# Condensed Interim Financial Information (Unaudited)

## Rede D'Or São Luiz S.A.

September 30, 2016
with Independent Auditor's Review Report

**Rede D'Or São Luiz S.A.**

Condensed interim financial information (unaudited)

September 30, 2016

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**A free translation from Portuguese into English of Independent Auditor's Review Report on Individual and Consolidated Condensed Interim Financial Information prepared in Brazilian currency.**

# Independent auditor's review report

The Shareholders, Board of Directors and Officers
**Rede D'Or São Luiz S.A.**
São Paulo - SP

## Introduction

We have reviewed the accompanying individual and consolidated condensed interim financial information of Rede D'Or São Luiz S.A. ("Company"), for the nine-month period ended September 30, 2016, which comprises the balance sheet as at September 30, 2016 and the related condensed statements of income, of comprehensive income, of changes in equity and of cash flows for the nine-month period then ended, including the explanatory notes.

## Management's responsibility for the interim financial information

Management is responsible for the preparation and fair presentation of the individual and consolidated condensed interim financial information in accordance with CPC 21 (R1) - Interim Financial Reporting and with IAS 34 - Interim Financial Reporting issued by the International Accounting Standards Board (IASB). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

## Scope of review

We conducted our review in accordance with Brazilian and International Standards on Review Engagements (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



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**Conclusion**

Based on our review nothing has come to our attention that causes us to believe that the accompanying individual and consolidated condensed interim financial information referred to above is not fairly presented, in all material respects, in accordance with CPC 21 (R1) and IAS 34.

**Other matters - Statements of value added**

We have also reviewed the individual and consolidated statements of value added for the nine-month period ended September 30, 2016, prepared under management's responsibility, the presentation of which is required by the Brazilian Corporation Law for publicly-held companies, however not required for privately-held entities. These statements have been subject to the same review procedures previously described and, based on our review, nothing has come to our attention that causes us to believe that they are not fairly prepared, in all material respects, in relation to the overall accompanying individual and consolidated condensed interim financial information.

Rio de Janeiro, November 10, 2016.

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

Wilson J. O. Moraes
Accountant CRC-1RJ-107211/O-1

# Rede D'Or São Luiz S.A.

Condensed balance sheets
September 30, 2016 (unaudited) and December 31, 2015
(In thousands of reais)

| | | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 09/30/2016 | 12/31/2015 | 09/30/2016 | 12/31/2015 |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 4 | **45,183** | 93,365 | **123,992** | 144,497 |
| Marketable securities | 4 | **2,567,319** | 679,032 | **2,899,990** | 897,237 |
| Trade accounts receivable | 5 | **1,555,781** | 1,321,647 | **2,206,671** | 1,911,681 |
| Inventories | 6 | **98,874** | 97,340 | **146,912** | 133,538 |
| Taxes recoverable | | **66,967** | 83,689 | **105,468** | 104,449 |
| Financial instrument - promissory note | 18 | **-** | 944,435 | **-** | 944,435 |
| Derivative financial instruments | 27 | **6,129** | - | **6,129** | - |
| Related parties | 7 | **11,436** | 40,072 | **-** | - |
| Dividends receivable | | **-** | 27,977 | **-** | - |
| Receivables from disposal of properties | 11 | **-** | 73,926 | **-** | 73,926 |
| Other | | **125,509** | 60,743 | **171,508** | 111,716 |
| Total current assets | | **4,477,198** | 3,422,226 | **5,660,670** | 4,321,479 |
| Noncurrent assets | | | | | |
| Related parties | 7 | **1,182,785** | 1,175,363 | **23,588** | 16,928 |
| Deposit for acquisition of property | | **-** | - | **80,112** | 76,869 |
| Judicial deposits | 16 | **70,669** | 62,239 | **88,046** | 78,439 |
| Deferred income and social contribution taxes | 19 | **-** | - | **53,566** | 80,607 |
| Derivative financial instruments | 27 | **27,387** | 35,956 | **27,387** | 35,956 |
| Investments | 8 | **1,418,643** | 1,224,110 | **125,060** | 118,651 |
| Property and equipment | 9 | **2,060,277** | 1,660,656 | **3,168,820** | 2,700,159 |
| Intangible assets | 10 | **2,202,056** | 1,810,228 | **3,052,724** | 2,668,471 |
| Other | | **29,325** | 71,342 | **32,428** | 71,394 |
| Total noncurrent assets | | **6,991,142** | 6,039,894 | **6,651,731** | 5,847,474 |
| Total assets | | **11,468,340** | 9,462,120 | **12,312,401** | 10,168,953 |

| | Note | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | | 09/30/2016 | 12/31/2015 | 09/30/2016 | 12/31/2015 |
| Liabilities and equity | | | | | |
| Current liabilities | | | | | |
| Trade accounts payable | | **198,027** | 197,627 | **316,340** | 248,247 |
| Derivative financial instruments | 27 | **129,098** | - | **129,098** | - |
| Loans and financing | 12 | **43,931** | 40,815 | **48,255** | 50,964 |
| Debentures | 13 | **710,230** | 495,159 | **789,842** | 521,483 |
| Salaries, provisions and social charges | | **329,496** | 260,357 | **433,570** | 341,689 |
| Tax liabilities | 14 | **134,259** | 108,676 | **258,080** | 174,502 |
| Taxes in installments | 14 | **22,743** | 18,123 | **24,194** | 29,802 |
| Accounts payable for acquisitions | 15 | **31,214** | 93,335 | **32,550** | 98,918 |
| Dividends and interest on equity (IOE) payable | | **309,893** | 309,051 | **318,011** | 316,004 |
| Deferred gain on property disposal | 11 | **3,920** | 3,920 | **3,920** | 3,920 |
| Other | | **35,575** | 53,756 | **43,535** | 63,872 |
| Total current liabilities | | **1,948,386** | 1,580,819 | **2,397,395** | 1,849,401 |
| Noncurrent liabilities | | | | | |
| Derivative financial instruments | 27 | **64,261** | - | **64,261** | - |
| Loans and financing | 12 | **1,267,078** | 1,113,852 | **1,278,416** | 1,124,550 |
| Debentures | 13 | **3,157,543** | 2,262,139 | **3,364,015** | 2,539,505 |
| Related parties | 7 | **63,279** | 74,398 | **1,310** | 953 |
| Taxes paid in installments | 14 | **134,539** | 121,827 | **168,687** | 151,035 |
| Accounts payable for acquisitions | 15 | **74,974** | 53,093 | **114,642** | 80,219 |
| Deferred income and social contribution taxes | 19 | **126,214** | 165,888 | **149,907** | 216,247 |
| Provision for contingencies | 16 | **144,560** | 103,480 | **176,436** | 179,569 |
| Provision for losses on investments | 8 | **59,747** | 52,780 | **-** | - |
| Deferred gain on property disposal | 11 | **81,236** | 84,040 | **81,236** | 84,040 |
| Other | | **39,318** | 39,775 | **42,167** | 43,351 |
| Total noncurrent liabilities | | **5,212,749** | 4,071,272 | **5,441,077** | 4,419,469 |
| Equity | 18 | | | | |
| Capital | | **867,777** | 867,777 | **867,777** | 867,777 |
| Capital reserves | | **2,395,445** | 2,381,551 | **2,395,445** | 2,381,551 |
| Treasury stock | | **(331,525)** | (257,597) | **(331,525)** | (257,597) |
| Income reserve | | **670,004** | 814,074 | **670,004** | 814,074 |
| Retained earnings | | **701,280** | - | **701,280** | - |
| Total equity | | **4,302,981** | 3,805,805 | **4,302,981** | 3,805,805 |
| Advances for future capital contribution | | **4,224** | 4,224 | **4,224** | 4,224 |
| Non-controlling interests | | **-** | - | **166,724** | 90,054 |
| Total equity | | **4,307,205** | 3,810,029 | **4,473,929** | 3,900,083 |
| Total liabilities and equity | | **11,468,340** | 9,462,120 | **12,312,401** | 10,168,953 |

See accompanying notes.

## Rede D'Or São Luiz S.A.

Condensed income statements (unaudited)
Nine-month periods ended September 30, 2016 and 2015
(In thousands of reais)

| | Note | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | | 09/30/2016 | 09/30/2015 | 09/30/2016 | 09/30/2015 |
| Net revenue | 20 | **4,241,242** | 3,399,967 | **5,906,455** | 4,730,625 |
| Cost of services rendered | 21 | **(2,971,289)** | (2,439,735) | **(4,294,174)** | (3,528,184) |
| Gross profit | | **1,269,953** | 960,232 | **1,612,281** | 1,202,441 |
| General and administrative expenses | 22 | **(183,371)** | (165,683) | **(189,701)** | (166,779) |
| Sales expenses | 23 | **(24,709)** | (23,981) | **(41,390)** | (18,408) |
| Equity pickup | 8 | **179,805** | 171,805 | **15,478** | 26,563 |
| Other operating income (expenses), net | 24 | **17,923** | 24,601 | **2,942** | 17,580 |
| Income before financial income (expenses) and income and social contribution taxes | | **1,259,601** | 966,974 | **1,399,610** | 1,061,397 |
| Financial income | 25 | **344,016** | 198,606 | **378,043** | 217,766 |
| Financial expenses | 25 | **(701,187)** | (517,929) | **(755,693)** | (557,788) |
| Income before income taxes | | **902,430** | 647,651 | **1,021,960** | 721,375 |
| Income taxes | 19 | **(201,150)** | (148,277) | **(306,630)** | (211,637) |
| Net income for the period | | **701,280** | 499,374 | **715,330** | 509,738 |
| Net income attributed to controlling shareholders | | **701,280** | 499,374 | **701,280** | 499,374 |
| Net income attributable to non-controlling shareholders | | **-** | - | **14,050** | 10,364 |
| Basic earnings per share | 26 | **1.5930** | 1.2908 | | |
| Diluted earnings per share | 26 | **1.5806** | 1.1496 | | |

See accompanying notes.

## Rede D'Or São Luiz S.A.

Condensed statements of comprehensive income (unaudited)
Nine-month periods ended September 30, 2016 and 2015
(In thousands of reais)

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2016** | **09/30/2015** | **09/30/2016** | **09/30/2015** |
| Net income for the period | **701,280** | 499,374 | **715,330** | 509,738 |
| Other comprehensive income | **-** | - | **-** | - |
| Total comprehensive income | **701,280** | 499,374 | **715,330** | 509,738 |
| Attributable to | | | | |
| Controlling shareholders | **701,280** | 499,374 | **701,280** | 499,374 |
| Non-controlling shareholders | **-** | - | **14,050** | 10,364 |

See accompanying notes.

## Rede D'Or São Luiz S.A.

Condensed statements of changes in equity (unaudited)
Nine-month periods ended September 30, 2016 and 2015
(In thousands of reais)

| | | Capital reserves | | | | Income reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Description | Capital | Goodwill reserve (issue of shares) | Goodwill on capital transactions | Share-based payment reserve | Treasury shares | Legal reserve | Investment reserve | Other reserves | Retained earnings | Total equity | Advance for future capital increase | Non-controlling interests | Total |
| Balances at December 31, 2014 | 452,530 | 246,114 | (52,416) | 65,710 | (161,919) | 8,666 | 295,471 | 600,000 | - | 1,454,156 | 4,224 | 11,890 | 1,470,270 |
| Capital increase | 267,583 | 1,637,491 | - | - | - | - | (33,613) | - | - | 1,871,461 | - | - | 1,871,461 |
| Conversion of debentures into shares | 147,664 | 452,336 | - | - | - | - | - | (600,000) | - | - | - | - | - |
| Acquisition of controlling interest in jointly-controlled subsidiary | - | - | - | - | - | - | - | - | - | - | - | 42,630 | 42,630 |
| Acquisition of non-controlling interest | - | - | (13,798) | - | - | - | - | - | - | (13,798) | - | - | (13,798) |
| Treasury shares | - | - | - | - | (3,808) | - | - | - | - | (3,808) | - | - | (3,808) |
| Capital transactions involving non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | (310) | (310) |
| Share-based payment reserve | - | - | - | 13,067 | - | - | - | - | - | 13,067 | - | - | 13,067 |
| Payment of dividends to non-controlling shareholders | - | - | - | - | - | - | - | - | - | - | - | (114) | (114) |
| Net income for the period | - | - | - | - | - | - | - | - | 499,374 | 499,374 | - | 10,364 | 509,738 |
| Balances at September 30, 2015 | 867,777 | 2,335,941 | (66,214) | 78,777 | (165,727) | 8,666 | 261,858 | - | 499,374 | 3,820,452 | 4,224 | 64,460 | 3,889,136 |
| **Balances at December 31, 2015** | **867,777** | **2,335,940** | **(72,048)** | **117,659** | **(257,597)** | **8,666** | **805,408** | **-** | **-** | **3,805,805** | **4,224** | **90,054** | **3,900,083** |
| Acquisition of controlling interest in jointly-controlled subsidiary | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **69,374** | **69,374** |
| Acquisition of no-controlling interest | **-** | **-** | **(8,681)** | **-** | **-** | **-** | **-** | **-** | **-** | **(8,681)** | **-** | **(2,174)** | **(10,855)** |
| Proposed dividends and interest on equity | **-** | **-** | **-** | **-** | **-** | **-** | **(144,070)** | **-** | **-** | **(144,070)** | **-** | **(4,580)** | **(148,650)** |
| Treasury shares | **-** | **-** | **-** | **-** | **(73,928)** | **-** | **-** | **-** | **-** | **(73,928)** | **-** | **-** | **(73,928)** |
| Net income for the period | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **701,280** | **701,280** | **-** | **14,050** | **715,330** |
| Share-based payment reserve | **-** | **-** | **-** | **22,575** | **-** | **-** | **-** | **-** | **-** | **22,575** | **-** | **-** | **22,575** |
| Balances at September 30, 2016 | **867,777** | **2,335,940** | **(80,729)** | **140,234** | **(331,525)** | **8,666** | **661,338** | **-** | **701,280** | **4,302,981** | **4,224** | **166,724** | **4,473,929** |

See accompanying notes.

## Rede D'Or São Luiz S.A.

Condensed statements of cash flows (unaudited)
Nine-month periods ended September 30, 2016 and 2015
(In thousands of reais, unless otherwise stated)

