

Financial Statements

Rede D'Or São Luiz S.A.

December 31, 2018, 2017 and 2016
with Independent Auditor's Report

Rede D'Or São Luiz S.A.

Financial statements

December 31, 2018, 2017 and 2016

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A free translation from Portuguese into English of Independent Auditor's Report on financial statements prepared in accordance with accounting practices adopted in Brazil and with International Financial Reporting Standards (IFRS).

Independent auditor's report on individual and consolidated financial statements

The
Shareholders, Board of Directors and Officers
Rede D'Or São Luiz S.A.
Rio de Janeiro – RJ

Opinion

We have audited the accompanying individual and consolidated financial statements of Rede D'Or São Luiz S.A. ("Company"), identified as Parent Company and Consolidated, respectively, which comprise the balance sheets as at December 31, 2018 and the related statements of income, of comprehensive income, of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting practices.

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Rede D'Or São Luiz S.A. as at December 31, 2018, its individual and consolidated financial performance and its respective individual and consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with the Brazilian and International Standards on Auditing. Our responsibilities under those standards are described in the next section of our report referenced as "Auditor's Responsibilities for the audit of the individual and consolidated financial statements". We are independent of the Company and its subsidiaries and comply with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy ("CFC") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to support our opinion.



Emphasis of a matter

On February 18, 2019, we issued an unmodified audit report on the individual and consolidated financial statements of Rede D'Or São Luiz S.A. for the year ended December 31, 2018, which are currently being restated. As described in Note 2, these financial statements have been changed and are being restated as required by the Brazilian Securities and Exchange Commission (CVM), through Official Letter No. 244/2019/CVM/SEP/GEAP-2, to enhance certain disclosures in the Notes. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the individual and consolidated financial statements taken as a whole, and in forming our opinion thereon and, therefore, we do not provide a separate opinion on these matters. For each matter below, the description of how our audit addressed this matter, including any comments on the results of our procedures, is presented in the context of the financial statements taken as a whole.

We have fulfilled the responsibilities described in the section of our report referenced as “Auditor’s Responsibilities for the audit of the individual and consolidated financial statements” including those relating to these key audit matters.

Accordingly, our audit included the conduction of procedures designed to respond to our risk assessment of material misstatement in the financial statements. The results of our procedures, including those performed to address the matters below, provide a basis for our audit opinion on the Company’s financial statements.

1. Revenue recognition

As mentioned in Notes 1 and 2, the Company’s revenues are derived from hospital services, including the use of medicines and medical supplies, and they are recognized based on the services provided up to the balance sheet date, for which it is necessary to determine the amount of revenue appropriately to be recognized, billed or unbilled, and the estimate of the expected losses (“disallowances”) on procedures performed, supplies and medicines used but that eventually are not approved by the health insurance companies.

These processes involve complex controls and analyses to ensure that service revenues are accounted for within the correct accrual period and at the fair value of the consideration received or to be received, and to ensure that the corresponding balances receivable are recognized at realizable value.

Key audit matters (Continued)

Due to the significance of amounts involved and the characteristics inherent to the revenue recognition process, including unbilled revenues and estimates related to the measurement of disallowances, as well as the impact that any changes in assumptions and estimates used would cause on the individual and consolidated financial statements, we considered this issue a key audit matter.

How our audit addressed this matter

Our audit procedures included, among others (i) the understanding and evaluation of the internal control environment specifically related to the processes of revenue recognition; (ii) confirmation procedures, for a sample of the balance of trade accounts receivable by sending confirmation letters; (iii) evaluation of revenue recognition according to the progress of the service provided, through documental tests for a selected sample; (iv) monthly analysis of revenues using aggregated and disaggregated data to identify differences to our expectations based on our knowledge of the Company and the industry in which it operates; (v) analysis of assumptions used to determine the percentages of loss from disallowances; (vi) recalculation of provisions for disallowances, based on the position of trade accounts receivable at December 31, 2018 and percentage obtained of losses from disallowances; and (vii) evaluation of the adequacy of disclosures made by the Company on this matter in the financial statements. As a result of these procedures, we identified an audit adjustment indicating the need to increase the provision for disallowances, which was not performed by the Company due to its immateriality to the individual and consolidated financial statements taken as a whole.

Based on the results of audit procedures performed, which is consistent with management's assessment, we considered acceptable the Company's policies for revenue recognition and estimates of losses from disallowances, as well as the respective disclosures made in the context of the financial statements taken as a whole.

1. Business combinations

In 2018, the Company carried out several business combinations, having determined total goodwill amounting to R\$1,164,393 thousand, as disclosed in Notes 3 and 10. The fair value measurement process and the allocation of assets acquired and liabilities assumed in a business combination are complex and involve a high degree of subjectivity.

Due to the significance, complexity, volume and subjectivity involved, we considered this issue a key audit matter.



Key audit matters (Continued)

How our audit conducted this matter

Our audit procedures included, among others: (i) analysis of the financial information of the acquired companies and discussion with management as to the consistency of accounting practices and estimates; (ii) the involvement of business valuation specialists to assist us in reviewing the assumptions and methodology used by the Company, related to the measurement of fair values and allocations, on the date of acquisition, to assets acquired and liabilities assumed; (iii) evaluation of the objectivity, independence and technical capacity of the specialists involved in the measurement at fair value of the assets acquired and liabilities assumed of the acquired companies; (iv) reading the Due Diligence reports prepared by the Company with the assistance of external experts; and (v) evaluation of the adequacy of the Company's disclosures.

Based on the result of audit procedures performed on the business combinations, which is consistent with management's assessment, we understand that the assumptions and criteria used by the Company's management as to business combinations, as well as the respective disclosures are acceptable, regarding the financial statements taken as a whole.

2. Impairment of nonfinancial assets

As mentioned in Notes 9 and 10, as at December 31, 2018, the Company has significant nonfinancial assets, mainly represented by property and equipment and intangible assets, including goodwill generated in business combinations. These assets are annually tested for the purpose of evaluating events or changes in economic and operating circumstances that may indicate deterioration or impairment. Indefinite-lived intangible assets, including goodwill, must be annually tested for impairment, regardless of indications of deterioration. The impairment test of these assets, including the definition of Cash-Generating Units (CGUs), has a high degree of subjectivity, and is based on various assumptions and their realization is impacted by market projections and uncertain economic scenarios.

Due to the significance of the balances, the level of uncertainty and the high degree of judgment inherent to determining the corresponding recoverable amounts, we considered this issue a key audit matter.

How our audit addressed this matter

Our audit procedures included, among others: (i) the evaluation of the criteria for determining and identifying the CGUs; (ii) the involvement of specialists to assist us in evaluating the projections prepared by management for the recoverability of these assets; (iii) evaluation of the adequacy and consistency of assumptions used in the estimates and projections of future cash flows comparing them, when available, with data from external sources, such as projected economic growth and cost inflation; (iv) evaluation of the calculation methodology and sensitivity analysis of assumptions; and (v) review of the disclosures made by the Company in the financial statements.



Key audit matters (Continued)

Based on the results of the audit procedures performed on the impairment test of nonfinancial assets, which is consistent with management's assessment, we considered that the criteria and assumptions related to recoverable amount adopted by management are acceptable, as well as the respective disclosures made in the context of the financial statements taken as a whole.

4. Contingent liabilities

As mentioned in Note 15, the Company is party to tax, social security, civil and labor lawsuits arising from the ordinary course of its activities. The most significant legal proceeding refers to the engagement of physicians that provides services to hospitals through legal entities. After an inspection, the Brazilian Internal Revenue Service (RFB) considered that certain physicians are effectively employees of the Company and, therefore, challenges the non-payment of Social Security Tax (INSS). The measurement and accounting recognition of a provision, when applicable, and the respective disclosures require a high judgment by the Company's professionals and its legal advisors.

Due to the significance, complexity and judgment involved, we considered this issue a key audit matter.

How our audit addressed this matter

Our audit procedures included, among others: (i) the confirmation from the Company's outside legal advisors of the existing lawsuits, amounts and probabilities of loss determined; (ii) evaluation, with the support from our specialists, of the analyses of probabilities of loss, of existing documentation and information related to the significant proceedings, especially the contingency related to the alleged non-payment of Social Security Tax (INSS) on probabilities engaged as legal entities, including comparison, where applicable, with existing jurisprudence; (iii) assessment of the adequacy of provisions recognized, when applicable, based on the position of the Company's internal and outside legal advisors; and (iv) evaluation of the adequacy of the Company's disclosures regarding these issues. As a result of these procedures, we identified an audit adjustment indicating the need to increase the provision for contingencies, which was not performed by the Company due to its immateriality to the individual and consolidated financial statements taken as a whole.

Based on the results of the audit procedures performed on the Company's contingent liabilities, which is consistent with management's assessment, we considered acceptable the corresponding provisions and disclosures in the context of the financial statements taken as a whole.



Other matters - Statements of value added

The individual and consolidated Statements of Value Added (SVA) for the year ended December 31, 2018, prepared under the responsibility of Company management and presented as supplementary information for IFRS purposes, were submitted to the same audit procedures performed in accordance with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria provided for in Accounting Pronouncement CPC 09 - Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria provided for in Accounting Pronouncement CPC 09 and are consistent with the overall individual and consolidated financial statements.

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

Management is responsible for such other information, which comprise the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

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

Responsibilities of Management and those charged with governance for the individual and consolidated financial statements

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

In preparing the individual and consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless Management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are those responsible for overseeing the Company's and its subsidiaries' financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International standards on auditing will always detect material misstatements when they exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may raise substantial doubt as to the Company's and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

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

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

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

Rio de Janeiro, September 24, 2019

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

A handwritten signature in blue ink, appearing to read 'Wilson J. O. Moraes', is written over the printed name and title.

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

A free translation from Portuguese into English of Financial Statements prepared in accordance with accounting practices adopted in Brazil and with International Financial Reporting Standards (IFRS).

Rede D'Or São Luiz S.A.

Balance sheets
December 31, 2018, 2017 and 2016
(In thousands of reais)

| | Note | Parent Company | | | Consolidated | | |
|---|------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Assets | | | | | | | |
| Current assets | | | | | | | |
| Cash and cash equivalents | 4 | 47,782 | 32,559 | 20,306 | 192,008 | 140,383 | 121,016 |
| Marketable securities | 4 | 2,768,894 | 1,006,117 | 1,968,899 | 3,864,700 | 3,120,454 | 2,620,387 |
| Trade accounts receivable | 5 | 2,139,001 | 1,886,908 | 1,446,998 | 3,259,349 | 2,836,744 | 2,142,744 |
| Inventories | 6 | 169,688 | 151,838 | 121,497 | 284,429 | 229,235 | 184,906 |
| Taxes recoverable | | 60,313 | 60,886 | 146,113 | 116,793 | 116,095 | 178,468 |
| Derivative financial instruments | 26 | 82,357 | 9,350 | 7,145 | 82,357 | 9,350 | 7,145 |
| Related parties | 7 | 9,206 | 7,066 | 9,075 | - | - | - |
| Dividends receivable | | 53,195 | 41,195 | - | - | - | - |
| Receivables from disposal of properties | 11 | 17,500 | - | - | 17,500 | - | - |
| Other | | 152,350 | 109,889 | 136,973 | 237,623 | 161,438 | 163,284 |
| Total current assets | | 5,500,286 | 3,305,808 | 3,857,006 | 8,054,759 | 6,613,699 | 5,417,950 |
| Noncurrent assets | | | | | | | |
| Related parties | 7 | 405,782 | 535,143 | 1,149,864 | 23,466 | 23,483 | 21,621 |
| Deposit for acquisition of building | | - | - | - | 92,373 | 89,823 | 84,102 |
| Judicial deposits | 15 | 113,168 | 92,807 | 72,115 | 147,810 | 119,472 | 89,759 |
| Deferred income tax and social contribution | 18 | - | - | - | 195,597 | 113,043 | 70,668 |
| Derivative financial instruments | 26 | 185,276 | 90,618 | 23,130 | 478,602 | 90,618 | 23,130 |
| Investments in subsidiaries, affiliates and jointly-controlled entities | 8 | 3,808,176 | 2,702,604 | 1,892,449 | 144,529 | 89,971 | 78,164 |
| Property and equipment | 9 | 2,827,842 | 2,709,178 | 2,145,569 | 4,994,831 | 3,955,640 | 3,112,345 |
| Intangible assets | 10 | 2,523,451 | 2,225,688 | 2,209,365 | 4,812,604 | 3,557,352 | 3,332,183 |
| Other | | 50,849 | 30,560 | 29,325 | 84,333 | 59,477 | 67,910 |
| Total noncurrent assets | | 9,914,544 | 8,386,598 | 7,521,817 | 10,974,145 | 8,098,879 | 6,879,882 |
| Total assets | | 15,414,830 | 11,692,406 | 11,378,823 | 19,028,904 | 14,712,578 | 12,297,832 |

| | Note | Parent Company | | | Consolidated | | |
|---|------|----------------|------------|------------|--------------|------------|------------|
| | | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Liabilities and equity | | | | | | | |
| Current liabilities | | | | | | | |
| Trade accounts payable | | 248,051 | 278,647 | 265,787 | 528,975 | 475,546 | 423,941 |
| Derivative financial instruments | 26 | 8,339 | 68,512 | 113,923 | 98,387 | 68,512 | 113,923 |
| Loans, financing and debentures | 12 | 621,388 | 475,361 | 879,010 | 607,704 | 588,037 | 959,303 |
| Salaries, provisions and social charges | | 310,234 | 281,994 | 282,584 | 436,641 | 370,030 | 385,023 |
| Tax liabilities | 13 | 154,870 | 119,563 | 82,860 | 343,611 | 272,259 | 217,039 |
| Accounts payable for acquisitions | 14 | 22,357 | 18,904 | 122,067 | 105,094 | 26,249 | 143,619 |
| Dividends and interest on equity payable | 17 | 1,101 | 268,282 | 419,089 | 8,940 | 275,496 | 427,259 |
| Deferred gain on property sales | 11 | 3,920 | 3,920 | 3,920 | 3,920 | 3,920 | 3,920 |
| Other | | 26,020 | 37,818 | 31,151 | 47,967 | 54,858 | 39,022 |
| Total current liabilities | | 1,396,280 | 1,553,001 | 2,200,391 | 2,181,239 | 2,134,907 | 2,713,049 |
| Noncurrent liabilities | | | | | | | |
| Derivative financial instruments | 26 | - | 44,830 | 54,160 | - | 44,830 | 54,160 |
| Loans, financing and debentures | 12 | 9,010,443 | 5,028,195 | 4,124,970 | 11,238,881 | 7,136,514 | 4,313,223 |
| Related parties | 7 | 57,201 | 54,881 | 54,684 | 60 | 60 | 111 |
| Tax liabilities | 13 | 91,108 | 132,778 | 148,141 | 233,326 | 282,481 | 178,427 |
| Accounts payable for acquisitions | 14 | 57,875 | 72,892 | 71,610 | 258,288 | 112,255 | 106,699 |
| Deferred income tax and social contribution | 18 | 190,424 | 178,249 | 122,332 | 263,203 | 218,096 | 150,515 |
| Provision for contingencies | 15 | 130,044 | 128,189 | 135,425 | 189,795 | 177,979 | 190,109 |
| Provision for losses on investments | 8 | 36,064 | 77,803 | 58,873 | - | - | - |
| Deferred gain on property sales | 11 | 72,280 | 76,200 | 80,120 | 72,280 | 76,200 | 80,120 |
| Other | | 37,592 | 29,546 | 41,838 | 64,105 | 48,112 | 44,687 |
| Total noncurrent liabilities | | 9,683,031 | 5,823,563 | 4,892,153 | 12,319,938 | 8,096,527 | 5,118,051 |
| Equity | | | | | | | |
| Capital stock | 17 | 867,776 | 867,776 | 867,776 | 867,776 | 867,776 | 867,776 |
| Capital reserves | | 2,343,782 | 2,333,532 | 2,399,142 | 2,343,782 | 2,333,532 | 2,399,142 |
| Treasury shares | | (473,193) | (339,468) | (331,525) | (473,193) | (339,468) | (331,525) |
| Income reserves | | 1,592,930 | 1,449,778 | 1,346,662 | 1,592,930 | 1,449,778 | 1,346,662 |
| Advance for future capital increase | | 4,224 | 4,224 | 4,224 | 4,224 | 4,224 | 4,224 |
| Total equity attributable to Company shareholders | | 4,335,519 | 4,315,842 | 4,286,279 | 4,335,519 | 4,315,842 | 4,286,279 |
| Noncontrolling interests | | - | - | - | 192,208 | 165,302 | 180,453 |
| Total equity | | 4,335,519 | 4,315,842 | 4,286,279 | 4,527,727 | 4,481,144 | 4,466,732 |
| Total liabilities and equity | | | | | | | |
| | | 15,414,830 | 11,692,406 | 11,378,823 | 19,028,904 | 14,712,578 | 12,297,832 |

See accompanying notes.

Rede D'Or São Luiz S.A.

Income statements

Years ended December 31, 2018, 2017 and 2016

(In thousands of reais, unless otherwise stated)

| | Note | Parent Company | | | Consolidated | | |
|--|------|--------------------|-------------|-------------|--------------------|-------------|-------------|
| | | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Net revenue | 19 | 7,481,861 | 6,500,130 | 5,669,414 | 10,914,892 | 9,417,407 | 7,912,468 |
| Costs of services provided | 20 | (5,237,827) | (4,504,518) | (4,090,352) | (8,109,528) | (6,880,952) | (5,872,422) |
| Gross profit | | 2,244,034 | 1,995,612 | 1,579,062 | 2,805,364 | 2,536,455 | 2,040,046 |
| General and administrative expenses | 21 | (406,944) | (317,688) | (253,781) | (412,022) | (323,652) | (261,722) |
| Selling expenses | 22 | (17,542) | (53,248) | (98,232) | (24,216) | (58,171) | (131,038) |
| Equity pickup | 8 | 262,921 | 266,611 | 229,014 | 23,572 | 18,838 | 19,352 |
| Other operating income (expenses), net | 23 | (74,769) | (89,098) | (1,422) | (115,716) | (165,730) | (51,241) |
| Income before financial income (expenses) and income tax and social contribution | | 2,007,700 | 1,802,189 | 1,454,641 | 2,276,982 | 2,007,740 | 1,615,397 |
| Financial income | 24 | 635,067 | 105,576 | 432,532 | 943,503 | 181,070 | 491,340 |
| Financial expenses | 24 | (1,151,679) | (681,472) | (920,769) | (1,575,101) | (763,876) | (991,664) |
| Income before income taxes | | 1,491,088 | 1,226,293 | 966,404 | 1,645,384 | 1,424,934 | 1,115,073 |
| Income taxes | 18 | (321,124) | (272,269) | (164,533) | (465,766) | (446,337) | (299,115) |
| Net income for the year | | 1,169,964 | 954,024 | 801,871 | 1,179,618 | 978,597 | 815,958 |
| Net income attributable to controlling shareholders | | 1,169,964 | 954,024 | 801,871 | 1,169,964 | 954,024 | 801,871 |
| Net income attributable to noncontrolling shareholders | | - | - | - | 9,654 | 24,573 | 14,087 |
| Basic earnings per share (in Reais) | 25 | 1,3273 | 1,0773 | 0,9127 | 1,3273 | 1,0773 | 0,9127 |
| Diluted earnings per share (in Reais) | 25 | 1,3207 | 1,0702 | 0,9034 | 1,3207 | 1,0702 | 0,9034 |

See accompanying notes.

Rede D'Or São Luiz S.A.

Statements of comprehensive income
Years ended December 31, 2018, 2017 and 2016
(In thousands of reais)

| | Parent Company | | | Consolidated | | |
|-----------------------------|------------------|---------|---------|------------------|---------|---------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Net income for the year | 1,169,964 | 954,024 | 801,871 | 1,179,618 | 978,597 | 815,958 |
| Other comprehensive income | - | - | - | - | - | - |
| Total comprehensive income | 1,169,964 | 954,024 | 801,871 | 1,179,618 | 978,597 | 815,958 |
| Attributable to: | | | | | | |
| Controlling shareholders | - | - | - | 1,169,964 | 954,024 | 801,871 |
| Noncontrolling shareholders | - | - | - | 9,654 | 24,573 | 14,087 |

See accompanying notes.

Rede D'Or São Luiz S.A.

Statements of changes in equity
Years ended December 31, 2018, 2017 and 2016
(In thousands of reais)

| Description | Controlling shareholders | | | | | | | | | | | | |
|---|--------------------------|-----------------------------------|----------------------|-----------------------------|-----------------|----------------|--------------------|---|--------------------------------------|-------------------|--------------|-----------------------------|-------------|
| | Capital reserves | | | | | Income reserve | | | | | | | |
| | Capital Stock | Capital reserve (issue of shares) | Capital transactions | Share-based payment reserve | Treasury shares | Legal reserve | Investment reserve | Additional dividends in excess of mandatory minimum dividends | Advances for future capital increase | Retained earnings | Total equity | Noncontrolling shareholders | Total |
| Balances at December 31, 2015 | 867,776 | 2,335,941 | (72,048) | 117,659 | (257,597) | 8,666 | 805,408 | - | 4,224 | - | 3,810,029 | 90,054 | 3,900,083 |
| Acquisition of control in jointly-controlled entity | - | - | - | - | - | - | - | - | - | - | - | 83,529 | 83,529 |
| Acquisition of noncontrolling interest | - | - | (13,274) | - | - | - | - | - | - | - | (13,274) | (2,174) | (15,448) |
| Treasury shares | - | - | - | - | (73,928) | - | - | - | - | - | (73,928) | - | (73,928) |
| Net income for the year | - | - | - | - | - | - | - | - | - | 801,871 | 801,871 | 14,087 | 815,958 |
| Share-based payment (Note 17) | - | - | - | 30,864 | - | - | - | - | - | - | 30,864 | - | 30,864 |
| Proposed dividends and interest on equity (Note 17) | - | - | - | - | - | - | - | - | - | (269,283) | (269,283) | (5,043) | (274,326) |
| Additional dividends in excess of mandatory minimum dividends (Note 17) | - | - | - | - | - | - | (198,129) | 730,717 | - | (532,588) | - | - | - |
| Balances at December 31, 2016 | 867,776 | 2,335,941 | (85,322) | 148,523 | (331,525) | 8,666 | 607,279 | 730,717 | 4,224 | - | 4,286,279 | 180,453 | 4,466,732 |
| Acquisition of control in jointly-controlled entity | - | - | - | - | - | - | - | - | - | - | - | (4,004) | (4,004) |
| Acquisition of noncontrolling interest (Note 17) | - | - | (98,209) | - | - | - | - | - | - | - | (98,209) | (22,729) | (120,938) |
| Treasury shares (Note 17) | - | - | - | - | (7,943) | - | - | - | - | - | (7,943) | - | (7,943) |
| Net income for the year | - | - | - | - | - | - | - | - | - | 954,024 | 954,024 | 24,573 | 978,597 |
| Share-based payment (Note 17) | - | - | - | 32,599 | - | - | - | - | - | - | 32,599 | - | 32,599 |
| Proposed dividends and interest on equity (Note 17) | - | - | - | - | - | - | (305,151) | (730,717) | - | - | (1,035,868) | (12,991) | (1,048,859) |
| Reinvested dividends (Note 17) | - | - | - | - | - | - | 184,960 | - | - | - | 184,960 | - | 184,960 |
| Allocation to investment reserve (Note 17) | - | - | - | - | - | - | 954,024 | - | - | (954,024) | - | - | - |
| Balances at December 31, 2017 | 867,776 | 2,335,941 | (183,531) | 181,122 | (339,468) | 8,666 | 1,441,112 | - | 4,224 | - | 4,315,842 | 165,302 | 4,481,144 |
| Acquisition of noncontrolling interest (Note 17) | - | - | (30,412) | - | - | - | - | - | - | - | (30,412) | (3,419) | (33,831) |
| Acquisition of subsidiary (Note 3) | - | - | - | - | - | - | - | - | - | - | - | 23,017 | 23,017 |
| Treasury shares (Note 17) | - | - | - | - | (133,725) | - | - | - | - | - | (133,725) | - | (133,725) |
| Net income for the year | - | - | - | - | - | - | - | - | - | 1,169,964 | 1,169,964 | 9,654 | 1,179,618 |
| Share-based payment (Note 17) | - | - | - | 40,662 | - | - | - | - | - | - | 40,662 | - | 40,662 |
| Proposed dividends and interest on equity (Note 17) | - | - | - | - | - | - | (316,637) | - | - | (710,175) | (1,026,812) | (2,346) | (1,029,158) |
| Allocation to investment reserve (Note 17) | - | - | - | - | - | - | 459,789 | - | - | (459,789) | - | - | - |
| Balances at December 31, 2018 | 867,776 | 2,335,941 | (213,943) | 221,784 | (473,193) | 8,666 | 1,584,264 | - | 4,224 | - | 4,335,519 | 192,208 | 4,527,727 |

See accompanying notes.

Rede D'Or São Luiz S.A.

