result for the integration and for the capture of increase in the market share. On top of that we are finalizing by 2H of this year a branding project that will define specifically which brands we will keep, brands we will terminate in different areas. So our communication plan for all these regions will be very aggressive from the end of this year, beginning of 2011. So it is a continuing process.

I will now pass to Omar to comment on the lab-to-lab operations.

Mr. Hauache: Regarding the lab-to-lab question you asked what happens is that we started to follow very strictly our strategy. The company started to have differentiation, so last year we selected clients in these business lines, so we were very conscious that we were going to lose some revenues and this still happened in 1Q this year.

But right now we are in the final phase of this selection, so the perspective from now on for these business lines for the next month is that we are going to grow also in revenue, but also in profitability as well. So this was a decision we took last year. There are still some effects in this 1Q of the year but from now on we expect to grow also for this business line. Fábio.

Mr. Marchiori: Ok thanks. About the Capex expenditure just to make you comfortable it is absolutely aligned with the forecast. We had the forecast that in

1Q we would spend less about 10% and the other 9% would be spread across the year.

What is the reason for that? Because of course we were waiting for the good results that we had in the IPO and now there is a lot of discussion, because we have to find the right place to put the patient service center and this involves a lot of negotiation in terms of real estate, and as you know realistic in Brazil is becoming to be inflated and we do not want to pay these premiums to have these patient service centers. So there is a lot of negotiation going on, but this is according to schedule.

So what we could forecast is that in 2Q we will spend a lot more money because it is money that is already committed, so it is just a question of disbursement; then probably in 4Q is when you see most of the cash going out, because we have 10 big projects that will be started in 2H and this will demand a lot of cash. So this is according to the forecast and we are very comfortable about that.

Mr. João Carlos: Excellent, that was very, very helpful. Thank you very much guys.

Mr. Figueiredo: Thank you.

Operator: Excuse me, our next question comes from Mr. Diogo Miura with Deutsche Bank.

Mr. Diogo Miura: Hi, good morning everyone. I would like to know what is the outlook for the opening of new units for the remainder of this year and also any additional closures, thanks.

Mr. Figueiredo: Our program for patient service centers is to move to in some way deal with at least 70 patient service centers throughout the year. What I mean by moving, is to shut down units; to expand in a relevant way some other units; to open new units and that the whole thing amounts to 70 patient service centers. Of course there will be probably around 10 new units, but there is also relocation of patient service centers and shutdown and so on.

So in 1Q we moved at least 22 patient service centers, we shut down 10. It is probably less now that will be shut down for the following quarters, but actually we should look not at the number of patient service centers, we do not like that indicator; and the reason for that is because there is no such a thing as a standard patient service center. You may have a very big one with 1000 ft.^{2} which provides any measurable diagnostic service, but you can have a personal one, 1000 ft.^{2} only for chemical analysis.

So what we are trying to produce and to disclose to you, we are beginning to analyze that figure, is the square footage of the entire patient service center per region, per brand, because that would give you the idea of the infrastructure for receiving clients in our operations. If you consider that, we increased in the quarter ... We are planning to increase for this year at least 10% of the square footage for the entire patient service centers in all these movements.

So it is better to look that way than to look at the number of patient service centers, because I can increase the number easily, easily I can increase the number of patient service centers and decrease the square footage of the entire patient centers of the entire network. So it is something that we would like to produce. Probably … certainly you are going to see this figure this year, we are not sure if for the following results or the following ones, the next or the following ones. But that is the explanation.

Mr. Miura: Ok perfect, thanks.

Mr. Figueiredo: Thank you.

Operator: Excuse me, our next question comes from Mr. Iago Weiter with Fator Corretora.

Mr. Iago Weiter: Hi, morning everyone. I have two questions, first a follow up on Capex. I wonder if you can give us your expectations on Capex for the following years and secondly about the preventive and therapeutic medicine business unit. It seems that this unit has contributed negatively for your results and when do you expect that this unit will break even and by how much do you expect this will represent of your revenues in the future? Thank you.

Mr. Marchiori: Ok. To begin with Capex for the following years - just to reinforce, for this year we have announced Capex of R$ 208 million - and we expect for 2011 and amount of money in the same size.

Of course this is not market money, so of course if a good opportunity for an acquisition comes up we can change a little bit this plan for while and then postpone any that we would do in 2010 and 2011 to other years.

But if things continue to progress as we imagine we are going to spend 200 million this year, 200 million in 2011 and then from 2012 on we would expect something around 100% of the depreciation or a little bit more just because of obsolescence of the equipment, obsolescence of technology. But I would estimate that from 2012 on around 100%, 110% of the depreciation. Now I will hand over to Omar to talk about …

Mr. Hauache: Good morning Iago so yes, you are right. Preventive and therapeutic medicine is still contributing negatively to our results. We expect that by 2H next year, 2011, we will get to the break even.

What is important to stress here is that the chronic disease management services that was launched last year is still in a phase of maturation and this is why we expect the break even to come in the next year, because it is growing quite fast: now we have 13,000 lives in contract with us, we have just closed a new contract with Omin, which just started, with 3,000 more lives for this business line.

So we expect that the chronic disease management will start to contribute for these revenues and constantly for the results in the beginning of next year. This will allow this business line to get to the break even probably by 2H 11.

Mr. Weiter: Ok very helpful, thank you.

Operator: Excuse me, our next question comes from Mr. Felipe Oliveira with J.P. Morgan.

Mr. Felipe Oliveira: Hi, good morning everyone, thank you for taking my question. I have a doubt regarding same lab sales performance of 7.4%. I would like to know if this performance was negatively affected by the level of rain in this quarter or not and if not if this should be the performance that we should expect throughout the next quarters. Thank you.

Mr. Figueiredo: The 6.4% is increase in number of patients attending to premises. The revenues …

Mr. Oliveira: No, the same lab sales of 7.4%, same store sales of lab.

Mr. Figueiredo: Ok. Yes well, there is … January and February there is of course because of the rain some effect, but we do not believe that it is a huge effect. So as you know our business is seasonal, so if 1Q is not a heavy, very intensive quarter, 2Q and 3Q are better quarters and 4Q is probably the worst one. So we are optimistic about the following months and we are continuing to predict double-digit organic growth if we follow the following quarters.

The other thing that should be mentioned is if we compare 1Q10 to 1Q09 we are comparing 2010 to a very impressive base of comparison, because 09, because of all the layoffs people rushed to the medical services, hospitals and ambulatory services, and it was a very unusually active quarter 1Q09.

So we are having two effects here: we are comparing to a very strong base of comparison and also there is this small effect that you mentioned, the rain, but we do not see, we do not believe that this is a huge effect. We saw our operations growing, of course March is a better month because of the number of days in the month, there was no holidays in March, so we do not see this as an explanation for poor results that may be reported. So it is not our case. We see as a strong mature and double-digit organic growth for this year as well.

Mr. Oliveira: Ok, thanks Mauro.

Operator: This concludes today's question and answer session. I would like to invite Mr. Mauro Figueiredo to proceed with his closing statements. Please go ahead, sir.

Mr. Mauro Figueiredo: I would like to thank everyone and again to reinforce Fábio's words to anyone who wants further details, anything that you may imagine possible, regarding interpretation of the results, please contact our IR department. Thank you everyone.

Operator: That does conclude the Fleury Group audio conference for today. The further conference call in Portuguese will happen at 12:30, Brazil time. Thank you very much for your participation, have a good day.