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 09/30/2016 | 09/30/2015 | 09/30/2016 | 09/30/2015 |
| Cash flows from operating activities | | | | |
| Income before income taxes | **902,430** | 647,651 | **1,021,960** | 721,375 |
| Adjustments to reconcile income with cash from operating activities | | | | |
| Depreciation and amortization | **120,621** | 83,657 | **149,877** | 105,266 |
| Gain on disposal of properties | **(2,940)** | (2,936) | **(2,940)** | (2,936) |
| Gain on acquisition in stages | **(74,830)** | (65,598) | **(74,830)** | (65,598) |
| Fair value of debt | **23,324** | - | **23,324** | - |
| Interest, monetary and foreign exchange gains (losses), net | **340,397** | 346,394 | **366,495** | 360,210 |
| Share-based payment | **22,575** | 13,067 | **22,575** | 13,067 |
| Provision for contingencies | **-** | - | **3,555** | (1,051) |
| Equity pickup | **(179,805)** | (171,805) | **(15,478)** | (26,563) |
| Allowance for disallowance of claims | **172,206** | 128,003 | **285,855** | 202,739 |
| Allowance for doubtful accounts | **15,468** | 17,215 | **30,297** | 10,529 |
| (Increase) decrease in assets and increase (decrease) in liabilities | | | | |
| Trade accounts receivable | **(378,529)** | (362,960) | **(567,038)** | (564,703) |
| Inventories | **(1,527)** | 1,866 | **(8,423)** | 6,846 |
| Taxes recoverable | **18,245** | (25,108) | **4,550** | (20,972) |
| Judicial deposits | **(8,113)** | (6,434) | **(7,771)** | (9,967) |
| Other assets | **(21,185)** | (32,743) | **(43,458)** | (55,284) |
| Trade accounts payable | **(13,978)** | (5,781) | **53,374** | (10,017) |
| Payroll and related charges | **54,114** | 43,230 | **84,606** | 63,075 |
| Tax liabilities | **(21,441)** | (2,717) | **(47,240)** | (18,297) |
| Taxes paid in installments | **9,035** | (2,097) | **11,597** | (2,203) |
| Transactions with related parties | **4,778** | 24,948 | **(95)** | 72,532 |
| Provision for contingencies | **(6,607)** | (30,811) | **(10,663)** | (31,013) |
| Other liabilities | **(27,851)** | 6,662 | **(26,148)** | 17,603 |
| | **(393,059)** | (391,945) | **(556,709)** | (552,400) |
| Payment of interests | **(354,158)** | (347,110) | **(394,131)** | (394,286) |
| Payment of income and social contribution taxes | **(169,382)** | (431) | **(247,201)** | (29,391) |
| Net cash generated by operating activities | **422,847** | 256,162 | **612,649** | 340,961 |
| Cash flows from investing activities | | | | |
| Acquisition of interest (net of cash acquired) | **(199,162)** | (597,766) | **(202,123)** | (545,845) |
| Capital increase in affiliates | **(103,304)** | (19,760) | **-** | - |
| Additions to property and equipment – net of write-offs | **(497,339)** | (487,129) | **(636,266)** | (556,045) |
| Additions to intangible assets | **(21,880)** | (13,112) | **(22,685)** | (8,693) |
| Cash from mergers | **10,865** | 9,551 | **-** | - |
| Receipt of promissory note - financial instrument | **944,435** | - | **944,435** | - |
| Receivables from disposal of properties | **83,179** | - | **83,179** | - |
| Swap settlement | **(57,513)** | - | **(57,513)** | - |
| Marketable securities | **(1,758,414)** | (3,623) | **(1,835,557)** | 41,021 |
| Net cash used in investing activities | **(1,599,133)** | (1,111,839) | **(1,726,530)** | (1,069,562) |
| Cash flows from financing activities | | | | |
| Capital stock | **-** | 913,228 | **-** | 913,228 |
| Treasury shares | **(73,928)** | (3,808) | **(73,928)** | (3,808) |
| Non-controlling interest | **(10,855)** | - | **(10,855)** | - |
| Payment of dividends and interest on equity | **(122,874)** | - | **(122,874)** | - |
| Dividends received | **22,429** | 9,662 | **17,539** | 12,349 |
| Loans and financing taken out | **338,874** | 246,802 | **338,874** | 246,802 |
| Debentures issued | **1,364,723** | - | **1,364,723** | - |
| Payment of debentures | **(291,121)** | (19,793) | **(309,303)** | (37,101) |
| Payment for acquisitions | **(80,304)** | (87,805) | **(83,871)** | (87,805) |
| Repayments of loans and financing | **(18,840)** | (208,524) | **(26,929)** | (290,885) |
| Cash from (used in) financing activities | **1,128,104** | 849,762 | **1,093,376** | 752,780 |
| Increase (decrease) in cash and cash equivalents | **(48,182)** | (5,915) | **(20,505)** | 24,179 |
| Cash and cash equivalents at beginning of period | **93,365** | 38,042 | **144,497** | 55,182 |
| Cash and cash equivalents at end of period | **45,183** | 32,127 | **123,992** | 79,361 |

See accompanying notes.

## Rede D'Or São Luiz S.A.

Statements of value added (unaudited)
Nine-month periods ended September 30, 2016 and 2015
(In thousands of reais, unless otherwise stated)

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2016** | **09/30/2015** | **09/30/2016** | **09/30/2015** |
| Revenue | **4,574,390** | 3,667,398 | **6,341,395** | 5,097,031 |
| Sales of goods, products and services | **4,684,337** | 3,747,018 | **6,580,436** | 5,244,701 |
| Allowance for doubtful accounts and disallowance of claims | **(187,717)** | (145,218) | **(316,811)** | (213,268) |
| Other revenues | **77,770** | 65,598 | **77,770** | 65,598 |
| Inputs acquired from third parties | **(1,443,705)** | (1,280,224) | **(2,239,121)** | (1,909,087) |
| Cost of services sold | **(1,337,791)** | (1,176,324) | **(2,110,044)** | (1,802,643) |
| Materials, energy, third-party services and other | **(105,914)** | (103,900) | **(125,522)** | (107,492) |
| Loss/recovery of assets | **-** | - | **(3,555)** | 1,050 |
| Gross value added | **3,130,685** | 2,387,174 | **4,102,274** | 3,187,944 |
| Depreciation and amortization | **(120,621)** | (83,657) | **(149,877)** | (105,266) |
| Net value added, net | **3,010,064** | 2,303,517 | **3,952,397** | 3,082,678 |
| Value added received in transfer | **523,821** | 370,411 | **393,521** | 244,329 |
| Equity pickup | **179,805** | 171,805 | **15,478** | 26,563 |
| Financial income | **344,016** | 198,606 | **378,043** | 217,766 |
| Total value added | **3,533,885** | 2,673,928 | **4,345,918** | 3,327,007 |
| Distribution of value added | **(3,533,885)** | (2,673,928) | **(4,345,918)** | (3,327,007) |
| Personnel and related charges | **(1,388,685)** | (1,082,861) | **(1,852,440)** | (1,471,554) |
| Taxes, charges and contributions | **(471,996)** | (367,324) | **(694,097)** | (522,973) |
| Interest, rents and other operating expenses | **(971,924)** | (724,369) | **(1,084,051)** | (822,741) |
| Dividends and interest on equity | **(144,070)** | - | **(144,070)** | - |
| Retained earnings | **(557,210)** | (499,374) | **(571,260)** | (509,739) |

See accompanying notes.

## 1. Operations

Rede D'Or São Luiz S.A. ("Company", and jointly with the subsidiaries "Rede D'Or" or "Group"), formerly named Hospital Maternidade São Luiz S.A., headquartered at Rua Francisco Marengo, 1312 - São Paulo - SP, is engaged in the rendering of hospital services, offering assistance and hospitality concepts, creating medical and diagnostic excellence centers and generating medical knowledge and experience that ensure safety to customers, either doctors, patients or health plans.

Operating in the States of Rio de Janeiro, São Paulo, Pernambuco and Brasília, the Group operates with 29 own hospitals, in addition to 1 hospital under management and 2 under construction, as well as oncology and radiotherapy clinics.

## 2. Basis of preparation and presentation and significant accounting practices

The accompanying consolidated condensed interim financial information was prepared in accordance with CPC 21 (R1) and IAS 34 - Interim Financial Reporting.

The accounting practices used in this individual and consolidated interim financial information are consistent with those presented in the annual financial statements at December 31, 2015, except for the designation of hedge operations.

The Company uses derivative financial instruments, such as currency and interest rate swaps and non-deliverable forwards to hedge against exchange rate change risk. Since the second quarter, the Company has been treating these transactions as hedge accounting, recorded as follows: (i) gain or loss resulting from any change in the fair value of a hedge instrument is recognized in financial income in the income statements; and (ii) gain or loss resulting in the hedged item attributable to the hedged risk is recorded as an accounting adjustment of the hedged item and recognized as financial income in the income statement.

On initial recognition of a hedge transaction, the Company classifies and formally documents the hedging relationship to which the Company wants to apply hedge accounting, as well as the management's objective and risk management strategy to enforce the hedge. The documentation includes the identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk, the nature of the risks excluded from the hedging relationship, the prospective statement of the effectiveness of the hedging relationship and the manner that the Company will evaluate the effectiveness of the hedging instrument in order to offset the exposure to changes in fair value of the hedged item or cash flows related to the hedged risk.

## 2. Basis of preparation and presentation and significant accounting practices (Continued)

P&L for the nine-month period ended September 30, 2016 does not necessarily indicate the P&L expected for the entire year ending December 31, 2016. The condensed interim financial information and related notes do not include all the information and disclosures required for the annual financial statements. Therefore, this condensed interim financial information shall be read jointly with the audited annual financial statements as of December 31, 2015.

The preparation of the Company's financial information in accordance with accounting practices adopted in Brazil requires management to use professional judgment and estimates and adopt assumptions that affect the amounts presented in revenues, expenses, assets and liabilities reported in the interim financial information and the corresponding notes. Significant items subject to these estimates and assumptions include the economic useful life and net book value of property and equipment, recoverability of assets, provision for contingencies and fair value of financial instruments, among others. The use of estimates and judgments is complex and considers various future projections and assumptions and, thus, settlement of transactions may result in amounts different from those estimated. The Company reviews its estimates and assumptions at least on an annual basis.

Authorization to conclude the preparation of this financial information was provided by Company management on November 10, 2016.

## 2. Basis of preparation and presentation and significant accounting practices (Continued)

The financial statements of Rede D'Or comprise the following entities:

| | Interest held (%) | | | |
|---|---|---|---|---|
| | 09/30/2016 | | 12/31/2015 | |
| | Direct | Indirect | Direct | Indirect |
| Parent Company - Rede D'Or São Luiz S.A. (a) | | | | |
| Fully consolidated entities | | | | |
| Rodin Empreendimentos e Participações S.A. | **99.99** | **0.01** | 99.99 | 0.01 |
| Hospital Esperança S.A. ("Esperança") | **100.00** | **-** | 100.00 | - |
| Diagno São Marcos Ltda. | **-** | **100.00** | - | 100.00 |
| Mais-Multi Assistência Incorporada a Saúde Ltda. ("Hospital São Marcos") | **100.00** | **-** | 100.00 | - |
| Rede D'Or São Luiz Serviços Médicos S.A. ("RM") | **99.99** | **0.01** | 99.99 | 0.01 |
| Advance Plano de Saúde S.A. | **99.99** | **0.01** | 99.99 | 0.01 |
| São Luiz Assistência Médica Ambulatorial Ltda. | **0.02** | **99.98** | 0.02 | 99.98 |
| PMJ Empreendimentos Imobiliários S.A. | **100.00** | **-** | 100.00 | - |
| Quinta Empreendimentos Imobiliários Ltda. | **99.00** | **1.00** | 99.99 | 0.01 |
| Onco D'Or Oncologia S.A. | **100.00** | **-** | 100.00 | - |
| Osby RJ Participações Ltda. (c) | **-** | **-** | - | 100.00 |
| Cidreira RJ Participações Ltda. (c) | **-** | **-** | - | 100.00 |
| Estância Velha RJ Participações Ltda. (c) | **-** | **-** | - | 100.00 |
| Jenner S.A. | **50.00** | **37.50** | - | 75.00 |
| Oncoholding Participações S.A. (f) | **-** | **-** | 50.00 | 37.50 |
| Oncologia D'Or S.A. | **7.31** | **78.36** | 5.34 | 78.36 |
| Instituto Onco e Radio São Pellegrino Ltda. | **-** | **85.66** | - | 83.70 |
| Centro de Oncologia do RJ Ltda. ("Salus") (j) | **-** | **85.67** | - | - |
| Centro Diagnóstico NSL S.A. | **98.43** | **-** | 98.43 | - |
| Maxclínicas Clínicas e Diagnósticos Ltda. | **99.99** | **0.01** | 99.99 | 0.01 |
| Tijuca Empreendimentos Imobiliários S.A. (former Diagnolab Exames Complementares Ltda.) | **99.99** | **0.01** | 99.99 | 0.01 |
| Centro Hospitalar São Marcos S.A. | **100.00** | **-** | 100.00 | - |
| Instituto Oncológico de Pernambuco Ltda. ("IOPE") | **99.00** | **1.00** | 99.00 | 1.00 |
| Esperança Serviços Médicos e de Diagnósticos S.A. | **100.00** | **-** | 100.00 | - |
| Santa Luzia Assistência Médica S.A. ("SLAM") | **100.00** | **-** | 100.00 | - |
| Hospital IFOR S.A. ("IFOR") (d) | **-** | **-** | 100.00 | - |
| Hospital Fluminense S.A. | **100.00** | **-** | 100.00 | - |
| Onco ABC Serviços Médicos Ltda. (e) | **-** | **-** | 73.50 | - |
| JLD Borducchi Ltda. (e) | **-** | **-** | 73.50 | - |
| Cardial Serviços Médicos Ltda. | **73.50** | **-** | 73.50 | - |
| ONCORAD - Serviços de Radioterapia Ltda. | **0.01** | **73.49** | 0.01 | 73.49 |
| Hospital Villa-Lobos Ltda. (d) | **-** | **-** | 100.00 | - |
| Unidade de Radiologia Clínica Ltda. ("URC") | **72.00** | **-** | 72.00 | - |
| Instituto de Ultrassonografia Médica Ltda. ("IUSM") | **72.00** | **-** | 72.00 | - |
| Laboratório Análises Clínicas - Labvivalle Ltda. | **50.01** | **-** | 50.01 | - |
| Norte D'Or Participações S.A. | **100.00** | **-** | 100.00 | - |
| Hospital Norte D'Or de Cascadura S.A ("Norte D'Or") | **-** | **70.00** | - | 70.00 |
| Proncordis Pronto Atendimento Cardiológico Ltda. | **1.69** | **93.95** | 1.69 | 93.95 |
| Hospital e Maternidade Bartira S.A. (d) | **-** | **-** | 100.00 | - |
| Café Verde da Quinta Ltda. | **100.00** | **-** | 100.00 | - |
| Campinas Empreendimentos Imobiliários Ltda. (former D'Or Trading Importação Ltda.) | **99.99** | **0.01** | 99.99 | 0.01 |
| IFOR Empreendimentos Imobiliários S.A. (former Park D'Or) | **99.99** | **0.01** | 99.99 | 0.01 |
| OPUNER do Brasil Ltda. | **99.99** | **0.01** | 99.99 | 0.01 |
| Medise Medicina Diagnóstico e Serviços S.A. ("Medise") | **87.82** | **10.18** | 87.82 | 10.18 |
| Assunção Emp. Imobiliários Ltda. | **99.99** | **0.01** | 99.99 | 0.01 |
| Villa Lobos Empreendimentos Imobiliários S.A. (formerJM01 Emp. Imobiliários S.A.) | **99.99** | **0.01** | 99.99 | 0.01 |
| Santa Luzia II Emp. Imobiliários Ltda. (former JM02 Emp. Imobiliários S.A) | **99.99** | **0.01** | 99.99 | 0.01 |
| RDSL Empreendimentos Imobiliários S.A. | **100.00** | **-** | 100.00 | - |
| Rede D'Or São Luiz Soluções Saúde e Segurança | **65.00** | **-** | 65.00 | - |
| JTO Holding S.A. | **50.01** | **-** | 50.01 | - |
| JTO-Fundadores Participações Ltda. | **10.00** | **40.01** | 10.00 | 40.01 |
| D'Or Consultoria Corretagem, Seguros e Benefícios | **-** | **50.01** | - | 50.01 |
| Hospital Santa Helena S.A. | **15.00** | **85.00** | 14.79 | 83.78 |
| Acreditar Oncologia S.A. (g) | **60.00** | **-** | 50.00 | - |
| Hospital Memorial São José Ltda. ("MSJ") (h) | **100.00** | **-** | - | - |
| Prontimagem Serviços Médicos Ltda. | **60.10** | **-** | 55.10 | - |

## 2. Basis of preparation and presentation and significant accounting practices (Continued)

| | Interest held (%) | | | |
|---|---|---|---|---|
| | 09/30/2016 | | 12/31/2015 | |
| | Direct | Indirect | Direct | Indirect |
| Entities consolidated by the equity method (b) | | | | |
| Acreditar Oncologia S.A. (k) | **70.00** | **-** | 70.00 | - |
| Instituto Brasiliense de Oncologia Clínica Ltda. | **-** | **40.00** | - | 35.00 |
| Acreditar Oncologia S.A. (k) | **50.00** | **-** | 50.00 | - |
| Fujidayclinic Ltda. | **-** | **30.00** | - | 25.00 |
| IPEC - Instituto de Pesquisa e Ensino CEON Ltda. | **-** | **59.99** | - | 49.99 |
| Em Frente Distribuição, Manipulação E Nutrição Ltda. | **0.1** | **59.99** | 0.1 | 49.99 |
| Acreditar Tocantins Oncologia S.A. | **-** | **30.00** | - | 25.00 |
| Centro Oncológico do Vale Ltda. | **-** | **50.00** | - | 50.00 |
| Instituto de Radioterapia do Vale do Paraíba Ltda. | **-** | **50.00** | - | 50.00 |
| JMJB Diagnósticos e Serviços Hospitalares S.A. | **50.00** | **-** | 50.00 | - |
| J Badim S.A. ("Hospital Badim") | **-** | **50.00** | - | 50.00 |
| EAH Administração Hospitalar Ltda. | **-** | **50.00** | - | 50.00 |
| Memorial Imagem e Diag Ltda. ("Mediax") (i) | **15.00** | **-** | - | - |
| Maximagem Diag. por Imagem Ltda. (i) | **50.00** | **-** | - | - |
| GGSH Part. S.A. (company acquired in 2016) (k) | **45.00** | **-** | - | - |
| HEMATO - Serviços de Hemoterapia Ltda. (i) | - | 9.58 | - | - |
| Oncologia D'Or S.A. | **32.56** | **-** | 32.56 | - |
| CEHON - Centro de Hematologia e Oncologia Ltda. | - | 32.56 | - | 32.56 |
| GGSH Part. S.A. (company acquired in 2016) | **21.29** | **-** | - | - |

(a) This includes hospitals São Luiz Itaim, São Luiz Morumbi, São Luiz Anália Franco, Copa D'Or, Quinta D'Or, Caxias D'Or, Brasil, Assunção, Prontolinda, Joari, Realcordis, HGB, HCB, Rio de Janeiro, Vivalle, Hospital Santa Luzia, Hospital do Coração, Sinisgalli, Hospital Nossa Senhora de Lourdes, Hospital da Criança, Sino Brasileiro Serviços Hospitalares S.A, Villa Lobos Ltda. Hospital e Maternidade Bartira S.A. and Hospital Ifor S.A..
(b) Jointly-controlled companies recognized by the equity method.
(c) Osby RJ Participações Ltda. Cidreira RJ Participações Ltda. and Estância Velha RJ Participações Ltda. were merged into Onco D'Or Oncologia S.A. on January 1, 2016;
(d) Companies merged into the Company on January 1, 2016.
(e) JLD Borducchi Ltda. and Onco ABC Serviços Médicos Ltda were merged into Cardial Serviços Médicos Ltda. on January 1, 2016.
(f) Oncoholding Participações S.A was merged into Jenner S.A. on January 1, 2016;
(g) Acquisition of additional interest through acquisition of control in April 2016.
(h) Companies acquired in April 2016.
(i) Memorial Imagem e Diag. Ltda. Maximagem Diag. por Imagem Ltda. and Hemato - Serviços de Hemoterapia Ltda. are jointly-controlled subsidiaries recognized under the equity method from April 2016.
(j) Company acquired in August 2016 through investee Oncologia D'Or S.A.
(k) Hospitals are included only for illustration purposes, since they refer to consolidated investments held by investees recognized under the equity method.