Statements of cash flows Years ended December 31, 2018, 2017 and 2016 (In thousands of reais)

| | Parent Company | | | Consolidated | | |
|--|---------------------|--------------|-------------|---------------------|--------------|-------------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Cash flows from operating activities | | | | | | |
| Income before income tax and social contribution | 1,491,088 | 1,226,293 | 966,404 | 1,645,384 | 1,424,934 | 1,115,073 |
| Adjustments to reconcile net income to cash provided by operating activities | | | | | | |
| Depreciation and amortization | 293,609 | 236,804 | 231,100 | 393,269 | 307,976 | 271,613 |
| Gain on property sale | (3,920) | (3,920) | (3,920) | (3,920) | (3,920) | (3,920) |
| Gain on step acquisition | - | - | (77,165) | - | - | (85,335) |
| Loss on divestiture and impairment of goodwill | - | - | - | - | - | 22,475 |
| Fair value of debt | 39,461 | 22,448 | 24,768 | 39,461 | 22,448 | 24,768 |
| Interest, and monetary and foreign exchange differences, net | 653,124 | 460,397 | 443,859 | 400,195 | 450,459 | 451,482 |
| Share-based payment | 40,662 | 32,599 | 30,864 | 40,662 | 32,599 | 30,864 |
| Provision for contingencies | - | 2,522 | - | (1,676) | 2,789 | 4,040 |
| Equity pickup | (262,921) | (266,611) | (229,014) | (23,572) | (18,838) | (19,352) |
| Allowance for doubtful accounts and provision for disallowances | 380,950 | 325,910 | 315,334 | 661,682 | 513,377 | 498,171 |
| (Increase) decrease in assets and liabilities | | | | | | |
| Trade accounts receivable | (574,673) | (765,820) | (397,406) | (917,821) | (1,182,828) | (656,183) |
| Inventories | (10,558) | (30,341) | (24,150) | (37,294) | (40,897) | (35,260) |
| Taxes recoverable | 2,152 | 85,227 | (60,901) | 956 | 70,752 | (67,709) |
| Judicial deposits | (17,008) | (19,372) | (9,559) | (20,684) | (3,612) | (2,210) |
| Other assets | (120,953) | 29,176 | (52,693) | 77,773 | 66,332 | (37,510) |
| Trade accounts payable | (41,587) | 12,860 | 53,782 | (62,255) | 41,316 | 143,401 |
| Salaries, provisions and social charges | 18,550 | 17,379 | 7,202 | 13,540 | (6,837) | 27,245 |
| Tax obligations | (74,387) | (43,680) | (20,013) | (115,965) | (74,387) | (28,637) |
| Related parties | (346,006) | 75,449 | (165,184) | 13,979 | (1,915) | (24,341) |
| Provision for contingencies | (8,376) | (9,758) | (15,742) | (4,759) | (23,921) | (35,098) |
| Other liabilities | (62,485) | (4,883) | (29,893) | (395,196) | 28,318 | (28,368) |
| | 1,396,722 | 1,382,679 | 987,673 | 1,703,759 | 1,604,145 | 1,565,209 |
| Payment of interest | (482,337) | (484,748) | (486,149) | (520,912) | (526,539) | (551,110) |
| Payment of income tax and social contribution | (236,633) | (182,926) | (203,256) | (394,025) | (339,570) | (322,456) |
| Net cash provided by operating activities | 677,752 | 715,005 | 298,268 | 788,822 | 738,036 | 691,643 |
| Cash flow from investing activities | | | | | | |
| Payment in business acquisition, net of cash acquired | (306,926) | (138,063) | (338,218) | (933,058) | (138,063) | (441,894) |
| Capital increase in affiliates | (494,886) | (118,190) | (82,079) | - | - | - |
| Acquisitions of property and equipment | (574,600) | (746,967) | (698,435) | (1,460,781) | (1,023,879) | (883,958) |
| Property and equipment sales | 250,340 | - | 3,628 | 250,680 | 21 | 311,420 |
| Acquisitions of intangible assets | (28,310) | (61,365) | (27,606) | (92,526) | (88,743) | (29,077) |
| Cash from merger of subsidiary | 12,404 | - | 10,865 | - | - | - |
| Receivables from property sale | - | - | 83,179 | - | - | 83,179 |
| Acquisitions of marketable securities | (24,283,312) | (11,793,924) | (7,108,431) | (30,944,905) | (24,893,387) | (8,807,086) |
| Redemptions of marketable securities | 22,654,109 | 12,821,971 | 6,027,175 | 30,418,808 | 24,523,535 | 7,349,244 |
| Dividends and interest on equity received | 35,188 | 250,120 | 24,284 | 3,888 | 11,192 | 19,911 |
| Net cash provided by (used in) investing activities | (2,735,993) | 213,582 | (2,105,638) | (2,757,894) | (1,609,324) | (2,398,261) |
| Cash flows from financing activities | | | | | | |
| Promissory note received- financial instrument | - | - | 944,435 | - | - | 944,435 |
| Treasury shares | (133,725) | (7,943) | (73,928) | (133,725) | (7,943) | (73,928) |
| Acquisition of noncontrolling interests | (30,412) | (81,701) | (15,448) | (53,573) | (123,523) | (15,448) |
| Payment of dividends and interest on equity | (1,263,416) | (965,562) | (125,210) | (1,265,137) | (976,176) | (125,210) |
| Loans, financing and debentures raised | 6,528,379 | 2,453,269 | 1,703,597 | 6,537,131 | 4,453,269 | 1,711,262 |
| Repayments of loans, financing and debentures | (3,048,441) | (2,083,150) | (491,806) | (3,057,531) | (2,167,426) | (547,945) |
| Swap settlement | 40,923 | (118,291) | (121,262) | 40,923 | (118,291) | (121,262) |
| Accounts payable for acquisitions | (19,844) | (112,956) | (86,067) | (47,391) | (169,255) | (88,767) |
| Net cash provided by (used in) financing activities | 2,073,464 | (916,334) | 1,734,311 | 2,020,697 | 890,655 | 1,683,137 |
| Increase (decrease) in cash and cash equivalents | 15,223 | 12,253 | (73,059) | 51,625 | 19,367 | (23,481) |
| Cash and cash equivalents at beginning of year | 32,559 | 20,306 | 93,365 | 140,383 | 121,016 | 144,497 |
| Cash and cash equivalents at end of year | 47,782 | 32,559 | 20,306 | 192,008 | 140,383 | 121,016 |

See accompanying notes.

Rede D'Or São Luiz S.A.

Statements of value added

Years ended December 31, 2018, 2017 and 2016

(In thousands of Brazilian reais, unless otherwise stated)

| | Parent Company | | | Consolidated | | |
|---|--------------------|-------------|-------------|--------------------|-------------|-------------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Revenue | 7,966,833 | 6,845,558 | 6,028,484 | 11,657,210 | 9,963,025 | 8,407,614 |
| Sales of goods, products and services | 8,343,863 | 7,167,548 | 6,262,733 | 12,314,972 | 10,472,482 | 8,816,530 |
| Allowance for disallowances and Allowance for doubtful accounts | (380,950) | (325,910) | (315,334) | (661,682) | (513,377) | (498,171) |
| Other income | 3,920 | 3,920 | 81,085 | 3,920 | 3,920 | 89,255 |
| Inputs acquired from third parties | (2,622,610) | (2,109,039) | (1,966,117) | (4,258,436) | (3,529,484) | (3,062,261) |
| Cost of services sold | (2,473,523) | (1,946,834) | (1,816,295) | (4,063,404) | (3,285,699) | (2,871,031) |
| Materials, energy, third-party services and other expenses | (149,087) | (159,683) | (149,822) | (196,708) | (240,996) | (187,190) |
| Loss/recovery of assets | - | (2,522) | - | 1,676 | (2,789) | (4,040) |
| Gross value added | 5,344,223 | 4,736,519 | 4,062,367 | 7,398,774 | 6,433,541 | 5,345,353 |
| Depreciation and amortization | (293,609) | (236,804) | (231,100) | (393,269) | (307,976) | (271,613) |
| Value added, net | 5,050,614 | 4,499,715 | 3,831,267 | 7,005,505 | 6,125,565 | 5,073,740 |
| Value added received in transfer | 897,988 | 372,187 | 661,546 | 1,146,859 | 199,908 | 510,692 |
| Equity pickup | 262,921 | 266,611 | 229,014 | 23,572 | 18,838 | 19,352 |
| Financial income | 635,067 | 105,576 | 432,532 | 1,123,287 | 181,070 | 491,340 |
| Total value added | 5,948,602 | 4,871,902 | 4,492,813 | 8,152,364 | 6,325,473 | 5,584,432 |
| Distribution of value added | (5,948,602) | (4,871,902) | (4,492,813) | (8,152,364) | (6,325,473) | (5,584,432) |
| Personnel and charges | (2,360,470) | (2,168,340) | (1,880,813) | (3,422,972) | (3,021,177) | (2,509,772) |
| Taxes, charges and contributions | (802,176) | (650,835) | (526,926) | (1,204,164) | (1,025,335) | (819,257) |
| Interest, rents and other operating expenses | (1,615,992) | (1,073,157) | (1,283,203) | (2,345,610) | (1,274,818) | (1,439,445) |
| Dividends and interest on equity | (1,026,812) | (305,151) | (269,283) | (1,029,158) | (305,151) | (269,283) |
| Retained profits | (143,152) | (674,419) | (532,588) | (150,460) | (698,992) | (546,675) |

See accompanying notes.

Rede D'Or São Luiz S.A.

Notes to financial statements

December 31, 2018, 2017 and 2016

(In thousands of reais, unless otherwise stated)

1. Operations

Rede D'Or São Luiz S.A. ("Company" and jointly with its subsidiaries "Rede D'Or" or "Group"), headquartered at Street Francisco Marengo, 1312, in the city and state of São Paulo, 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 care plans.

Rede D'Or operates in the States of Rio de Janeiro, São Paulo, Pernambuco, Brasília, Maranhão and Bahia, with 38 own hospitals and 3 under construction, as well as oncology, radiotherapy clinics and laboratories. Currently, the Group has 6,106 hospital beds in total.

In 1998, the first hospital unit, Hospital Barra D'Or, was opened, and in 2000 and 2001, respectively, Hospital Copa D'Or and Hospital Quinta D'Or were opened. Starting in 2004, there have been strategic partnerships and acquisitions, increasing the range of expertise and reaching other areas in Rio de Janeiro, São Paulo, Pernambuco, Maranhão and Bahia.

As from 2010, through fundraising from new shareholders, in the market and own cash generation, Rede D'Or started a strong expansion process through acquisitions and construction of new units. The main control acquisitions of hospitals and laboratories performed since 2010 were:

| Hospital | Location | Year of acquisition |
|---------------------------------------|-------------------------|---------------------|
| Hospital Brasil | Santo André, SP | 2010 |
| Hospital Assunção | São Bernardo, SP | 2010 |
| Hospital São Luiz | São Paulo, SP | 2010 |
| Hospital Rio de Janeiro | Rio de Janeiro, RJ | 2010 |
| Hospital Prontolinda | Rio de Janeiro, RJ | 2010 |
| Vivalle Serviços de Saúde | São José dos Campos, SP | 2011 |
| Centro Hospitalar São Marcos | Recife, PE | 2011 |
| Nossa Senhora de Lourdes | São Paulo, SP | 2012 |
| Hospital da Criança | São Paulo, SP | 2012 |
| Santa Luzia | Brasília, DF | 2012 |
| Hospital do Coração | Brasília, DF | 2012 |
| Hospital Norte D'Or | Rio de Janeiro, RJ | 2013 |
| Hospital IFOR | São Bernardo, SP | 2013 |
| Hospital Villa-Lobos | São Paulo, SP | 2015 |
| Sino Brasileiro Serviços Hospitalares | São Paulo, SP | 2015 |
| Hospital Maternidade Bartira | São Paulo, SP | 2015 |
| Hospital Fluminense | Rio de Janeiro, RJ | 2015 |
| Hospital Memorial São José | Recife, PE | 2016 |
| Hospital Alpha-Med | São Paulo, SP | 2016 |
| Hospital Ribeirão Pires | São Paulo, SP | 2016 |
| Hospital São Vicente | Rio de Janeiro, RJ | 2017 |
| Hospital UDI | São Luís, MA | 2018 |
| Laboratório Richet | Rio de Janeiro, RJ | 2018 |
| Hospital São Rafael | Salvador, BA | 2018 |
| Hospital Samer | Rio de Janeiro, RJ | 2018 |

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

1. Operations (Continued)

In addition, the Company has invested in oncology and radiotherapy clinics.

Seasonality

There are no significant seasonal effects in the Company's operations; however, a smaller volume of customers can be observed in December, January and February due to year-end celebrations and vacation period, and a larger volume of customers can be noted in the winter.

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

The authorization for conclusion of preparation of these individual and consolidated financial statements (together denominated simply "financial statements") by management was provided on September 24, 2019.

Individual and consolidated financial statements

The Company's individual and consolidated financial statements were prepared in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

Basis of measurement

The individual and consolidated financial statements were prepared based on historical cost, except for certain financial instruments and share-based payments, measured at fair value.

Preparation of the financial statements requires the use of certain significant accounting estimates as well as professional judgment by Company management in the process to apply the accounting policies. Since judgment by management involves the determination of estimates related to the probability of future events, actual results may significantly differ from these estimates. Those areas that require greater judgment or involve more complexity or where the assumptions and estimates are significant for the financial statements are disclosed in Note 2.t. The Company reviews its estimates and assumptions periodically, at least on an annual basis.

The individual and consolidated financial statements are presented in Brazilian Reais (R\$), which is the Company's functional and reporting currency.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

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

Restatement of financial statements

In connection with the initial registration process for publicly-held companies - Category B - initiated by the Company in March 2019, the Brazilian Securities and Exchange Commission (CVM), through Official Letter no. 244/2019/CVM/SEP/GEA-2, required certain disclosures to be supplemented. Accordingly, in compliance with the CVM requirements, the Company has supplemented the disclosures described below and is restating these financial statements, originally issued on February 18, 2019.

The changes made are as follows:

- i) Additional disclosure on revenue and disallowance recognition practices in Notes 2.t and 5;
- ii) Supplemental disclosures to the contingent liabilities in Note 15;
- iii) Additional disclosures on the establishment and nature of the capital reserve in Note 17.a;
- iv) Addition of sensitivity to the Extended Consumer Price Index (IPCA) in Note 26.2.b; and
- v) Subsequent events - considering the restatement of these financial statements, Management supplemented Note 28 - Subsequent events, to disclose the significant events occurring from February 18, 2019, original issue date, to the present date. Additionally, considering that one of the subsequent events was the Company's stock split, where, on April 1, 2019, each existing share was split into two shares, from 459,912,417 to 919,824,834 common registered shares with no par value, the Company restated the share unit value and earnings per share originally disclosed in Notes 17.a, 17.c, 17.d, and 25, to reflect the stock split retrospectively, as required by CPC 41.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

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

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

| | Interest ownership (%) | | | | | |
|---|------------------------|----------|--------|----------|--------|----------|
| | 2018 | | 2017 | | 2016 | |
| | Direct | Indirect | 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 | 99.99 | 0.01 |
| Hospital Esperança S.A. ("Esperança") | 100.00 | - | 100.00 | - | 100.00 | - |
| Hospital UDI (acquired in 2018) | - | 100.00 | - | - | - | - |
| UDI Cárdio - Unidade de Diagnóstico e Tratamento Cardiológico Ltda. | - | 100.00 | - | - | - | - |
| UDI Imagem - Unidade de Diagnóstico por Imagem Ltda. | - | 100.00 | - | - | - | - |
| Diagno São Marcos Ltda. | - | 100.00 | - | 100.00 | - | 100.00 |
| Hospital São Rafael S.A. (acquired in 2018) | - | 75.00 | - | - | - | - |
| Rede D'Or São Luiz Serviços Médicos S.A. ("RM") | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| Advance Plano de Saúde S.A. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| São Luiz Assistência Médica Ambulatorial Ltda. (divested in 2017) | - | - | - | - | 0.02 | 99.98 |
| PMJ Empreendimentos Imobiliários S.A. | 100.00 | - | 100.00 | - | 100.00 | - |
| Quinta Empreendimentos Imobiliários Ltda. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| Onco D'Or Oncologia S.A. | 98.90 | - | 98.90 | - | 98.90 | - |
| Onco D'Or PE S.A. (acquired in 2016) | - | 67.25 | - | 67.25 | - | 67.25 |
| Instituto Oncológico de Pernambuco Ltda. ("IOPE") | - | 67.18 | - | 67.18 | - | 67.18 |
| Núcleo Especializado em Oncologia e Hemato (NEOH) | - | 67.15 | - | 67.15 | - | 67.15 |
| Clínica de Oncologia Dr. Paulo Emílio Pinto Ltda. | - | 49.45 | - | 49.45 | - | - |
| Oncobrasília - Inst. Bras Onco Clínica Ltda. | 0.10 | 97.91 | - | 98.90 | - | 40.00 |
| Acreditar Oncologia S.A. (control acquired in 2016) (e) | - | 98.90 | - | 98.90 | 60.00 | - |
| Em Frente Distribuição, Manipulação e Nutrição Ltda. (merged in 2018) | - | - | - | 59.99 | - | 59.99 |
| Onco Star SP Oncologia Ltda. (created in 2017) | 75.00 | - | 75.00 | - | - | - |
| Jenner S.A. (b) | 50.00 | 41.25 | 50.00 | 37.50 | 50.00 | 37.50 |
| Oncologia D'Or S.A. | 7.39 | 83.35 | 7.39 | 78.36 | 7.39 | 78.36 |
| Centro de Oncologia do RJ Ltda. ("Salus") (merged in 2016) | - | 90.66 | - | 89.55 | - | 89.55 |
| Onco D'Or Oncologia BA Ltda. | - | 98.81 | - | 98.57 | - | 98.57 |
| Centro Médico Jabaquara S.A. | 97.58 | - | 97.58 | - | 97.58 | - |
| Maxclínicas Clínicas e Diagnósticos Ltda. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| TJK Empreendimentos Imobiliários Ltda. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| Centro Hospitalar São Marcos S.A. | 100.00 | - | 100.00 | - | 100.00 | - |
| Esperança Serviços Médicos e de Diagnósticos S.A. | 100.00 | - | 100.00 | - | 100.00 | - |
| Santa Luzia Assistência Médica S.A. ("SLAM") (divested in 2017) | - | - | - | - | 100.00 | - |
| Hospital Fluminense S.A. | 100.00 | - | 100.00 | - | 100.00 | - |
| Cardial Serviços Médicos Ltda. (c) | 100.00 | - | 84.00 | - | 84.00 | - |
| ONCORAD - Serviços de Radioterapia Ltda. | 0.02 | 99.98 | 0.01 | 83.99 | 0.01 | 83.99 |
| Unidade de Radiologia Clínica Ltda. ("URC") | 72.00 | - | 72.00 | - | 72.00 | - |
| Instituto de Ultrassonografia Médica Ltda. ("IUSM") | 72.00 | - | 72.00 | - | 72.00 | - |
| Laboratório Análises Clínicas - Labvillage Ltda. | 50.10 | - | 50.10 | - | 50.10 | - |
| Norte D'Or Participações S.A. | 100.00 | - | 100.00 | - | 100.00 | - |
| Hospital Norte D'Or de Cascadura S.A. ("Norte D'Or") | - | 70.00 | - | 70.00 | - | 70.00 |
| Proncordis Pronto Atendimento Cardiológico Ltda. | 1.70 | 98.30 | 1.70 | 98.30 | 1.70 | 98.30 |
| Café Verde da Quinta Ltda. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| Campinas Empreendimentos Imobiliários Ltda. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| Olimpia Projeto Rua do Rocio 86 SPE S.A. (see Note 9) | 100.00 | - | - | - | - | - |
| IFOR Empreendimentos Imobiliários S.A. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

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

| | Interest ownership (%) | | | | | |
|--|------------------------|----------|--------|----------|--------|----------|
| | 2018 | | 2017 | | 2016 | |
| | Direct | Indirect | Direct | Indirect | Direct | Indirect |
| OPUNER do Brasil Ltda. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| Medise Medicina Diagnóstico e Serviços S.A. ("Medise") | 87.82 | 10.18 | 87.82 | 10.18 | 87.82 | 10.18 |
| Assunção Emp. Imobiliários Ltda. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| Villa Lobos Empreendimentos Imobiliários S.A. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| Santa Luzia II Emp. Imobiliários Ltda. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| RDSL Empreendimentos Imobiliários S.A. | 100.00 | - | 100.00 | - | 100.00 | - |
| Rede D'Or São Luiz Soluções Saúde e Segurança | 85.00 | - | 65.00 | - | 65.00 | - |
| JTO Holding S.A. (f) | 92.00 | - | 92.00 | - | 50.01 | - |
| JTO-Fundadores Participações Ltda. | 18.40 | 73.60 | 18.40 | 73.60 | 10.00 | 40.01 |
| D'Or Consultoria Corretagem, Seguros e Benefícios | - | 92.00 | - | 92.00 | - | 50.01 |
| D'Or MG Consultoria em Corretagem de Seguros e Benefícios Ltda. (created in 2018) | - | 92.00 | - | - | - | - |
| D'Or PME Corretagem de Seguros e Serviços Online Ltda. (created 2018) | - | 73.60 | - | - | - | - |
| D'Or Rio em Corretagem de Seguros S.A. (created in 2018) | - | 69.00 | - | - | - | - |
| New Trix Corretora de Seguros Ltda. (acquired in 2018) | - | 69.00 | - | - | - | - |
| D'Or Bahia Consultoria em Corretagem de Seguros e Benefícios Ltda. | - | 73.60 | - | 40.01 | - | - |
| D'Or Kappius Consultoria Empresarial e Corretagem de Seguros S.A. (acquired in 2018) | - | 46.92 | - | - | - | - |
| Hospital Santa Helena S.A. | 100.00 | - | 100.00 | - | 100.00 | - |
| Hospital Memorial São José Ltda. ("MSJ") (merged in 2018) | - | - | 100.00 | - | 100.00 | - |
| Prontimagem Serviços Médicos Ltda. (g) | 100.00 | - | 100.00 | - | 60.10 | - |
| Laboratório Richet Pesquisas de Physiopathologia Humana Ltda. (acquired in 2018) | - | 100.00 | - | - | - | - |
| GNI01 Empreendimentos Imobiliários Ltda. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| GNI02 Empreendimentos Imobiliários Ltda. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| GNI05 Empreendimentos Imobiliários Ltda. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| GNI06 Empreendimentos Imobiliários Ltda. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| GNI04 Empreendimentos Imobiliários Ltda. (created in 2017) | 99.99 | 0.01 | 99.99 | 0.01 | - | - |
| GNI07 Empreendimentos Imobiliários Ltda. ("RDSL Farmácia") (created in 2017) | 99.99 | 0.01 | 99.99 | 0.01 | - | - |
| GNI09 Empreendimentos Imobiliários Ltda. (created in 2018) | 99.99 | 0.01 | - | - | - | - |
| GNI10 Empreendimentos Imobiliários Ltda. (created in 2018) | 99.99 | 0.01 | - | - | - | - |
| GNI11 Empreendimentos Imobiliários Ltda. (created in 2018) | 99.99 | 0.01 | - | - | - | - |
| GNI12 Empreendimentos Imobiliários Ltda. (created in 2018) | 99.99 | 0.01 | - | - | - | - |
| GNI13 Empreendimentos Imobiliários Ltda. (created in 2018) | 99.99 | 0.01 | - | - | - | - |
| Maximagem com Diag. por imagem Ltda. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| Noventa e Nove Participações S.A. (acquired in 2016 and merged in 2018) | - | - | 100.00 | - | 100.00 | - |
| Hospital Ribeirão Pires Ltda. (acquired in 2016 and merged in 2018) | - | - | - | 100.00 | - | 100.00 |
| Hospital Alpha Med Ltda. (acquired in 2016) | 65.99 | 34.01 | 65.99 | 34.01 | 65.99 | 34.01 |
| Centro de Diagnóstico por Imagem Bartira (CEDIB) (merged in 2017) | - | - | - | - | 100.00 | - |
| Gestão Total da Saúde Ltda. | 99.99 | 0.01 | 99.99 | 0.01 | 99.99 | 0.01 |
| Sator Empreendimentos e Participações Ltda. (acquired in 2017) | 100.00 | - | 100.00 | - | - | - |
| Svgávea Empreendimentos e Participações S.A. (acquired in 2017) | - | 100.00 | - | 100.00 | - | - |
| Hospitais Integrados da Gávea S.A. - Clínica São Vicente (acquired in 2017) | - | 100.00 | - | 100.00 | - | - |
| Samer Serviços de Assistência Médica de Resende Ltda. (acquired in 2018) | - | 100.00 | - | - | - | - |
| Keiki Empreendimentos e Participações S.A. | 100.00 | - | 100.00 | - | - | - |
| Santa Luzia III Emp. Imobiliários Ltda. | 99.99 | 0.01 | 99.99 | 0.01 | - | - |
| Rede D'Or Finance S.A (created in 2018) | 100.00 | - | 100.00 | - | - | - |

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
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(In thousands of reais, unless otherwise stated)

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

| | Interest ownership (%) | | | | | |
|---|------------------------|----------|--------|----------|--------|----------|
| | 2018 | | 2017 | | 2016 | |
| | Direct | Indirect | Direct | Indirect | Direct | Indirect |
| Investees recognized under equity method in the consolidated financial statements | | | | | | |
| Fujidayclinic Ltda. | - | 49.45 | - | 49.45 | - | 30.00 |
| Acreditar Tocantins Oncologia S.A. | - | 49.45 | - | 49.45 | - | 30.00 |
| Centro Oncológico do Vale Ltda. | - | 49.45 | - | 49.45 | - | 50.00 |
| Instituto de Radioterapia do Vale do Paraíba Ltda. ("Onco São José dos Campos") | - | 49.45 | - | 49.45 | - | 50.00 |
| JMJB Diagnósticos e Serviços Hospitalares S.A. | 50.00 | - | 50.00 | - | 50.00 | - |
| J Badim S.A. ("Hospital Badim") | - | 50.00 | - | 50.00 | - | 50.00 |
| EAH Administração Hospitalar Ltda. | - | 50.00 | - | 50.00 | - | 50.00 |
| Memorial Imagem e Diag Ltda. ("MediAx") | 15.00 | - | 15.00 | - | 15.00 | - |
| GGSH Part. S.A. (d) | 34.46 | - | 23.88 | - | 23.88 | - |
| G2D Serviços Tecnológicos S.A. ("Boa Consulta") | 15.00 | - | 15.00 | - | - | - |
| Eldorado do Sul Participações Ltda. (b) | - | 33.33 | - | - | - | - |

- (a) These include the following 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, Santa Luzia, Hospital do Coração, Sinisgalli, Nossa Senhora de Lourdes, Hospital da Criança, Sino Brasileiro, Villa Lobos, Hospital e Maternidade Bartira, Ifor, Copa Star, Hospital São Caetano, Hospital Memorial São José Ltda. ("MSJ") e Hospital Ribeirão Pires Ltda.
- (b) On June 30, 2018, a Onco D'Or Oncologia acquired 33% in Eldorado do Sul Participações Ltda. Through this acquisition there was also an increase of 4,17% of the Company's interest in Jenner S.A. since Eldorado do Sul Participações Ltda. holds interest of 12,5% in Jenner S.A.
- (c) On February 28, 2018, Rede D'Or acquired additional interest of 5,44% in Cardial Serviços Médicos Ltda.
- (d) On April 30, 2018, Rede D'Or acquired additional interest of 10,58% in GGSH Part. S.A.
- (e) On November 30, 2017 Rede D'Or increased the capital of Onco D'Or with its 60% interest in Acreditar. In addition, through its wholly-owned subsidiary Onco D'Or, Rede D'Or acquired additional interest of 40% in Acreditar and additional interest of 30% in Oncobrasilia.
- (f) On July 31, 2017, Rede D'Or acquired additional interest of 42% in JTO Holding and additional interest of 1.4% in JTO Fundador.
- (g) On November 31, 2017, Rede D'Or acquired additional interest of 39.90% in Prontimagem.

a) Basis of consolidation

The financial statements include information of the Company and its subsidiaries described above. The consolidation process of the balance sheet and profit or loss accounts reflects the aggregate of the balances of assets, liabilities, income and expenses, according to their nature, together with the following adjustments:

- Significant transactions among consolidated companies are eliminated;
- Balances of asset and liability accounts held among consolidated companies are eliminated;
- Noncontrolling interests are segregated from consolidated equity and profit or loss.

All consolidated companies have the same fiscal year and the same accounting practices as those of the parent company.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

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

b) Business combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition-date fair value, and the value of any noncontrolling interests in the acquiree. For each business combination, the acquirer should measure noncontrolling interests in the acquiree at fair value or based on its participation in the identified net assets of acquiree. Direct costs attributable acquisition costs incurred are expensed.