## 3. Business combination

Business combinations disclosed in the financial statements as of December 31, 2015, did not change significantly. In the first nine-month period of 2016, the Company acquired control over the following companies:

### Acreditar Oncologia S.A.

On April 19, 2016, Rede D'Or, acquired an additional 5% interest in Acreditar Oncologia S.A. ("Acreditar") Accordingly, The Group acquired control over Acreditar and then held 60% interest. The total consideration transferred for the additional 5% of interest was R$ 10,229 of which R$ 5,115 was paid on the date of the agreement and the R$5,114 on maturity on April 26, 2018, to be restated by the variation in the CDI as from acquisition.

## 3. Business combinations (Continued)

**Acreditar Oncologia S.A.** (Continued)

As provided for in CPC 15 - Business Combinations, the Company valued its prior interest at fair value and recorded the corresponding gain on the date of acquisition of control, as follows:

| | At acquisition date |
|---|---|
| Prior interest at fair value | **112,519** |
| Prior interest at book value (55%) | **41,116** |
| Gain on business combination realized in stages (Note 24) | **71,403** |
| Deferred income and social contribution taxes (Note 19) | **(24,277)** |
| Net gain on business combination realized in stages | **47,126** |

The gain stated above was classified in other operating revenue in the income statement.

The Group is assessing the assets acquired and liabilities assumed at fair value, however, the stated effects are preliminary. The calculation of preliminary goodwill is as follows:

| | At acquisition date |
|---|---|
| Assets | |
| Cash and cash equivalents | **10,798** |
| Trade accounts receivable | **19,196** |
| Inventories | **1,536** |
| Taxes recoverable | **3,458** |
| Investments | **6,054** |
| Property and equipment | **4,830** |
| Intangible assets | **3,348** |
| Other | **11,542** |
| | **60,762** |
| Liabilities and equity | |
| Trade accounts payable | **(5,352)** |
| Tax obligations | **(3,781)** |
| Personnel | **(810)** |
| Other | **(2,686)** |
| | **(12,629)** |
| Total identifiable assets, net | **48,133** |
| Total consideration | **10,229** |
| Fair value of 55% of net assets on the date control was acquired | **112,519** |
| Non-controlling interest at fair value | **81,833** |
| Goodwill on acquisition (Note 10) | **156,448** |

## 3. Business combinations (Continued)

**Acreditar Oncologia S.A.** (Continued)

As this acquisition occurred recently Management is in the process of analysis of assets acquired and liabilities assumed which is estimated to be concluded up to the end of 2016. If required the Company shall carry adjustment as required under IFRS3/CPC 15.

Since the date of the acquisition, Acreditar contributed to the Group with revenue of R$44,671 and pretax income of R$15,366. If the business combination had occurred at the beginning of the year, Acreditar would have contributed revenue of R$62,613 to the Group and pretax income of R$21,104.

**Memorial São José Ltda.**

On April 25, 2016, the Group acquired all shares in Hospital Memorial São José Ltda. ("Memorial") a limited company that operates a hospital located in Recife, Pernambuco. The total consideration transferred amounted to R$141,315, fully paid on the transaction date.

The Group is assessing the assets acquired and liabilities assumed at fair value, however, the stated effects are preliminary. The calculation of preliminary goodwill is as follows:

| | At acquisition date |
|---|---|
| Assets | |
| Cash and cash equivalents | **7,081** |
| Trade accounts receivable | **21,095** |
| Inventories | **2,891** |
| Taxes recoverable | **1,560** |
| Related parties | **258** |
| Judicial deposits | **1,196** |
| Deferred income and social contribution taxes | **4,219** |
| Investment | **50** |
| Property and equipment | **10,387** |
| Intangible assets | **273** |
| Other | **1,667** |
| | **50,677** |
| Liabilities and equity | |
| Accounts payable | **(7,053)** |
| Loans and financing | **(81)** |
| Salaries, provisions and social charges | **(5,636)** |
| Tax obligations | **(14,013)** |
| Taxes paid in installments | **(447)** |
| Provision for contingencies | **(3,975)** |
| Other | **(1,280)** |
| | **(32,485)** |
| Total identifiable assets, net | **18,192** |
| Total payment | **141,315** |
| Goodwill on acquisition (Note 10) | **123,122** |

## 3. Business combinations (Continued)

**Memorial São José Ltda.** (Continued)

Since the date of the acquisition, Memorial contributed to the Group with revenue of R$68,514 and pretax income of R$6,029. If the business combination had occurred at the beginning of the year, Memorial would have contributed revenue of R$145,457 to the Group and pretax income of R$28,448.

## 4. Cash and cash equivalents and marketable securities

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2016** | **12/31/2015** | **09/30/2016** | **12/31/2015** |
| Cash and cash equivalents | | | | |
| Cash and banks | **33,580** | 76,149 | **50,499** | 94,763 |
| Short-term investments | **11,603** | 17,216 | **73,493** | 49,734 |
| | **45,183** | 93,365 | **123,992** | 144,497 |
| Marketable securities | | | | |
| Boutique fund | | | | |
| Non-exclusive investment funds | **1,708,743** | 646,720 | **1,599,983** | 822,157 |
| Repurchase agreements | **364,823** | 19,057 | **732,180** | 41,935 |
| Bank Deposit Certificates (CDBs) | **197,034** | 13,255 | **236,401** | 33,145 |
| Financial Treasury Bills (LFT) | **296,719** | - | **331,426** | - |
| Marketable securities | **2,567,319** | 679,032 | **2,899,990** | 897,237 |

Short-term investments classified as cash equivalents mature within no more than 90 days from the investment date, and the amounts classified as marketable securities refer to securities maturing after 90 days, held for trading.

Short term investments classified as marketable securities mainly particularly refer to Bank Deposit Certificates (CDBs), floating government securities associated with the Brazil's Central Bank benchmark rate - SELIC (LFTs) and repurchase agreements backed by debentures, which are part of the exclusive "FIM CP Plataforma" fund portfolio, (which also invest in non-exclusive investment funds) issued by first-tier financial institutions, and with average yield of 72% to 110% of Interbank Deposit Certificate (CDI).

## 5. Trade accounts receivable

Accounts receivable comprise receivables from health companies and individuals, as follows:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2016** | **12/31/2015** | **09/30/2016** | **12/31/2015** |
| Accounts receivable from health insurance and health plans | **1,948,397** | 1,572,170 | **2,951,700** | 2,436,851 |
| Accounts receivable from individuals | **60,089** | 66,776 | **71,538** | 79,951 |
| Allowance for disallowance of claims | **(222,900)** | (122,348) | **(475,237)** | (298,683) |
| Allowance for doubtful accounts | **(229,805)** | (194,951) | **(341,330)** | (306,438) |
| | **1,555,781** | 1,321,647 | **2,206,671** | 1,911,681 |

### Changes in provision for disallowance of claims and allowance for doubtful accounts

Management has a policy to set up an allowance for doubtful accounts for receivables overdue for more than 360 days. The provision for disallowance of health care service claims is set up based on the history of receipts by health insurance/plan within the term of up to 360 days.

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2016** | **12/31/2015** | **09/30/2016** | **12/31/2015** |
| Balance at beginning of year | **(317,299)** | (300,455) | **(605,121)** | (401,283) |
| Recognition of provision for disallowance of claims | **(172,206)** | (176,992) | **(285,855)** | (279,619) |
| Write-off of uncollectible amounts | **88,498** | 211,921 | **118,945** | 256,829 |
| Set up (reversal) of allowance for doubtful accounts | **(15,468)** | (22,677) | **(30,297)** | (15,991) |
| Provision arising from mergers | **(36,230)** | - | **-** | - |
| Provision arising from acquisition of companies | **-** | (29,096) | **(14,239)** | (165,057) |
| Balance at end of year | **(452,705)** | (317,299) | **(816,567)** | (605,121) |

At September 30, 2016 and December 31, 2015, the aging list of trade accounts receivable is as follows:

| | Parent Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Overdue | | | | | | |
| | **Total** | **Falling due** | **1 - 30 days** | **31 - 60 days** | **61 - 90 days** | **91 - 120 days** | **121 - 180 days** | **181 - 360 days** | **Over 360 days** |
| 09/30/2016 | **2,008,486** | **1,329,856** | **70,572** | **52,632** | **40,090** | **50,600** | **64,917** | **170,014** | **229,805** |
| 12/31/2015 | 1,638,946 | 1,140,748 | 50,395 | 34,998 | 25,326 | 40,535 | 65,512 | 86,481 | 194,951 |

| | Consolidated | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Overdue | | | | | | |
| | **Total** | **Falling due** | **1 - 30 days** | **31 - 60 days** | **61 - 90 days** | **91 - 120 days** | **121 - 180 days** | **181 - 360 days** | **Over 360 days** |
| 09/30/2016 | **3,023,238** | **1,893,215** | **113,214** | **102,015** | **75,997** | **81,517** | **103,975** | **311,975** | **341,330** |
| 12/31/2015 | 2,516,802 | 1,723,105 | 91,655 | 59,050 | 44,482 | 60,973 | 98,633 | 132,466 | 306,438 |

## 6. Inventories

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2016** | **12/31/2015** | **09/30/2016** | **12/31/2015** |
| Medicines | **30,635** | 29,615 | **38,294** | 37,655 |
| Special materials | **28,734** | 27,011 | **53,183** | 41,367 |
| Disposable materials | **21,196** | 23,690 | **25,590** | 28,727 |
| Bracing and prosthetic | **576** | 582 | **663** | 718 |
| Materials for use and consumption | **5,627** | 7,508 | **12,819** | 9,762 |
| Food items | **1,948** | 1,250 | **2,660** | 1,542 |
| Dressing room materials | **1,282** | 2,237 | **1,783** | 4,889 |
| Surgical sutures | **1,998** | 1,761 | **2,459** | 2,237 |
| Other | **6,878** | 3,686 | **9,461** | 6,641 |
| | **98,874** | 97,340 | **146,912** | 133,538 |

## 7. Transactions with related parties

### Balances with related parties

| | Parent Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 09/30/2016 | | | | 12/31/2015 | | | |
| **Companies** | **Current assets** | **Non-current assets** | **Non-current liabilities** | **P&L** | **Current assets** | **Non-current assets** | **Non-current liabilities** | **P&L** |
| Debentures Norte D'Or (a) | **11,436** | **19,681** | **-** | **3,991** | 33,701 | 5,385 | - | 2,428 |
| Debentures Oncotech Oncologia S.A. (b) | **-** | **-** | **-** | **-** | 6,371 | - | - | 1,568 |
| Shared services (c) | | | | | | | | |
| Medise Medicina Diagnóstico e Serviços Ltda. | **-** | **12,254** | **-** | **5,466** | - | 22,351 | - | 7,546 |
| Hospital Esperança S.A. | **-** | **29,301** | **-** | **17,462** | - | 23,000 | - | 23,403 |
| Hospital São Marcos | **-** | **15,486** | **-** | **2,764** | - | 12,723 | - | 3,023 |
| Hospital Norte D'Or de Cascadura S.A. | **-** | **-** | **-** | **2,904** | - | - | - | 5,723 |
| Rede D'Or São Luiz Serviços Médicos S.A. | **-** | **173,721** | **-** | **25,934** | - | 148,786 | - | 41,370 |
| J Badim S.A. | **-** | **953** | **-** | **1,366** | - | 324 | - | 776 |
| Oncologia D'Or S.A. | **-** | **9,244** | **-** | **1,149** | - | 8,096 | - | 504 |
| Hospital Fluminense S.A. | **-** | **13,565** | **-** | **2,089** | - | 11,476 | - | 3,463 |
| Esperança Serviços Médicos e de Diagnósticos | **-** | **91** | **-** | **91** | - | - | - | - |
| Centro Diagnóstico NSL | **-** | **185** | **-** | **185** | - | - | - | - |
| São Luiz Serviços Médicos S.A. | **-** | **-** | **19,934** | **-** | - | - | 30,408 | - |
| Centro Diagnóstico NSL | **-** | **1,269** | **-** | **-** | - | - | - | - |
| Esperança Serviços Médicos e de Diagnósticos | **-** | **736** | **-** | **-** | - | 1,485 | - | - |
| Unidade de Radiologia Clínica Ltda. | **-** | **13,401** | | **-** | - | 6,544 | - | - |
| Medise Medicina Diagnóstico e Serviços Ltda. | **-** | | **1,831** | **-** | - | - | 19,690 | - |
| PMJ Assessoria e Consultoria Financeira S.A. (f) | **-** | **76,020** | **-** | **-** | - | 22,644 | - | - |
| Quinta D'Or Empreendimentos Imobiliários S.A. | **-** | **28,175** | **-** | **-** | - | 37,725 | - | - |
| Jenner S.A. | **-** | **16,688** | **-** | **-** | - | 16,688 | - | - |
| Oncologia D'Or S.A. | **-** | **22,311** | **-** | **-** | - | 48,394 | - | - |
| Hospital Fluminense S.A. | **-** | **9,287** | **-** | **-** | - | 14,204 | - | - |
| Hospital São Marcos Ltda. | **-** | **-** | **-** | **-** | - | 12,310 | - | - |
| Villa Lobos Ltda. | **-** | **-** | **-** | **-** | - | - | 3,392 | - |
| Hospital Esperança S.A. | **-** | **-** | **9,200** | **-** | - | - | 17,401 | - |
| IFOR | **-** | **-** | **-** | **-** | - | - | 504 | - |
| D'Or Soluções | **-** | **-** | **2,173** | **-** | - | - | 2,479 | - |
| JMJB Diagnósticos e Serviços Hospitalares S.A. | **-** | **7,213** | **-** | **-** | - | 2,624 | - | - |
| Proncordis | **-** | **10,048** | **-** | **-** | - | 7,037 | - | - |
| Cardial | **-** | **-** | **-** | **-** | - | 756 | - | - |
| Acreditar Oncologia S.A. | **-** | **-** | **-** | **-** | - | 4,335 | - | - |
| Diagnolabs Ltda. | **-** | **536** | **-** | **-** | - | - | - | - |
| Centro Hospitalar São Marcos Ltda. | **-** | **18,109** | **-** | **-** | - | - | - | - |
| Rodin | **-** | **126** | **-** | **-** | - | 625 | - | - |
| Onco D'Or Oncologia S.A. | **-** | **-** | **30,141** | **-** | - | 36,429 | - | - |
| D'Or Trading Importação Ltda. | **-** | **45,014** | **-** | **-** | - | 42,157 | - | - |
| Hospital e Maternidade Bartira S.A. | **-** | **-** | **-** | **-** | - | 14,304 | - | - |
| Hospital Santa Helena S.A. | **-** | **8,661** | **-** | **-** | - | 5,600 | - | - |
| Santa Luzia II Emp. Imobiliários Ltda. (former JM02 Emp. Imobiliários S.A. (d) | **-** | **436,906** | **-** | **-** | - | 434,477 | - | - |
| IFOR Empreendimentos Imobiliários S.A. (d) | **-** | **198,832** | **-** | **-** | - | 198,832 | - | - |
| Diagnolab Exames Complementares Ltda. | **-** | **-** | **-** | **-** | - | 20,566 | - | - |
| JM&AM Empreendimentos Imobiliários S.A. (e) | **-** | **-** | **-** | **11,849** | - | - | - | 15,654 |
| Other | **-** | **14,972** | **-** | **-** | - | 15,486 | 524 | - |
| | **11,436** | **1,182,785** | **63,279** | **75,250** | 40,072 | 1,175,363 | 74,398 | 105,458 |