Upon acquiring a business, the Company assesses financial assets and liabilities assumed to classify them and allocate them in accordance with contractual terms, economic circumstances and relevant conditions on acquisition date, which includes segregating, by the acquiree, embedded derivatives existing in host contracts in the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Goodwill is initially measured as the excess of the consideration transferred over the net assets acquired (identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the cost of the operation when determining the gain or loss on disposal.

c) IFRS 9/CPC 48 - Financial Instruments

This standard replaces IAS 39 / CPC 28 for annual periods beginning on or after January 1, 2018. It determines the new criteria for classifying financial assets into three categories: (i) measured at fair value through profit or loss; (ii) measured at fair value through other comprehensive income; and (iii) measured at amortized cost. Depending on the characteristics of each instrument, they may be classified under financial income (expense) or comprehensive income (loss). Also, there is a new impairment model for financial assets, a hybrid of expected and incurred losses, replacing the current model of losses incurred, as well as a simplification of requirements for adoption of hedge accounting.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

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

c) IFRS 9/CPC 48 - Financial Instruments (Continued)

The presentation and disclosure of financial instruments were changed in accordance with the new concepts introduced by IFRS 9. The table below demonstrates the changes to the Company in terms of the classification of its financial assets and liabilities, based on the requirements of IFRS 9:

| <u>Financial assets/liabilities</u> | <u>Previous classification</u> | <u>IFRS 9 classification</u> |
|---|--------------------------------|------------------------------|
| Cash and cash equivalents | Measured at fair value | Fair value through P&L |
| Marketable securities | Measured at fair value | Fair value through P&L |
| Trade accounts receivable | Loans and receivables | Amortized cost |
| Receivables from sale of property | Loans and receivables | Amortized cost |
| Judicial deposits | Loans and receivables | Amortized cost |
| Trade accounts payable | Loans and financing | Amortized cost |
| Loans, financing and debentures | Loans and financing (a) | Amortized cost |
| Salaries, provisions and social charges | Loans and financing | Amortized cost |
| Accounts payable for acquisitions | Loans and financing | Amortized cost |
| Derivatives | Fair value through P&L | Fair value through P&L |

(a) The debt portion recorded as hedge accounting is measured at fair value through P&L. See Note 26.

The Company and its subsidiaries classify their financial assets and liabilities at amortized cost and at fair value through profit or loss. These classifications are based on the business model adopted by management and on the characteristics of the contractual cash flows.

The IFRS 9/CPC 48 first adoption was in 2018, however, did not significantly impact the Company's financial statements.

Financial assets - Amortized cost

The financial assets held under a business model with the purpose to maintain them to receive contractual cash flows are recognized at amortized cost. These flows are received on specific dates and comprise solely payments of principal and interest.

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Notes to financial statements (Continued)
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(In thousands of reais, unless otherwise stated)

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

c) IFRS 9/CPC 48 - Financial Instruments (Continued)

Financial assets - Fair value through P&L (Continued)

Assets are recognized at fair value through profit or loss when: (i) they do not fall within the classification at amortized cost or at fair value through other comprehensive income; (ii) refer to equity instruments designated at fair value through profit or loss; and (iii) are managed to obtain cash flow from the sale of the assets.

Financial assets - Initial measurement

Upon initial recognition, the Company measures its financial assets and liabilities at fair value considering the transaction costs attributable to the acquisition or issue of the financial asset or liability. For trade accounts receivable, the initial measurement is the transaction price.

Financial assets - Subsequent measurement

- Amortized cost: are accounted for using the effective interest rate method, less the expected credit loss amount. In addition, the amount of principal paid is considered for calculation of the amortized cost.
- Fair value through profit or loss: are accounted for through the recognition of gain and loss in P&L for the period.

Impairment

The Company recognizes a provision for expected credit loss on its assets classified at amortized cost. This evaluation is carried out prospectively and is based on historical data and models designed for this purpose.

Financial liabilities - Initial recognition

Financial liabilities are initially recognized at fair value plus transaction costs (for the case of loans and financing and accounts payable).

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

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

c) IFRS 9/CPC 48 - Financial Instruments (Continued)

Financial liabilities - Subsequent measurement

- Amortized cost: are accounted for using the effective interest rate method, whereby gains and losses are recognized in P&L when the liabilities are written off or through the effective rate accretion.
- Fair value through profit or loss: are accounted for through the recognition of gain and loss in P&L for the period.

Hedge accounting

The Company uses derivative financial instruments to hedge its foreign currency risks and interest rate risks. Such derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Currently, the derivatives recorded for as hedge accounting are classified as fair value hedges given the exposure to changes in the fair value of recognized debt are protected.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

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Notes to financial statements (Continued)
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(In thousands of reais, unless otherwise stated)

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

d) Revenue from contract with customers and cost recognition

IFRS 15 establishes a new five-step model for accounting of revenues from contracts with customers. The Company's revenues arise from the provision of hospital services, including the use of medicines and hospital materials. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, i.e. upon rendering of medical services.

Revenue is recognized at an amount that reflects the consideration that an entity expects to be entitled in exchange for assets or services to a customer. The application of the standard did not impact the measurement and presentation of revenues, since revenues from contracts with customers are already measured at fair value of the consideration received, net of estimated rebates, discounts, related taxes, disallowances and charges, and considering that the control and all rights and rewards arising from provision of Company services flow to the customer upon rendering of the hospital services.

The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent, and eventually concluded that it is acting as a principal in all its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

The Company periodically reviews its historical losses on disallowances, as well as its current position of trade accounts receivable, to fairly estimate the amounts recoverable of receivables associated with revenues incurred.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 2.t.

Transaction costs and expenses are recognized on an accrual basis.

e) Current and noncurrent assets and liabilities

Assets are classified as current when they are realizable within the following twelve months. Current and noncurrent liabilities are stated at amounts for which they will be settled, considering each balance sheet date, including interest provisioned, monetary and exchange gain/losses, in accordance with the contractual conditions.

f) Inventories

Inventories comprise hospital materials and medicines and are measured at average acquisition cost, not exceeding market value. Given the nature of the Company's inventories, Management derecognizes obsolete or expired items.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
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(In thousands of reais, unless otherwise stated)

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

g) Property and equipment

Property and equipment are measured at acquisition or construction cost, less accumulated depreciation calculated by using the straight-line method based on the estimated useful lives of the assets. Expenses with repair and maintenance that do not increase the asset useful life are recognized as expenses when incurred.

Management annually reviews the net carrying amount of assets to assess events or changes in economic, operating or technological circumstances which may indicate impairment. When such evidence is identified, and net carrying amount exceeds recoverable amount, a provision for impairment is set up to adjust the net carrying amount to the recoverable amount.

h) Lease agreements

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, regarding the use of a specific asset or assets or the right to use the asset.

Finance leases, which transfer to the Company substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at lease inception at the lower of the fair value of the leased asset or the present value of the minimum lease payments, including, where applicable, initial direct costs incurred in the transaction. Payments of finance lease agreements are allocated to financial charges and reduction of finance lease liabilities to obtain constant interest rate on the outstanding liability balance. Financial charges are recognized in the income statement.

Those leased items are depreciated over their useful lives or, when the Company is reasonably sure to obtain ownership at the end of the lease term, the leased item is depreciated over the lease agreement term, whichever is earlier.

Operating leases are those whose risks and rewards are not transferred to the lessee, and costs are recognized in profit or loss on a straight-line and accrual basis, as the asset item is used. Differences between amounts effectively paid and those expensed in profit or loss are recognized as prepaid expenses or provisioned in the balance sheet.

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Notes to financial statements (Continued)
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(In thousands of reais, unless otherwise stated)

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

i) Intangible assets

Intangible assets acquired separately are measured at cost upon their initial recognition. Cost of intangible assets acquired in a business combination corresponds to fair value at the acquisition date. After initial recognition, intangible assets are stated at cost less accumulated amortization and impairment losses. The useful life of an intangible asset is rated either as finite or indefinite.

Intangible assets with finite useful lives are amortized over their economic useful lives and tested for impairment whenever there is any indication thereof. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at year-end. Changes in the estimated useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization charges on finite-lived intangible assets are recognized in the income statement in the expense category consistent with the use of the intangible asset.

Intangible assets with indefinite useful lives are not amortized, but are submitted to annual impairment tests, either individually or based on the relevant Cash-Generating Unit (CGU). Indefinite useful life assessment is reviewed annually to determine whether such assessment continues to be justified. Otherwise, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains and losses arising from write-off of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and classified in the income statement on disposal.

j) Provisions

Provisions are recognized when there is a present (legal or constructive) obligation arising from a past event, the settlement of which is likely to require an outflow of economic benefits, and its amount can be reliably measured. When the Company expects that the amount of a provision will be refunded, whether in full or in part, the refund is recognized as a separate asset, but only when the refund is virtually certain. Expenses related to any provision are stated in the income statement, net of any reimbursements.

The Company is party to several legal and administrative proceedings. The provision for contingencies is set up for legal claims in connection with which an outflow of funds for settlement is probable and the amount can be estimated reliably. Assessment of the probabilities of loss include analysis of available evidence, the hierarchy of laws, available case law, the most recent court decisions and their relevance in the legal system, as well as the opinion of outside legal advisors. Provisions are reviewed and adjusted considering changes in existing circumstances, such as the applicable statutes of limitation, tax audit conclusions, or additional exposures identified based on new matters or court decisions.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

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

k) Taxes

Current income tax and social contribution

Income taxes comprise both income tax and social contribution. Income tax is computed at the rate of 15% on taxable profit, plus surtax of 10% on taxable profit exceeding R\$240 over 12 months, whereas social contribution is computed at the rate of 9% on taxable profit, both recognized on an accrual basis, therefore additions to book income deriving from temporarily non-deductible expenses or exclusions from temporarily non-taxable profit upon determination of current taxable profit generate deferred tax assets or liabilities.

Current income tax and social contribution are stated net, by entity, in liabilities when there are amounts payable, or in assets when prepaid taxes exceed total due as of the financial statements date.

Deferred taxes

Deferred taxes arise from temporary differences at the balance sheets date between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are recognized on all temporary tax differences, except:

- When a deferred tax liability arises upon initial recognition of goodwill or of an asset or liability in a transaction other than a business combination and, at the transaction date, has no impact on book income or tax income (loss).
- On temporary differences related to investments in subsidiaries, when the period for reversal of such differences can be controlled and the temporary differences are not likely to be reversed in the near future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and losses, to the extent that taxable profit is likely to be available for realization of deductible temporary differences and unused tax credits and losses are likely to be used, except:

- When the deferred tax asset related to the deductible temporary difference is generated upon initial recognition of an asset or liability in a transaction other than a business combination and does not affect, at transaction date, the book income or tax income or loss.
- On deductible temporary differences with investments in subsidiaries. Deferred tax assets are only recognized to the extent that temporary differences are reversed in the near future and taxable profit is available for temporary differences to be used.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

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

k) Taxes (Continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and written off, as taxable profit is no longer likely to allow deferred tax assets to be fully or partially used. Deferred tax assets written off are reviewed as of each balance sheet date, and recognized, as future taxable profits are likely to allow such tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate likely to be applicable in the year in which the asset or the liability will be realized or settled, based on the tax rates (and tax law) in force at the balance sheet date.

Deferred tax assets and liabilities are stated net if there is a legal or constructive right to offset tax assets against tax liabilities and the deferred taxes are related to the same taxable entity and subject to the same tax authority.

Taxes on revenue

Revenues, expenses and assets are recognized net of taxes on sales, except:

- When the sales taxes incurred on purchase of goods or services are not recoverable from tax authorities, in which case the sales taxes are recognized as part of acquisition cost of the asset or expense item, as applicable.
- When amounts receivable and payable are stated together with the sales taxes.
- When net sales taxes, either recoverable or payable, are included as components of amounts receivable or payable in the balance sheet.

l) Borrowing costs

Borrowing costs directly attributable to acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

m) Present value adjustment of assets and liabilities

Noncurrent monetary assets and liabilities are monetarily restated, and therefore adjusted to their present value. Present value adjustment of current monetary assets and liabilities is calculated, and only recorded, if it is considered significant in relation to the overall financial statements.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
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(In thousands of reais, unless otherwise stated)

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

n) Share-based payment

Share-based payment to Company executives is measured and recognized at fair value as of the date options are granted, in a specific equity and profit or loss account, as contractual conditions are met. The cost of transactions settled in shares is recognized, over the year in which performance and/or conditions are fulfilled, ending on the date the employee becomes entitled to premium (vesting date). The cumulative expense recognized through the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of shares to be acquired. When an award that is settled with equity instruments is canceled, it is treated as if it had vested on the cancellation date, and any unrecognized expense in relation to the award is immediately recognized. This includes any premium in which non-acquisition conditions within the control of the Company or the other party are not met. However, if a new plan replaces the plan canceled, and is designated as a substitute plan on grant date, the plan canceled and the new plan are treated as a change in the original plan.

o) Treasury shares

These are own equity instruments that were reacquired (treasury shares), recognized at cost, less equity. No gains or losses are recognized in the profit or loss upon purchase, sale, issue or cancellation of the Company's own equity instruments.

p) Statements of cash flows

The statements of cash flow were prepared using the indirect method and are presented in accordance with IAS 7 / CPC 03 (R2).

q) Statements of value added

The Company prepares individual and consolidated Statements of Value Added pursuant to technical standard CPC 09 - Statement of Value Added. These statements are shown as an integral part of the financial statements as required by Brazilian Corporate Law for publicly-held companies, and as supplementary information for privately-held the IFRS do not require disclosure of the Statements of Value Added.

r) Segment reporting

The Company only operates in the hospital segment. In addition to analyzing the segment as a whole, the Company's decision-makers analyze the hospital segment on a disaggregated basis by the P&L of each hospital. However, this individual analysis by hospital does not represent different operating segments. The Company has no revenues arising from customers outside Brazil.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

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

s) Earnings per share

Basic earnings per share are computed by dividing net income by the weighted average number of outstanding shares for the year.

Diluted earnings per share are calculated by dividing net income attributed to holders of Company common shares, after adjustments to the stock option plan, as described in Note 25, by the weighted average number of Company common shares available in the year, plus the weighted average number of common shares that would be issued when converting all potential diluted common shares into common shares.

t) Significant accounting judgments estimates and assumptions

Judgments

Preparing the Company's consolidated financial statements requires that management make judgment and estimates and adopt assumptions that affect those figures reported as revenues, expenses, assets and liabilities, as well as contingent-liability disclosures, as of the financial statements date. Nevertheless, uncertainty associated with those estimates and assumptions could lead to results that would require significant adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions

Significant assumptions concerning sources of uncertainty in future estimates and other important sources of uncertainty in estimates at the balance sheet date, involving significant risk of causing a material adjustment to the carrying amount of the assets and liabilities in the next financial year are discussed below:

- Allowance for doubtful accounts and disallowances

The provision for disallowances and allowance for doubtful accounts are presented reducing the balance of accounts receivable and are set up at an amount considered by management to be sufficient to cover any losses on the realization of amounts billed.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

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

t) Significant accounting judgments estimates and assumptions (Continued)

Estimates and assumptions (Continued)

- Allowance for doubtful accounts and disallowances (Continued)

The Company's criterion to recognize provision for disallowances is to perform a recurring analysis of the receipt performance of securities overdue from 360 to 720 days, a period deemed sufficient for the collection process to be exhausted. The percentage found is applied to the gross revenue recorded and recognized as a provision in current P&L, reflecting management's best expectation based on the analyzed history. The analysis is made individually by cash-generating unit, as well as the percentage recorded as a provision for disallowances in the year.

As a criterion for the recognition of an allowance for doubtful accounts, an individual analysis of receivables is performed to capture specific counterparty risks. If necessary, an allowance for doubtful accounts is recorded for the full balance of receivables outstanding of these customers.

- Fair value of financial instruments

When the fair value of financial assets and liabilities in the balance sheet cannot be obtained in active markets, it shall be determined through valuation techniques, including the discounted cash flow method. The data for these methods is based on the market, whenever possible. However, when not feasible, a certain level of judgment is required to establish the fair value.

Judgment includes consideration of the inputs used, such as liquidity risk, credit risk and volatility.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

- Useful lives of property and equipment and intangible assets

Depreciation or amortization of property and equipment and intangible assets considers management's best estimate on the use of these assets during operations. Changes in the economic scenario and/or consumer market may require that the estimated useful lives be reviewed.

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Notes to financial statements (Continued)
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2. Basis of preparation and presentation and summary of significant accounting practices (Continued)

t) Significant accounting judgments estimates and assumptions (Continued)

Estimates and assumptions (Continued)

- Impairment of nonfinancial assets

Management reviews net carrying amount of assets at least annually to assess events or changes in economic, operating or technological circumstances that may indicate deterioration or impairment. When such evidence is identified and net carrying amount exceeds recoverable amount, a provision for impairment is set up by adjusting net carrying amount to the recoverable amount.

The recoverable amount of an asset or a cash generating unit is defined as the higher of value in use and fair value less costs to sell. In the case of the Company, the evaluation considered each of its hospitals as a cash-generating unit.

Upon estimation of the asset's value in use, the estimated future cash flows are discounted to their present value, using a discount rate before taxes that reflects the weighted average cost of capital for the segment where the cash-generating unit operates. Fair value less costs of disposal is determined, whenever possible, based on a firm sales agreement in an arm's length transaction, between knowledgeable and willing parties, after deducting the costs of disposal, or, when a firm sales agreement does not exist, based on market price in an active market, or on price of the most recent transaction with similar assets.

This criterion is also applied to evaluate impairment of intangible assets with indefinite useful lives, which are tested for impairment at December 31 of each year, either individually or at the CGU level, as applicable or when circumstances indicate that the carrying amount may be impaired. When such evidence is identified and net carrying amount exceeds recoverable amount, a provision for impairment is set up to adjust the net carrying amount to the recoverable amount, as applicable.

- Income tax and social contribution

Deferred income tax and social contribution assets are recognized insofar as taxable profit is likely to be available for temporary differences to be used and tax losses to be offset. Recovery of deferred tax assets is reviewed at each year end and, when taxable profit is no longer likely to be available for total or partial asset recovery, the asset balance is adjusted to the amount expected to be recovered.

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Notes to financial statements (Continued)
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(In thousands of reais, unless otherwise stated)

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

t) Significant accounting judgments estimates and assumptions (Continued)

Estimates and assumptions (Continued)

- Income tax and social contribution (Continued)

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

- Provision for contingencies

The Company recorded a provision, which involves considerable management judgment, for tax, labor and civil contingencies which, as a result of a past event, is likely to generate an outflow of economic benefits for settlement thereof, and whose amount can be reliably estimated. The Company is also subject to legal, civil and labor claims covering matters arising from its ordinary course of business.

Assessment of the likelihood of loss includes analysis of available evidence, the hierarchy of laws, available case law, the most recent court decisions and their relevance in the legal system, as well as the opinion of external legal advisors. Provisions are reviewed and adjusted to take into consideration changes in circumstances, such as applicable statute barring period, conclusion of tax audits or additional exposures identified based on new matters or court decisions. Actual results could differ from those estimates. The grounds for and nature of the provision for contingencies are mentioned in Note 15.

Settlement of transactions involving those estimates may result in amounts significantly different from those recorded in the financial statements due to the uncertainties inherent in their estimate process. The Company reviews its estimates and assumptions at least on an annual basis.

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Notes to financial statements (Continued)
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2. Basis of preparation and presentation and summary of significant accounting practices (Continued)

u) Standards issued, but not yet effective

The standards and interpretations issued, but not yet effective up to the issue date of the individual and consolidated financial statements, which may impact the Company, are disclosed below. The Company will adopt such standards when they become effective.

IFRS 16 - Leases

IFRS 16 / CPC 06(R2) was issued in January 2016 and it replaces IAS 17 Leases and IFRIC 4 - Determining whether an Arrangement contains a Lease. It sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of “low-value” assets and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the amortization expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Company will adopt IFRS 16 using the modified retrospective approach, electing to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company also will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

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

u) Standards issued, but not yet effective (Continued)

IFRS 16 – Leases (Continued)

During 2018, the Company has performed a detailed assessment of IFRS 16. Following are the effects of IFRS 16 if it had been adopted at January 1, 2018:

Impact on the assets (liabilities) at December 31, 2018:

| | Parent Company | Consolidated |
|----------------------|-----------------------|---------------------|
| Assets (*) | 1,538,074 | 1,691,510 |
| Liabilities | (1,393,601) | (1,534,052) |
| Deferred taxes | (49,121) | (53,535) |
| Net impact in equity | 95,352 | 103,923 |

(*) The deferred gain from sale leaseback transactions, as described in Note 11, will be presented net in the assets (right of use).

Impact on the income statement for 2018:

| | Parent Company | Consolidated |
|--|-----------------------|---------------------|
| Leasing expenses previously recorded as operating expenses | 357,478 | 400,188 |
| Amortization of the asset (right of use) | (162,086) | (185,727) |
| Financial expenses | (50,919) | (57,003) |
| Deferred taxes | (49,121) | (53,535) |
| Net impact in P&L | 95,352 | 103,923 |

As demonstrated above, due to the adoption of IFRS 16, the Company's operating profit will improve given the effect of the leasing expenses (currently recorded as operating expenses as incurred) are greater than the effect of the asset amortization plus interest (accretion of the liability recognized at its present value).

The other standards issued but not yet effective, such as IAS 23 / CPC 20 (R1) Borrowing Costs, CPC 19 (R2) Joint arrangements, CPC 32 - Income taxes and CPC 15 (R1) Business combination will not have a significant impact the Company's consolidated financial statements.

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3. Business combination

Business combinations disclosed in the financial statements as at December 31, 2017 and 2016, were not subject to relevant subsequent adjustments. The fair value of assets acquired and liabilities assumed as well as goodwill determined on acquisitions are as follows:

| | 2018 | | | | 2017 | 2016 | | | |
|---|--------------------|-------------------------|------------------------|----------------|-----------------|----------------|---------------|----------------|----------------|
| | Hospital Samer (a) | Hospital São Rafael (a) | Laboratório Richet (a) | Hospital UDI | | Sator | Memorial | Alpha-Med | Ribeirão Pires |
| Acquisition date | 12/04/2018 | 08/01/2018 | 07/05/2018 | 02/07/2018 | 04/19/2017 | 04/25/2016 | 10/24/2016 | 12/16/2016 | 12/28/2016 |
| Location | RJ | BA | RJ | MA | RJ | PE | SP | SP | PE |
| Interest acquired (%) | 100.00 | 75.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 99.99 |
| Total consideration | 78,322 | 607,500 | 191,964 | 441,480 | 125,244 | 141,315 | 53,577 | 197,662 | 37,466 |
| Payment on acquisition date | 66,574 | 417,500 | 177,464 | 406,480 | 110,244 | 141,315 | 47,577 | 127,852 | 37,466 |
| Accounts payable for acquisition (Note 14) | 11,748 | 190,000 | 14,500 | 35,000 | 15,000 | - | 6,000 | 69,810 | - |
| Assets | | | | | | | | | |
| Cash and cash equivalents | 2,407 | 6,992 | 1,227 | 4,217 | 2,361 | 7,081 | 2,603 | 2,460 | 2,585 |
| Trade accounts receivable | 19,737 | 99,341 | 14,193 | 40,389 | 24,003 | 19,725 | 3,346 | 18,253 | 2,715 |
| Inventories | 822 | 12,048 | 1,340 | 2,491 | 3,589 | 2,891 | 659 | 866 | 2,565 |
| Recoverable taxes | 848 | - | 338 | 373 | 12,119 | 1,560 | - | 248 | - |
| Related parties | - | 171,643 | - | 4,120 | 18,087 | 258 | - | - | - |
| Judicial deposits | - | - | - | 551 | 16,546 | 1,196 | - | 28 | - |
| Deferred income tax and social contribution | - | - | 1,363 | 5,943 | 22,001 | 4,219 | 5,223 | 3,905 | - |
| Indemnification assets | - | - | 1,427 | 13,919 | 8,777 | 3,975 | 6,000 | 7,000 | - |
| Property and equipment | 2,658 | 33,465 | 32,341 | 122,252 | 75,619 | 18,305 | 11,623 | 58,448 | 398 |
| Intangible assets | - | 10,489 | 392 | 1,070 | - | - | - | - | - |
| Other | 72 | 5,473 | 165 | 3,164 | 3,351 | 1,990 | 6 | 464 | 214 |
| | 26,544 | 339,451 | 52,786 | 198,489 | 186,453 | 61,200 | 29,460 | 91,672 | 8,477 |
| Liabilities | | | | | | | | | |
| Trade accounts payable | (6,776) | (82,781) | (13,709) | (10,606) | (10,257) | (6,981) | (1,215) | (3,611) | (3,910) |
| Loans and financing | (3,149) | (109,265) | (21,424) | (13,726) | (12,283) | (81) | (56) | (926) | (239) |
| Salaries, provisions and social charges | (2,848) | (39,540) | (3,166) | (7,243) | (27,887) | (5,636) | (1,915) | (4,884) | (284) |
| Tax liabilities | (7,668) | (2,046) | (5,805) | (37,747) | (125,608) | (14,460) | (980) | (1,362) | - |
| Related parties | (6,339) | - | - | (4,120) | (18,089) | - | - | (5,436) | - |
| Provision for contingencies | (343) | - | (3,989) | (13,919) | (8,777) | (3,975) | (15,410) | (7,196) | - |
| Other | (277) | (13,752) | (222) | (5,531) | (21,397) | (1,280) | (122) | (334) | - |
| | (27,400) | (247,384) | (48,315) | (92,892) | (224,298) | (32,413) | (19,698) | (23,749) | (4,433) |
| Total net identifiable assets | (856) | 69,051 | 4,471 | 105,597 | (37,845) | 28,787 | 9,762 | 67,923 | 4,044 |
| Total net identifiable assets, noncontrolling interest | - | 23,016 | - | - | - | - | - | - | - |
| Total consideration | 78,322 | 607,500 | 191,964 | 441,480 | 125,244 | 141,315 | 53,577 | 197,662 | 37,466 |
| Goodwill on acquisition (Note 10) | 79,178 | 538,449 | 187,493 | 335,883 | 163,089 | 112,528 | 43,815 | 129,739 | 33,422 |
| Contribution for the Group of revenues since the acquisition date | 9,526 | 262,695 | 46,756 | 302,551 | 109,742 | 106,078 | 9,986 | - | - |
| Contribution for the Group with income (loss) before taxes since the acquisition date | 4,324 | (14,687) | 3,496 | 61,763 | 8,368 | 3,286 | (2,754) | - | - |
| Acquiree's revenues since the beginning of year | 103,566 | 262,695 | 100,092 | 354,282 | 153,353 | 183,022 | 52,808 | 137,270 | 38,334 |
| Acquiree's income (loss) before taxes since the beginning of year | 14,585 | (14,687) | 12,803 | 86,677 | 2,991 | 28,349 | 9,961 | (17,886) | 12,824 |

(a) The Company is still assessing the assets acquired and liabilities assumed at their fair values and, thus, the effects above demonstrated are preliminary.