## 7. Transactions with related parties (Continued)

### Balances with related parties (Continued)

| | Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| | 09/30/2016 | | | | 12/31/2015 | | |
| Companies | Current assets | Non-current assets | Non-current liabilities | P&L | Current assets | Non-current assets | Non-current liabilities |
| Shared services (a) | | | | | | | |
| J. Badim S.A. | **-** | **953** | **-** | **1,366** | 324 | - | 776 |
| Onco BSB | **-** | **-** | **-** | **-** | - | 953 | - |
| Instituto D'Or de Pesquisa e Ensino (g) | **-** | **7,398** | **-** | **-** | - | - | - |
| JMJB Diagnósticos e Serviços Hospitalares S.A. | **-** | **7,212** | **-** | **-** | 7,615 | - | - |
| Badim | **-** | **1,157** | **-** | **-** | 615 | - | - |
| MRA | **-** | **-** | **-** | **-** | 7,028 | - | - |
| JM&AM Empreendimentos Imobiliários S.A. (e) | **-** | **983** | **-** | **11,849** | - | - | 15,654 |
| Other | **-** | **5,885** | **1,310** | **-** | 1,346 | - | - |
| | **-** | **23,588** | **1,310** | **13,215** | 16,928 | 953 | 16,430 |

(a) On February 9, 2012, Hospital Norte D'Or privately issued nonconvertible, single-series, registered debentures amounting to R$35,000, maturing on February 10, 2017, with Rede D'Or as the debenture holder. The debentures are remunerated *pro rata temporis* bearing interest equivalent to 100% of DI (Interbank Deposits) plus 3.5% p.a. Interest is paid on a quarterly basis. There are no expected guarantees for the debentures. Upon a 10-day notice, Norte D'Or is entitled to repay the debentures in advance, as provided for by agreement. On May 8, 2014, the registration statement was amended to split the first payment into 10 successive monthly installments beginning August 2014, subject to interest as defined in the original statement. On November 10, 2015, Hospital Norte D'Or privately issued nonconvertible, single-series, registered debentures amounting to R$25,000, maturing on November 10, 2019, with Rede D'Or as the debenture holder. The debentures are remunerated *pro rata temporis* bearing interest equivalent to 100% of DI (Interbank Deposits) plus 3.5% p.a. Interest is paid on a quarterly basis. There are no expected guarantees for the debentures. Upon a 10-day notice, Norte D'Or is entitled to repay the debentures in advance, as provided for by agreement.

(b) On January 16, 2012, Oncotech Oncologia S.A. privately issued nonconvertible, single-series, registered debentures amounting to R$40,000, maturing on April 18, 2016, with Rede D'Or as the debenture holder. The debentures are remunerated *pro rata temporis* bearing interest equivalent to 100% of DI (Interbank Deposits) plus 4% p.a. Interest is paid on a quarterly basis. There are no expected guarantees for the debentures. Upon a 10-day notice, Oncotech is entitled to repay the debentures in advance, as provided for by agreement.

(c) Shared services include centralized services rendered by the parent company, Rede D'Or, such as legal advice, marketing, accounting, treasury, accounts payable, accounts receivable and that. Are shared among the other units of the group and have specific apportionment criteria based on the contribution of each unit to the consolidated gross revenue.

(d) The balance outstanding with IFOR Empreendimentos Imobiliários S.A. (formerly Park D'Or S.A.) relates to transfer of funds to purchase the property of Villa-Lobos hospital in the amount of R$195,000, while the balance outstanding with JM02 Empreendimentos Imobiliários Ltda. refers to transfer of funds to purchase 85% of the interest acquired in Hospital Santa Helena S.A.

(e) Transactions referring to rental of three properties for hospital operation. The properties belong to a company owned by the controlling shareholders of Rede D'Or.

(f) On June 29, 2016, Rede D'Or transferred to PMJ the amount of R$37,494 for the purchase transaction of the land of Soter - Sociedade Técnica de Engenharia S.A., located in Santa Rosa, in the city of Niterói.

(g) The outstanding balance with Instituto D'or de Pesquisa e Ensino (IDOR) refers to the transfer of funds for purchase of medical research equipment.

The other transactions with related parties refer mainly to transfers of funds between the companies, the main balances of which are eliminated in the consolidated financial statements. These balances between related parties are not restated, do not have a defined maturity, and receipt is substantially expected for the subsequent fiscal year. The remaining consolidated balances refer to the transfer of funds to investees under shared control. This aims at boosting the investee's operations and payment is expected to be made with cash from operating activities.

# 7. Transactions with related parties (Continued)

## Key management personnel compensation

The Company treats as "Key management personnel" only the members of its statutory board and Board of Directors.

At September 30, 2016 and 2015, key management personnel compensation is as follows:

| | 09/30/2016 | 09/30/2015 |
|---|---|---|
| Salaries and bonuses | **30,432** | 25,814 |
| Benefits | **136** | 140 |
| Share-based compensation | **22,575** | 13,067 |
| | **53,143** | 39,021 |

# 8. Investments

## Breakdown of and changes in investments for the period – Parent Company

| Parent Company | Balance at 12/31/2015 | Equity pickup | Acquisition of interest/ control | Capital increase | Dividends | Write-off | Transfer | Other | Merger | Balance at 09/30/2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Medise Medicina Diagnóstico e Serviços S.A. | 97,362 | **20,418** | **-** | **26,056** | **-** | **-** | **-** | **(184)** | **-** | **143,652** |
| Hospital Esperança S.A. | 125,954 | **74,681** | **-** | **-** | **-** | **-** | **-** | **86** | **-** | **200,721** |
| Hospital São Marcos (including goodwill) | 26,707 | **15,276** | **-** | **-** | **-** | **-** | **-** | **3,675** | **-** | **45,658** |
| PMJ Empreendimentos Imobiliários S.A. | 74,503 | **(2,305)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **72,198** |
| Norte D'Or Participações S.A. (including goodwill) | 62,982 | **1,430** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **64,412** |
| Onco D'Or Oncologia S.A. | 64,502 | **3,933** | **-** | **62,243** | **(3,000)** | **-** | **-** | **-** | **-** | **127,678** |
| Jenner S.A. (including goodwill) | 94,554 | **2,721** | **-** | **-** | **-** | **-** | **-** | **327** | **-** | **97,602** |
| JMJB Diagnósticos e Serviços Hospitalares | 21,775 | **3,161** | **-** | **-** | **(5,770)** | **-** | **-** | **-** | **-** | **19,166** |
| Rodin Empreendimentos e Participações S.A. | 57,773 | **(5,395)** | **-** | **117** | **-** | **-** | **-** | **-** | **-** | **52,495** |
| Quinta Empreendimentos Imobiliários Ltda. | 20,335 | **8,544** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **28,879** |
| Hospital IFOR S.A. (a) | 90,789 | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(90,789)** | **-** |
| Hospital Fluminense S.A. (including goodwill) | 4,464 | **7,967** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **12,431** |
| Acreditar Oncologia S.A. (including goodwill) (b) | 38,667 | **9,051** | **94,074** | **-** | **(6,600)** | **-** | **-** | **(8,201)** | **-** | **126,991** |
| Hospital Villa-Lobos Ltda. (a) | 176,595 | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(176,595)** | **-** |
| Hospital e Maternidade Bartira S.A. (a) | 102,658 | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(102,658)** | **-** |
| Diagnolab Exames Complementares Ltda. | - | **732** | **-** | **-** | **-** | **-** | **20,329** | **-** | **-** | **21,061** |
| Cardial Serviços Médicos (including goodwill) | 55,473 | **3,921** | **-** | **-** | **(6,106)** | **-** | **-** | **(1,410)** | **-** | **51,878** |
| Hospital Santa Helena S.A. (including goodwill) | 69,827 | **4,971** | **-** | **22** | **(172)** | **-** | **-** | **(74)** | **-** | **74,574** |
| Memorial São José Ltda. (including goodwill) (b) | - | **2,684** | **141,315** | **-** | **-** | **-** | **-** | **-** | **-** | **143,999** |
| Maximagem - Diagnóstico por Imagem LTDA. (including goodwill) (c) | - | **598** | **25,374** | **-** | **(301)** | **-** | **-** | **-** | **-** | **25,671** |
| IPASA Investimento Participação e Administração S.A. (including goodwill) (d) | - | **(108)** | **16,181** | **-** | **-** | **(15,888)** | **-** | **(185)** | **-** | **-** |
| GGSH Participações S.A (including goodwill) (d) | - | **-** | **15,888** | **-** | **-** | **-** | **-** | **-** | **-** | **15,888** |
| Lithocenter S.A. (e) | 3,181 | **1,814** | **-** | **-** | **-** | **(4,995)** | **-** | **-** | **-** | **-** |
| Other | 36,009 | **32,927** | **18,589** | **27** | **(480)** | **-** | **(12)** | **6,629** | **-** | **93,689** |
| Total | 1,224,110 | **187,021** | **311,421** | **88,465** | **(22,429)** | **(20,883)** | **20,317** | **663** | **(370,042)** | **1,418,643** |
| | | | | | | | | | | |
| Rede D'Or São Luiz Serviços Médicos S.A. | (26,666) | **(6,438)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(33,104)** |
| Centro Hospitalar São Marcos S.A. | (24,642) | **(472)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(25,114)** |
| Diagnolab Exames Complementares Ltda. | (237) | **-** | **-** | **20,566** | **-** | **-** | **(20,329)** | **-** | **-** | **-** |
| Proncordis Pronto Atendimento Cardiológico Ltda. | - | **(22)** | **-** | **-** | **-** | **-** | **12** | **-** | **-** | **(10)** |
| Café Verde | (1,235) | **(211)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(1,446)** |
| Park D'Or | - | **(73)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(73)** |
| | (52,780) | **(7,216)** | **-** | **20,566** | **-** | **-** | **(20,317)** | **-** | **-** | **(59,747)** |
| Equity pickup | | **179,805** | | | | | | | | |

(a) On January 1, 2016, Rede D'or São Luiz S.A. merged the following companies: Hospital IFOR S.A, Hospital Villa-Lobos Ltda. and Hospital e Maternidade Bartira S.A. These mergers generated no impact on the Company's consolidated financial statements.
(b) Consolidated companies as from acquisition of control, as stated in Note 3.
(c) Company acquired in April 2016, recognized by equity pickup.
(d) On September 8, 2016, IPASA was merged into GGSH Participações S.A ("GGSH"), a privately-held corporation engaged in holding interest in other companies. Such merger generated an increase in capital of GGSH. Due to this capital increase, new shares were attributed to D'or São Luiz S.A., therefore, Rede D'or São S.A. now holds 21.29% interest.
(e) On September 1, 2016, Rede D'or São Luiz S.A. disposed of all shares it held referring to investment in Lithocenter S.A., without any encumbrances to the buyer. The amount of R$4,995 was recorded as loss in P&L for the period.

# 8. Investments (Continued)

## Breakdown of and changes in investments for the period - Consolidated

| Company | Balance at 12/31/2015 | Equity pickup | Acquisition of interest/control | Dividends | Write-off | Transfer | Other | Balance at 09/30/2016 |
|---|---|---|---|---|---|---|---|---|
| JMJB Diagnósticos e Serviços Hospitalares S.A. | 21,775 | **3,162** | **-** | **(5,770)** | **-** | **-** | **-** | **19,167** |
| Acreditar Oncologia S.A. | 38,667 | **2,863** | **(36,030)** | **(5,500)** | **-** | **-** | **-** | **-** |
| Onco São José dos Campos | 36,998 | **4,597** | **-** | **(5,150)** | **-** | **-** | **-** | **36,445** |
| CEHON | 16,849 | **1,307** | **-** | **(818)** | **-** | **-** | **-** | **17,338** |
| Maximagem - Diagnóstico por Imagem Ltda. (a) | - | **598** | **25,374** | **(301)** | **-** | **-** | **-** | **25,671** |
| Prontimagem Serviços Médicos Ltda. | 1,181 | **(298)** | **3,827** | **-** | **-** | **(4,710)** | **-** | **-** |
| Lithocenter S.A. (b) | 3,181 | **1,814** | **-** | **-** | **(4,995)** | **-** | **-** | **-** |
| GGSH Participações S.A (including goodwill) (c) | - | **-** | **15,888** | **-** | **-** | **-** | **-** | **15,888** |
| Other | - | **1,435** | **6,786** | **-** | **-** | **-** | **2,330** | **10,551** |
| Total | 118,651 | **15,478** | **15,845** | **(17,539)** | **(4,995)** | **(4,710)** | **2,330** | **125,060** |
| Equity pickup | | **15,478** | | | | | | |

(a) Company recognized by equity pickup through acquisition of Complexo Memorial in April 2016.
(b) On September 1, 2016, Rede D'or São Luiz S.A. disposed of all shares it held referring to investment in Lithocenter S.A., without any encumbrances to the buyer.
(c) Company acquired in September 2016, recognized by equity pickup.