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3. Business combinations (Continued)

In 2016, in addition, the Company performed certain step acquisitions (acquisition of control of investees in which the Company already held noncontrolling interest). As provided for in CPC 15, the Company evaluated its prior equity interest at fair value and recorded the corresponding gain on the acquisition date of control, as follows:

| | 2016 | | |
|--|------------|------------|------------|
| | Acreditar | Cehon | Maximagem |
| Acquisition date | 04/19/2016 | 12/29/2016 | 12/27/2016 |
| Location | DF | BA | PE |
| Additional interest acquired (%) | 5.00 | 67.44 | 50.00 |
| Total consideration | 10,229 | 54,817 | 29,068 |
| Consideration transferred on acquisition date | 5,115 | 45,291 | 15,022 |
| Accounts payable for acquisition (Note 14) | 5,114 | 9,526 | 14,046 |
| Interest prior to control acquisition at fair value | 112,519 | 26,466 | 28,092 |
| Interest prior to control acquisition at carrying amount | 41,116 | 18,296 | 25,757 |
| Gain on business combination performed in stages (Note 23) | 71,403 | 8,170 | 2,335 |
| Deferred income tax and social contribution (Note 18) | (24,277) | (2,778) | (794) |
| Net gain on business combination performed in stages | 47,126 | 5,392 | 1,541 |
| Assets | | | |
| Cash and cash equivalents | 10,798 | 6,202 | 877 |
| Trade accounts receivable | 19,229 | 6,162 | 390 |
| Inventories | 1,536 | 2,843 | 4,224 |
| Taxes recoverable | 3,458 | 4 | 489 |
| Deferred income tax and social contribution | - | 79 | - |
| Investments | 6,717 | - | - |
| Property and equipment | 4,857 | 4,470 | 11,610 |
| Other | 14,890 | 299 | 171 |
| | 61,485 | 20,059 | 17,761 |
| Liabilities | | | |
| Trade accounts payable | (5,347) | (5,566) | (3,165) |
| Loans and financing | - | (390) | (2,249) |
| Salaries, provisions and social charges | (810) | (499) | (1,032) |
| Tax liabilities | (3,781) | (701) | (469) |
| Other | (2,686) | (377) | (428) |
| | (12,624) | (7,533) | (7,343) |
| Total net identifiable assets | 48,861 | 12,526 | 10,418 |
| Total consideration | 10,229 | 54,817 | 29,068 |
| Fair value of interest prior to control acquisition | 112,519 | 26,466 | 28,092 |
| Noncontrolling interests at fair value | 81,833 | - | - |
| Goodwill on acquisition (Note 10) | 155,720 | 68,757 | 46,742 |
| Contribution for the Group of revenues since the acquisition date | 70,595 | - | - |
| Contribution for the Group with income before taxes since the acquisition date | 22,581 | - | - |
| Acquiree's revenues since the beginning of year | 88,536 | 47,803 | 29,610 |
| Acquiree's income before taxes since the beginning of year | 27,807 | 10,528 | 5,947 |

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Notes to financial statements (Continued)
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3. Business combinations (Continued)

During 2018, in addition to the above-mentioned business combinations, there were three other smaller acquisitions (New Trix Corretora de Seguros Ltda., Kappius Consultoria Empresarial e Corretagem de Seguros Ltda., and Centro de Oncologia Médica) from which the goodwill generated amounted to R\$23,977, R\$ 1,125, and R\$ 13,095 respectively.

If the acquisitions had been performed as of January 1, 2018, the consolidated net revenues and income before taxes for the year ended December 31, 2018 would be R\$11,735,527 and R\$1,744,762, respectively.

The amounts payable (R\$ 11,748, R\$ 3,000, R\$ 115,000, R\$ 14,500, R\$ 35,000, and R\$ 15,000 related to Hospital Samer, Centro de Oncologia Médica, São Rafael Hospital, Laboratório Richet, Hospital UDI and Sator, respectively) are guarantees for potential liabilities assumed by the sellers and will be paid within six years after the agreement execution dates, restated by reference to the Interbank Deposit Certificate (CDI) and SELIC rates.

As part of the São Rafael Hospital purchase and sale agreement, a consideration was agreed contingent upon the achievement of certain financial goals in the following twelve months. The fair value calculated was R\$ 75 million and was included in Accounts payable for acquisitions (Note 14).

4. Cash and cash equivalents and marketable securities

| | Parent Company | | | Consolidated | | |
|----------------------------------|------------------|-----------|-----------|------------------|-----------|-----------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Cash and cash equivalents | | | | | | |
| Cash and banks | 45,121 | 30,235 | 19,397 | 87,063 | 48,511 | 40,493 |
| Short-term investments | 2,661 | 2,324 | 909 | 104,945 | 91,872 | 80,523 |
| Cash and cash equivalents | 47,782 | 32,559 | 20,306 | 192,008 | 140,383 | 121,016 |
| Marketable securities | | | | | | |
| Non-exclusive investment funds | 1,589,583 | 419,191 | 1,048,966 | 2,163,056 | 1,476,716 | 1,383,317 |
| Repurchase agreements | 288,360 | 457,187 | 316,656 | 484,566 | 1,202,868 | 427,394 |
| Financial Treasury Bills (LFT) | - | - | 422,833 | - | - | 569,194 |
| Bank Deposit Certificates (CDBs) | 890,951 | 129,739 | 180,444 | 1,217,078 | 440,870 | 240,482 |
| Marketable securities | 2,768,894 | 1,006,117 | 1,968,899 | 3,864,700 | 3,120,454 | 2,620,387 |

Short-term investments classified as cash equivalents mature within three months from the investment date, and the amounts classified as marketable securities refer to notes maturing after three months.

Short-term investments classified as marketable securities refer to Bank Deposit Certificates (CDBs) and repurchase agreements backed by debentures, which are part of the "FI Plataforma" and "FIC Plataforma Star" investment fund portfolio, issued by first-tier financial institutions, and with average yield of 100.2% (102.0% at December 31, 2017 and 101.3% at December 31, 2016) of the Interbank Deposit Certificate (CDI).

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Notes to financial statements (Continued)
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5. Trade accounts receivable

Trade accounts receivable comprise receivables from health insurance companies and individuals, as follows:

| | Parent Company | | | Consolidated | | |
|--|------------------|-----------|-----------|--------------------|-----------|-----------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Accounts receivable from health insurance and health plans | 2,646,828 | 2,267,263 | 2,013,274 | 4,199,603 | 3,501,612 | 3,040,912 |
| Accounts receivable from individuals | 51,137 | 36,985 | 51,142 | 67,934 | 41,112 | 74,296 |
| Allowances for doubtful accounts and for disallowances | (558,964) | (417,340) | (617,418) | (1,008,188) | (705,980) | (972,464) |
| | 2,139,001 | 1,886,908 | 1,446,998 | 3,259,349 | 2,836,744 | 2,142,744 |

Changes in provision for disallowances and allowance for doubtful accounts are as follows:

| | Parent Company | | | Consolidated | | |
|---|------------------|-----------|-----------|--------------------|-----------|-----------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Balance at beginning of year | (417,340) | (617,418) | (317,299) | (705,980) | (972,464) | (605,121) |
| Recognition of provision for disallowances | (380,950) | (288,852) | (230,925) | (661,682) | (476,077) | (383,920) |
| Write-off of uncollectible amounts | 271,826 | 525,988 | 51,445 | 433,654 | 797,019 | 151,918 |
| Recognition (reversal) of allowance for doubtful accounts | - | (37,058) | (84,409) | - | (37,300) | (114,251) |
| Provision arising from acquisitions | (32,500) | - | (36,230) | (74,180) | (17,158) | (21,090) |
| Balance at end of year | (558,964) | (417,340) | (617,418) | (1,008,188) | (705,980) | (972,464) |

At December 31, the aging list of trade accounts receivable is as follows:

| | Parent Company | | | | | | | | |
|------|------------------|------------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|
| | Total | Falling due | Overdue | | | | | | 360 - 720 days |
| | | | 1 - 30 days | 31 - 60 days | 61 - 90 days | 91 - 120 days | 121 - 180 days | 181 - 360 days | |
| 2018 | 2,697,965 | 1,763,781 | 85,660 | 61,307 | 45,527 | 52,200 | 82,850 | 240,751 | 365,889 |
| 2017 | 2,304,248 | 1,463,931 | 69,177 | 52,109 | 49,618 | 45,560 | 89,509 | 222,514 | 311,830 |
| 2016 | 2,064,416 | 1,219,060 | 68,786 | 63,894 | 64,129 | 35,746 | 66,788 | 169,722 | 376,291 |

| | Consolidated | | | | | | | | |
|------|------------------|------------------|----------------|----------------|---------------|---------------|----------------|----------------|----------------|
| | Total | Falling due | Overdue | | | | | | 360 - 720 days |
| | | | 1 - 30 days | 31 - 60 days | 61 - 90 days | 91 - 120 days | 121 - 180 days | 181 - 360 days | |
| 2018 | 4,267,537 | 2,701,045 | 160,141 | 111,571 | 82,186 | 87,433 | 135,903 | 390,555 | 598,703 |
| 2017 | 3,542,724 | 2,171,336 | 115,694 | 83,487 | 79,410 | 70,963 | 141,715 | 343,135 | 536,984 |
| 2016 | 3,115,208 | 1,745,983 | 95,296 | 99,364 | 106,725 | 74,180 | 131,497 | 294,477 | 567,686 |

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5. Trade accounts receivable (Continued)

The Company's revenues arise from the provision of hospital services, including the use of medication and hospital materials. Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and revenue can be reliably measured, i.e. upon rendering of medical services at an amount that reflects the consideration that an entity expects to be entitled in exchange for transfer of goods or services to a customer.

The provision for disallowances and allowance for doubtful accounts are presented reducing the balance of accounts receivable and are set up at an amount considered by management to be sufficient to cover any losses on the realization of amounts billed.

The Company's criterion to recognize provision for disallowances is to perform a recurring analysis of the receipt performance of securities overdue from 360 to 720 days, a period deemed sufficient for the collection process to be exhausted. The percentage found is applied to the gross revenue recorded and recognized as a provision in current P&L, reflecting management's best expectation based on the analyzed history. The analysis is made individually by cash-generating unit, as well as the percentage recorded as a provision for disallowances in the year.

As a criterion for recognition of an allowance for doubtful accounts, an individual analysis of receivables is performed to capture specific counterparty risks. If necessary, an allowance for doubtful accounts is recorded for the full balance of receivables outstanding of these customers.

6. Inventories

| | Parent Company | | | Consolidated | | |
|-----------------------------------|----------------|---------|---------|----------------|---------|---------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Medicine | 48,570 | 46,944 | 35,523 | 110,573 | 85,633 | 67,075 |
| Special materials | 44,429 | 38,918 | 34,789 | 59,181 | 49,410 | 42,408 |
| Disposable materials | 44,027 | 38,606 | 28,369 | 55,050 | 48,359 | 34,035 |
| Bracing and prosthetic | 1,363 | 1,496 | 643 | 7,597 | 1,794 | 927 |
| Materials for use and consumption | 12,713 | 8,971 | 9,730 | 25,351 | 14,348 | 18,953 |
| Food items | 2,550 | 2,627 | 2,137 | 2,881 | 3,079 | 3,712 |
| Dressing room materials | 581 | 1,370 | 1,323 | 1,437 | 2,366 | 1,994 |
| Surgical sutures | 3,596 | 3,108 | 2,440 | 4,579 | 3,888 | 3,066 |
| Other | 11,859 | 9,798 | 6,543 | 17,780 | 20,358 | 12,736 |
| | 169,688 | 151,838 | 121,497 | 284,429 | 229,235 | 184,906 |

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7. Transactions with related parties

Significant related-party transactions

The nature of significant related-party transactions is summarized as follows:

- (i) *Lease* - the Company leases properties owned by the controlling shareholders: the hospitals Copa D'Or and Quinta D'Or and the property of the administrative unit. They are leased at market value and generated an impact on the P&L for 2018 in the amount of R\$19,570 (R\$21,172 and R\$16,555 in 2017 and 2016, respectively). Leases are annually restated by reference to the Extended Consumer Price Index (IPCA).
- (ii) *Transfers of funds between companies* - to enhance the operations of certain investees and provide funds for expansion and/or acquisitions, Management makes transfers of funds among the Group companies. The significant balances are eliminated in the consolidated financial statements. These balances are not restated, do not have a defined maturity, and the collection is substantially expected for the subsequent fiscal year. The remaining balances in the consolidated figures refer to the transfer of funds to associates.
- (iii) *Shared services* - these are centralized services rendered by the parent company, Rede D'Or, such as legal, marketing, accounting, treasury, accounts payable and accounts receivable, which are shared among the other entities of the group and have specific apportionment criteria based on the contribution of each entity to the consolidated gross revenue.
- (iv) *Debentures* - certain subsidiaries issued nonconvertible debentures, which were acquired by the parent company. These debentures are intended to provide funds to the investees for investment in operations and expansion.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
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7. Transactions with related parties (Continued)

Related-party balances

| Companies | Parent Company | | | | | | | | | | | |
|--|----------------|-------------------|------------------------|----------------|----------------|-------------------|------------------------|----------------|----------------|-------------------|------------------------|----------------|
| | 2018 | | | | 2017 | | | | 2016 | | | |
| | Current assets | Noncurrent assets | Noncurrent liabilities | Profit or loss | Current assets | Noncurrent assets | Noncurrent liabilities | Profit or loss | Current assets | Noncurrent assets | Noncurrent liabilities | Profit or loss |
| Debentures Norte D'Or (a) | 9,206 | - | - | 1,326 | 7,066 | 11,364 | - | 3,027 | 9,075 | 19,681 | - | 3,991 |
| Shared services | - | - | - | - | - | - | - | - | - | - | - | - |
| Medise Medicina Diagnóstico e Serviços Ltda. | - | 23,874 | - | 10,531 | - | 13,343 | - | 9,122 | - | 14,024 | - | 7,237 |
| Hospital Esperança S.A. | - | 33,605 | - | 32,291 | - | 7,449 | - | 29,224 | - | 2,182 | - | 23,254 |
| Hospital São Marcos S.A. | - | 6,905 | - | 5,240 | - | 1,668 | - | 4,930 | - | 16,405 | - | 3,683 |
| Hospital Norte D'Or de Cascadura S.A. | - | - | - | 6,438 | - | - | - | 5,456 | - | - | - | 3,228 |
| Rede D'Or São Luiz Serviços Médicos S.A. | - | - | - | 13,824 | - | 142,060 | - | 13,742 | - | 128,211 | - | 29,182 |
| J. Badim S.A. | - | 5,447 | - | 2,254 | - | 3,214 | - | 2,052 | - | 1,120 | - | 1,812 |
| Oncologia D'Or S.A. | - | 1,088 | - | 1,631 | - | 9,627 | - | 1,631 | - | 9,627 | - | 1,533 |
| Hospital Fluminense S.A. | - | - | - | 4,730 | - | 1,472 | - | 4,066 | - | 6,712 | - | 2,803 |
| Hospital Ribeirão Pires LTDA | - | - | - | - | - | 5,426 | - | 5,383 | - | - | - | - |
| Clinica São Vicente | - | - | - | 7,088 | - | 3,619 | - | 3,589 | - | - | - | - |
| Hospital Memorial São José LTDA | - | - | - | - | - | 5,808 | - | 5,769 | - | - | - | - |
| Hospital Santa Helena S.A. | - | - | - | 16,729 | - | 13,066 | - | 12,972 | - | - | - | - |
| Hospital Alpha-Med LTDA | - | 645 | - | 2,680 | - | 1,976 | - | 1,962 | - | - | - | - |
| Esperança Serviços Médicos e Diagnósticos S.A. | - | - | - | - | - | 51 | - | 128 | - | - | - | - |
| Centro Médico Jabaquara S.A. | - | 368 | - | - | - | 368 | - | 260 | - | - | - | - |
| Other | - | 146 | - | 2,070 | - | - | - | - | - | - | - | - |
| São Luiz Serviços Médicos S.A. (b) | - | - | 2,405 | - | - | - | 2,368 | - | - | - | 6,033 | - |
| Centro Diagnóstico NSL (b) | - | 420 | - | - | - | 2,578 | - | - | - | 3,042 | - | - |
| Hospital Norte D'Or de Cascadura S.A. | - | - | 856 | - | - | 10,093 | - | - | - | - | - | - |
| Hospital Ribeirão Pires LTDA (b) | - | - | - | - | - | 4,457 | - | - | - | - | - | - |
| Unidade de Radiologia Clínica Ltda. (b) | - | 12,132 | - | - | - | 11,993 | - | - | - | 9,162 | - | - |
| Medise Medicina Diagnóstico e Serviços Ltda. (b) | - | - | 14,285 | - | - | - | 9,234 | - | - | - | 11,814 | - |
| PMJ Assessoria e Consultoria Financeira S.A. (b) | - | - | - | - | - | 60,894 | - | - | - | 87,540 | - | - |
| Quinta D'Or Empreendimentos Imobiliários S.A. (b) | - | - | - | - | - | - | - | - | - | 16,265 | - | - |
| Jenner S.A. (b) | - | 16,668 | - | - | - | 16,688 | - | - | - | 16,688 | - | - |
| Oncologia D'Or S.A. (b) | - | 1,441 | - | - | - | 6,481 | - | - | - | 8,716 | - | - |
| Hospital Fluminense S.A. (b) | - | - | 99 | - | - | 2,086 | - | - | - | 16,342 | - | - |
| Hospital São Marcos Ltda. (b) | - | - | - | - | - | - | - | - | - | - | - | - |
| Hospital Esperança S.A. (b) | - | - | 28,759 | - | - | - | 36,055 | - | - | - | 17,981 | - |
| JMJB Diagnósticos e Serviços Hospitalares S.A. (b) | - | 7,578 | - | - | - | 7,499 | - | - | - | 7,801 | - | - |
| Proncordis PA Cardiologico Ltda. (b) | - | 157 | - | - | - | 10,578 | - | - | - | 10,120 | - | - |
| Rodin Empreendimentos e Participações S.A. (b) | - | - | - | - | - | - | - | - | - | 11,461 | - | - |
| Onco D'Or Oncologia S.A. (b) | - | 81,086 | - | - | - | 99,009 | - | - | - | 48,096 | - | - |
| Campinas Empreendimentos Imobiliários Ltda. (b) | - | 3,230 | - | - | - | - | - | - | - | 45,049 | - | - |
| Hospital Santa Helena S.A. (b) | - | - | 3,262 | - | - | 12,103 | - | - | - | 64,498 | - | - |
| Santa Luzia II Emp. Imobiliários Ltda. (b) | - | - | - | - | - | 24,550 | - | - | - | 326,107 | - | - |
| Villa Lobos Empreendimentos Imobiliários S.A. (former JM01 Emp. Imobiliários S.A.) (b) | - | - | - | - | - | - | - | - | - | 184,523 | - | - |
| Hospital Memorial São José Ltda. (b) | - | - | - | - | - | - | - | - | - | 10,987 | - | - |
| GNI01 Emp. Imob. Ltda. (b) | - | 10 | - | - | - | - | - | - | - | 29,654 | - | - |
| Opuner do Brasil Ltda. (b) | - | - | 5,808 | - | - | - | 5,808 | - | - | - | 5,779 | - |
| Assunção Emp. Imobiliários Ltda. (b) | - | - | - | - | - | - | - | - | - | 5,082 | - | - |
| Instituto D'Or de Pesquisa e Ensino (b) | - | 7,454 | - | - | - | 7,454 | - | - | - | 7,404 | - | - |
| RDSL Empreendimento Imobiliários (b) | - | - | - | - | - | - | - | - | - | 20,559 | - | - |
| JM&AM Empreendimentos Imobiliários S.A. (c) | - | - | - | 19,570 | - | - | - | 21,172 | - | - | - | 16,555 |
| Onco Star SP (d) | - | 167,484 | - | - | - | - | - | - | - | - | - | - |
| Other | - | 36,044 | 1,727 | - | - | 38,169 | 1,416 | - | - | 22,806 | 13,077 | 364 |
| | 9,206 | 405,782 | 57,201 | 126,402 | 7,066 | 535,143 | 54,881 | 124,485 | 9,075 | 1,149,864 | 54,684 | 93,642 |

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

7. Transactions with related parties (Continued)

Related-party balances (Continued)

| Companies | Consolidated | | | | | | | | | | | |
|--|----------------|-------------------|------------------------|----------------|----------------|-------------------|------------------------|----------------|----------------|-------------------|------------------------|----------------|
| | 2018 | | | | 2017 | | | | 2016 | | | |
| | Current assets | Noncurrent assets | Noncurrent liabilities | Profit or loss | Current assets | Noncurrent assets | Noncurrent liabilities | Profit or loss | Current assets | Noncurrent assets | Noncurrent liabilities | Profit or loss |
| Shared services | | | | | | | | | | | | |
| J Badim S.A. | - | 5,447 | - | 2,254 | - | 3,214 | - | 2,052 | - | 1,120 | - | 1,812 |
| JMJB Diagnósticos e Serviços Hospitalares S.A. | - | 7,578 | - | - | - | 7,499 | - | - | - | 7,801 | - | - |
| Instituto D'Or de Pesquisa e Ensino J Badim S.A. (b) | - | 7,454 | - | - | - | 7,454 | - | - | - | 7,404 | - | - |
| J Badim S.A. (b) | - | 1,302 | - | - | - | 1,489 | - | - | - | 1,393 | - | - |
| JM&AM Empreendimentos Imobiliários S.A. (c) | - | - | - | 19,570 | - | - | - | 21,172 | - | - | - | 16,555 |
| Other | - | 1,685 | 60 | - | - | 3,827 | 60 | - | - | 3,903 | 111 | - |
| | - | 23,466 | 60 | 21,824 | - | 23,483 | 60 | 23,224 | - | 21,621 | 111 | 18,367 |

- (a) On February 09, 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 on a pro rata temporis basis bearing interest equivalent to 100% of DI (Interbank Deposits) plus 3,5% p.a. Interest is paid on a quarterly basis. There are no 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 indenture was amended to split the first payment into 10 successive monthly installments beginning August 2014, subject to interest as defined in the original indenture. On November 10, 2015, nonconvertible, single-series, registered debentures amounting to R\$25,000 were issued, with quarterly payments beginning in May 2017 and maturing on November 10, 2019. The debenture holder is Rede D'Or and the other conditions are similar to that of the first issue.
- (b) Transfers of funds for acquisition of companies, properties, expansion of operations, among others. These balances are substantially eliminated in the consolidated financial statements. There are no maturity or monetary restatement on these balances.
- (c) Transactions referring to the lease of properties owned by the controlling shareholders of Rede D'Or.
- (d) Onco Star SP was created in 2017 and during 2018 Rede D'Or provided resources to Onco Star to purchase machinery and equipment, as part of operational routine.

Key management personnel compensation

The Company considers "Key management personnel" only the members of its Statutory Board and Board of Directors. For the years ended December 31, 2018, 2017 and 2016, key management personnel compensation was as follows:

| | 2018 | 2017 | 2016 |
|----------------------|---------------|---------------|---------------|
| Salaries and bonuses | 41,291 | 35,579 | 34,952 |
| Benefits | 164 | 160 | 176 |
| Share-based payment | 40,662 | 32,599 | 30,864 |
| | 82,117 | 68,338 | 65,992 |

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

8. Investments

Breakdown of and changes in investments - Parent Company

| Companies | 2017 | Equity pickup | Dividends | Acquisition of interest | Capital increase / Advance for future capital increase | Transfer | Other | Merger of the subsidiary into the Company | 2018 |
|--|------------------|-----------------|-----------------|-------------------------|--|-----------------|----------------|---|------------------|
| Medise Medicina Diagnóstico e Serviços S.A. | 173,056 | 38,705 | - | - | - | - | - | - | 211,761 |
| Hospital Esperança S.A. | 71,346 | 68,784 | - | - | - | - | - | - | 140,130 |
| Hospital São Marcos (including goodwill) | 65,705 | 16,096 | - | - | 4,044 | - | - | - | 85,845 |
| PMJ Empreendimentos Imobiliários S.A. | 180,403 | 1,141 | - | - | 213,383 | - | - | - | 394,927 |
| Norte D'Or Participações S.A. (including goodwill) | 71,695 | 13,636 | - | - | 86 | - | - | - | 85,417 |
| Onco D'Or Oncologia S.A. | 275,950 | 54,164 | - | - | - | - | (8,954) | - | 321,160 |
| Jenner S.A. (including goodwill) | 101,233 | 11,890 | - | - | - | - | - | - | 113,123 |
| JMJB Diagnósticos e Serviços Hospitalares | 23,291 | 5,114 | - | - | - | - | - | - | 28,405 |
| Rodin Empreendimentos e Participações S.A. | 54,285 | (76) | - | - | - | - | - | - | 54,209 |
| Quinta Empreendimentos Imobiliários Ltda. | 55,137 | 8,330 | (12,000) | - | - | - | - | - | 51,467 |
| Hospital Fluminense S.A. (including goodwill) | 58,588 | 14,879 | - | - | 8,733 | - | - | - | 82,200 |
| Cardial Serviços Médicos (including goodwill) | 62,308 | 3,124 | (9,987) | 962 | 5,296 | - | - | - | 61,703 |
| Hospital Santa Helena S.A. (including goodwill) | 332,878 | 19,027 | - | - | 50,838 | - | - | - | 402,743 |
| Tijuca Empreendimentos Imobiliários Ltda. | 21,926 | 414 | - | - | - | - | - | - | 22,340 |
| Memorial São José Ltda. (including goodwill) (a) | 173,401 | - | - | - | - | - | - | (173,401) | - |
| Hospital Ribeirão Pires Ltda. (including goodwill) (a) | 173,807 | 1,098 | - | - | - | - | - | (174,905) | - |
| Villa Lobos Empreendimentos Imobiliários Ltda. | 209,818 | 6,307 | (12,000) | - | - | - | - | - | 204,125 |
| Santa Luzia II Empreendimentos Imobiliários Ltda. | 33,538 | (2,345) | - | - | 129,440 | - | - | - | 160,633 |
| Campinas Empreendimentos Imobiliários Ltda. | 45,882 | (69) | - | - | 629 | - | - | - | 46,442 |
| Sator Empreendimentos e Participações Ltda. | 168,819 | 14,019 | - | - | 145,349 | - | - | - | 328,187 |
| Rede D'or Finance | - | (9,018) | - | - | 14,387 | - | - | - | 5,369 |
| Rede D'Or São Luiz Serviços Médicos S.A. | - | (28,230) | - | - | 155,028 | (59,630) | - | - | 67,168 |
| GGSH Participações S.A. | 18,925 | 8,249 | - | 12,833 | - | - | 7,347 | - | 47,354 |
| Olimpia Projeto Rua do Rocio 86 SPE S.A. (b) | - | 7 | - | 306,000 | - | - | - | - | 306,007 |
| Proncordis Pronto Atendimento Cardiológico Ltda. | - | (24) | - | - | 11,249 | (31) | - | - | 11,194 |
| Prontimagem Serviços Médicos Ltda. | 5,337 | 8,519 | - | - | 195,598 | - | (587) | - | 208,867 |
| Maximagem com Diag. por imagem Ltda. | 62,427 | 11,892 | - | - | - | - | - | - | 74,319 |
| Other | 262,849 | 25,767 | (1,201) | 926 | 8,661 | - | (3,921) | - | 293,081 |
| | 2,702,604 | 291,400 | (35,188) | 320,721 | 942,721 | (59,661) | (6,115) | (348,306) | 3,808,176 |
| Rede D'or São Luiz Serviços Médicos S.A. | (59,630) | - | - | - | - | 59,630 | - | - | - |
| Onco Star | - | (23,431) | - | - | - | - | - | - | (23,431) |
| Centro Hospitalar São Marcos S.A. | (16,121) | (649) | - | - | 5,175 | - | - | - | (11,595) |
| Proncordis Pronto Atendimento Cardiológico Ltda. | (31) | - | - | - | - | 31 | - | - | - |
| Café Verde | (2,021) | (4,399) | - | - | 5,382 | - | - | - | (1,038) |
| | (77,803) | (28,479) | - | - | 10,557 | 59,661 | - | - | (36,064) |
| Equity pickup | | 262,921 | | | | | | | |

(a) Subsidiary merged into the Parent Company in 2018.

(b) Acquisition of land, through a subsidiary.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
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8. Investments (Continued)

Breakdown of and changes in investments - Parent Company (Continued)

| Companies | 2016 | Equity pickup | Dividends | Acquisition of interest | Capital increase / Advance for future capital increase | Transfer | Other | Merger of the subsidiary into the Company | 2017 |
|---|------------------|-----------------|------------------|-------------------------|--|-------------|-----------------|---|------------------|
| Medise Medicina Diagnóstico e Serviços S.A. | 149,837 | 21,497 | - | - | 1,692 | - | 30 | - | 173,056 |
| Hospital Esperança S.A. | 255,888 | 82,042 | (223,190) | - | (31,562) | - | (11,832) | - | 71,346 |
| Hospital São Marcos (including goodwill) | 48,723 | 16,982 | - | - | - | - | - | - | 65,705 |
| PMJ Empreendimentos Imobiliários S.A. | 73,355 | 2,829 | - | - | 104,222 | - | (3) | - | 180,403 |
| Norte D'Or Participações S.A. (including goodwill) | 64,889 | 10,684 | (3,878) | - | - | - | - | - | 71,695 |
| Onco D'Or Oncologia S.A. | 117,682 | 17,877 | - | - | 40,963 | 126,326 | (26,898) | - | 275,950 |
| Jenner S.A. (including goodwill) | 94,738 | 6,495 | - | - | - | - | - | - | 101,233 |
| JMJB Diagnósticos e Serviços Hospitalares | 18,179 | 5,112 | - | - | - | - | - | - | 23,291 |
| Rodin Empreendimentos e Participações S.A. | 52,222 | 43 | - | - | 2,020 | - | - | - | 54,285 |
| Quinta Empreendimentos Imobiliários Ltda. | 31,808 | 7,064 | - | - | 16,265 | - | - | - | 55,137 |
| Hospital Fluminense S.A. (including goodwill) | 21,390 | 10,222 | - | - | 26,976 | - | - | - | 58,588 |
| Acreditar Oncologia S.A. (including goodwill) (a) | 130,105 | 12,052 | (15,831) | - | - | (126,326) | - | - | - |
| Cardial Serviços Médicos (including goodwill) | 55,947 | 9,042 | (3,242) | - | - | - | 561 | - | 62,308 |
| Hospital Santa Helena S.A. (including goodwill) | 207,264 | 30,232 | - | - | 100,275 | - | (4,893) | - | 332,878 |
| Tijuca Empreendimentos Imobiliários Ltda. | 21,464 | 452 | - | - | - | - | 10 | - | 21,926 |
| Memorial São José Ltda. (including goodwill) | 143,960 | 17,480 | - | - | 11,961 | - | - | - | 173,401 |
| Hospital Ribeirão Pires Ltda. (including goodwill) | 168,003 | 5,689 | - | - | - | - | 115 | - | 173,807 |
| Centro de Diagnóstico por Imagem Bartira (Cedib) (including goodwill) | 5,324 | - | - | - | - | - | - | (5,324) | - |
| Villa Lobos Empreendimentos Imobiliários Ltda. | 11,713 | 4,525 | - | - | 193,580 | - | - | - | 209,818 |
| Santa Luzia II Empreendimentos Imobiliários Ltda. | 27,036 | 6,502 | - | - | - | - | - | - | 33,538 |
| Campinas Empreendimentos Imobiliários Ltda. | 353 | (2) | - | - | 45,531 | - | - | - | 45,882 |
| Sator Empreendimentos e Participações Ltda. (b) | - | 2,348 | - | 125,244 | 41,227 | - | - | - | 168,819 |
| Other | 192,569 | 32,995 | (3,889) | 34,653 | 89,883 | 14 | 3,313 | - | 349,538 |
| | <u>1,892,449</u> | <u>302,162</u> | <u>(250,030)</u> | <u>159,897</u> | <u>643,033</u> | <u>14</u> | <u>(39,597)</u> | <u>(5,324)</u> | <u>2,702,604</u> |
| Rede D'or São Luiz Serviços Médicos S.A. | (31,566) | (28,064) | - | - | - | - | - | - | (59,630) |
| Centro Hospitalar São Marcos S.A. | (25,178) | (4,595) | - | - | 13,652 | - | - | - | (16,121) |
| Proncordis Pronto Atendimento Cardiológico Ltda. | (14) | (17) | - | - | - | - | - | - | (31) |
| IFOR Empreendimentos imobiliários S.A. | (15) | - | - | - | 29 | (14) | - | - | - |
| Café Verde | (2,100) | (2,875) | - | - | 2,954 | - | - | - | (2,021) |
| | <u>(58,873)</u> | <u>(35,551)</u> | <u>-</u> | <u>-</u> | <u>16,635</u> | <u>(14)</u> | <u>-</u> | <u>-</u> | <u>(77,803)</u> |
| Equity pickup | | <u>266,611</u> | | | | | | | |

(a) On November 30, 2017, Rede D'Or increased the capital of Onco D'Or with its 60% interest in Acreditar. In addition, through its wholly-owned subsidiary Onco D'Or, Rede D'Or acquired additional interest of 40% in Acreditar and additional interest of 30% in Oncobrasília.

(b) Company acquired by the Parent Company on April 19, 2017. See Note 3.

Rede D'Or São Luiz S.A.

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8. Investments (Continued)

Breakdown of and changes in investments - Parent Company (Continued)

| Companies | 2015 | Equity pickup | Acquisition of interest / control | Dividends | Capital increase/ advance for future capital increase | Disposal / merger | Transfer | Other | Merger of the subsidiary into the Company | 2016 |
|---|-----------|---------------|-----------------------------------|-----------|---|-------------------|----------|----------|---|-----------|
| Medise Medicina Diagnóstico e Serviços S.A. | 97,362 | 26,603 | - | - | 26,056 | - | - | (184) | - | 149,837 |
| Hospital Esperança S.A. | 125,954 | 96,848 | - | - | 33,000 | - | - | 86 | - | 255,888 |
| Hospital São Marcos (including goodwill) | 26,707 | 18,341 | - | - | - | - | - | 3,675 | - | 48,723 |
| PMJ Empreendimentos Imobiliários S.A. | 74,503 | (1,148) | - | - | - | - | - | - | - | 73,355 |
| Norte D'Or Participações S.A. (including goodwill) | 62,982 | 1,909 | - | - | - | - | - | - | - | 64,891 |
| Oncor D'Or Oncologia S.A. | 64,502 | 5,727 | - | (3,000) | 67,825 | - | - | (17,372) | - | 117,682 |
| Jenner S.A. (including goodwill) | 94,554 | (1,522) | - | - | - | - | - | 1,706 | - | 94,738 |
| JMJB Diagnósticos e Serviços Hospitalares | 21,775 | 2,174 | - | (5,770) | - | - | - | - | - | 18,179 |
| Rodin Empreendimentos e Participações S.A. | 57,773 | (5,551) | - | - | - | - | - | - | - | 52,222 |
| Quinta Empreendimentos Imobiliários Ltda. | 20,335 | 11,473 | - | - | - | - | - | - | - | 31,808 |
| Hospital IFOR S.A. (a) | 90,789 | - | - | - | - | - | - | - | (90,789) | - |
| Hospital Fluminense S.A. (including goodwill) | - | 8,926 | - | - | 8,000 | - | - | - | - | 21,390 |
| Acreditar Oncologia S.A. (including goodwill) (b) | 30,466 | 12,165 | 94,074 | (6,600) | - | - | - | - | - | 130,105 |
| Hospital Villa-Lobos Ltda. (a) | 176,595 | - | - | - | - | - | - | - | (176,595) | - |
| Cardial Serviços Médicos (including goodwill) | 55,473 | 6,631 | 1,914 | (6,661) | - | - | - | (1,410) | - | 55,947 |
| Hospital e Maternidade Bartira S.A. (a) | 102,658 | - | - | - | - | - | - | - | (102,658) | - |
| Hospital Santa Helena S.A. (including goodwill) (c) | 69,827 | 4,176 | 134,403 | (1,142) | - | - | - | - | - | 207,264 |
| Diagnolab Exames Complementares Ltda. | - | 1,135 | - | - | - | - | 20,329 | - | - | 21,464 |
| Memorial São José Ltda. (including goodwill) (b) | - | 2,645 | 141,315 | - | - | - | - | - | - | 143,960 |
| Maximagem - Diagnóstico por Imagem Ltda. (including goodwill) (b) | - | 1,762 | 55,802 | - | 955 | - | - | - | - | 58,519 |
| IPASA Investimento Participação e Administração S.A. (including goodwill) (d) | - | (108) | 16,181 | - | - | (15,888) | - | (185) | - | - |
| GGSH Participações S.A. (including goodwill) (d) | - | 142 | 15,888 | - | - | - | - | - | - | 16,030 |
| Lithocenter S.A. (a) | 3,181 | 1,814 | - | - | - | (4,995) | - | - | - | - |
| Ribeirão Pires (including goodwill) (b) | - | - | 168,003 | - | - | - | - | - | - | 168,003 |
| Alpha Med (including goodwill) (b) | - | 1,175 | 32,289 | - | 100 | - | - | - | - | 33,564 |
| Cedib (including goodwill) | - | - | 3,895 | - | 1,429 | - | - | - | - | 5,324 |
| Other | 36,009 | 40,039 | 35,418 | (1,111) | 18,017 | (3,632) | (12) | (1,172) | - | 123,556 |
| | 1,215,909 | 235,356 | 699,182 | (24,284) | 155,382 | (24,515) | 20,317 | (14,856) | (370,042) | 1,892,449 |
| Rede D'Or São Luiz Serviços Médicos S.A. | (26,666) | (4,900) | - | - | - | - | - | - | - | (31,566) |
| Centro Hospitalar São Marcos S.A. | (24,642) | (536) | - | - | - | - | - | - | - | (25,178) |
| Diagnolab Exames Complementares Ltda. | (237) | - | - | - | 20,566 | - | (20,329) | - | - | - |
| Proncordis Pronto Atendimento Cardiológico Ltda. | - | (26) | - | - | - | - | 12 | - | - | (14) |
| IFOR Empreendimentos imobiliários S.A. | - | (15) | - | - | - | - | - | - | - | (15) |
| Café Verde | (1,235) | (865) | - | - | - | - | - | - | - | (2,100) |
| | (52,780) | (6,342) | - | - | 20,566 | - | (20,317) | - | - | (58,873) |
| Equity pickup | | 229,014 | | | | | | | | |

(a) Companies merged into Rede D'Or on January 1, 2016. These mergers had no impact on the Company's consolidated financial statements.

(b) Acquisition of control in 2016.

(c) Acquisition of 85.03% share of the Hospital Santa Helena S.A. previously held by the subsidiary JM02.

(d) On September 8, 2016, IPASA was merged into GGSH Participações S.A. ("GGSH"), resulting in a capital increase of GGSH, in which new shares were attributed to Rede D'Or, which now holds 21.29% interest in this investee.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

8. Investments (Continued)

Breakdown of and changes in investments - Consolidated

| Companies | 2017 | Equity pickup | Acquisition of interest | Dividends | Capital increase/ advance for future capital increase | Other | 2018 |
|--|--------|---------------|-------------------------|-----------|---|-------|---------|
| JMJB Diganósticos e Serviços Hospitalares S.A. | 23,291 | 5,114 | - | - | - | - | 28,405 |
| Instituto de Radioterapia do Vale do Paraíba Ltda. | 34,206 | 7,755 | - | (2,577) | 750 | - | 40,134 |
| GGSH Participações S.A. | 18,925 | 8,249 | 12,833 | - | - | 7,347 | 47,354 |
| Eldorado do Sul Participações Ltda | - | 651 | 13,944 | - | - | - | 14,595 |
| Other | 13,549 | 1,803 | - | (1,311) | - | - | 14,041 |
| | 89,971 | 23,572 | 26,777 | (3,888) | 750 | 7,347 | 144,529 |

| Companies | 2016 | Equity pickup | Acquisition of interest | Dividends | 2017 |
|--|--------|---------------|-------------------------|-----------|--------|
| JMJB Diganósticos e Serviços Hospitalares S.A. | 18,179 | 5,112 | - | - | 23,291 |
| Instituto de Radioterapia do Vale do Paraíba Ltda. | 35,721 | 5,985 | - | (7,500) | 34,206 |
| GGSH Participações S.A. | 16,030 | 5,484 | - | (2,589) | 18,925 |
| Other | 8,234 | 2,257 | 4,161 | (1,103) | 13,549 |
| | 78,164 | 18,838 | 4,161 | (11,192) | 89,971 |

| Companies | 2015 | Equity pickup | Acquisition of interest / control | Dividends | Capital increase | Merger of subsidiary into the Company | 2016 |
|--|---------|---------------|-----------------------------------|-----------|------------------|---------------------------------------|--------|
| JMJB Diganósticos e Serviços Hospitalares S.A. | 21,775 | 2,174 | - | (5,770) | - | - | 18,179 |
| Acreditar Oncologia S.A. (*) | 30,466 | 2,863 | (27,829) | (5,500) | - | - | - |
| Instituto de Radioterapia do Vale do Paraíba Ltda. | 36,998 | 5,852 | - | (7,129) | - | - | 35,721 |
| CEHON (*) | 16,849 | 2,915 | (20,247) | (1,408) | 1,891 | - | - |
| Maximagem - Diagnóstico por Imagem Ltda. (*) | - | 1,773 | (1,773) | - | - | - | - |
| Prontimagem (*) | 1,181 | - | (1,181) | - | - | - | - |
| Lithocenter | 3,181 | 1,814 | - | - | - | (4,995) | - |
| GGSH Participações S.A. | - | 142 | 15,888 | - | - | - | 16,030 |
| Other | - | 1,819 | 6,519 | (104) | - | - | 8,234 |
| | 110,450 | 19,352 | (28,623) | (19,911) | 1,891 | (4,995) | 78,164 |

(*) Companies consolidated as from acquisition of shareholding control, as mentioned in Note 3.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

8. Investments (Continued)

Summary of information of significant subsidiaries

| | 2018 | | | | | 2017 | | 2016 | |
|--|---------|----------|-----------|-------------|----------|-----------------------------|----------------------------|----------------------------|----------------------------|
| | % total | % Voting | Assets | Liabilities | Equity | Operating income (expenses) | Income (loss) for the year | Income (loss) for the year | Income (loss) for the year |
| Direct and indirect subsidiaries (a) | | | | | | | | | |
| Medise Medicina Diagnóstico e Serviços S.A. ("Medise") | 98.00 | 98.00 | 343,025 | 119,652 | 223,373 | 69,090 | 43,191 | 21,936 | 27,145 |
| Rodin Empreendimentos e Participações S.A. | 100.00 | 100.00 | 54,209 | - | 54,209 | (65) | (76) | 43 | (5,551) |
| Hospital Esperança S.A. ("Esperança") | 100.00 | 100.00 | 2,725,459 | 2,585,176 | 140,283 | 213,869 | 68,784 | 82,633 | 96,848 |
| PMJ Empreendimentos Imobiliários S.A. | 100.00 | 100.00 | 513,129 | 117,774 | 395,355 | 1,570 | 1,141 | 2,829 | (1,148) |
| Quinta Empreendimentos Imobiliários Ltda. | 100.00 | 100.00 | 64,379 | 12,912 | 51,467 | 13,557 | 8,330 | 7,064 | 11,473 |
| Hospital Fluminense S.A. | 100.00 | 100.00 | 81,785 | 12,365 | 69,420 | 22,767 | 14,879 | 10,222 | 8,926 |
| Cardial Serviços Médicos Ltda. | 89.44 | 89.44 | 32,846 | 7,451 | 25,395 | 6,275 | 3,124 | 10,764 | 8,557 |
| Norte D'Or Participações S.A. | 100.00 | 100.00 | 60,165 | 3,199 | 56,966 | 13,636 | 13,636 | 10,684 | 1,909 |
| Hospital Santa Helena S.A. | 100.00 | 100.00 | 349,434 | 67,601 | 281,833 | 37,207 | 19,027 | 30,232 | 27,841 |
| Onco D'Or Oncologia S.A. | 98.90 | 98.90 | 256,917 | 86,216 | 170,701 | 46,535 | 25,756 | 18,835 | 11,282 |
| Jenner S.A. | 91.25 | 91.25 | 155,608 | 16,688 | 138,920 | 23,779 | 21,146 | 12,990 | (2,664) |
| Tijuca Empreendimentos Imobiliários Ltda. | 100.00 | 100.00 | 23,226 | 885 | 22,341 | 1,521 | 414 | 452 | 1,135 |
| Villa Lobos Empreendimentos Imobiliários S.A. | 100.00 | 100.00 | 204,706 | 581 | 204,125 | 20,075 | 6,307 | - | - |
| Santa Luzia II Emp. Imobiliários Ltda. | 100.00 | 100.00 | 169,559 | 8,927 | 160,632 | (86) | (2,345) | - | - |
| Campinas Empreendimentos Imob. | 100.00 | 100.00 | 49,672 | 3,231 | 46,441 | (25) | (69) | (2) | 29 |
| IFOR Empreendimentos Imobiliários S.A (Park D'Or) | 100.00 | 100.00 | 33 | 25 | 8 | (14) | (6) | - | (14) |
| Sator Empreendimentos e Participações Ltda | 100.00 | 100.00 | 1 | (121,940) | 121,941 | 14,019 | 14,019 | 2,348 | - |
| Rede D'Or Finance | 100.00 | 100.00 | 5,369 | - | 5,369 | - | (9,018) | - | - |
| Olimpia Projeto Rua do Rocio 86 SPE S.A. | 100.00 | 100.00 | 306,483 | 484 | 305,999 | (898) | (906) | - | - |
| Onco Star | 75.00 | 75.00 | 154,409 | 191,885 | (37,476) | (27,359) | (23,431) | (6,236) | - |
| Centro Hospitalar São Marcos S.A. | 100.00 | 100.00 | 955 | 12,551 | (11,596) | (622) | (649) | (4,595) | - |
| Proncordis Pronto Atendimento Cardiológico Ltda.. | 100.00 | 100.00 | 8,867 | 896 | 7,971 | (876) | (1,418) | (983) | (1,185) |
| Prontimagem Serviços Médicos Ltda. | 100.00 | 100.00 | 219,858 | 14,759 | 205,129 | 10,087 | 8,519 | (1,027) | (221) |
| Maximagem Diagnóstico por Imagem Ltda. | 100.00 | 100.00 | 27,468 | 3,667 | 23,801 | 14,975 | 11,892 | 3,815 | - |
| Café Verde | 100.00 | 100.00 | 2,837 | 3,875 | (1,038) | (4,154) | (4,400) | (2,875) | (868) |

Summary of information of affiliates and jointly-controlled entities

| | 2018 | | | | | 2017 | | 2016 | |
|---|---------|----------|---------|-------------|---------|-----------------------------|----------------------------|----------------------------|----------------------------|
| | % total | % Voting | Assets | Liabilities | Equity | Operating income (expenses) | Income (loss) for the year | Income (loss) for the year | Income (loss) for the year |
| Investees recognized under equity method in the consolidated financial statements | | | | | | | | | |
| JMJB Diagnósticos e Serviços Hospitalares S.A. | 50.00 | 50.00 | 66,152 | 9,342 | 56,810 | 10,256 | 5,114 | 10,225 | 4,348 |
| Instituto de Radioterapia do Vale do Paraíba Ltda. | 50.00 | 50.00 | 19,697 | 11,212 | 8,485 | 19,262 | 7,755 | 11,969 | 11,705 |
| GGSB Participações S.A. | 34.46 | 34.46 | 124,773 | (1,748) | 126,521 | 28,129 | 9,365 | 22,964 | (848) |
| Eldorado do Sul Participações Ltda | 33.33 | 33.33 | 15,917 | - | 15,917 | 1,952 | 1,952 | - | - |

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

9. Property and equipment

Breakdown of balances

| Description | Depreciation rate | Parent Company | | | | | | | | |
|----------------------------------|-------------------|------------------|--------------------------|------------------|------------------|--------------------------|------------------|------------------|--------------------------|------------------|
| | | 2018 | | | 2017 | | | 2016 | | |
| | | Cost | Accumulated depreciation | Net amount | Cost | Accumulated depreciation | Net amount | Cost | Accumulated depreciation | Net amount |
| Hospital machinery and equipment | 12% to 20% | 923,373 | (509,296) | 414,077 | 784,172 | (430,982) | 353,190 | 647,982 | (363,138) | 284,844 |
| Surgical instruments | 20% | 48,994 | (25,990) | 23,004 | 39,749 | (18,224) | 21,525 | 33,257 | (12,231) | 21,026 |
| Machinery and equipment | 7% to 10% | 315,354 | (191,814) | 123,540 | 227,864 | (144,110) | 83,754 | 193,711 | (111,621) | 82,090 |
| Buildings | 2.5% to 4% | 595,058 | (99,790) | 495,268 | 848,716 | (77,508) | 771,208 | 442,851 | (64,383) | 378,468 |
| Improvements in own buildings | 4% | 169,801 | (35,994) | 133,807 | 99,610 | (22,738) | 76,872 | 94,452 | (15,951) | 78,501 |
| Leasehold improvements | 3% to 4% | 1,131,558 | (297,415) | 834,143 | 816,341 | (244,250) | 572,091 | 793,676 | (176,333) | 617,343 |
| Furniture and fixtures | 10% | 140,496 | (74,144) | 66,352 | 115,418 | (60,013) | 55,405 | 96,030 | (49,205) | 46,825 |
| Vehicles | 20% | 3,988 | (3,081) | 907 | 3,939 | (2,690) | 1,249 | 3,631 | (2,306) | 1,325 |
| Facilities | 10% | 110,470 | (38,228) | 72,242 | 85,242 | (30,804) | 54,438 | 70,417 | (24,487) | 45,930 |
| Land | - | 155,530 | - | 155,530 | 130,020 | - | 130,020 | 122,684 | - | 122,684 |
| Construction in progress | - | 501,378 | - | 501,378 | 582,239 | - | 582,239 | 459,643 | - | 459,643 |
| Other | 5% to 10% | 12,430 | (4,836) | 7,594 | 11,799 | (4,612) | 7,187 | 11,349 | (4,459) | 6,890 |
| | | 4,108,430 | (1,280,588) | 2,827,842 | 3,745,109 | (1,035,931) | 2,709,178 | 2,969,683 | (824,114) | 2,145,569 |

| Description | Depreciation rate | Consolidated | | | | | | | | |
|----------------------------------|-------------------|------------------|--------------------------|------------------|------------------|--------------------------|------------------|------------------|--------------------------|------------------|
| | | 2018 | | | 2017 | | | 2016 | | |
| | | Cost | Accumulated depreciation | Net amount | Cost | Accumulated depreciation | Net amount | Cost | Accumulated depreciation | Net amount |
| Hospital machinery and equipment | 12% to 20% | 1,204,717 | (607,829) | 596,888 | 992,902 | (511,585) | 481,317 | 819,559 | (424,606) | 394,953 |
| Surgical instruments | 20% | 57,586 | (30,342) | 27,244 | 48,636 | (21,655) | 26,981 | 39,483 | (14,334) | 25,149 |
| Machinery and equipment | 7% to 10% | 474,285 | (265,693) | 208,592 | 291,036 | (196,134) | 94,902 | 249,915 | (150,724) | 99,191 |
| Buildings | 2.5% to 4% | 1,067,049 | (140,907) | 926,142 | 1,258,561 | (99,842) | 1,158,719 | 786,820 | (70,601) | 716,219 |
| Improvements in own buildings | 4% | 184,234 | (38,636) | 145,598 | 104,053 | (24,517) | 79,536 | 97,780 | (16,920) | 80,860 |
| Leasehold improvements | 3% to 4% | 1,432,885 | (401,454) | 1,031,431 | 1,032,436 | (331,362) | 701,074 | 996,741 | (253,862) | 742,879 |
| Furniture and fixtures | 10% | 195,542 | (99,936) | 95,606 | 157,720 | (81,750) | 75,970 | 131,514 | (66,952) | 64,562 |
| Vehicles | 20% | 4,717 | (5,522) | (805) | 4,495 | (3,054) | 1,441 | 4,081 | (2,584) | 1,497 |
| Facilities | 10% | 167,142 | (65,273) | 101,869 | 139,140 | (52,972) | 86,168 | 118,912 | (42,190) | 76,722 |
| Land | - | 802,896 | - | 802,896 | 463,442 | - | 463,442 | 391,074 | - | 391,074 |
| Construction in progress | - | 1,016,424 | - | 1,016,424 | 743,591 | - | 743,591 | 508,275 | - | 508,275 |
| Other | 5% to 10% | 49,338 | (6,392) | 42,946 | 48,645 | (6,146) | 42,499 | 17,012 | (6,048) | 10,964 |
| | | 6,656,815 | (1,661,984) | 4,994,831 | 5,284,657 | (1,329,017) | 3,955,640 | 4,161,166 | (1,048,821) | 3,112,345 |