## Breakdown of investments

| | September 30, 2016 | | | | | | | September 30, 2015 |
|---|---|---|---|---|---|---|---|---|
| | % Total | % Voting | Assets | Liabilities | Equity | Operating income | P&L for the year | P&L for the year |
| Direct and indirect subsidiaries | | | | | | | | |
| Medise Medicina Diagnóstico e Serviços S.A. | **98.00** | **98.00** | **281,563** | **134,979** | **146,584** | **29,573** | **20,835** | 19,084 |
| Hospital Esperança S.A. ("Esperança") | **100.00** | **100.00** | **757,281** | **556,560** | **200,721** | **155,868** | **74,681** | 1,133 |
| Mais-Multi Assistência Médica Ambulatorial Ltda. (Hospital São Marcos) | **100.00** | **100.00** | **78,732** | **43,881** | **34,851** | **16,156** | **15,276** | 49,691 |
| Rede D'Or São Luiz Serviços Médicos S.A. | **100.00** | **100.00** | **217,175** | **250,279** | **(33,104)** | **(11,695)** | **(6,438)** | 13,126 |
| Centro Hospitalar São Marcos Ltda. | **100.00** | **100.00** | **8,059** | **33,173** | **(25,114)** | **(194)** | **(472)** | (19,797) |
| Advance Plano de Saúde Ltda. | **100.00** | **100.00** | **22,118** | **16,573** | **5,545** | **(1,645)** | **(1,271)** | 661 |
| Norte D'Or Participações S.A. | **100.00** | **100.00** | **37,605** | **1,643** | **35,962** | **-** | **1,428** | - |
| Hospital Norte D'Or de Cascadura S.A. ("Norte D'Or") | **70.00** | **70.00** | **95,935** | **49,477** | **46,458** | **11,220** | **3,339** | 3,685 |
| PMJ Empreendimentos Imobiliários S.A. (organized in 2013) | **100.00** | **100.00** | **151,187** | **78,989** | **72,198** | **(3,672)** | **(2,305)** | 8,020 |
| Quinta Empreendimentos Imobiliários Ltda. (organized in 2013) | **100.00** | **100.00** | **58,228** | **29,349** | **28,879** | **9,231** | **8,542** | 6,005 |
| Onco D'or Oncologia S.A. (organized in 2013) | **100.00** | **100.00** | **162,564** | **34,886** | **127,678** | **(1,451)** | **3,933** | 9,849 |
| Esperança Serviços Médicos e de Diagnósticos S.A | **100.00** | **100.00** | **5,329** | **1,854** | **3,475** | **1,302** | **1,282** | 11,440 |
| Centro Diagnóstico NSL S.A. | **98.43** | **100.00** | **3,497** | **2,102** | **1,395** | **177** | **(174)** | (1,132) |
| Maxiclínicas Clínicas e Diagnósticos Ltda. | **100.00** | **100.00** | **2,867** | **1,668** | **1,199** | **(1,986)** | **(2,068)** | (1,186) |
| Diagno São Marcos Ltda. | **100.00** | **100.00** | **718** | **3,185** | **(2,467)** | **(1,038)** | **(1,186)** | 972 |
| TJK Empreendimentos Imobiliários Ltda. | **100.00** | **100.00** | **21,627** | **566** | **21,061** | **700** | **732** | (584) |
| Rodin Empreendimentos e Participações Ltda. | **100.00** | **100.00** | **53,352** | **974** | **52,378** | **(5,409)** | **(5,395)** | (7) |
| São Luiz Assistência Médica Ambulatorial Ltda. | **100.00** | **100.00** | **511** | **-** | **511** | **-** | **-** | 101 |
| Instituto Oncológico de Pernambuco Ltda. ("IOPE") | **100.00** | **100.00** | **18** | **1,590** | **(1,572)** | **(329)** | **(433)** | (1,955) |
| Santa Luzia Assistência Médica Ltda. ("SLAM") | **100.00** | **100.00** | **4,986** | **2,332** | **2,654** | **(1,990)** | **(1,477)** | 183 |
| Unidade de Radiologia Clínica Ltda. ("URC") | **72.00** | **72.00** | **25,057** | **19,150** | **5,907** | **3,106** | **1,318** | 9,670 |
| Hospital Fluminense S.A. | **100.00** | **100.00** | **39,522** | **39,871** | **(349)** | **13,115** | **7,967** | 2,134 |
| Cardial Serviços Médicos S.A. | **73.50** | **73.50** | **21,979** | **3,682** | **18,297** | **8,519** | **5,335** | 46 |
| ONCORAD - Serviços de Radioterapia Ltda. | **73.50** | **73.50** | **1,834** | **1,980** | **(146)** | **37** | **(135)** | (125) |
| Café Verde da Quinta Ltda. | **100.00** | **100.00** | **4** | **1,447** | **(1,443)** | **(211)** | **(211)** | 3,702 |
| Instituto Ono e Rádio São Pellegrino | **85.66** | **84.63** | **5,556** | **1,364** | **4,192** | **1,172** | **861** | 148 |
| IFOR Empreendimentos Imobiliários S.A. (former Park D'Or) | **100.00** | **100.00** | **198,779** | **198,853** | **(74)** | **(124)** | **(73)** | 24,763 |
| Proncordis Pronto Atendimento Cardiológico Ltda. | **95.64** | **95.64** | **10,310** | **10,916** | **(606)** | **(418)** | **(926)** | 990 |
| D'Or Trading Importação Ltda. | **100.00** | **100.00** | **45,416** | **45,014** | **402** | **(99)** | **(99)** | 5 |
| Hospital Memorial São José Ltda. | **100.00** | **100.00** | **64,249** | **43,372** | **20,877** | **7,166** | **2,684** | 540 |
| IPASA - Investimento Participação e Adm. S.A. | **100.00** | **100.00** | **-** | **-** | **-** | **(48)** | **(108)** | 3,402 |
| Acreditar Oncologia S.A. | **60.00** | **60.00** | **69,441** | **13,937** | **55,504** | **14,675** | **10,315** | 6,013 |
| Centro de Oncologia do RJ (Salus) (acquired in 2016) | **85.67** | **85.67** | **3,473** | **3,324** | **148** | **248** | **124** | - |
| Prontimagem | **60.10** | **60.10** | **2,043** | **367** | **1,676** | **(107)** | **(500)** | 14,001 |
| Companies consolidated by the equity method | | | | | | | | |
| Centro Oncológico do Vale Ltda. | **50.00** | **50.00** | **22,873** | **11,918** | **10,955** | **11,103** | **9,194** | - |
| Maximagem Diag por Imagem Ltda. | **50.00** | **50.00** | **13,915** | **7,311** | **6,604** | **4,756** | **2,655** | 1,727 |
| Instituto de Radioterapia do Vale do Paraíba Ltda. | **50.00** | **50.00** | **-** | **-** | **-** | **-** | **-** | 21,010 |
| JMJB Diagnósticos e Serviços Hospitalares S.A. | **50.00** | **50.00** | **46,301** | **7,968** | **38,333** | **5,804** | **6,324** | (210) |

# 9. Property and equipment

## Breakdown of balances

| | | Parent Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | 09/30/2016 | | | 12/31/2015 | | |
| Description | Depreciation rate | Cost | Accumulated depreciation | Net amount | Cost | Accumulated depreciation | Net amount |
| Hospital machinery and equipment | 12% to 20% | **591,685** | **(297,267)** | **294,418** | 463,548 | (254,233) | 209,315 |
| Surgical instruments | 20% | **26,230** | **(11,695)** | **14,535** | 14,810 | (10,085) | 4,725 |
| Machinery and equipment | 7% to 10% | **178,309** | **(104,905)** | **73,404** | 144,594 | (85,544) | 59,050 |
| Properties | 2.5% to 4% | **330,882** | **(74,841)** | **256,041** | 298,796 | (68,869) | 229,927 |
| Improvements in own properties | 4% | **296,405** | **(9,921)** | **286,484** | 23,803 | (6,228) | 17,575 |
| Leasehold improvements | 3% to 4% | **541,316** | **(136,955)** | **404,361** | 476,047 | (116,581) | 359,466 |
| Furniture and fixtures | 10% | **90,997** | **(46,789)** | **44,208** | 67,446 | (41,030) | 26,416 |
| Vehicles | 20% | **3,331** | **(2,196)** | **1,135** | 2,659 | (1,926) | 733 |
| Facilities | 10% | **66,115** | **(23,324)** | **42,791** | 55,578 | (19,980) | 35,598 |
| Land | N/A | **128,880** | **-** | **128,880** | 115,115 | - | 115,115 |
| Construction in progress | N/A | **507,189** | **-** | **507,189** | 596,611 | - | 596,611 |
| Other | 5% to 10% | **11,254** | **(4,423)** | **6,831** | 10,442 | (4,317) | 6,125 |
| | | **2,772,593** | **(712,316)** | **2,060,277** | 2,269,449 | (608,793) | 1,660,656 |

| | | Consolidated | | | | | |
|---|---|---|---|---|---|---|---|
| | | 09/30/2016 | | | 12/31/2015 | | |
| Description | Depreciation rate | Cost | Accumulated depreciation | Net amount | Cost | Accumulated depreciation | Net amount |
| Hospital machinery and equipment | 12% to 20% | **736,215** | **(356,346)** | **379,869** | 578,814 | (306,352) | 272,462 |
| Surgical instruments | 20% | **29,619** | **(13,716)** | **15,903** | 24,498 | (11,697) | 12,801 |
| Machinery and equipment | 7% to 10% | **231,319** | **(142,412)** | **88,907** | 187,369 | (114,644) | 72,725 |
| Properties | 2.5% to 4% | **910,846** | **(81,768)** | **829,078** | 844,077 | (73,271) | 770,806 |
| Improvements in own properties | 4% | **322,165** | **(10,752)** | **311,413** | 27,132 | (6,533) | 20,599 |
| Leasehold improvements | 3% to 4% | **712,306** | **(212,945)** | **499,361** | 646,821 | (184,791) | 462,030 |
| Furniture and fixtures | 10% | **122,836** | **(64,134)** | **58,702** | 96,448 | (56,323) | 40,125 |
| Vehicles | 20% | **3,904** | **(2,584)** | **1,320** | 3,403 | (2,234) | 1,169 |
| Facilities | 10% | **110,830** | **(40,230)** | **70,600** | 97,363 | (34,093) | 63,270 |
| Land | N/A | **356,248** | **-** | **356,248** | 355,973 | - | 355,973 |
| Construction in progress | N/A | **546,527** | **-** | **546,527** | 617,778 | - | 617,778 |
| Other | 5% to 10% | **16,900** | **(6,008)** | **10,892** | 16,314 | (5,893) | 10,421 |
| | | **4,099,715** | **(930,895)** | **3,168,820** | 3,495,990 | (795,831) | 2,700,159 |

## Changes in the Parent Company

| Cost | 12/31/2015 | Additions | Disposals | Transfers | Additions from mergers | 09/30/2016 |
|---|---|---|---|---|---|---|
| Hospital machinery and equipment | 463,548 | **93,381** | **(300)** | **31,968** | **3,088** | **591,685** |
| Surgical instruments | 14,810 | **4,637** | **-** | **-** | **6,783** | **26,230** |
| Machinery and equipment | 144,594 | **26,284** | **-** | **4,078** | **3,353** | **178,309** |
| Properties | 298,796 | **24,929** | **-** | **(275)** | **7,432** | **330,882** |
| Improvements in own properties | 23,803 | **1,987** | **-** | **270,615** | **-** | **296,405** |
| Leasehold improvements | 476,047 | **29,135** | **-** | **27,488** | **8,646** | **541,316** |
| Furniture and fixtures | 67,446 | **20,737** | **-** | **153** | **2,661** | **90,997** |
| Vehicles | 2,659 | **401** | **-** | **-** | **271** | **3,331** |
| Facilities | 55,578 | **7,248** | **-** | **1,125** | **2,164** | **66,115** |
| Land | 115,115 | **-** | **-** | **275** | **13,490** | **128,880** |
| Construction in progress | 596,611 | **288,066** | **-** | **(377,795)** | **307** | **507,189** |
| Other | 10,442 | **534** | **-** | **-** | **278** | **11,254** |
| | 2,269,449 | **497,339** | **(300)** | **(42,368)** | **48,473** | **2,772,593** |

## 9. Property and equipment (Continued)

### Changes in the Parent Company (Continued)

| Depreciation | 12/31/2015 | Additions | Disposals | Transfers | Additions from mergers | 09/30/2016 |
|---|---|---|---|---|---|---|
| Hospital machinery and equipment | (254,233) | **(43,034)** | **-** | **-** | **-** | **(297,267)** |
| Surgical instruments | (10,085) | **(1,610)** | **-** | **-** | **-** | **(11,695)** |
| Machinery and equipment | (85,544) | **(19,361)** | **-** | **-** | **-** | **(104,905)** |
| Properties | (68,869) | **(5,972)** | **-** | **-** | **-** | **(74,841)** |
| Improvements in own properties | (6,228) | **(3,693)** | **-** | **-** | **-** | **(9,921)** |
| Leasehold improvements | (116,581) | **(20,374)** | **-** | **-** | **-** | **(136,955)** |
| Furniture and fixtures | (41,030) | **(5,759)** | **-** | **-** | **-** | **(46,789)** |
| Vehicles | (1,926) | **(270)** | **-** | **-** | **-** | **(2,196)** |
| Facilities | (19,980) | **(3,344)** | **-** | **-** | **-** | **(23,324)** |
| Other | (4,317) | **(106)** | **-** | **-** | **-** | **(4,423)** |
| | (608,793) | **(103,523)** | **-** | **-** | **-** | **(712,316)** |
| Property and equipment, net | 1,660,656 | **393,816** | **(300)** | ***(42,368)** | **48,473** | **2,060,277** |

(*) Software reclassified to intangible assets.

### Changes in Consolidated

| Cost | 12/31/2015 | Additions | Disposals | Transfers | Business combinations | 09/30/2016 |
|---|---|---|---|---|---|---|
| Hospital machinery and equipment | 578,814 | **122,796** | **(300)** | **30,312** | **4,593** | **736,215** |
| Surgical instruments | 24,498 | **5,121** | **-** | **-** | **-** | **29,619** |
| Machinery and equipment | 187,369 | **37,804** | **-** | **4,121** | **2,025** | **231,319** |
| Properties | 844,077 | **72,637** | **-** | **(276)** | **(5,592)** | **910,846** |
| Improvements in own properties | 27,132 | **1,801** | **-** | **293,232** | **-** | **322,165** |
| Leasehold improvements | 646,821 | **38,897** | **-** | **22,284** | **4,304** | **712,306** |
| Furniture and fixtures | 96,448 | **23,483** | **-** | **153** | **2,752** | **122,836** |
| Vehicles | 3,403 | **442** | **-** | **-** | **59** | **3,904** |
| Facilities | 97,363 | **12,097** | **-** | **1,141** | **229** | **110,830** |
| Land | 355,973 | **-** | **-** | **275** | **-** | **356,248** |
| Construction in progress | 617,778 | **320,902** | **-** | **(394,288)** | **2,135** | **546,527** |
| Other | 16,314 | **586** | **-** | **-** | **-** | **16,900** |
| | 3,495,990 | **636,566** | **(300)** | **(43,046)** | **10,505** | **4,099,715** |

| Depreciation | 12/31/2015 | Additions | Disposals | Transfers | Business combinations | 09/30/2016 |
|---|---|---|---|---|---|---|
| Hospital machinery and equipment | (306,352) | **(49,994)** | **-** | **-** | **-** | **(356,346)** |
| Surgical instruments | (11,697) | **(2,019)** | **-** | **-** | **-** | **(13,716)** |
| Machinery and equipment | (114,644) | **(27,768)** | **-** | **-** | **-** | **(142,412)** |
| Properties | (73,271) | **(8,497)** | **-** | **-** | **-** | **(81,768)** |
| Improvements in own properties | (6,533) | **(4,219)** | **-** | **-** | **-** | **(10,752)** |
| Leasehold improvements | (184,791) | **(28,154)** | **-** | **-** | **-** | **(212,945)** |
| Furniture and fixtures | (56,323) | **(7,811)** | **-** | **-** | **-** | **(64,134)** |
| Vehicles | (2,234) | **(350)** | **-** | **-** | **-** | **(2,584)** |
| Facilities | (34,093) | **(6,137)** | **-** | **-** | **-** | **(40,230)** |
| Other | (5,893) | **(115)** | **-** | **-** | **-** | **(6,008)** |
| | (795,831) | **(135,064)** | **-** | **-** | **-** | **(930,895)** |
| Property and equipment, net | 2,700,159 | **501,502** | **(300)** | ***(43,046)** | **10,505** | **3,168,820** |

(*) Software reclassified to intangible assets.

## 9. Property and equipment (Continued)

**Changes in Consolidated** (Continued)

The main additions in the period refer to: (i) acquisition of hospital machinery and equipment; (ii) spending on the construction of hospitals Copa Star and São Caetano and; (iii) expansion of hospital network such as São Luiz Itaim, Hospital Prontolinda and Hospital Assunção.

Management did not identify any indication of impairment of property and equipment items.

## 10. Intangible assets

Intangible assets are broken down as follows:

| | | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | **Annual rate** | **09/30/2016** | **12/31/2015** | **09/30/2016** | **12/31/2015** |
| Finite useful lives | | | | | |
| Software | 20% | **65,727** | 18,123 | **69,693** | 21,024 |
| Exclusive agreement | 20% | **12,425** | 12,425 | **13,925** | 13,925 |
| Indefinite useful life | | | | | |
| Goodwill | | | | | |
| Acquisition of Copa D'Or | | **80,058** | 80,058 | **80,058** | 80,058 |
| Acquisition of HMSL | | **668,339** | 668,339 | **668,339** | 668,339 |
| Acquisition of Hospital Brasil | | **121,398** | 121,398 | **121,398** | 121,398 |
| Acquisition of Hospital Prontolinda | | **30,595** | 30,595 | **30,595** | 30,595 |
| Acquisition of Vivalle | | **38,692** | 38,692 | **38,692** | 38,692 |
| Acquisition of São Marcos | | **-** | - | **10,807** | 10,807 |
| Acquisition of Santa Luzia | | **199,333** | 199,333 | **199,333** | 199,333 |
| Acquisition of Sinisgalli | | **156,646** | 156,646 | **156,646** | 156,646 |
| Acquisition of Hospital Esperança | | **-** | - | **108,408** | 108,408 |
| Acquisition of Norte D'Or | | **-** | - | **28,450** | 28,450 |
| Acquisition of IFOR | | **85,724** | - | **85,724** | 85,724 |
| Acquisition of Sino Brasileiro | | **251,930** | 245,160 | **251,930** | 245,160 |
| Acquisition of Villa-Lobos | | **136,074** | - | **136,074** | 129,218 |
| Acquisition of Bartira | | **115,656** | - | **115,656** | 107,225 |
| Acquisition of Onco ABC | | **-** | - | **52,174** | 52,174 |
| Acquisition of Oncoholding | | **-** | - | **180,264** | 180,264 |
| Acquisition of Hospital Fluminense | | **-** | - | **10,658** | 10,658 |
| Acquisition of Hospital Santa Helena | | **-** | - | **134,538** | 123,523 |
| Acquisition of JTO | | **-** | - | **12,567** | 5,001 |
| Acquisition of Acreditar (Note 3) | | **-** | - | **156,448** | - |
| Acquisition of Memorial São Jose (Note 3) | | **-** | - | **123,122** | - |
| Acquisition of Salus | | **-** | - | **9,156** | - |
| Acquisition of Prontimagem | | | | **6,220** | - |
| Other goodwill | | **48,649** | 48,649 | **61,039** | 61,039 |
| Trademarks and patents | | **190,810** | 190,810 | **190,810** | 190,810 |
| | | **2,202,056** | 1,810,228 | **3,052,724** | 2,668,471 |

Goodwill presented above arises from business combinations made in 2016 and in prior years.