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
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(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in the Parent Company

| | 2017 | Additions | Sales / disposals | Transfers | Additions from mergers of subsidiaries | 2018 |
|----------------------------------|--------------------|------------------|----------------------|-----------------|--|--------------------|
| Cost | | | | | | |
| Hospital machinery and equipment | 784,172 | 121,854 | (340) | 4,979 | 12,708 | 923,373 |
| Surgical instruments | 39,749 | 7,137 | - | - | 2,108 | 48,994 |
| Machinery and equipment | 227,864 | 37,561 | - | 48,542 | 1,387 | 315,354 |
| Buildings | 848,716 | 3,028 | (257,500) | 814 | - | 595,058 |
| Improvements in own buildings | 99,610 | 8,225 | - | 61,952 | 14 | 169,801 |
| Leasehold improvements | 816,341 | 25,039 | (10,000) | 296,870 | 3,308 | 1,131,558 |
| Furniture and fixtures | 115,418 | 20,137 | - | - | 4,941 | 140,496 |
| Vehicles | 3,939 | 49 | - | - | - | 3,988 |
| Facilities | 85,242 | 23,762 | - | 150 | 1,316 | 110,470 |
| Land | 130,020 | - | - | - | 25,510 | 155,530 |
| Construction in progress | 582,239 | 347,905 | - | (440,493) | 11,727 | 501,378 |
| Other | 11,799 | 621 | - | - | 10 | 12,430 |
| | <u>3,745,109</u> | <u>595,318</u> | <u>(267,840)</u> | <u>(27,186)</u> | <u>63,029</u> | <u>4,108,430</u> |
| Depreciation | | | | | | |
| Hospital machinery and equipment | (430,982) | (78,314) | - | - | - | (509,296) |
| Surgical instruments | (18,224) | (7,766) | - | - | - | (25,990) |
| Machinery and equipment | (144,110) | (47,704) | - | - | - | (191,814) |
| Buildings | (77,508) | (27,432) | 5,150 | - | - | (99,790) |
| Improvements in own buildings | (22,738) | (13,256) | - | - | - | (35,994) |
| Leasehold improvements | (244,250) | (53,365) | 200 | - | - | (297,415) |
| Furniture and fixtures | (60,013) | (14,131) | - | - | - | (74,144) |
| Vehicles | (2,690) | (391) | - | - | - | (3,081) |
| Facilities | (30,804) | (7,424) | - | - | - | (38,228) |
| Other | (4,612) | (224) | - | - | - | (4,836) |
| | <u>(1,035,931)</u> | <u>(250,007)</u> | <u>5,350</u> | <u>-</u> | <u>-</u> | <u>(1,280,588)</u> |
| Property and equipment, net | <u>2,709,178</u> | <u>345,311</u> | <u>(262,490)</u> | <u>(27,186)</u> | <u>63,029</u> | <u>2,827,842</u> |

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in Parent Company (Continued)

| | 2016 | Additions | Transfers | Additions from mergers of subsidiaries | 2017 |
|----------------------------------|------------------|------------------|-----------|--|--------------------|
| Cost | | | | | |
| Hospital machinery and equipment | 647,982 | 131,755 | - | 4,435 | 784,172 |
| Surgical instruments | 33,257 | 6,492 | - | - | 39,749 |
| Machinery and equipment | 193,711 | 34,146 | - | 7 | 227,864 |
| Buildings | 442,851 | 265,515 | 140,350 | - | 848,716 |
| Improvements in own buildings | 94,452 | 5,158 | - | - | 99,610 |
| Leasehold improvements | 793,676 | 22,665 | - | - | 816,341 |
| Furniture and fixtures | 96,030 | 19,385 | - | 3 | 115,418 |
| Vehicles | 3,631 | 308 | - | - | 3,939 |
| Facilities | 70,417 | 14,825 | - | - | 85,242 |
| Land | 122,684 | 7,336 | - | - | 130,020 |
| Construction in progress | 459,643 | 262,946 | (140,350) | - | 582,239 |
| Other | 11,349 | 450 | - | - | 11,799 |
| | <u>2,969,683</u> | <u>770,981</u> | <u>-</u> | <u>4,445</u> | <u>3,745,109</u> |
| Depreciation | | | | | |
| Hospital machinery and equipment | (363,138) | (67,844) | - | - | (430,982) |
| Surgical instruments | (12,231) | (5,993) | - | - | (18,224) |
| Machinery and equipment | (111,621) | (32,489) | - | - | (144,110) |
| Buildings | (64,383) | (13,125) | - | - | (77,508) |
| Improvements in own buildings | (15,951) | (6,787) | - | - | (22,738) |
| Leasehold improvements | (176,333) | (67,917) | - | - | (244,250) |
| Furniture and fixtures | (49,205) | (10,808) | - | - | (60,013) |
| Vehicles | (2,306) | (384) | - | - | (2,690) |
| Facilities | (24,487) | (6,317) | - | - | (30,804) |
| Other | (4,459) | (153) | - | - | (4,612) |
| | <u>(824,114)</u> | <u>(211,817)</u> | <u>-</u> | <u>-</u> | <u>(1,035,931)</u> |
| Property and equipment, net | <u>2,145,569</u> | <u>559,164</u> | <u>-</u> | <u>4,445</u> | <u>2,709,178</u> |

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in Parent Company (Continued)

| | 2015 | Additions | Sales / disposals | Transfers | Additions from mergers of subsidiaries | 2016 |
|----------------------------------|------------------|------------------|----------------------|-----------|--|------------------|
| Cost | | | | | | |
| Hospital machinery and equipment | 463,548 | 148,505 | (300) | 33,141 | 3,088 | 647,982 |
| Surgical instruments | 14,810 | 11,664 | - | - | 6,783 | 33,257 |
| Machinery and equipment | 144,594 | 36,938 | - | 8,826 | 3,353 | 193,711 |
| Buildings | 221,295 | 46,754 | - | 167,370 | 7,432 | 442,851 |
| Improvements in own buildings | 82,004 | 1,984 | - | 10,464 | - | 94,452 |
| Leasehold improvements | 518,867 | 42,607 | - | 223,556 | 8,646 | 793,676 |
| Furniture and fixtures | 67,446 | 25,698 | - | 225 | 2,661 | 96,030 |
| Vehicles | 2,659 | 702 | - | - | 270 | 3,631 |
| Facilities | 55,578 | 11,561 | - | 1,114 | 2,164 | 70,417 |
| Land | 91,595 | 17,599 | - | - | 13,490 | 122,684 |
| Construction in progress | 553,565 | 353,794 | (3,328) | (444,696) | 308 | 459,643 |
| Other | 10,442 | 629 | - | - | 278 | 11,349 |
| | <u>2,226,403</u> | <u>698,435</u> | <u>(3,628)</u> | <u>-</u> | <u>48,473</u> | <u>2,969,683</u> |
| Depreciation | | | | | | |
| Hospital machinery and equipment | (254,233) | (108,905) | - | - | - | (363,138) |
| Surgical instruments | (10,085) | (2,146) | - | - | - | (12,231) |
| Machinery and equipment | (85,544) | (26,077) | - | - | - | (111,621) |
| Buildings | (68,869) | 4,486 | - | - | - | (64,383) |
| Improvements in own buildings | (6,228) | (9,723) | - | - | - | (15,951) |
| Leasehold improvements | (116,581) | (59,752) | - | - | - | (176,333) |
| Furniture and fixtures | (41,030) | (8,175) | - | - | - | (49,205) |
| Vehicles | (1,926) | (380) | - | - | - | (2,306) |
| Facilities | (19,980) | (4,507) | - | - | - | (24,487) |
| Other | (4,317) | (142) | - | - | - | (4,459) |
| | <u>(608,793)</u> | <u>(215,321)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(824,114)</u> |
| Property and equipment, net | <u>1,617,610</u> | <u>483,114</u> | <u>(3,628)</u> | <u>-</u> | <u>48,473</u> | <u>2,145,569</u> |

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in Consolidated

| | 2017 | Additions | Sales/ disposals | Transfers | Business combinations | 2018 |
|----------------------------------|--------------------|------------------|---------------------|------------------|--------------------------|--------------------|
| Cost | | | | | | |
| Hospital machinery and equipment | 992,902 | 204,844 | (680) | 5,093 | 2,558 | 1,204,717 |
| Surgical instruments | 48,636 | 8,329 | - | - | 621 | 57,586 |
| Machinery and equipment | 291,036 | 62,309 | - | 54,799 | 66,141 | 474,285 |
| Buildings | 1,258,561 | 22,471 | (257,500) | 814 | 42,703 | 1,067,049 |
| Improvements in own buildings | 104,053 | 8,569 | - | 71,612 | - | 184,234 |
| Leasehold improvements | 1,032,436 | 50,339 | (10,000) | 327,550 | 32,560 | 1,432,885 |
| Furniture and fixtures | 157,720 | 25,871 | - | - | 11,951 | 195,542 |
| Vehicles | 4,495 | 36 | - | - | 186 | 4,717 |
| Facilities | 139,140 | 27,827 | - | 162 | 13 | 167,142 |
| Land | 463,442 | 315,098 | - | - | 24,356 | 802,896 |
| Construction in progress | 743,591 | 755,113 | - | (491,907) | 9,627 | 1,016,424 |
| Other | 48,645 | 693 | - | - | - | 49,338 |
| | 5,284,657 | 1,481,499 | (268,180) | (31,877) | 190,716 | 6,656,815 |
| Depreciation | | | | | | |
| Hospital machinery and equipment | (511,585) | (96,244) | - | - | - | (607,829) |
| Surgical instruments | (21,655) | (8,687) | - | - | - | (30,342) |
| Machinery and equipment | (196,134) | (69,559) | - | - | - | (265,693) |
| Buildings | (99,842) | (46,215) | 5,150 | - | - | (140,907) |
| Improvements in own buildings | (24,517) | (14,119) | - | - | - | (38,636) |
| Leasehold improvements | (331,362) | (70,292) | 200 | - | - | (401,454) |
| Furniture and fixtures | (81,750) | (18,186) | - | - | - | (99,936) |
| Vehicles | (3,054) | (2,468) | - | - | - | (5,522) |
| Facilities | (52,972) | (12,301) | - | - | - | (65,273) |
| Other | (6,146) | (246) | - | - | - | (6,392) |
| | (1,329,017) | (338,317) | 5,350 | - | - | (1,661,984) |
| Property and equipment, net | 3,955,640 | 1,143,182 | (262,830) | (31,877) | 190,716 | 4,994,831 |

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in Consolidated (Continued)

| | 2016 | Additions | Sales / disposals | Transfers | Business combinations | 2017 |
|----------------------------------|--------------------|------------------|----------------------|-----------|--------------------------|--------------------|
| Cost | | | | | | |
| Hospital machinery and equipment | 819,559 | 164,692 | (8) | - | 8,659 | 992,902 |
| Surgical instruments | 39,483 | 9,153 | - | - | - | 48,636 |
| Machinery and equipment | 249,915 | 39,572 | (9) | - | 1,558 | 291,036 |
| Buildings | 786,820 | 271,897 | - | 158,641 | 41,203 | 1,258,561 |
| Improvements in own buildings | 97,780 | 6,273 | - | - | - | 104,053 |
| Leasehold improvements | 996,741 | 35,695 | - | - | - | 1,032,436 |
| Furniture and fixtures | 131,514 | 25,236 | (4) | - | 974 | 157,720 |
| Vehicles | 4,081 | 414 | - | - | - | 4,495 |
| Facilities | 118,912 | 19,799 | - | - | 429 | 139,140 |
| Land | 391,074 | 49,960 | - | - | 22,408 | 463,442 |
| Construction in progress | 508,275 | 393,569 | - | (158,641) | 388 | 743,591 |
| Other | 17,012 | 31,633 | - | - | - | 48,645 |
| | <u>4,161,166</u> | <u>1,047,893</u> | <u>(21)</u> | <u>-</u> | <u>75,619</u> | <u>5,284,657</u> |
| Depreciation | | | | | | |
| Hospital machinery and equipment | (424,606) | (86,979) | - | - | - | (511,585) |
| Surgical instruments | (14,334) | (7,321) | - | - | - | (21,655) |
| Machinery and equipment | (150,724) | (45,410) | - | - | - | (196,134) |
| Buildings | (70,601) | (29,241) | - | - | - | (99,842) |
| Improvements in own buildings | (16,920) | (7,597) | - | - | - | (24,517) |
| Leasehold improvements | (253,862) | (77,500) | - | - | - | (331,362) |
| Furniture and fixtures | (66,952) | (14,798) | - | - | - | (81,750) |
| Vehicles | (2,584) | (470) | - | - | - | (3,054) |
| Facilities | (42,190) | (10,782) | - | - | - | (52,972) |
| Other | (6,048) | (98) | - | - | - | (6,146) |
| | <u>(1,048,821)</u> | <u>(280,196)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,329,017)</u> |
| Property and equipment, net | <u>3,112,345</u> | <u>767,697</u> | <u>(21)</u> | <u>-</u> | <u>75,619</u> | <u>3,955,640</u> |

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in Consolidated (Continued)

| | 2015 | Additions | Sales / Disposals | Transfers | Business combinations | 2016 |
|----------------------------------|------------------|------------------|----------------------|-----------|--------------------------|--------------------|
| Cost | | | | | | |
| Hospital machinery and equipment | 578,814 | 181,499 | (300) | 31,420 | 28,126 | 819,559 |
| Surgical instruments | 24,498 | 12,735 | - | - | 2,250 | 39,483 |
| Machinery and equipment | 187,369 | 50,178 | - | 8,826 | 3,542 | 249,915 |
| Buildings | 650,547 | 136,090 | (228,486) | 196,934 | 31,735 | 786,820 |
| Improvements in own buildings | 85,333 | 2,768 | (1,291) | 9,642 | 1,328 | 97,780 |
| Leasehold improvements | 689,641 | 53,380 | - | 248,753 | 4,967 | 996,741 |
| Furniture and fixtures | 96,448 | 29,139 | - | 225 | 5,702 | 131,514 |
| Vehicles | 3,403 | 629 | (15) | (35) | 99 | 4,081 |
| Facilities | 97,363 | 19,633 | - | 1,147 | 769 | 118,912 |
| Land | 448,482 | 15,598 | (78,000) | - | 4,994 | 391,074 |
| Construction in progress | 574,732 | 431,481 | (3,328) | (496,912) | 2,302 | 508,275 |
| Other | 16,314 | 698 | - | - | - | 17,012 |
| | 3,452,944 | 933,828 | (311,420) | - | 85,814 | 4,161,166 |
| Depreciation | | | | | | |
| Hospital machinery and equipment | (306,352) | (118,254) | - | - | - | (424,606) |
| Surgical instruments | (11,697) | (2,637) | - | - | - | (14,334) |
| Machinery and equipment | (114,644) | (36,080) | - | - | - | (150,724) |
| Buildings | (73,271) | 2,670 | - | - | - | (70,601) |
| Improvements in own buildings | (6,533) | (10,387) | - | - | - | (16,920) |
| Leasehold improvements | (184,791) | (69,071) | - | - | - | (253,862) |
| Furniture and fixtures | (56,323) | (10,629) | - | - | - | (66,952) |
| Vehicles | (2,234) | (350) | - | - | - | (2,584) |
| Facilities | (34,093) | (8,097) | - | - | - | (42,190) |
| Other | (5,893) | (155) | - | - | - | (6,048) |
| | (795,831) | (252,990) | - | - | - | (1,048,821) |
| Property and equipment, net | 2,657,113 | 680,838 | (311,420) | - | 85,814 | 3,112,345 |

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Significant changes for the years were:

2018

- (i) Acquisition of Hospital UDI, Laboratório Richet, Hospital São Rafael S.A and Hospital Samer;
- (ii) On June 29, 2018, the Company performed two sale and leaseback transactions with the Hospital São Luiz Morumbi's building and with the Hospital Brasil's administration building, located in the city of São Paulo, for the total amount of R\$ 282,813, of which R\$ 10,000 shall be received until June 2019, and the remaining amount of R\$ 7.500 shall be received as soon as Company complies with certain contractual clauses. This remaining balance is adjusted in accordance with the Interbank Deposit Certificate - CDI. The rental term is 25 years. The gain of R\$15,312 was recorded on P&L at the contract execution date;
- (iii) Expansions of Hospital Vivalle, Hospital Coração, Hospital Bartira remodeling of Onco Star and expansion in various hospitals;
- (iv) Purchase of hospital machinery and equipment, as part of the Company's operational routine and renovation of Hospital Niterói D'Or; and
- (v) Acquisition, through the investee Olímpia Projeto Rua do Rocio 86 SPE S.A. of a land located in the city of São Paulo, in the amount of R\$306,000.

2017

- (i) Acquisition of a land in the city of Brasília for R\$36,000 for construction of a Hospital.
- (ii) Acquisition of the building of Hospital São Luiz Morumbi, located in the city of São Paulo, for R\$250,000; and
- (iii) Expenses with construction of São Caetano Hospital, remodeling of Niterói D'Or Hospital and expansions in various other hospitals.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
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9. Property and equipment (Continued)

2016

- (i) Acquisition of two lands, one for expansion of Niterói D'Or Hospital, in the amount of R\$47,000, and the other for construction of a new hospital in São Paulo, in the amount of R\$44,000;
- (ii) Purchase of hospital machinery and equipment, as part of the Company's operational routine;
- (iii) Opening of Copa Star Hospital, which resulted in a transfer to construction in progress of approximately R\$390 million;
- (iv) Expenses with the construction of Copa Star and São Caetano hospitals, remodeling of Realcordis and construction of a new tower for expansion of Vivalle (opened in the first quarter of 2016);
- (v) On October 24, 2016, the Company performed a sale and leaseback transaction of the Hospital Santa Helena property to North West International II Investimentos Imobiliários em Saúde S.A. The sale transaction totaled R\$306,486, fully received on the contract execution date. No gain or loss was recorded on this transaction since, at the time of acquisition, the property was recorded at fair value based on the same sale proposal received at that time.

Capitalized borrowing costs

The Company capitalizes borrowings costs attributable to qualifying assets. In 2018, R\$20,718 of interest on loans and financing were capitalized to property and equipment, net of financial income arising from fundraising (R\$24,014 in 2017).

Impairment analysis of property and equipment

Management has assessed the existence of events or changes in economic, operational or technological circumstances and has not identified any evidence that could indicate deterioration or impairment loss on property and equipment.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

10. Intangible assets

| | Annual amortization rate | Parent Company | | | Consolidated | | |
|--------------------------------------|--------------------------------|------------------|-----------|-----------|------------------|-----------|-----------|
| | | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Finite useful life | | | | | | | |
| Software | 20% | 160,361 | 110,242 | 73,450 | 183,240 | 120,173 | 78,521 |
| Exclusive agreements | 20% | 16,974 | 11,597 | 12,011 | 60,664 | 47,679 | 13,302 |
| Indefinite useful life | | | | | | | |
| Goodwill | | | | | | | |
| Acquisition of Copa D'Or | | 80,058 | 80,058 | 80,058 | 80,058 | 80,058 | 80,058 |
| Acquisition of HMSL | | 668,339 | 668,339 | 668,339 | 668,339 | 668,339 | 668,339 |
| Acquisition of Hospital Brasil | | 121,398 | 121,398 | 121,398 | 121,398 | 121,398 | 121,398 |
| Acquisition of Hospital Prontolinda | | 30,595 | 30,595 | 30,595 | 30,595 | 30,595 | 30,595 |
| Acquisition of Vivalle | | 38,692 | 38,692 | 38,692 | 38,692 | 38,692 | 38,692 |
| Acquisition of São Marcos | | - | - | - | 10,807 | 10,807 | 10,807 |
| Acquisition of Santa Luzia | | 199,333 | 199,333 | 199,333 | 199,333 | 199,333 | 199,333 |
| Acquisition of Sinisgalli | | 156,646 | 156,646 | 156,646 | 156,646 | 156,646 | 156,646 |
| Acquisition of Hospital Esperança | | - | - | - | 108,408 | 108,408 | 108,408 |
| Acquisition of Norte D'Or | | - | - | - | 28,450 | 28,450 | 28,450 |
| Acquisition of IFOR | | 85,724 | 85,724 | 85,724 | 85,724 | 85,724 | 85,724 |
| Acquisition of Sino Brasileiro | | 241,947 | 241,947 | 251,930 | 241,947 | 241,947 | 251,930 |
| Acquisition of Villa-Lobos | | 136,074 | 136,074 | 136,074 | 136,074 | 136,074 | 136,074 |
| Acquisition of Bartira | | 105,584 | 105,584 | 115,656 | 105,584 | 105,584 | 115,656 |
| Acquisition of Onco ABC/Cardeal/JLD | | - | - | - | 52,174 | 52,174 | 52,174 |
| Acquisition of Oncoholding | | - | - | - | 159,445 | 159,445 | 157,619 |
| Acquisition of Hospital Fluminense | | - | - | - | 10,658 | 10,658 | 10,658 |
| Acquisition of Hospital Santa Helena | | - | - | - | 125,802 | 125,802 | 125,802 |
| Acquisition of Acreditar | | - | - | - | 155,720 | 155,720 | 155,720 |
| Acquisition of Memorial São Jose (b) | | 112,528 | - | - | 112,528 | 112,528 | 112,528 |
| Acquisition of Alpha-Med | | - | - | - | 43,815 | 43,815 | 42,738 |
| Acquisition of CEHON | | - | - | - | 68,757 | 68,757 | 68,757 |
| Acquisition of Maximagem | | - | - | - | 46,742 | 46,742 | 45,539 |
| Acquisition of Ribeirão Pires (b) | | 129,739 | - | - | 129,739 | 129,739 | 129,739 |
| Acquisition NEOH | | - | - | - | 33,422 | 33,422 | 31,422 |
| Acquisition of JTO | | - | - | - | 12,567 | 12,567 | 12,567 |
| Acquisition of Salus | | - | - | - | 8,956 | 8,956 | 8,956 |
| Acquisition of Prontimagem | | - | - | - | 6,220 | 6,220 | 6,220 |
| Acquisition of Sator | | - | - | - | 163,089 | 163,089 | - |
| Acquisition of Hospital São Rafael | | - | - | - | 538,449 | - | - |
| Acquisition of Laboratório Richet | | - | - | - | 187,493 | - | - |
| Acquisition of UDI | | - | - | - | 335,883 | - | - |
| Acquisition of Samer | | - | - | - | 79,178 | - | - |
| Other goodwill | | 48,649 | 48,649 | 48,649 | 95,198 | 57,001 | 57,001 |
| Trademarks and patents (a) | | 190,810 | 190,810 | 190,810 | 190,810 | 190,810 | 190,810 |
| | | 2,523,451 | 2,225,688 | 2,209,365 | 4,812,604 | 3,557,352 | 3,332,183 |

(a) This mainly refers to Hospital São Luiz trademark recorded upon its acquisition in 2010.

(b) Subsidiary merged into the Parent Company in 2018.

The goodwill balances were generated on business combinations. The acquisitions occurred in 2018, 2017 and 2016 are described in Note 3.

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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 recoverable amount of a CGU is based on value in use calculations. The value in use calculations use cash flow projections before income tax and social contribution based on financial budgets approved by management covering a five-year period. The cash flows beyond the five-year period did not consider a growth rate, since they were based on an actual projection model. Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and is derived from its weighted average cost of capital (WACC - Actual). Actual WACC considers both debt and equity cost. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest-bearing financing the Company is obliged to honor. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. At December 31, 2018, the discount rate used for determining the value in use of the CGU was 9.16% (6.95% in 2017 and 9.08% in 2016) and perpetuity of 2%. Management determined projected gross margin based on past performance and its expectation for market development. The discount rate used corresponds to the pre-tax rate and reflects sector specific risks.

Based on the tests performed, Management concluded that there is no need to recognize a provision for loss, in addition to the write-off of goodwill of IOPE in the amount of R\$6,022 recorded in 2016.

11. Deferred gain on property sale

On October 11, 2013 and December 26, 2012, the Company conducted two property sale and leaseback transactions, whereby the leaseback was accounted for as operating lease. Part of the gain, related to the excess of sales proceeds versus their fair value, was deferred, as required by CPC 06/IAS 17 - Leases, and has been amortized over the lease term. The breakdown of deferred gains is as follows:

| | Parent Company and Consolidated | | |
|-----------------|---------------------------------|--------|--------|
| | 2018 | 2017 | 2016 |
| Caxias D'Or | 34,400 | 36,120 | 37,840 |
| Hospital Brasil | 41,800 | 44,000 | 46,200 |
| | 76,200 | 80,120 | 84,040 |
| Current | 3,920 | 3,920 | 3,920 |
| Noncurrent | 72,280 | 76,200 | 80,120 |

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12. Loans, financing and debentures

| Banks | Indexes | Spread | Curren cy | Principal (R\$) | Beginning of maturity | Maturity | Amortization | Guarantees | Company | | | Consolidated | | |
|--|---------------|--------|--------------|--------------------|--------------------------|-----------|--------------|------------------------|------------------|------------------|------------------|-------------------|------------------|------------------|
| | | | | | | | | | 12/31/2018 | 12/31/2017 | 12/31/2016 | 12/31/2018 | 12/31/2017 | 12/31/2016 |
| BNDES/FINEP | TJLP | 0.90% | R\$ | 315,042 | Aug/2012 | Feb/2025 | Monthly | n/a | 156,490 | 307,498 | 138,252 | 163,409 | 315,968 | 142,312 |
| IFC-I (d) | LIBOR | 3.30% | US\$ | 93,790 | Sept/2011 | Apr/2020 | Semiannually | Shares and receivables | - | 48,283 | 73,802 | - | 48,283 | 73,802 |
| IFC-II-A Loan (a) / (d) | LIBOR | 3.00% | US\$ | 135,349 | Dec/2014 | Nov/2024 | Semiannually | Shares and receivables | - | 112,576 | 111,353 | - | 112,576 | 111,353 |
| IFC-II-B1 Loan (a) / (d) | LIBOR | 3.00% | US\$ | 386,712 | Dec/2014 | Nov/2024 | Semiannually | Shares and receivables | - | 321,607 | 326,200 | - | 321,607 | 326,200 |
| IFC II B2 Loan (a) / (d) | LIBOR | 2.70% | US\$ | 58,007 | Dec/2014 | Nov/2022 | Semiannually | Shares and receivables | - | 39,102 | 45,192 | - | 39,102 | 45,192 |
| IFC II C Loan (a) / (d) | LIBOR | 6.00% | US\$ | 57,863 | Dec/2014 | Nov/2027 | Semiannually | n/a | - | 51,365 | 45,804 | - | 51,365 | 45,804 |
| IFC II MCPP Loan (a) / (d) | LIBOR | 3.00% | US\$ | 101,512 | Dec/2014 | Nov/2024 | Semiannually | Shares and receivables | - | 84,421 | 82,432 | - | 84,421 | 82,432 |
| IFC III A1 Loan (a) | LIBOR | 3.30% | US\$ | 157,685 | May/2017 | Apr/2025 | Semiannually | n/a | 194,132 | 166,693 | - | 194,132 | 166,693 | - |
| IFC III A2 Loan (a) | LIBOR | 3.30% | US\$ | 157,685 | May/2017 | Apr/2026 | Semiannually | Shares and receivables | 155,398 | 158,037 | - | 155,398 | 158,037 | - |
| IFC III B Loan (a) | LIBOR | 3.00% | US\$ | 252,296 | May/2017 | Apr/2024 | Semiannually | n/a | 308,943 | 266,100 | - | 308,943 | 266,100 | - |
| IFC III C Loan (a) | LIBOR | 5.50% | US\$ | 94,611 | May/2017 | Apr/2026 | Bullet | n/a | 122,201 | 108,013 | - | 122,201 | 108,013 | - |
| Proparco Loan (a) / (d) | EURIBOR | 3.00% | EUR | 212,221 | Dec/2014 | Nov/2024 | Semiannually | Shares and receivables | - | 193,390 | 180,678 | - | 193,390 | 180,678 |
| JP Morgan (a) | Fixed rate | 3.35% | US\$ | 300,000 | Apr/2016 | Apr/2020 | Quarterly | n/a | 331,601 | 288,692 | 282,730 | 331,601 | 288,692 | 282,730 |
| Citibank (a) / (d) | LIBOR | 0.99% | US\$ | 203,190 | Aug/2017 | Aug/2022 | Bullet | n/a | - | 221,041 | - | - | 221,041 | - |
| CCB | Fixed rate | 10.10% | R\$ | 17,813 | n/a | n/a | Monthly | n/a | - | 40 | 1,053 | 4,627 | 7,239 | 4,300 |
| Debentures – 1 st issuance | 100% of DI | 2.30% | R\$ | 1,000,000 | Apr/2011 | Apr/2020 | Monthly | n/a | - | - | 662,362 | - | - | 662,362 |
| Debentures – 2 nd issuance | 100% of DI | 2.00% | R\$ | 100,000 | Oct/2011 | Jan/2017 | Monthly | n/a | - | - | 73,558 | - | - | 73,558 |
| Debentures – 3 rd issuance | 100% of DI | 2.30% | R\$ | 650,000 | Dec/2011 | Dec/2020 | Monthly | n/a | 261,220 | 388,255 | 516,370 | 261,220 | 388,255 | 516,370 |
| Debentures – 4 th issuance | 100% of DI | 2.40% | R\$ | 800,000 | Sept/2012 | Aug/2020 | Monthly | n/a | - | - | 741,497 | - | - | 741,497 |
| Debentures – 5 th issuance (d) | 100% of DI | 2.00% | R\$ | 100,000 | Dec/2013 | Dec/2018 | Yearly | n/a | - | 49,691 | 99,696 | - | 49,691 | 99,696 |
| Debentures – 6 th issuance | 100% of DI | 2.00% | R\$ | 200,000 | Dec/2014 | Dec/2019 | Bullet | n/a | - | - | 149,281 | - | - | 149,281 |
| Debentures – 7 th issuance 1 st series (d) | 100% of DI | 1.90% | R\$ | 600,000 | Jul/2016 | Jul/2019 | Bullet | Receivables | - | 621,399 | 637,773 | - | 621,399 | 637,773 |
| Debentures – 7 th issuance 2 nd series (d) | 100% of DI | 2.00% | R\$ | 300,000 | Jul/2016 | Jul/2020 | Bullet | Receivables | - | 310,763 | 318,952 | - | 310,763 | 318,952 |
| Debentures – 7 th issuance 3 rd series (d) | 100% of DI | 2.10% | R\$ | 300,000 | Jul/2016 | Jul/2021 | Bullet | Receivables | - | 310,825 | 319,015 | - | 310,825 | 319,015 |
| Debentures – 8 th issuance | 100% of DI | 2.60% | R\$ | 150,000 | Jul/2016 | Jul/2021 | Monthly | n/a | - | - | 152,758 | - | - | 152,758 |
| Debentures – 9 th issuance 1 st series | 110% of DI | - | R\$ | 800,000 | Aug/2017 | Aug/2020 | Bullet | n/a | 878,454 | 833,360 | - | 878,454 | 833,360 | - |
| Debentures – 9 th issuance 2 nd series | 100% of DI | 1.75% | R\$ | 600,000 | Aug/2017 | Aug/2024 | Semiannually | n/a | 614,031 | 600,810 | - | 614,031 | 600,810 | - |
| Senior notes (a) / (b) | Fixed rate | 4.95% | US\$ | 1,596,400 | Jan/2018 | Jan/2028 | Bullet | n/a | - | - | - | - | 1,935,389 | - |
| Debentures – 10 th issuance (b) | Fixed rate | 11.82% | R\$ | 1,628,100 | Jan/2018 | Jan/2028 | Bullet | n/a | 1,765,979 | - | - | - | 33,397 | - |
| Certificates of Real Estate Receivables (CRI) – 1 st issuance (c) | 99% of DI | - | R\$ | 662,837 | Mar/2018 | Mar/2023 | Bullet | n/a | 667,919 | - | - | 667,919 | - | - |
| Debentures – 1 st issuance – Medise (d) | 100% of DI | 2.20% | R\$ | 100,000 | Dec/2011 | Dec/2018 | Monthly | Receivables | - | 21,595 | 45,222 | - | 21,595 | 45,222 |
| Debentures – 1 st issuance – Esperança (d) | 100% of DI | 2.40% | R\$ | 200,000 | Oct/2012 | Oct/2021 | Monthly | Shares and receivables | - | - | - | - | 150,525 | 188,757 |
| Debentures – 2 nd issuance – Esperança (d) | 100% of DI | 1.90% | R\$ | 100,000 | Dec/2013 | Dec/2018 | Semiannually | Receivables | - | - | - | - | 36,335 | 72,482 |
| Debentures – 3 rd issuance – Esperança | 110,85% of DI | - | R\$ | 1,000,000 | Aug/2017 | Aug/2024 | Semiannually | n/a | - | - | - | - | 1,011,362 | 1,025,161 |
| Debentures – 4 th issuance – Esperança | 100% of DI | 1.27% | R\$ | 1,000,000 | Feb/2018 | Dec/2025 | Semiannually | n/a | - | - | - | - | 989,039 | 993,305 |
| Promissory note – 3 rd issuance (e) | 112.5% of DI | - | R\$ | 1,000,000 | Apr/2018 | Apr/2023 | Bullet | n/a | 1,045,386 | - | - | - | 1,045,386 | - |
| Certificates of Real Estate Receivables (CRI) – 2 nd issuance (c) | IPCA | 6.06% | R\$ | 300,000 | Jul/2018 | Jul/2025 | Bullet | n/a | 307,306 | - | - | - | 307,306 | - |
| Debentures – 13 th issuance (f) | 100% of DI | 1.02% | R\$ | 1,400,000 | Sept/2018 | Sept/2024 | Yearly | n/a | 1,418,105 | - | - | - | 1,418,105 | - |
| Citibank II (a) (g) | LIBOR | 0.46% | US\$ | 301,200 | Nov/18 | Nov/23 | Bullet | n/a | 310,591 | - | - | - | 310,591 | - |
| Debentures - 14 th issuance (h) | 106% do DI | - | R\$ | 500,000 | Oct/18 | Oct/26 | Annual | Property | 500,408 | - | - | - | 500,408 | - |
| Certificates of Real Estate Receivables (CRI) – 3 rd issuance (c) | 96.5% do DI | - | R\$ | 227,051 | Dec/18 | Dec/23 | Bullet | n/a | 224,701 | - | - | - | 224,701 | - |
| Certificates of Real Estate Receivables (CRI) – 3 rd issuance (c) | IPCA | 4.65% | R\$ | 372,949 | Dec/18 | Dec/25 | Bullet | n/a | 368,966 | - | - | - | 368,966 | - |
| | | | | | | | | | 9,631,831 | 5,503,556 | 5,003,980 | 11,846,585 | 7,724,551 | 5,272,526 |
| | | | | | | | | | 621,388 | 475,361 | 879,010 | 607,704 | 588,037 | 959,303 |
| | | | | | | | | | 9,010,443 | 5,028,195 | 4,124,970 | 11,238,881 | 7,136,514 | 4,313,223 |

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12. Loans and financing (Continued)

- (a) As mentioned in Note 26, the Group contracts derivative financial instruments to hedge foreign exchange differences and adopted the fair value hedge accounting as accounting practice; therefore, these debts are recorded at fair value through profit or loss.
- (b) On January 17, 2018, through its wholly owned subsidiary Rede D'Or Finance, the Company issued Senior Notes, in the total amount of US\$500,000, restated by interest of 4.95% p.a., maturing on January 17, 2028, with semiannual interest payments starting on July 17, 2018 and the principal in one payment on January 17, 2028. At the same time, also through its subsidiary Rede D'Or Finance, the Company contracted derivative financial instruments to hedge the exchange variation and interest, exchanging for Reais plus CDI + 2,01% p.a. Additionally, the Parent Company issued debentures (10th issuance), which were substantially acquired by the subsidiary Rede D'Or Finance.
- (c) On March 16, 2018, through a securitization company, Rede D'Or issued Certificates of Real Estate Receivables (*Certificados de Recebíveis Imobiliários* - "CRI") in the amount of R\$662,000, maturing on March 9, 2023 in a bullet payment. The CRI will be remunerated semiannually on a pro rata temporis basis, with interest equivalent to 99% of the DI (Interbank Deposit). There are no guarantees. On July 18, 2018, through a securitization company, Rede D'Or issued another CRI, in the amount of R\$300,000, maturing on July 15, 2025 in a bullet payment. The CRI will be remunerated by IPCA + 6.0563% to be paid semiannually. There are no guarantees. On December 15, 2018, through a securitization company, Rede D'Or issued registered book-entry Mortgage-backed Securities ("CRIs") in the amount of R\$600,000. The first series in the amount of R\$227,051, maturing on December 15, 2023 in a bullet payment. The CRI will be remunerated semiannually on a pro rata temporis basis, with interest equivalent to 96.5% of the Interbank Deposit Certificate (CDI) and the second series in the amount of R\$372,949, maturing on December 15, 2025 in a bullet payment. The CRI will be remunerated by IPCA + 4.6572% to be paid annually. There are no guarantees.
- (d) During the year ended December 31, 2018, the Company fully settled these debts.
- (e) On April 24, 2018, Rede D'Or issued a promissory note, in a single series, in the total amount of R\$1,000,000, maturing on April 24, 2023, remunerated on a pro rata temporis basis with interest equivalent to 112.5% of the Interbank Deposit ("DI"). There are no guarantees.
- (f) On September 10, 2018, Rede D'Or issued of nonconvertible debentures totaling R\$1,400,000, maturing on September 10, 2024, with remuneration equivalent to 100% of the Interbank Deposit Certificate (CDI) rate plus 1.02% p.a. There are no guarantees.
- (g) On November 19, 2018, Rede D'Or obtained a loan from Citibank, in the amount of US\$80,000, maturing on November 21, 2023 in a bullet payment, and remunerated by LIBOR, plus 0.46% per annum, to be paid quarterly. At the same time, the Company contracted a derivative financial instrument to hedge the exchange variation and interest, exchanging for Reais plus interest equivalent to 109% of the Interbank Deposit Certificate (CDI). There are no guarantees.
- (h) On October 24, 2018, Rede D'Or issued the 14th debentures, with security interest, in the amount of R\$420,000, maturing on October 24, 2026. The debentures are remunerated at the 106% of the Interbank Deposit Certificate (CDI), to be paid semiannually, and principal to be paid annually from 2023. On November 5, 2018, Rede D'Or amendment the debentures and increased the amount to R\$500,000. There are Real Estate guarantees.

Significant loans, financing and debentures were obtained for general corporate purposes, to perform acquisitions, to expand the hospitals and for construction of new units.

The costs related to the issuance of loans, financing and debentures, in the amount of R\$135,695 at December 31, 2018 (R\$75,071 and R\$65,361 at December 31, 2017 and 2016, respectively), were recorded as a reduction of the balances and have been amortized over the term of the agreements.

In addition to the guarantees given, there are covenants required in certain loan and financing contracts, related ratios based on net debt, EBITDA and financial income. To date, the Group is in compliance with all debt covenants.

At December 31, 2018, the long-term maturity schedule is as follows:

| Parent Company | | Consolidated | |
|----------------|------------------|--------------|-------------------|
| Year | Amount | Year | Amount |
| 2020 | 1,277,486 | 2020 | 1,280,957 |
| 2021 | 195,925 | 2021 | 445,570 |
| 2022 | 253,245 | 2022 | 748,281 |
| 2023 | 3,348,183 | 2023 | 3,842,682 |
| 2024 | 1,172,858 | 2024 | 1,667,016 |
| 2025 | 827,813 | 2025 | 1,074,925 |
| 2026 | 255,961 | 2026 | 255,961 |
| 2027 to 2028 | 1,678,972 | 2027 to 2028 | 1,923,489 |
| | <u>9,010,443</u> | | <u>11,238,881</u> |

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13. Tax liabilities

| | Parent Company | | | Consolidated | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Contribution Tax on Gross Revenue for Social Integration Program (PIS) | 3,531 | 2,785 | 2,330 | 4,982 | 3,341 | 1,822 |
| Contribution Tax on Gross Revenue for Social Security Financing (COFINS) | 24,394 | 18,405 | 25,211 | 38,264 | 27,249 | 37,267 |
| Service Tax (ISS) | 68,449 | 40,181 | 21,099 | 114,867 | 65,023 | 57,166 |
| Withholding Income Tax (IRRF) | 15,959 | 15,186 | 12,813 | 23,507 | 19,052 | 17,599 |
| Income tax | - | - | - | 53,717 | 49,902 | 54,712 |
| Social contribution | - | - | - | 16,980 | 15,180 | 20,981 |
| Other | 26,237 | 23,343 | - | 47,217 | 52,562 | 1,108 |
| Tax refinancing programs: | | | | | | |
| Tax on services (ISS) | 14,420 | 17,505 | 22,259 | 36,532 | 43,457 | 23,482 |
| Refinancing - Law No. 11,941/09 | 15,969 | 63,642 | 68,135 | 30,025 | 80,053 | 79,009 |
| Social security payable (a) | 55,333 | 70,965 | 78,749 | 158,966 | 178,322 | 98,217 |
| Other | 21,686 | 329 | 405 | 51,880 | 20,599 | 4,103 |
| | 245,978 | 252,341 | 231,001 | 576,937 | 554,740 | 395,466 |
| Current | 154,870 | 119,563 | 82,860 | 343,611 | 272,259 | 217,039 |
| Noncurrent | 91,108 | 132,778 | 148,141 | 233,326 | 282,481 | 178,427 |

(a) Increase in 2017 in the consolidated amounts is mainly from the acquisition of Hospital São Vicente.

At December 31, 2018, the long-term maturity schedule is as follows:

| | Parent Company | | Consolidated | |
|--------------|----------------|---------------|--------------|----------------|
| | Year | Amount | Year | Amount |
| 2020 | | 15,163 | 2020 | 41,700 |
| 2021 | | 12,122 | 2021 | 32,505 |
| 2022 | | 10,174 | 2022 | 26,660 |
| 2023 | | 10,174 | 2023 | 26,091 |
| 2024 to 2030 | | 43,475 | 2024 to 2030 | 106,370 |
| | | 91,108 | | 233,326 |

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14. Accounts payable for acquisitions

| Acquisitions | Restatement index | Parent Company | | | Consolidated | | |
|----------------|-------------------|----------------|--------|---------|----------------|---------|---------|
| | | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Ribeirão Pires | CDI | 20,763 | 19,510 | 69,810 | 20,763 | 19,510 | 69,810 |
| Bartira | CDI | - | - | 36,256 | - | - | 36,256 |
| IFOR | CDI | 12,377 | 11,630 | 10,577 | 12,377 | 11,630 | 10,577 |
| Norte | CDI | - | - | 7,477 | - | - | 7,477 |
| Acreditar | CDI | - | 13,827 | 12,575 | - | 13,827 | 12,575 |
| São Marcos | CDI | - | - | 6,872 | - | - | 6,872 |
| Alphamed | CDI | 7,192 | 6,758 | 6,146 | 7,192 | 6,758 | 6,146 |
| Vivalle | CDI | - | - | 5,395 | - | - | 5,395 |
| Oncologia RJ | CDI | - | - | - | 41,894 | 39,364 | 35,801 |
| CEHON | CDI | - | - | - | - | - | 9,526 |
| Salus | IPCA | - | - | - | 5,139 | 6,862 | 6,589 |
| Sator | SELIC | 16,461 | 15,923 | - | 16,461 | 15,923 | - |
| UDI | CDI | - | - | - | 36,983 | - | - |
| São Rafael | SELIC | - | - | - | 173,506 | - | - |
| Richet | CDI | - | - | - | 10,820 | - | - |
| Samer | CDI | - | - | - | 11,800 | - | - |
| Maximagem | CDI | 16,947 | 15,467 | 13,987 | 16,947 | 15,467 | 13,987 |
| Other | CDI/IPCA | 6,492 | 8,681 | 24,582 | 9,500 | 9,163 | 29,307 |
| | | 80,232 | 91,796 | 193,677 | 363,382 | 138,504 | 250,318 |
| Current | | 22,357 | 18,904 | 122,067 | 105,094 | 26,249 | 143,619 |
| Noncurrent | | 57,875 | 72,892 | 71,610 | 258,288 | 112,255 | 106,699 |

Accounts payable for acquisitions refer to the remaining balance of the considerations for acquisitions made. At December 31, 2018, noncurrent maturity schedule is as follows:

| Parent Company | | Consolidated | |
|----------------|---------------|--------------|----------------|
| Year | Amount | Year | Amount |
| 2020 | 16,569 | 2020 | 63,367 |
| 2021 | 7,947 | 2021 | 13,086 |
| 2022 | 24,359 | 2022 | 99,035 |
| 2023 | 9,000 | 2023 | 9,000 |
| 2024 | - | 2024 | 73,800 |
| | 57,875 | | 258,288 |

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15. 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 case of final favorable decisions to the Company. 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 | | | | | |
|-------------------------|-----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | 2018 | | 2017 | | 2016 | |
| | Provision for contingencies | Judicial deposits | Provision for contingencies | Judicial deposits | Provision for contingencies | Judicial deposits |
| Tax and social security | 39,489 | (88,067) | 24,198 | (76,755) | 58,944 | (44,235) |
| Labor | 41,474 | (11,878) | 53,219 | (5,240) | 50,170 | (5,212) |
| Civil | 49,081 | (13,223) | 50,772 | (10,812) | 26,311 | (22,668) |
| | 130,044 | (113,168) | 128,189 | (92,807) | 135,425 | (72,115) |

| | Consolidated | | | | | |
|-------------------------|-----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | 2018 | | 2017 | | 2016 | |
| | Provision for contingencies | Judicial deposits | Provision for contingencies | Judicial deposits | Provision for contingencies | Judicial deposits |
| Tax and social security | 61,728 | (117,222) | 49,424 | (99,169) | 79,811 | (54,794) |
| Labor | 54,837 | (15,105) | 63,136 | (7,718) | 60,014 | (7,702) |
| Civil | 73,230 | (15,483) | 65,419 | (12,585) | 50,284 | (27,263) |
| | 189,795 | (147,810) | 177,979 | (119,472) | 190,109 | (89,759) |

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15. Provision for contingencies and judicial deposits (Continued)

15.1. Contingencies assessed as probable loss

Changes in provisions for contingencies for 2018, 2017 and 2016 were as follows:

| | Parent Company | | | |
|---------------------------------|-------------------------|----------|----------|----------|
| | Tax and social security | Labor | Civil | Total |
| Balances at December 31, 2015 | 16,220 | 60,196 | 27,064 | 103,480 |
| Additions, net of reversals | (6,765) | (1,350) | 8,115 | - |
| Monetary restatement | 2,043 | 715 | 2,239 | 4,997 |
| Payments | - | (11,145) | (11,219) | (22,364) |
| Additions from acquisitions (*) | 47,446 | 1,754 | 112 | 49,312 |
| Balances at December 31, 2016 | 58,944 | 50,170 | 26,311 | 135,425 |
| Additions, net of reversals | (34,126) | 9,872 | 26,776 | 2,522 |
| Monetary restatement | 3,676 | 3,129 | 1,641 | 8,446 |
| Payments | (4,296) | (9,952) | (3,956) | (18,204) |
| Balances at December 31, 2017 | 24,198 | 53,219 | 50,772 | 128,189 |
| Additions, net of reversals | 5,267 | (4,083) | (1,184) | - |
| Monetary restatement | 2,788 | 3,099 | 3,480 | 9,367 |
| Payments | (108) | (13,626) | (3,987) | (17,721) |
| Additions from mergers (*) | 7,344 | 2,865 | - | 10,209 |
| Balances at December 31, 2018 | 39,489 | 41,474 | 49,081 | 130,044 |

(*) Additions related to the subsidiaries merged (Hospital e Maternidade Bartira, Hospital IFOR and Hospital Villa-Lobos in 2016, and Ribeirão Pires e Memorial São José in 2018).

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15. Provision for contingencies and judicial deposits (Continued)

15.1. Contingencies assessed as probable loss (Continued)

| | Consolidated | | | Total |
|---------------------------------|-------------------------|-----------------|----------------|-----------------|
| | Tax and social security | Labor | Civil | |
| Balances at December 31, 2015 | 59,132 | 71,859 | 48,578 | 179,569 |
| Additions, net of reversals | (5,004) | 3,166 | 5,878 | 4,040 |
| Monetary restatement | 5,842 | 2,874 | 2,915 | 11,631 |
| Payments | (4) | (19,961) | (11,747) | (31,712) |
| Additions from acquisitions (*) | 19,845 | 2,076 | 4,660 | 26,581 |
| Balances at December 31, 2016 | 79,811 | 60,014 | 50,284 | 190,109 |
| Additions, net of reversals | (26,662) | 15,423 | 14,028 | 2,789 |
| Monetary restatement | 4,234 | 3,184 | 2,668 | 10,086 |
| Payments | (9,410) | (15,485) | (1,561) | (26,456) |
| Enrollment with REFIS (Note 13) | (7,519) | - | - | (7,519) |
| Additions from acquisitions (*) | 8,970 | - | - | 8,970 |
| Balances at December 31, 2017 | 49,424 | 63,136 | 65,419 | 177,979 |
| Additions, net of reversals | (4,418) | 1,104 | 1,638 | (1,676) |
| Monetary restatement | 4,422 | 4,611 | 5,957 | 14,990 |
| Payments | (115) | (14,142) | (5,492) | (19,749) |
| Additions from acquisitions (*) | 12,415 | 128 | 5,708 | 18,251 |
| Balances at December 31, 2018 | 61,728 | 54,837 | 73,230 | 189,795 |

(*) Additions related to acquisitions performed in the respective years (Hospital Memorial, Alpha-Med and Ribeirão Pires in 2016, Hospital São Vicente in 2017, and Hospital UDI, Laboratório Richet, and Hospital Samer in 2018).

Tax proceedings reserves arise mainly from challenges of State VAT (ICMS) on imports of medical equipment, Tax on services (ISS) payable based on a differentiated rate, and Federal VAT (IPI) on imports.

Labor claims are largely derived from overtime payment, 13th month salary, resignation notice, vacation pay and Unemployment Compensation Fund (FGTS).

Civil and administrative proceedings refer to compensation for alleged moral and material damages.

Considering the complexities of the lawsuits, as well as of the Brazilian legal system, the Company is not able to estimate with reasonable precision the amount expected to be disbursed to settle these legal proceedings.

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15. Provision for contingencies and judicial deposits (Continued)

15.2. Contingencies assessed as possible loss

The proceedings assessed as possible loss, for which no provisions have been recorded, are summarized as follows:

| | Parent Company | | | Consolidated | | |
|-----------------------------|------------------|---------|---------|------------------|---------|---------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Tax and social security (a) | 1,128,187 | 381,909 | 82,860 | 1,210,075 | 459,095 | 153,654 |
| Labor (b) | 168,369 | 263,482 | 138,337 | 224,981 | 325,258 | 169,596 |
| Civil (c) | 86,150 | 114,004 | 120,110 | 170,988 | 204,031 | 191,702 |
| | 1,382,706 | 759,395 | 341,307 | 1,606,044 | 988,384 | 514,952 |

- (a) The most significant matter refers to administrative proceedings in the total amount of R\$1.2 billion, of which R\$415 million refers to assessments received in 2016 and 2017 and R\$759 million related to an assessment received in early 2018. These challenges are mostly derived from allegations of the Brazilian Internal Revenue Service (IRS) that certain doctors that render services in hospitals through legal entities would be effectively Company's employees. Therefore, the Brazilian IRS issued notifications demanding the payment of the Social Security Tax (INSS). The Company is currently challenging such allegations.

In Brazil, the possibility of outsourcing core activities has been widely debated in the courts. The outsourcing of core activities is regulated by Law No. 13429 of March 31, 2017, as amended ("Law No 13429"). Prior to the enactment of Law No. 13429, labor responsibility was regulated by Abridgment No. 331 of the Superior Labor Court of Brazil, which defined the outsourcing of activities to be lawful only when it involved specialized services related to the support activities of the entity that engaged the third party and contracted its services. The outsourcing of core activities was considered illegal and would result in employment relationship between the entity contracting the services and the outsourced employee.

Based on the legislation currently in force and on the advice of its internal and external legal counsel, the Company maintains its practices to contract legal entities to provide medical services independently.

In addition, the Company is party to various tax proceedings involving PIS, COFINS, ISS and Real Estate Tax (IPTU). There are no individually significant proceedings.

- (b) Proceedings largely derived from overtime payment, 13th month salary, resignation notice, vacation pay and Unemployment Compensation Fund (FGTS). There are no individually significant proceedings.
- (c) Proceedings related to compensation for property damage and alleged moral and material damages. There are no individually significant proceedings.

Considering the complexities of the lawsuits, as well as of the Brazilian legal system, the Company is not able to estimate with reasonable precision a timeframe for the trial and whether any amounts will be disbursed in connection with these legal proceedings.

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16. Commitments

At December 31, 2018, Rede D'Or has operating leases referring substantially to buildings from third and related parties for an average period of eighteen years, and non-cancelable minimum payments and their schedule are as follows:

| Year | Parent Company | Consolidated |
|--------------|-------------------------------|--------------|
| | (Gross nominal values) | |
| 2019 | 298,145 | 379,799 |
| 2020 | 290,174 | 371,828 |
| 2021 | 274,508 | 355,176 |
| 2022 | 273,894 | 354,562 |
| 2023 to 2050 | 3,599,638 | 4,563,418 |
| | 4,736,359 | 6,024,783 |

Lease expenses recognized in the year amounted R\$312,594 (R\$286,867 in 2017 and R\$265,183 in 2016) in the Parent Company, and R\$372,109 (R\$352,483 in 2017 and R\$283,994 in 2016) in the Consolidated, referring to all hospitals of Rede D'Or, except for owned buildings of Hospital e Maternidade Assunção, Hospital e Maternidade Nossa Senhora de Lourdes, Hospital Vivalle, and Hospital Copa Star.

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17. Equity

a) Capital and capital reserve

Breakdown of Company's capital stock is as follows:

| Shareholders | 2018 | | 2017 | | 2016 | |
|-----------------------------------|--------------------------------|-----------------|--------------------------------|-----------------|--------------------------------|-----------------|
| | Number of shares (Restated) | Equity interest | Number of shares (Restated) | Equity interest | Number of shares (Restated) | Equity interest |
| Controlling family (a) | 527,699,568 | 57.37% | 527,699,568 | 57.03% | 527,699,568 | 57.03% |
| Pacific Mezz Investco S.A.R.L (b) | 238,539,496 | 25.93% | 238,539,496 | 25.78% | 238,539,496 | 25.78% |
| Carlyle Group (c) | 109,251,886 | 11.88% | 109,251,886 | 11.81% | 109,251,886 | 11.81% |
| Other | 44,333,884 | 4.82% | 44,333,884 | 4.79% | 44,333,884 | 4.79% |
| Total common shares | 919,824,834 | 100.00% | 919,824,834 | 99.41% | 919,824,834 | 99.41% |
| Preferred shares | - | - | 5,469,200 | 0.59% | 5,469,200 | 0.59% |
| Total shares | 919,824,834 | 100.00% | 925,294,034 | 100.00% | 925,294,034 | 100.00% |

(a) This represents equity interest directly held by the "Moll Family" (individuals) and by means of investment fund 'Delta FM&B Fundo Inv. em Participações'.

(b) This represents Singapore sovereign fund ("GIC").