## 10. Intangible assets (Continued)

**Goodwill impairment testing**

Goodwill is allocated to the Cash Generating Units (CGU), identified by management as being each of the hospitals, as set out in the table above. The projections are restated on an annual basis or in a shorter period when necessary.

The recoverable amount of a CGU is based on value in use calculations.

Management performed impairment testing on goodwill and trademarks and patents for the year ended December 31, 2015, and did not identify the need of recording any provision for loss. No change was identified that would require restatement of tests at September 30, 2016.

## 11. Deferred gain on property disposal

On October 11, 2013 and December 26, 2012, the Company entered into property sale and leaseback transactions, and property lease was accounted for as operating lease.

Part of the gain referring to the excess of sales proceeds and fair value was deferred, as required by CPC 06/IAS 17 - Leases, and has been appropriated over the lease term. At September 30, 2016, deferred gains were recorded as follows:

| | Parent Company and Consolidated | |
|---|---|---|
| | **09/30/2016** | **12/31/2015** |
| Caxias D'Or | **38,406** | 39,560 |
| Hospital Brasil | **46,750** | 48,400 |
| | **85,156** | 87,960 |
| Current | **3,920** | 3,920 |
| Noncurrent | **81,236** | 84,040 |

On June 15, 2016, the Company received the amount of R$83,179, including interest adjusted by the CDI rate referring to receivables arising from the sale of these two properties, due to regulation of the property transfer documents to the buyer.

## 12. Loans and financing

| | | Parent Company | | |
|---|---|---|---|---|
| **Bank** | **Index** | **Spread for the year** | **09/30/2016** | **12/31/2015** |
| BNDES (FINAME/FINEP) | TJLP | 4.90% | **133,981** | 86,252 |
| IFC - International Finance Corporation | LIBOR | 3.30% | **895,792** | 1,067,519 |
| JP Morgan (Loan 4131) | Fixed | 3.35% | **278,631** | - |
| CCBs | Fixed | 3.90% | **2,605** | 896 |
| | | | **1,311,009** | 1,154,667 |
| Current | | | **43,931** | 40,815 |
| Noncurrent | | | **1,267,078** | 1,113,852 |

| | | Consolidated | | |
|---|---|---|---|---|
| **Bank** | **Index** | **Spread for the year** | **09/30/2016** | **12/31/2015** |
| BNDES (FINAME/FINEP) | TJLP | 4.90% | **138,302** | 97,403 |
| IFC - International Finance Corporation | LIBOR | 3.30% | **895,792** | 1,067,519 |
| JP Morgan (Loan 4131) | Fixed | 3.35% | **278,631** | - |
| CCBs | Fixed | 3.90% | **13,946** | 10,592 |
| | | | **1,326,671** | 1,175,514 |
| Current | | | **48,255** | 50,964 |
| Noncurrent | | | **1,278,416** | 1,124,550 |

Financing was obtained in order to make company acquisitions and to expand the size of hospitals. Loans and financing are guaranteed by shares representing 3.1% of the Company's capital and fiduciary assignment of credit rights. After the last economic valuation report prepared by independent appraisers and issued in December 2015, the guarantee shares started to represent 8.5% of the Company's capital, due to new loans and financing taken out with shares transferred as guarantee.

In addition to the guarantees given, the maintenance of covenants is provided for by certain loan and financing agreements. These include the assessment of indicators contractually determined based on net debt, EBITDA and financial income (expenses). Management understands that these covenants have always been complied with.

On December 4, 2014, the Company obtained two credit lines from the International Finance Corporation ("IFC") amounting to US$ 191,250 and from the Société de Promotion et de Participation Pour La Coopération Economique ("Proparco") amounting to EUR$50,000.

On April 15, 2016, the Company took out a loan with JP Morgan Chase Bank of US$84,998, with an interest rate of 3.35% p.a.

## 12. Loans and financing (Continued)

Financing obtained from IFC, Proparco and JP Morgan are detailed below:

| Bank | Currency | Index | Spread | Beginning of amortization | End of amortization | Amortization period | Number of installments | Guarantees |
|---|---|---|---|---|---|---|---|---|
| IFC A Loan (i) | US$ | LIBOR | 3.0% | Nov 2017 | Nov 2024 | Half-yearly | 15 installments | Shares and receivables |
| IFC B1 Loan (i) | US$ | LIBOR | 3.0% | Nov 2017 | Nov 2024 | Half-yearly | 15 installments | Shares and receivables |
| IFC B2 Loan (i) | US$ | LIBOR | 2.7% | Nov 2016 | Nov 2022 | Half-yearly | 13 installments | Shares and receivables |
| IFC C Loan | US$ | LIBOR | 6.0% | Nov 2021 | Nov 2027 | Half-yearly | 13 installments | Shares and receivables |
| IFC MCPP Loan | US$ | LIBOR | 3.0% | Nov 2017 | Nov 2024 | Half-yearly | 15 installments | Shares and receivables |
| Proparco Loan | EUR | EURIBOR | 3.0% | Nov 2017 | Nov 2024 | Half-yearly | 15 installments | Shares and receivables |
| JP Morgan | US$ | Fixed | 3.35% | Apr 2019 | Apr 2020 | Quarterly | 5 installments | N/A |

(i) Releases of 80% carried out in October 2015 and 20% in December 2015.

At September 30, 2016, the long-term maturity schedule is as follows:

| Parent Company | | Consolidated | |
|---|---|---|---|
| Year | Amount | Year | Amount |
| 2017 | **65,245** | 2017 | **65,829** |
| 2018 | **138,204** | 2018 | **139,441** |
| 2019 | **307,379** | 2019 | **310,130** |
| 2020 | **245,058** | 2020 | **247,251** |
| From 2021 to 2025 | **511,192** | From 2021 to 2025 | **515,765** |
| | **1,267,078** | | **1,278,416** |

## 13. Debentures payable

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 09/30/2016 | 12/31/2015 | 09/30/2016 | 12/31/2015 |
| Rede D'Or São Luiz | | | | |
| 1st issue (a) | **712,174** | 873,314 | **712,174** | 873,314 |
| 2nd issue (b) | **75,019** | 78,408 | **75,019** | 78,408 |
| 3rd issue (c) | **548,798** | 644,446 | **548,798** | 644,446 |
| 4th issue (d) | **781,440** | 804,082 | **781,440** | 804,082 |
| 5th issue (e) | **111,765** | 98,545 | **111,765** | 98,545 |
| 6th issue (f) | **207,048** | 196,733 | **207,048** | 196,733 |
| 7th issue (i) | **1,228,068** | - | **1,228,068** | - |
| 8th issue (k) | **153,048** | - | **153,048** | - |
| Medise | | | | |
| 1st issue (g) | **50,413** | 61,770 | **50,413** | 61,770 |
| Esperança | | | | |
| 1st issue (h) | **-** | - | **204,494** | 204,161 |
| 2nd issue (i) | **-** | - | **81,590** | 99,529 |
| | **3,867,773** | 2,757,298 | **4,153,857** | 3,060,988 |
| Current | **710,230** | 495,159 | **789,842** | 521,483 |
| Noncurrent | **3,157,543** | 2,262,139 | **3,364,015** | 2,539,505 |

(a) On April 20, 2011, the Company issued nonconvertible debentures in a series of 100 (one hundred) debentures for public distribution, totaling R$1,000,000, maturing on April 20, 2020 (as per the amendment of December 2013) and monthly amortization charges referring to principal as from January 20, 2016. The debentures are remunerated *pro rata temporis* bearing interest equivalent to 100% of DI (Interbank Deposits) plus 2.3% p.a., to be paid on a quarterly basis for four years and eight months, and on a monthly basis thereafter. As a guarantee, shares representing 42.5% of Company's capital and fiduciary transfer of credit rights were offered. After the last valuation report issued in December 2015, the guaranteeing shares started to represent 6.8% of the Company's capital. After 24 months, the Company is entitled to repay the debentures in advance, as provided for by agreement.

## 13. Debentures payable (Continued)

(b) On October 28, 2011, the Company carried out the second issue of nonconvertible, single-series debentures for public distribution, totaling R$100,000, maturing on January 15, 2017 and monthly amortization charges referring to principal as from July 15, 2012. The debentures are remunerated *pro rata temporis* bearing interest equivalent to 100% of DI (Interbank Deposits) plus 2.0% p.a. Interest has been paid on a monthly basis since July 15, 2012. There are no expected guarantees or repayment in advance.

(c) On December 10, 2011, the Company carried out the third issue of nonconvertible, single-series debentures for public distribution, totaling R$650,000, maturing on December 10, 2020 (as per the amendment of December 2013) and monthly amortization charges as from January 10, 2016. The debentures are remunerated *pro rata temporis* bearing interest equivalent to 100% of DI (Interbank Deposits) plus 2.3% p.a. There are no expected guarantees for the debentures. Upon a 10-day notice, the Company is entitled to repay the debentures in advance, as provided for by agreement.

(d) On September 5, 2012, the Company carried out the fourth issue of nonconvertible, single-series debentures for public distribution, totaling R$800,000, maturing on August 10, 2021 (as per the amendment of December 2013) and monthly amortization charges referring to principal as from September 10, 2016. The debentures are remunerated *pro rata temporis* bearing interest equivalent to 100% of DI (Interbank Deposits) plus 2.4% p.a. As a guarantee, shares representing 23.5% of Company's capital and fiduciary transfer of credit rights were offered. After the last valuation report issued in December 2015, the guaranteeing shares started to represent 6.5% of the Company's capital.

(e) On December 10, 2013, the Company carried out the fifth issue of nonconvertible, single-series debentures for public distribution, totaling R$100,000, maturing on December 10, 2018. The debentures are remunerated *pro rata temporis* bearing interest equivalent to 100% of DI (Interbank Deposits) plus 2.0% p.a. There are no expected guarantees for the debentures.

(f) On December 15, 2014, the Company carried out the sixth issue of nonconvertible, single-series debentures for public distribution, totaling R$200,000, maturing on December 15, 2019 and annual amortization charges referring to principal as from December 15, 2016. The debentures are remunerated *pro rata temporis* bearing interest equivalent to 100% of DI (Interbank Deposits) plus 2.0% p.a. There are no expected guarantees for the debentures.

(g) On December 12, 2011, subsidiary Medise carried out the first issue of nonconvertible, single-series debentures for public distribution, totaling R$100,000, maturing on December 12, 2017. The debentures are remunerated *pro rata temporis* bearing interest equivalent to 100% of DI (Interbank Deposits) plus 2.2% p.a. Interest has been paid on a monthly basis from January 12, 2013. As a guarantee, fiduciary transfer of credit rights was offered. Upon a 10-day notice, the Company is entitled to repay the debentures in advance, as provided for by agreement. In July 2014, Rede D'Or São Luiz S.A. assumed Medise's debts in connection with the Offer, pursuant to Article 299 et seq. of the 2002 Brazilian Civil Code ("cc/2002"). As a result, the status of Rede D'Or will change from Collateral to Issuer, in view of the capital decrease of the Issuer.

(h) On October 15, 2012, subsidiary, LE Participações Societárias S.A. (later merged into Hospital Esperança S.A.) carried out the first issue of nonconvertible, single-series debentures for public distribution, totaling R$200,000, maturing on October 15, 2021 (as amended in February 2013) and monthly amortization charges referring to principal as from October 15, 2016. The debentures are remunerated *pro rata temporis* bearing interest equivalent to 100% of DI (Interbank Deposits) plus 2.4% p.a. As a guarantee, shares representing 5.9% of Company's capital and fiduciary transfer of credit rights were offered. After the last valuation report issued in December 2015, the guaranteeing shares started to represent 1.6% of the Company's capital.

(i) On December 9, 2013, subsidiary Hospital Esperança S.A. carried out the second issue of nonconvertible, single-series debentures for public distribution, totaling R$100,000, maturing on December 10, 2018 and quarterly amortization charges referring to principal as from June 10, 2016. The debentures are remunerated *pro rata temporis* bearing interest equivalent to 100% of DI (Interbank Deposits) plus 1.9% p.a. Fiduciary transfer of credit rights was given in guarantee.

(j) On July 12, 2016, Rede D'Or completed the issue of R$1,200,000 in three, four and five year debentures. The issue of the first series amounts to R$600,000, maturing on July 12, 2019, and shall pay remuneration corresponding to 100% of the interbank rate (CDI) plus 1.9% per year. The second series amounted to R$300,000, million maturing on July 12, 2020 with remuneration at 100% of the CDI plus 2% p.a. The third issue amounted to R$300,000, maturing on July 12, 2021, with remuneration at 100% of the CDI plus 2.1% p.a. The transaction was coordinated by Bradesco S.A. bank and Pentágono acts as trustee agent. Fiduciary transfer of credit rights was given in guarantee.

(k) On July 21, 2016, the Company carried out the issue of nonconvertible, single-series debentures for public distribution, totaling R$150,000, maturing on July 21, 2021 and monthly amortization charges referring to principal as from January 21, 2018. The debentures are remunerated *pro rata temporis* bearing interest equivalent to 100% of DI (Interbank Deposits) plus 2.6% p.a. There are no expected guarantees for the debentures.

In addition to the guarantees given, the maintenance of covenants is provided for by the debenture agreements. These include the assessment of indicators contractually determined based on net debt, EBITDA and financial income (expenses). Management understands that these covenants have always been complied with.

## 13. Debentures payable (Continued)

At September 30, 2016, the long-term maturity schedule is as follows:

| Parent Company | | Consolidated | |
|---|---|---|---|
| **Year** | **Amount** | **Year** | **Amount** |
| 2017 | **225,472** | 2017 | **244,162** |
| 2018 | **619,923** | 2018 | **694,686** |
| 2019 | **1,147,527** | 2019 | **1,186,203** |
| 2020 | **687,537** | 2020 | **726,881** |
| 2021 | **477,084** | 2021 | **512,083** |
| | **3,157,543** | | **3,364,015** |

## 14. Tax liabilities and taxes in installments

a) Tax obligations

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2016** | **12/31/2015** | **09/30/2016** | **12/31/2015** |
| Contribution tax on gross revenue for social integration program (PIS) | **2,012** | 1,991 | **2,539** | 2,841 |
| Contribution tax on gross revenue for social security financing (COFINS) | **26,541** | 25,490 | **38,758** | 34,690 |
| Service tax (ISS) | **65,402** | 50,415 | **98,875** | 78,913 |
| Withholding income tax (IRRF) | **14,172** | 27,652 | **17,503** | 31,574 |
| Income tax | **17,242** | - | **70,217** | 19,593 |
| Social contribution tax | **5,860** | - | **26,399** | 2,168 |
| Other | **3,030** | 3,128 | **3,789** | 4,723 |
| | **134,259** | 108,676 | **258,080** | 174,502 |

b) Taxes paid in installments

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| **Taxes paid in installments** | **09/30/2016** | **12/31/2015** | **09/30/2016** | **12/31/2015** |
| ISS | **20,958** | 24,140 | **22,093** | 25,411 |
| Installment payment - Law No. 11941/09 | **65,729** | 68,784 | **77,363** | 89,654 |
| Installment payment – social security | **58,780** | 28,342 | **78,167** | 42,400 |
| Other | **11,815** | 18,684 | **15,258** | 23,372 |
| | **157,282** | 139,950 | **192,881** | 180,837 |
| Current | **22,743** | 18,123 | **24,194** | 29,802 |
| Noncurrent | **134,539** | 121,827 | **168,687** | 151,035 |

## 15. Accounts payable for acquisitions

| | Adjustment Index | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | | 09/30/2016 | 12/31/2015 | 09/30/2016 | 12/31/2015 |
| Current | CDI | **31,214** | 93,335 | **32,550** | 98,918 |
| Noncurrent | CDI | **74,974** | 53,093 | **114,642** | 80,219 |

Accounts payable for acquisition of companies refer to the remaining balance of the considerations for acquisitions made in 2016 and prior years.

The stated long-term balance will be fully repaid until 2020.

## 16. Provision for contingencies and judicial deposits

The Company and its subsidiaries are parties to various tax, civil and labor claims. The judicial deposits made will only be released in the event that favorable decisions are handed down to the companies. Based on the opinion of its internal and outside legal advisors, management set up a provision for losses considered sufficient to cover probable losses, as follows:

| | Parent Company | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|---|
| | 09/30/2016 | | 12/31/2015 | | 09/30/2016 | | 12/31/2015 | |
| | Provision for contingencies | Judicial deposits | Provision for contingencies | Judicial deposits | Provision for contingencies | Judicial deposits | Provision for contingencies | Judicial deposits |
| Tax | **63,443** | **(42,670)** | 16,220 | (36,309) | **66,720** | **(52,942)** | 59,132 | (48,987) |
| Labor | **54,467** | **(5,251)** | 60,196 | (5,213) | **64,139** | **(8,080)** | 71,859 | (5,784) |
| Civil | **26,650** | **(22,748)** | 27,064 | (20,717) | **45,577** | **(27,024)** | 48,578 | (23,668) |
| | **144,560** | **(70,669)** | 103,480 | (62,239) | **176,436** | **(88,046)** | 179,569 | (78,439) |

Changes in provisions for contingencies at September 30, 2016 were as follows:

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | 09/30/2016 | | | | 12/31/2015 |
| | Tax | Labor | Civil | Total | Total |
| Balance at beginning of period | **16,220** | **60,196** | **27,064** | **103,480** | 116,777 |
| Additions, net of reversals | **-** | **-** | **-** | **-** | 3,590 |
| Monetary restatements | **-** | **-** | **-** | **-** | 3,861 |
| Payments | **(205)** | **(7,483)** | **(544)** | **(8,232)** | (25,949) |
| Additions from mergers (a) | **47,446** | **1,754** | **112** | **49,312** | 5,201 |
| Balance at end of period | **63,461** | **54,467** | **26,632** | **144,560** | 103,480 |

## 16. Provision for contingencies and judicial deposits (Continued)

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | 09/30/2016 | | | | 12/31/2015 |
| | Tax | Labor | Civil | Total | Total |
| Balance at beginning of period | **59,132** | **71,859** | **48,578** | **179,569** | 135,747 |
| Additions, net of reversals | **3,537** | **-** | **18** | **3,555** | (994) |
| Monetary restatements | **5,620** | **-** | **-** | **5,620** | 18,509 |
| Payments | **(4,659)** | **(8,605)** | **(3,019)** | **(16,283)** | (34,153) |
| Additions from acquisitions (b) | **3,090** | **885** | **-** | **3,975** | 60,460 |
| Balance at end of period | **66,720** | **64,139** | **45,577** | **176,436** | 179,569 |

(a) These additions refer to Sino Brasileiro, Hospital e Maternidade Bartira, Hospital IFOR and Hospital Villa-Lobos, companies incorporated by Rede Dor São Luiz in the period.
(b) These additions refer to Memorial São José companies acquired in the period.

## 17. Commitments

At September 30, 2016, Rede D'Or has operating leases referring substantially to leased buildings with third and related parties for an average period of eighteen years, considering the following payment schedule:

| Year | Parent Company | Consolidated |
|---|---|---|
| | (Gross nominal values) | |
| 2016 | **68,928** | **78,486** |
| 2017 | **275,713** | **313,909** |
| 2018 | **257,011** | **295,193** |
| 2019 | **247,029** | **285,211** |
| From 2020 to 2051 | **2,891,527** | **3,307,168** |
| | **3,740,208** | **4,279,967** |

## 18. Equity

a) Capital

Subscribed and paid-in capital at September 30, 2016, amounts to R$867,777, divided into 459,912,417 registered common shares and 2,734,600 registered class A preferred shares, with no par value.

Under the Company's articles of incorporation, each common share is entitled to a vote in the Company's general meetings. Preferred shares class A are non-voting shares, have priority in the return of capital, without premium, in case of Company dissolution, and are entitled to preferred annual dividends.

## 18. Equity (Continued)

a) Capital (Continued)

On April 27, 2015, the Company entered into an investment agreement with HPT Participações S.A. (Carlyle Group's investee) in the amount of R$ 1,819,435, R$ 181,943 of which relates to capital increase and R$ 1,637,491 to goodwill reserve on share subscriptions, through issue of 37,051,337 new common shares, representing 8.38 % of Rede D'Or's capital. The contribution was carried out as follows: (a) R$875,000 contributed as cash ("First Tranche"), through issue of 18,525,668 new common shares, free and clear of any liens, fully subscribed and paid up on the closing date, representing 4.19% of total Company's capital; and (b) R$944,435 contributed with promissory notes ("Second Tranche"), through issue of 18,525,669 new common shares, free and clear of any liens, fully subscribed and paid up on the closing date, representing 4.19% of total Company's capital.

On April 15, 2016, the amount of R$944,500 related to the Second Tranche of the investment with HPT Participações S.A. was fully received by the Company.

b) Dividends and interest on equity

The Company allocated interest on equity in the period, totaling R$144,070, the dividend anticipated title, as approved by the Assembly meeting.

c) Treasury stock

At September 30, 2016, the Company had 19,663,442 registered common shares with no par value of Rede D'Or, in the amount to R$331,525, recorded as treasury shares in equity.

Changes in treasury shares are as follows:

| | Number of shares | Share value (in reais) | Total |
|---|---|---|---|
| Balance at December 31, 2015 | **19,959,827** | **12.91** | **257,597** |
| Acquisitions | **3,285,736** | **28.87** | **94,875** |
| Sales | **(3,582,121)** | **5.85** | **(20,947)** |
| Balance at September 30, 2016 | **19,663,442** | **16.86** | **331,525** |

## 18. Equity (Continued)

d) Share-based payment (stock options)

There were no new grants or changes in of new plans in the nine-month period ended September 30, 2016.

The effects of share-based compensation (stock option plan), covering all granted and outstanding options, in equity and profit or loss, are as follows:

| | Fair value of options per year | Effect on P&L for the period | Cumulative effect on equity |
|---|---|---|---|
| 2011 | **1,457** | **1,457** | **1,457** |
| 2012 | **16,234** | **16,234** | **17,691** |
| 2013 | **20,656** | **20,656** | **38,347** |
| 2014 | **27,420** | **27,363** | **65,710** |
| 2015 | **51,949** | **51,949** | **117,659** |
| 2016 | **22,575** | **22,575** | **140,234** |
| 2017 | **8,328** | | |
| 2018 | **3,650** | | |
| 2019 | **1,395** | | |
| 2020 | **444** | | |
| 2021 | **159** | | |
| | **154,267** | | |

## 19. Income taxes

Income and social contribution tax expenses for the nine-month periods ended September 30, 2016 and 2015 are as follows:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 09/30/2016 | 09/30/2015 | 09/30/2016 | 09/30/2015 |
| Deferred | | | | |
| Income tax | **1,943** | (75,390) | **24,063** | (75,772) |
| Social contribution tax | **699** | (27,140) | **8,660** | (27,265) |
| | **2,642** | (102,530) | **32,723** | (103,037) |
| Current | | | | |
| Income tax | **(148,780)** | (33,712) | **(248,262)** | (79,853) |
| Social contribution tax | **(55,012)** | (12,035) | **(91,091)** | (28,747) |
| | **(203,792)** | (45,747) | **(339,353)** | (108,600) |
| Income and social contribution tax expenses | **(201,150)** | (148,277) | **(306,630)** | (211,637) |

## 19. Income taxes (Continued)

Changes in deferred income and social contribution tax assets for the nine-month period ended September 30, 2016 were as follows:

| | Parent Company | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|---|
| | 12/31/2015 | Additional benefits (expenses) recorded | Additions from mergers | 09/30/2016 | 12/31/2015 | Additional benefits (expenses) recorded | Additions by means of business combinations | 09/30/2016 |
| Asset | | | | | | | | |
| Income tax loss | 13,383 | **(11,000)** | **-** | **2,383** | 13,898 | **(11,022)** | **-** | **2,876** |
| Social contribution tax loss | 4,817 | **(3,960)** | **-** | **857** | 5,001 | **(3,968)** | **-** | **1,033** |
| Allowance for doubtful accounts | 66,466 | **5,259** | **8,780** | **80,505** | 97,598 | **10,043** | **1,562** | **109,203** |
| Allowance for disallowance of claims | 41,596 | **28,461** | **5,851** | **75,908** | 82,723 | **56,193** | **3,189** | **142,105** |
| Contingencies | 39,013 | **(2,799)** | **17,457** | **53,671** | 77,952 | **(4,328)** | **1,825** | **75,449** |
| Provision for inventories | 1,159 | **-** | **-** | **1,159** | 1,159 | **-** | **-** | **1,159** |
| Provision for bonus | 18,894 | **(6,952)** | **-** | **11,942** | 18,894 | **(6,951)** | **-** | **11,943** |
| Provision for losses | 11,592 | **-** | **4,937** | **16,529** | 15,287 | **-** | **-** | **15,287** |
| Deferred gain on property disposals | 17,689 | **-** | **-** | **17,689** | 17,689 | **-** | **-** | **17,689** |
| Taxes - Judicial deposits | 4,654 | **879** | **7** | **5,540** | 5,968 | **1,346** | **-** | **7,314** |
| Provision for overtime | 1,262 | **623** | **-** | **1,885** | 1,847 | **1,648** | **-** | **3,495** |
| Swap variation | - | **61,358** | **-** | **61,358** | - | **61,358** | **-** | **61,358** |
| Total deferred tax assets | 220,525 | **71,869** | **37,032** | **329,426** | 338,016 | **104,319** | **6,576** | **448,911** |
| Liabilities and equity | | | | | | | | |
| Differences between accounting and tax base of goodwill | (351,631) | **(55,930)** | **-** | **(407,561)** | (397,603) | **(58,299)** | **-** | **(455,902)** |
| Gain on acquisition in stages | (22,550) | **(25,529)** | **-** | **(48,079)** | (40,398) | **(25,529)** | **-** | **(65,927)** |
| Swap variation | (12,232) | **12,232** | **-** | **-** | (12,232) | **12,232** | **-** | **-** |
| Deferred income | - | **-** | **-** | **-** | (23,423) | **-** | **-** | **(23,423)** |
| Total deferred tax liabilities | (386,413) | **(69,227)** | **-** | **(455,640)** | (473,656) | **(71,596)** | **-** | **(545,252)** |
| Net effect - asset (liability) | (165,888) | **2,642** | **37,032** | **(126,214)** | (135,640) | **32,723** | **6,576** | **(96,341)** |
| Assets as per balance sheet | | | | | 80,607 | **104,319** | **6,576** | **53,566** |
| Liabilities as per balance sheet | | | | | (216,247) | **(71,596)** | **-** | **(149,907)** |
| Net effect - asset (liability) | | | | | (135,640) | **32,723** | **6,576** | **(96,341)** |

The reconciliation of income and social contribution taxes and the amount determined at the statutory rate at September 30, 2016 and 2015 are as follows:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 09/30/2016 | 09/30/2015 | 09/30/2016 | 09/30/2015 |
| Income before income and social contribution taxes | **902,430** | 647,651 | **1,021,960** | 721,375 |
| Income and social contribution tax expenses at statutory rates | **306,826** | 220,201 | **347,466** | 245,267 |
| Adjustments to determine the effective tax rate | | | | |
| Interest on debentures recorded as equity instrument | **-** | (19,755) | **-** | (19,755) |
| Equity pickup | **(61,134)** | (58,414) | **(5,263)** | (9,031) |
| Stock option expenses | **7,676** | 4,443 | **7,676** | 4,443 |
| Interest on equity | **(48,463)** | - | **(48,463)** | - |
| Other | **(3,755)** | 1,802 | **5,214** | (9,287) |
| Expenses recorded in the income statement | **201,150** | 148,277 | **306,630** | 211,637 |

Income and social contribution tax losses may be carried indefinitely, however, offsetting is limited to 30% of taxable income generated in each tax year.

The Company expects that deferred tax credit calculated on income and social contribution tax losses will be realized in 2 years. Management expects that other temporary differences will be realized between 1 to 5 years, except for deferred gain on property disposals, the realization of which will take place along the lease contract term.

## 20. Net revenue

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2016** | **09/30/2015** | **09/30/2016** | **09/30/2015** |
| Gross revenue | **4,684,337** | 3,747,018 | **6,580,436** | 5,244,701 |
| Deductions from revenue | | | | |
| Cancellations and rebates | **(172,249)** | (128,003) | **(286,514)** | (202,739) |
| Taxes on revenues | **(270,846)** | (219,048) | **(387,467)** | (311,337) |
| | **4,241,242** | 3,399,967 | **5,906,455** | 4,730,625 |

## 21. Cost of services rendered

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2016** | **09/30/2015** | **09/30/2016** | **09/30/2015** |
| Personnel | **(1,255,040)** | (968,001) | **(1,718,795)** | (1,356,694) |
| Materials and medicines | **(795,401)** | (659,281) | **(1,124,397)** | (897,560) |
| Third-party services | **(542,390)** | (517,043) | **(985,647)** | (905,083) |
| Utilities and services | **(74,196)** | (60,502) | **(102,816)** | (83,899) |
| Rents | **(196,541)** | (163,153) | **(225,542)** | (191,584) |
| Depreciation and amortization | **(107,721)** | (71,755) | **(136,977)** | (93,364) |
| | **(2,971,289)** | (2,439,735) | **(4,294,174)** | (3,528,184) |

## 22. General and administrative expenses

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2016** | **09/30/2015** | **09/30/2016** | **09/30/2015** |
| Personnel | **(133,645)** | (114,860) | **(133,645)** | (114,860) |
| Third-party services | **(25,864)** | (29,994) | **(25,864)** | (29,996) |
| Trips and lodging | **(10,962)** | (8,927) | **(13,737)** | (11,072) |
| Depreciation and amortization | **(12,900)** | (11,902) | **(12,900)** | (11,902) |
| Provision for contingencies | **-** | - | **(3,555)** | 1,051 |
| | **(183,371)** | (165,683) | **(189,701)** | (166,779) |

## 23. Sales expenses

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2016** | **09/30/2015** | **09/30/2016** | **09/30/2015** |
| Allowance for doubtful accounts | **(15,468)** | (17,215) | **(30,297)** | (10,529) |
| Marketing | **(9,241)** | (6,766) | **(11,093)** | (7,879) |
| | **(24,709)** | (23,981) | **(41,390)** | (18,408) |

## 24. Other operating income (expenses), net

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2016** | **09/30/2015** | **09/30/2016** | **09/30/2015** |
| Taxes, fees and penalties | **(17,998)** | (14,356) | **(25,036)** | (17,719) |
| Gain on disposal of properties | **2,940** | 2,940 | **2,940** | 2,940 |
| Gain on acquisition in stages | **74,830** | 65,598 | **74,830** | 65,598 |
| Other expenses and revenues | **(41,849)** | (29,581) | **(49,792)** | (33,239) |
| | **17,923** | 24,601 | **2,942** | 17,580 |

## 25. Financial income (expenses), net

Financial income (expenses) for the periods ended September 30, 2016 and 2015, is as follows:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2016** | **09/30/2015** | **09/30/2016** | **09/30/2015** |
| Short term investment yield | **129,873** | 60,266 | **159,288** | 79,836 |
| Income from monetary variation | **9,254** | - | **11,080** | - |
| Foreign exchange variation on financing, net | **199,017** | (70,345) | **199,521** | (70,414) |
| Fair value of debt | **(23,324)** | - | **(23,324)** | - |
| Derivatives' fair value (swaps) | **(253,312)** | 72,648 | **(253,312)** | 72,648 |
| Interest and monetary variation on financing | **(11,565)** | (43,560) | **(56,213)** | (45,040) |
| Interest on debentures | **(382,380)** | (317,889) | **(382,380)** | (354,644) |
| Taxes on financial income (expenses) | **(10,578)** | (4,143) | **(12,855)** | (5,197) |
| Other financial income | **5,872** | 2,366 | **8,154** | 1,956 |
| Other financial expenses | **(20,028)** | (18,666) | **(27,609)** | (19,167) |
| | **(357,171)** | (319,323) | **(377,650)** | (340,022) |
| Total financial expenses | **344,016** | 198,606 | **378,043** | 217,766 |
| Total financial income | **(701,187)** | (517,929) | **(755,693)** | (557,788) |
| | **(357,171)** | (319,323) | **(377,650)** | (340,022) |

## 26. Earnings per share

a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of the Company by the weighted average number of issued common shares during the period, excluding common shares purchased by the Company and held as treasury shares.

| | 09/30/2016 | 09/30/2015 |
|---|---|---|
| Profit attributable to Company shareholders | **701,280** | 499,374 |
| Weighted average number of common shares issued (thousands) | **440,221** | 386,880 |
| Basic earnings per share (in R$) | **1.5930** | 1.2908 |

b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of outstanding common shares to assume the conversion of all the potentially dilutive common shares. The Company has one category of potentially dilutive common shares: the stock options.

| | 09/30/2016 | 09/30/2015 |
|---|---|---|
| Profit attributable to Company shareholders | **701,280** | 499,374 |
| Weighted average number of common shares issued, including dilutive factors (thousands) | **443,686** | 434,391 |
| Diluted earnings per share (in R$) | **1.5806** | 1.1496 |

## 27. Financial instruments and financial risk management

### 27.1. Classification of financial instruments by category

The Company and its subsidiaries assessed the market value of financial assets and liabilities based on available market information and appropriate valuation methodologies. However, both interpretation of market information and selection of valuation methodologies require considerable judgment and reasonable estimates in order to produce adequate realizable values. Accordingly, the estimates presented do not necessarily reflect the current market values. The use of different hypothesis and/or methodologies may have a significant effect on the estimated realizable values. In September 30, 2016 and December 31, 2015, the Company and its subsidiaries did not identify no significant or extended reductions in the recoverable value of its financial instruments.

## 27. Financial instruments and financial risk management (Continued)

### 27.1. Classification of financial instruments by category (Continued)

Fair value hierarchy

The financial instruments recognized at fair value may be measured at levels from 1 to 3, based on the fair value measurement, as follows:

Level 1: fair value measurement is derived from quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: fair value measurement is derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: fair value measurement is derived from valuation techniques that include an asset or liability that is not included in an active market.

The classification of financial assets and liabilities as of September 30, 2016 and December 31, 2015 is as follows:

| | Parent Company | | | |
|---|---|---|---|---|
| | | Fair value | Account balance (a) | |
| **Financial assets** | **Classification by category** | **hierarchy** | **09/30/2016** | **12/31/2015** |
| Cash and cash equivalents | Fair value measurement | Level 2 | **45,183** | 93,365 |
| Marketable securities | Fair value measurement | Level 2 | **2,567,319** | 679,032 |
| Trade accounts receivable | Loans and receivables | | **1,555,781** | 1,321,647 |
| Dividends receivable | Loans and receivables | | **-** | 27,977 |
| Financial instrument - promissory note | Loans and receivables | | **-** | 944,435 |
| Receivables from disposal of properties | Loans and receivables | | **-** | 73,926 |
| Judicial deposits | Loans and receivables | | **70,669** | 62,239 |
| Derivatives | Fair value measurement | Level 2 | **33,516** | 35,956 |
| | | | **4,272,468** | 3,238,577 |

| | | Fair value | Account balance (a) | |
|---|---|---|---|---|
| **Financial liabilities** | **Classification by category** | **hierarchy** | **09/30/2016** | **12/31/2015** |
| Trade accounts payable | Loans and receivables | | **198,027** | 197,627 |
| Loans and financing | Loans and receivables and fair value through P&L (a) | Level 2 | **1,311,009** | 1,154,667 |
| Debentures | Loans and receivables | | **3,867,773** | 2,757,299 |
| Salaries, provisions and social charges | Loans and receivables | | **329,496** | 260,357 |
| Accounts payable for acquisitions | Loans and receivables | | **106,188** | 146,429 |
| Derivatives | Fair value through profit or loss | Level 2 | **193,359** | - |
| | | | **6,005,852** | 4,516,379 |

(a) The debt installment recorded as hedge accounting is measured at fair value through P&L.

## 27. Financial instruments and financial risk management (Continued)

### 27.1. Classification of financial instruments by category (Continued)

| | | Consolidated | | |
|---|---|---|---|---|
| | | Fair value | Account balance (a) | |
| **Financial assets** | **Classification by category** | **hierarchy** | **09/30/2016** | **12/31/2015** |
| Cash and cash equivalents | Fair value measurement | Level 2 | **123,992** | 144,497 |
| Marketable securities | Fair value measurement | Level 2 | **2,899,990** | 897,237 |
| Trade accounts receivable | Loans and receivables | | **2,206,671** | 1,911,681 |
| Financial instrument - promissory note | Loans and receivables | | **-** | 944,435 |
| Receivables from disposal of properties | Loans and receivables | | **-** | 73,926 |
| Judicial deposits | Loans and receivables | | **88,046** | 78,439 |
| Derivatives | Fair value measurement | Level 2 | **33,516** | 35,956 |
| | | | **5,352,215** | 4,086,171 |

| | | Fair value | Account balance (a) | |
|---|---|---|---|---|
| **Financial liabilities** | **Classification by category** | **hierarchy** | **09/30/2016** | **12/31/2015** |
| Trade accounts payable | Loans and receivables | | **316,340** | 248,247 |
| Loans and financing | Loans and receivables and fair value through P&L (a) | Level 2 | **1,326,671** | 1,175,515 |
| Debentures | Loans and receivables | | **4,153,857** | 3,060,987 |
| Salaries, provisions and social charges | Loans and receivables | | **433,570** | 341,689 |
| Accounts payable for acquisitions | Loans and receivables | | **147,192** | 179,136 |
| Derivatives | Fair value through profit or loss | Level 2 | **193,359** | - |
| | | | **6,570,989** | 5,005,574 |

(a) The account balances stated in the table above do not state material differences for fair values.

### 27.2. Risk management

The Company's financial transactions are carried out through the financial area in accordance with the strategy previously approved by the Executive Board and shareholders. Company's risk management strategies and the corresponding effects on the individual and consolidated financial statements may be summarized as follows:

a) Capital management

The main capital management objective is to ensure business continuity and maximize return to shareholders.

## 27. Financial instruments and financial risk management (Continued)

### 27.2. Risk management (Continued)

a) Capital management (Continued)

The Company uses own and third-party capital to finance its activities, also use of third-party capital aims at optimizing its capital structure. The Company manages its capital structure and makes adjustments considering changes in economic conditions. At September 30, 2016, the Company's capital structure is as follows:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2016** | **12/31/2015** | **09/30/2016** | **12/31/2015** |
| Cash and cash equivalents | **45,183** | 93,365 | **123,992** | 144,497 |
| Marketable securities | **2,567,319** | 679,032 | **2,899,990** | 897,237 |
| | **2,612,502** | 772,397 | **3,023,982** | 1,041,734 |
| Loans and financing | **(1,311,009)** | (1,154,667) | **(1,326,671)** | (1,175,514) |
| Debentures | **(3,867,773)** | (2,757,298) | **(4,153,857)** | (3,060,988) |
| Net debt | **(2,566,280)** | (3,139,568) | **(2,456,546)** | (3,194,768) |
| Total equity | **4,307,205** | 3,810,029 | **4,473,929** | 3,900,083 |
| Gearing ratio (%) | **0.60** | 0.82 | **0.55** | 0.82 |

b) Interest rate risk

The Company has loans and financing and debentures in domestic currencies subject particularly to CDI rate and Long-term Interest Rate TJLP fluctuation, as well as balance of taxes payable subject to SELIC interest and TJLP. The risk inherent to these liabilities arises from the possibility of fluctuation in these rates that impact the Company's cash flows.

The sensitivity analysis about interest on loans, financing and debentures considered as probable scenario (Scenario I) the referential rates obtained with BM&FBOVESPA at September 30, 2016, and Scenarios II and III take into consideration rate increase by 25% and 50%, respectively. The results, in nominal values, are as follows:

| **Scenarios** | **Scenario I current** | **Scenario II +25%** | **Scenario III +50%** |
|---|---|---|---|
| CDI rate (p.a.) | **14.13%** | **17.66%** | **21.20%** |
| Projected interest expenses (*) | **1,693** | **1,913** | **2,129** |

(*) Calculated until the end of each indexed contract.

## 27. Financial instruments and financial risk management (Continued)

### 27.2. Risk management (Continued)

c) Credit risk

Credit risk is the risk that a counterparty to a business arrangement will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily regarding trade receivables) and from its financing activities, including deposits in banks and financial institutions, exchange transactions and other financial instruments. In the case of identification of imminent risk of non-realization of these assets, the Company records provisions to bring them to their probable realizable value.

d) Liquidity risk

Liquidity risk represents the risk of cash shortage and difficulty of the Company in paying its debts. The Company seeks to align the maturity of its debts with the cash generation period to avoid any mismatch and generate the need for greater leverage. At September 30, 2016, the Company held cash and cash equivalents and marketable securities in the total amount of R$2,612,502 in Company and R$3,023,982 in Consolidated. The amounts disclosed below are projected considering inflation and interest through to maturity.

| | Parent Company - 09/30/2016 | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 6 months** | **From 6 months to 1 year** | **From 1 to 2 years** | **From 2 to 5 years** | **More than 5 years** | **Total financial liabilities** |
| Trade accounts payable | **198,027** | **-** | **-** | **-** | **-** | **198,027** |
| Loans and financing | **30,448** | **21,298** | **158,743** | **876,144** | **637,976** | **1,724,609** |
| Debentures | **461,860** | **272,078** | **689,787** | **3,280,711** | **-** | **4,704,436** |
| Salaries, provisions and social charges | **329,496** | **-** | **-** | **-** | **-** | **329,496** |
| Accounts payable for acquisitions | **41,037** | **5,936** | **24,876** | **48,343** | **-** | **120,192** |
| Total | **1,060,868** | **299,312** | **873,406** | **4,205,198** | **637,976** | **7,076,760** |

| | Consolidated - 09/30/2016 | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 6 months** | **From 6 months to 1 year** | **From 1 to 2 years** | **From 2 to 5 years** | **More than 5 years** | **Total financial liabilities** |
| Trade accounts payable | **316,340** | **-** | **-** | **-** | **-** | **316,340** |
| Loans and financing | **33,194** | **22,994** | **159,793** | **879,190** | **649,604** | **1,744,775** |
| Debentures | **506,766** | **312,362** | **773,375** | **3,443,310** | **4,683** | **5,040,496** |
| Salaries, provisions and social charges | **433,570** | **-** | **-** | **-** | **-** | **433,570** |
| Accounts payable for acquisitions | **47,214** | **5,936** | **24,876** | **91,546** | **-** | **169,572** |
| Total | **1,337,084** | **341,292** | **958,044** | **4,414,046** | **654,287** | **7,704,753** |

## 27. Financial instruments and financial risk management (Continued)

### 27.2. Risk management (Continued)

e) Foreign currency

The Company has loans and financing and trade accounts payable in foreign currency (mainly the US Dollar). The risk linked to these assets and liabilities arises from the possibility of the Company to incur losses from fluctuations in foreign exchange rates. Liabilities in foreign currency represent 12% of total consolidated liabilities at September 30, 2016. The Company has derivative financial instruments taken out for hedge against foreign exchange rate fluctuation (see topic below). Management believes that the risk of exposure to foreign currency is not significant in relation to its financial position.

f) Derivatives

At September 30, 2016, the Company has derivatives recorded in accordance hedge accounting fair value hedge for swaps acquired in order hedge the Company against financing in foreign currency notional amount US$313,396 (R$1,178,741) and EUR40,143 (R$147,087). The swaps exchanged the flow of interest and principal in foreign currency for CDI+ or a percentage of CDI in reais. In addition, the Company also has swaps that were acquired in order to cover exposure to indebtedness and variable interest, were not designated for the hedge accounting strategy, as follows:

## 27. Financial instruments and financial risk management (Continued)

### 27.2. Risk management (Continued)

f) Derivatives (Continued)

| Description | Maturing month/year | Reference value (notional) | | 09/30/2016 Fair value |
|---|---|---|---|---|
| **Fair Value Hedge** | | | | |
| Swap (foreign exchange) | 04/15/2020 | | | |
| Long position | LIBOR + 3.30% | US$ | 23,529 | |
| Short position | CDI + 1.00% | R$ | 77,912 | 33,304 |
| *Swap* (foreign exchange) | 11/18/2024 | | | |
| Long position | USD/BRL + 3.00% | US$ | 28,137 | |
| Short position | CDI + 1.47% | R$ | 93,603 | (19,249) |
| Swap (foreign exchange) | 18/11/2024 | | | |
| Long position | USD/BRL + 3.00% | US$ | 32,408 | |
| Short position | CDI + 1.62% | R$ | 106,293 | (25,950) |
| Swap (foreign exchange) | 11/18/2024 | | | |
| Long position | USD/BRL + 3.00% | US$ | 80,391 | |
| Short position | CDI + 1.47% | R$ | 263,672 | (55,257) |
| Swap (foreign exchange) | 11/16/2022 | | | |
| Long position | USD/BRL + 2.70% | US$ | 12,054 | |
| Short position | CDI + 1.00% | R$ | 39,506 | (8,350) |
| Swap (foreign exchange) | 16/11/2022 | | | |
| Long position | USD/BRL + 2.70% | US$ | 3,014 | |
| Short position | CDI + 1.23% | R$ | 9,877 | (2,463) |
| Swap (foreign exchange) | 11/16/2027 | | | |
| Long position | USD/BRL + 6.00% | US$ | 17,729 | |
| Short position | CDI - 1.71% | R$ | 58,979 | (2,646) |
| Swap (foreign exchange) | 11/18/2024 | | | |
| Long position | USD/BRL + 3.00% | US$ | 21,103 | |
| Short position | CDI + 1.47% | R$ | 69,214 | (14,504) |
| Swap (foreign exchange) | 11/18/2024 | | | |
| Long position | EUR/BRL + 3.00% | EUR | 40,143 | |
| Short position | CDI + 2.30% | R$ | 147,087 | (30,524) |
| Swap (foreign exchange) | 11/18/2024 | | | |
| Long position | EUR/BRL + 3.00% | US$ | 10,036 | |
| Short position | CDI + 2.46% | R$ | 36,772 | (7,603) |
| Swap (foreign exchange) | 11/18/2024 | | | |
| Long position | 3.35% + Tax | US$ | 85,559 | |
| Short position | 115% CDI | R$ | 275,826 | (26,813) |
| **Other derivatives** | | | | |
| *Swap (Fixed x Floating)* | 01/16/2017 | | | |
| Long position | CDI + 2.0% | | | |
| Short position | TJLP + 7.07% | R$ | 75,362 | 263 |
| *Swap (Fixed x Floating)* | 12/10/2018 | | | |
| Long position | CDI + 2.30% | | | |
| Short position | TJLP + 7.46% | R$ | 33,750 | (51) |
| Long (short) position | | | | (159,843) |
| Effect on P&L for the year | | | | (253,312) |

## 27. Financial instruments and financial risk management (Continued)

### 27.2. Risk management (Continued)

f) Derivatives (Continued)

The Company and its subsidiaries adopted, according to CVM Rule No. 475/08, the scenarios corresponding to -25% (Scenario II), -50% (Scenario III), 25% (Scenario IV) and 50% (Scenario V) in relation to the exchange rate used to determine the probable scenario.

| Situation | Scenario I | Scenario II | Scenario III | Scenario IV | Scenario V |
|---|---|---|---|---|---|
| Variation of exchange rate | 5% | -25% | -50% | 25% | 50% |
| Devaluation of US$ (rate in R$) | - | 2.5277 | 1.6851 | - | - |
| Appreciation of US$ (rate in R$) | 3.3703 | - | - | 4.2129 | 5.0554 |
| | **Scenario I (loss)/gain** | **Scenario II (loss)/gain** | **Scenario III (loss)/gain** | **Scenario IV (loss)/gain** | **Scenario V (loss)/gain** |
| Effect on liabilities in US$ | | | | | |
| IFC - International Finance Corporation | 2,456 | (10,437) | (23,329) | 15,348 | 28,240 |
| Loan 4131 | (8,789) | 39,014 | 97,664 | (47,636) | (79,071) |
| Effect on derivatives | | | | | |
| Swap - IFC - International Finance Corporation | (387) | 1,928 | 2,945 | (1,871) | (5,124) |
| SWAP - Loan 4131 | 8,789 | (39,014) | (97,664) | 47,636 | 79,071 |
| Net effect | 2,069 | (8,508) | (20,385) | 13,477 | 23,117 |

## 28. Insurance

The Company maintains insurance coverage at amounts deemed sufficient by management to cover risks, if any, on its assets and/or liabilities.

| Insurance line | Amount insured |
|---|---|
| Property risk | 1,488,266 |
| Civil liability (D&O) | 50,000 |
| General civil liability | 1,500 |
| Civil liability - construction works | 16,127 |
| Engineering risks | 140,145 |

## 29. Subsequent events

On October 24, 2016, the Group acquired all shares of Hospital Alpha-Med Ltda. ("Alpha-Med"), a privately-held corporation that operates a hospital in Carapicuíba, a city located in São Paulo state. The consideration transferred totaled R$52,500, of which R$42,930 were paid on the acquisition date, and the remaining amount of R$9,570 will be retained and kept under custody by Rede D'or as guarantee for a possible price adjustment and regularization of properties by former controlling shareholders.

On October 24, 2016, the Company performed the sale and leaseback of properties belonging to JM02 Empreendimentos Imobiliários Ltda., located in Brasília, Federal District, to North West International II Investimentos Imobiliários em Saúde S.A. The sale transaction totaled R$306,486, received on the contract execution date.