(c) Represented by funds HPT Fundo de Investimento em Participações, HPT II Fundo de Investimento em Participações, RDSL Investimento Secundário FIP, Fundo Brasil de Internacionalização de Empresas – FIP and Fundo Brasil de Internacionalização de Empresas – FIP II.

Subscribed and paid-in capital at March 31, 2019 and December 31, 2018 totals R\$867,776, represented by 919,824,834 common registered shares with no par value, already considering the stock split that took place on April 1, 2019, in the proportion of two shares for each existing share. Such stock split was reflected retroactively, as required by CPC 41. Authorized capital limit approved in the Company's articles of incorporation totals 4 billion shares (units). At December 31, 2017 and 2016, capital was comprised of 5,469,200 class A preferred registered shares with no par value, fully repurchased on February 23, 2018. The authorized capital limit approved in the Company's articles of incorporation is of up to 2 billion shares (units).

Under the Company's Articles of Incorporation, each common share is entitled to a vote in the Company's general meetings.

Capital reserves substantially resulted from capital contributions made (i) at March 31, 2015, by the then shareholder BTG Pactual Saúde Fundo de Investimento em Participações, in the amount of R\$600,000, of which R\$147,664 was recorded as a capital increase and R\$452,336 as goodwill reserve in share subscription; and (ii) on April 27, 2015, by HPT Participações S.A. (an investee of the Carlyle Group), in the amount of R\$1,819,435, of which R\$181,943 was recorded as capital increase and R\$1,637,491 as goodwill reserve in share subscription.

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Notes to financial statements (Continued)
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17. Equity (Continued)

b) Allocation of income

The legal reserve is set up at 5% of net income for the year, limited to 20% of capital stock or until its balance plus capital reserves exceeds 30% of the amount of capital stock (Law No. 6404/76, article 193).

Dividend is paid based on Law No. 6404/76, and the mandatory minimum dividend corresponds to 25% of net income, after allocation of legal reserve.

The calculation of dividends and interest on equity are as follows:

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|------------------|----------------|----------------|
| Net income for the year | 1,169,964 | 954,024 | 801,871 |
| Legal reserve (article 193 of Law no. 6,404) (*) | - | - | - |
| Mandatory minimum dividend calculation base | <u>1,169,964</u> | <u>954,024</u> | <u>801,871</u> |
| Mandatory minimum dividend (including interest on equity) | 292,491 | 238,506 | 200,468 |
| Dividends and interest on equity in addition to mandatory minimum dividend approved at the General Meeting | <u>417,684</u> | <u>66,646</u> | <u>68,815</u> |
| Dividends per thousand shares - in reais | 1.5442 | 0.6635 | 0.5855 |

(*) The Company did not set up a legal reserve based on Law No. 6404, article 193 paragraph 1, since the legal reserve plus the capital reserves exceeds 30% of capital stock.

Changes in dividends and interest on equity payable:

| | <u>Consolidated</u> |
|--|---------------------|
| Balance at January 1, 2016 | <u>316,004</u> |
| Allocation of additional dividends in excess of mandatory minimum dividend | 68,815 |
| Allocation of dividends and interest on equity | 205,511 |
| Payment of dividends and interest on equity | (125,210) |
| Withholding Income Tax (IRRF) | (37,861) |
| Balance payable at December 31, 2016 | <u>427,259</u> |
| Allocation of additional dividends in excess of mandatory minimum dividend | 730,717 |
| Allocation of dividends and interest on equity | 318,142 |
| Payment of dividends and interest on equity | (976,176) |
| Reinvested dividends | (184,960) |
| Withholding Income Tax (IRRF) | (39,486) |
| Balance payable at December 31, 2017 | <u>275,496</u> |
| Allocation of additional dividends in excess of mandatory minimum dividend | 420,020 |
| Allocation of dividends and interest on equity | 609,138 |
| Payment of dividends and interest on equity | (1,265,137) |
| Withholding Income Tax (IRRF) | (30,577) |
| Balance payable at December 31, 2018 | <u>8,940</u> |

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Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

17. Equity (Continued)

b) Allocation of income (Continued)

The distribution, payment and reinvestment of dividends and interest on equity were approved at the General Meeting. On December 4, 2018, Rede D'Or distributed interest on equity referring to 2018 (on February 16, 2018, Rede D'Or distributed interest on equity referring to 2017).

At the Annual General Meeting, the Company will allocate the income reserve existing balance, as determined in its Articles of Incorporation and Law No. 6404/76.

c) Treasury shares

At December 31, 2018, the Company held 43,906,042 registered common shares, with no par value, of Rede D'Or, in the amount of R\$ 473,193, recorded as treasury shares in equity, already considering the stock split mentioned above.

Changes in treasury shares are as follows:

| | Number of shares (Restated) | Share value (in reais) (Restated) | Total |
|------------------------------|---|---|----------------|
| Balance at December 31, 2015 | 39,919,654 | 6.45 | 257,597 |
| Acquisitions | 6,713,848 | 14.13 | 94,875 |
| Sales | (7,164,704) | 2.92 | (20,947) |
| Balance at December 31, 2016 | 39,468,798 | 8.40 | 331,525 |
| Acquisitions | 2,965,278 | 16.60 | 49,225 |
| Sales | (3,988,838) | 10.35 | (41,282) |
| Balance at December 31, 2017 | 38,445,238 | 8.83 | 339,468 |
| Acquisitions | 5,921,226 | 23.49 | 139,100 |
| Canceled (*) | (5,469,200) | - | - |
| Sales | (539,930) | 9.95 | (5,375) |
| Balance at December 31, 2018 | 38,357,334 | 12.34 | 473,193 |

(*) On February 23, 2018, Rede D'Or repurchased 5,469,200 preferred shares from noncontrolling shareholders, for R\$130,506, and subsequently cancelled these shares. With this purchase, there is no more preferred shares.

Other share purchases and sales substantially refer to the share-based payment option plan as described below.

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Notes to financial statements (Continued)
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17. Equity (Continued)

d) Share-based payment (stock options)

The number of shares and amounts described below already reflect the stock split that took place in April 2019.

First Stock Option Plan

At the Annual General Meeting held on November 19, 2011, the Company's shareholders approved the adoption of a share-based payment plan (stock option) for managing officers and employees of the Company. The stock options issued by the Company are first-issue options, thus involving the issue of new shares or use of existing treasury shares.

On November 30, 2011, the stock option plan comprising the right to purchase 14,149,880 shares was granted, by means of an individual agreement and its amendments, entered into between the Company and each beneficiary.

In order to be entitled to the right to stock options, beneficiaries would have to be working for the Company for at least three years (vesting period). Company management and employees participating in this plan will be fully entitled to such options, at one-fifth of total shares available for the plan, after 12 months from the grant date, and to the following four, under the same conditions, after 24, 36, 48 and 60 months also from the grant date. The participants have a maximum of sixty months, as from the end of the vesting period, to exercise the options.

The strike price of options granted was R\$4.05 per nominal share and should remain the same until the options are effectively exercised, subject to monetary restatement (CDI or IPCA).

Second and Third Stock Option Plans

The Company granted to beneficiaries of the Second and Third Plans the option for the purchase of 4,780,160 and 7,869,600 registered common shares, with no par value, respectively, through individual contract between each beneficiary and the Company. The contracts follow the same conditions of the First Stock Option Plan.

The strike price of options granted is R\$4.62 per share for the Second Plan and R\$4.67 per share for the Third Plan. Strike prices are increased by CDI variation, on a *pro rata* day basis, until the effective date of exercise of any stock option.

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Notes to financial statements (Continued)
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17. Equity (Continued)

d) Share-based payment (stock options) (Continued)

Fourth Stock Option Plan

The Company granted to beneficiaries of the first series of the Four Plan the option to purchase 115,230 common registered shares, with no par value, through an individual contract between each beneficiary and the Company. These contracts follow the same conditions of the First Stock Option Plan.

The Company granted to beneficiaries of the second series of the Fourth Plan the option to purchase 2,406,994 common registered shares, with no par value, through an individual contract between each beneficiary and the Company. In order to be entitled to the right to stock options, beneficiaries have to work for the Company for at least three years (vesting period). The Company's managing officers and employees participating in this plan will be fully entitled to such options as follows: 10% after 12 months from June 2, 2015; 10% 24 months thereafter; 20% 36 months thereafter; 20% 48 months thereafter; 20% 60 months thereafter; 10% 72 months thereafter; and 10% 84 months thereafter. The participants have a maximum forty-eight months from the end of the vesting period to exercise the options.

The strike price of options granted in the first series is R\$7.00 per share and for the second series is R\$4.50 per shares, increased by the CDI variation, on a *pro rata* day basis, until the effective date of exercise of any Stock Option.

Fifth Stock Option Plan

The Company granted to beneficiaries of the first series of the Fifth Plan the option to purchase 265,026 common registered shares, with no par value, through an individual contract between each beneficiary and the Company.

In order to be entitled to the right to stock options, beneficiaries have to work for the Company for at least three years (vesting period). Company managing officers and employees participating in this stock option plan will be fully entitled to such options as from March 31, 2016. The participants have a maximum forty-eight months from the end of the vesting period to exercise the options.

For the beneficiaries of the second series, the stock option is composed of five lots of 79,512 common shares, to be granted annually and exercised as from January 31 of each subsequent year. At the end of 2016, two series have already been granted totaling 159,024 common registered shares, with no par value. The participants have a maximum forty-eight months from the end of the vesting period to exercise the options.

The strike price of options granted in the first series is R\$4.50 per share and for the second series is R\$6.34 per shares, increased by the CDI variation, on a *pro rata* day basis, until the effective date of exercise of any Stock Option.

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Notes to financial statements (Continued)
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17. Equity (Continued)

d) Share-based payment (stock options) (Continued)

Sixth Stock Option Plan

The Company granted to beneficiaries of the Sixth Plan the option to purchase 1,330,040 common registered shares, with no par value, through an individual contract between each beneficiary and the Company. The stock option is composed of five lots of 266,008 common shares, to be granted annually and exercised as from January 31 of each subsequent year. The participants have a maximum forty-eight months from the end of the vesting period to exercise the options.

The strike price of options granted in the first, second and third series is R\$23.62 per share, increased by the CDI variation, on a *pro rata* day basis, until the effective date of exercise of any Stock Option.

Seventh Stock Option Plan

The Company granted to beneficiaries of the first series of the Seventh Plan the option to purchase 1,400,000 common registered shares, with no par value, through an individual contract between each beneficiary and the Company. Company managing officers and employees participating in this stock option plan will be fully entitled to such options as follows: 10% after 12 months from June 2, 2015; 10% 24 months thereafter; 20% 36 months thereafter; 20% 48 months thereafter; 20% 60 months thereafter; 10% 72 months thereafter; and 10% 84 months thereafter. The participants have a maximum of seventy-two months, as from the end of the vesting period, to exercise the options.

The Company granted to the beneficiaries of the second and third series of the Seventh Plan the option to purchase 5,400,000 common registered shares, with no par value, through an individual contract between each beneficiary and the Company. The stock option is composed of five lots of 1,080,000 common shares, to be granted annually and exercised as from January 31 of each subsequent year. The participants have a maximum forty-eight months from the end of the vesting period to exercise the options.

The strike price of options granted in the first, second and third series is R\$25.16 per share, increased by the CDI variation, on a *pro rata* day basis, until the effective date of exercise of any Stock Option.

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Notes to financial statements (Continued)
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17. Equity (Continued)

d) Share-based payment (stock options) (Continued)

Seventh Stock Option Plan (Continued)

The Company granted to beneficiaries of the fourth series of the Seventh Plan the option to purchase 1,539,506 common registered shares, with no par value, through an individual contract between each beneficiary and the Company. The stock option is composed of a single lot of 1,539,506 common shares, to be granted as from January 1 of subsequent year. The participants have from 36 to 60 months, as from the end of the vesting period, to exercise the options.

The strike price of options granted in the fourth series is R\$26.85 per share, increased by the IPCA variation, on a *pro rata* day basis, until the effective date of exercise of any Stock Option.

The Company granted to beneficiaries of the fifth series of the Seventh Plan the option to purchase 2,345,020 common registered shares, with no par value, through an individual contract between each beneficiary and the Company. The stock option is composed of a single lot of 2,345,020 common shares, to be granted as from January 1 of subsequent year. The participants have from 36 to 60 months, as from the end of the vesting period, to exercise the options.

The strike price of options granted in the fifth series is R\$27.19 per share, increased by the IPCA variation, on a *pro rata* day basis, until the effective date of exercise of any Stock Option.

Share-based payment was measured and recognized at fair value, based on the Black, Scholes & Merton model (1973).

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Notes to financial statements (Continued)
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17. Equity (Continued)

d) Share-based payment (stock options) (Continued)

The results of the calculation of the fair value of options restated at the financial statement date are as follows:

| Beginning of maturity | Number of shares | Annual volatility | Risk-free rate | Fair value of options (in Reais) | Vesting |
|---|-------------------|-------------------|----------------|----------------------------------|----------|
| | (Restated) | | | (Restated) | |
| First Stock Option Plan | | | | | |
| 01/01/2012 | 2,829,976 | 39.60% | 10.50% | 3.81 | Vested |
| 01/01/2013 | 2,829,976 | 39.60% | 10.50% | 3.95 | Vested |
| 01/01/2014 | 2,829,976 | 39.60% | 10.60% | 4.14 | Vested |
| 01/01/2015 | 2,829,976 | 39.60% | 10.70% | 4.32 | Vested |
| 01/01/2016 | 2,829,976 | 39.60% | 10.70% | 4.49 | Vested |
| Second Stock Option Plan | | | | | |
| 03/31/2013 | 956,032 | 32.39% | 7.10% | 6.96 | Vested |
| 03/31/2014 | 956,032 | 32.39% | 7.25% | 6.84 | Vested |
| 03/31/2015 | 956,032 | 32.39% | 7.61% | 6.77 | Vested |
| 03/31/2016 | 956,032 | 32.39% | 8.06% | 6.75 | Vested |
| 03/31/2017 | 956,032 | 32.39% | 8.39% | 6.75 | Vested |
| Third Stock Option Plan | | | | | |
| 03/31/2014 | 1,573,920 | 31.74% | 9.11% | 7.13 | Vested |
| 03/31/2015 | 1,573,920 | 31.74% | 10.23% | 7.11 | Vested |
| 03/31/2016 | 1,573,920 | 31.74% | 10.89% | 7.08 | Vested |
| 03/31/2017 | 1,573,920 | 31.74% | 11.34% | 7.08 | Vested |
| 03/31/2018 | 1,573,920 | 31.74% | 11.53% | 7.05 | Vested |
| Fourth Stock Option Plan - First series | | | | | |
| 03/31/2015 | 14,906 | 30.27% | 10.81% | 8.00 | Vested |
| 03/31/2016 | 25,080 | 30.27% | 11.16% | 7.93 | Vested |
| 03/31/2017 | 25,080 | 30.27% | 11.50% | 7.92 | Vested |
| 03/31/2018 | 25,080 | 30.27% | 11.66% | 7.90 | Vested |
| 03/31/2019 | 25,080 | 30.27% | 11.82% | 7.91 | Unvested |
| Fourth Stock Option Plan - Second series | | | | | |
| 06/02/2015 | 240,700 | 30.17% | 10.76% | 9.85 | Vested |
| 06/02/2016 | 240,700 | 30.17% | 10.91% | 9.71 | Vested |
| 06/02/2017 | 481,398 | 30.17% | 11.09% | 9.59 | Vested |
| 06/02/2018 | 481,398 | 30.17% | 11.18% | 9.49 | Vested |
| 06/02/2019 | 481,398 | 30.17% | 11.29% | 9.40 | Unvested |
| 06/02/2020 | 240,700 | 30.17% | 11.41% | 9.33 | Unvested |
| 06/02/2021 | 240,700 | 30.17% | 11.40% | 9.25 | Unvested |
| Fifth Stock Option Plan - First series | | | | | |
| 03/31/2015 | 176,684 | 30.94% | 12.81% | 11.46 | Vested |
| 03/30/2016 | 88,342 | 30.94% | 12.67% | 11.28 | Vested |
| Fifth Stock Option Plan - Second series | | | | | |
| 03/31/2015 | 79,512 | 30.94% | 13.12% | 10.26 | Vested |
| 03/30/2016 | 79,512 | 30.94% | 13.00% | 10.11 | Vested |
| Sixth Stock Option Plan | | | | | |
| 01/31/2017 | 266,008 | 32.00% | 15.95% | 25.16 | Vested |
| Seventh Stock Option Plan - First series | | | | | |
| 03/31/2017 | 140,000 | 33.72% | 12.06% | 26.19 | Vested |
| Seventh Stock Option Plan - Second series | | | | | |
| 03/31/2017 | 920,000 | 33.72% | 11.98% | 26.19 | Vested |
| Seventh Stock Option Plan - Third series | | | | | |
| 03/31/2017 | 160,000 | 33.75% | 11.87% | 26.33 | Vested |
| Seventh Stock Option Plan - Fourth series | | | | | |
| 01/01/2021 | 1,026,502 | 25.65% | 10.73% | 34.51 | Unvested |
| 01/01/2022 | 373,004 | 25.65% | 10.73% | 34.51 | Unvested |
| 01/01/2023 | 140,000 | 25.65% | 10.73% | 34.51 | Unvested |
| Seventh Stock Option Plan - Fifth series | | | | | |
| 01/01/2018 | 469,004 | 25.95% | 7.57% | 35.20 | Vested |
| 01/01/2019 | 469,004 | 25.95% | 7.57% | 35.20 | Unvested |
| 01/01/2020 | 469,004 | 25.95% | 7.57% | 35.20 | Unvested |
| 01/01/2021 | 469,004 | 25.95% | 7.57% | 35.20 | Unvested |
| 01/01/2022 | 469,004 | 25.95% | 7.57% | 35.20 | Unvested |
| | <u>35,116,448</u> | | | | |

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17. Equity (Continued)

d) Share-based payment (stock options) (Continued)

The effects of the share-based payment, including all granted and outstanding options, in equity and P&L for each year, are as follows:

| | <u>Fair value of options per year</u> | <u>Effects on profit or loss for the year</u> | <u>Cumulative effect on equity</u> |
|------|---|---|--|
| 2011 | 1,457 | 1,457 | 1,457 |
| 2012 | 16,234 | 16,234 | 17,691 |
| 2013 | 20,656 | 20,656 | 38,347 |
| 2014 | 27,363 | 27,363 | 65,710 |
| 2015 | 51,949 | 51,949 | 117,659 |
| 2016 | 30,864 | 30,864 | 148,523 |
| 2017 | 32,599 | 32,599 | 181,122 |
| 2018 | 40,662 | 40,662 | 221,784 |
| 2019 | 3,614 | | |
| 2020 | 2,977 | | |
| 2021 | 1,216 | | |
| 2022 | 257 | | |
| 2023 | 64 | | |
| | <u>229,912</u> | | |

The Company grants a put option to each beneficiary on total shares that are acquired. The periods for exercising the options are determined by individual agreements between the parties, and the acquisition price by the Company will be determined based on specific measurement criteria involving multiples of the Company's EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). In 2016, 2017 and 2018 the executives exercised put options of shares vested against the Company, which repurchased 7,145,792, 3,665,894, 1,763,576 and 452,026 shares, respectively, and recorded them as treasury shares.

Should the beneficiary withdraw from his/her position, options not yet exercisable expire, with no right to compensation, and options exercisable may be exercised in up to 90 days. If the beneficiary's employment contract is terminated for cause, all rights exercisable or not yet exercisable expire automatically, regardless of notice or compensation.

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Notes to financial statements (Continued)
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17. Equity (Continued)

e) Acquisition of noncontrolling interest

In 2018, Rede D'Or acquired additional interest of 12%, 5% and 33% in GGSH Participações S.A., in Cardial Serviços Médicos and Eldorado do Sul Participações Ltda., and the consideration transferred for the additional interest totaled R\$49,196. Since the Company already had control over these investees, the excess amount of R\$30,412 paid over their equity value was recorded as capital transactions directly in equity.

In 2017, Rede D'Or acquired additional interest of 42% in JTO Holding, 40% in Acreditar and 30% in Oncobrasilia. The consideration transferred for the additional interest totaled R\$119,525. Since the Company already had control over these investees, the excess amount of R\$72,022 paid over their equity value was recorded as capital transactions directly in equity. In addition, in 2017 the Company also acquired other smaller additional interests in subsidiaries and excess amounts of R\$6,186 paid over their equity value was recorded as capital transactions directly in equity.

18. Income tax and social contribution

Income tax and social contribution expenses for the years ended December 31, 2018, 2017 and 2016 are as follows:

| | Parent Company | | | Consolidated | | |
|--|----------------|-----------|-----------|--------------|-----------|-----------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Deferred taxes | | | | | | |
| Income tax | (19,158) | (41,116) | 4,797 | 21,545 | (34,746) | 29,475 |
| Social contribution | (6,897) | (14,801) | 1,727 | 7,720 | (12,544) | 10,580 |
| | (26,055) | (55,917) | 6,524 | 29,265 | (47,290) | 40,055 |
| Current taxes | | | | | | |
| Income tax | (212,590) | (156,051) | (124,957) | (358,011) | (288,665) | (247,732) |
| Social contribution | (82,479) | (60,301) | (46,100) | (137,020) | (110,382) | (91,438) |
| | (295,069) | (216,352) | (171,057) | (495,031) | (399,047) | (339,170) |
| Income tax and social contribution expense | (321,124) | (272,269) | (164,533) | (465,766) | (446,337) | (299,115) |

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18. Income tax and social contribution (Continued)

Changes in deferred income tax and social contribution assets and liabilities at December 31, 2018, 2017 and 2016 were as follows:

| | Parent Company | | | | | | | | |
|---|------------------|---|--------------------------------------|------------------|---|------------------|---|------------------------|------------------|
| | 2015 | Additional benefits (expenses) recorded | Additions from business combinations | 2016 | Additional benefits (expenses) recorded | 2017 | Additional benefits (expenses) recorded | Additions from mergers | 2018 |
| Assets | | | | | | | | | |
| Tax losses | 13,383 | (11,000) | - | 2,383 | (2,383) | - | - | - | - |
| Social contribution losses | 4,817 | (3,960) | - | 857 | (857) | - | - | - | - |
| Allowance for doubtful accounts | 66,466 | 28,699 | 8,780 | 103,945 | 12,600 | 116,545 | 2 | 1,015 | 117,562 |
| Allowance for disallowances | 41,596 | 18,344 | 5,851 | 65,791 | 31,001 | 96,792 | 37,102 | 6,540 | 140,434 |
| Contingencies | 39,013 | (5,837) | 17,457 | 50,633 | (2,460) | 48,173 | (2,840) | 6,067 | 51,400 |
| Provision for inventories | 1,159 | - | - | 1,159 | (1,159) | - | - | - | - |
| Provision for bonus | 18,894 | (3,384) | - | 15,510 | 3,661 | 19,171 | 2,052 | 110 | 21,333 |
| Foreign exchange variation | - | - | - | - | 25,129 | 25,129 | 76,781 | - | 101,910 |
| Provision for losses | 11,591 | - | 4,937 | 16,528 | (16,528) | - | - | - | - |
| Deferred gain on property sale | 17,689 | 13,287 | - | 30,976 | (3,735) | 27,241 | (1,333) | - | 25,908 |
| Taxes - Judicial deposits | 4,654 | 1,719 | 7 | 6,380 | (1,410) | 4,970 | 2,406 | - | 7,376 |
| Swap variation | - | 54,211 | - | 54,211 | (27,146) | 27,065 | (27,065) | - | - |
| Other provisions | 1,262 | 2,594 | - | 3,856 | (2,237) | 1,619 | (2,751) | 148 | (984) |
| Total deferred tax assets | 220,524 | 94,673 | 37,032 | 352,229 | 14,476 | 366,705 | 84,354 | 13,880 | 464,939 |
| Liabilities | | | | | | | | | |
| Differences between accounting and tax base of goodwill | (351,630) | (74,058) | - | (425,688) | (70,393) | (496,081) | (58,229) | - | (554,310) |
| Gain on acquisition in steps | (22,550) | (26,323) | - | (48,873) | - | (48,873) | - | - | (48,873) |
| Swap variation | (12,232) | 12,232 | - | - | - | - | (52,180) | - | (52,180) |
| Total deferred tax liabilities | (386,412) | (88,149) | - | (474,561) | (70,393) | (544,954) | (110,409) | - | (655,363) |
| Net effect - asset (liability) | (165,888) | 6,524 | 37,032 | (122,332) | (55,917) | (178,249) | (26,055) | 13,880 | (190,424) |

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Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

18. Income tax and social contribution (Continued)

| | Consolidated | | | | | | | | | |
|---|------------------|---|--------------------------------------|------------------|---|--------------------------------------|------------------|---|--------------------------------------|------------------|
| | 2015 | Additional benefits (expenses) recorded | Additions from business combinations | 2016 | Additional benefits (expenses) recorded | Additions from business combinations | 2017 | Additional benefits (expenses) recorded | Additions from business combinations | 2018 |
| Assets | | | | | | | | | | |
| Tax losses | 13,898 | (10,167) | - | 3,731 | 1,020 | 9,962 | 14,713 | 11,263 | - | 25,976 |
| Social contribution losses | 5,001 | (3,660) | - | 1,341 | 368 | 3,586 | 5,295 | 4,055 | - | 9,350 |
| Allowance for loan losses | 97,598 | 38,584 | 3,021 | 139,203 | 12,682 | 2,682 | 154,567 | (217) | - | 154,350 |
| Allowance for disallowances | 82,723 | 47,616 | 3,189 | 133,528 | 44,379 | 2,773 | 180,680 | 67,852 | - | 248,532 |
| Contingencies | 77,952 | (7,650) | 9,528 | 79,830 | (7,174) | 3,081 | 75,737 | (2,188) | 6,088 | 79,637 |
| Provision for inventories | 1,159 | - | - | 1,159 | (1,159) | - | - | (1,385) | 1,385 | - |
| Provision for bonus | 18,894 | (2,953) | - | 15,941 | 4,710 | - | 20,651 | 2,286 | - | 22,937 |
| Foreign exchange differences | - | - | - | - | 25,129 | - | 25,129 | 76,781 | - | 101,910 |
| Provision for losses | 15,287 | - | - | 15,287 | (15,287) | - | - | - | - | - |
| Deferred gain on property sale | 17,689 | 13,287 | - | 30,976 | (3,735) | - | 27,241 | (1,333) | - | 25,908 |
| Swap variation | - | 54,211 | - | 54,211 | (27,146) | - | 27,065 | (27,065) | - | - |
| Other provisions | 7,815 | 5,896 | - | 13,711 | (8,655) | - | 5,056 | (1,255) | 709 | 4,510 |
| Total deferred tax assets | 338,016 | 135,164 | 15,738 | 488,918 | 25,132 | 22,084 | 536,134 | 128,794 | 8,182 | 673,110 |
| Liabilities | | | | | | | | | | |
| Differences between accounting and tax base of goodwill | (397,603) | (78,240) | - | (475,843) | (74,496) | - | (550,339) | (58,229) | - | (608,568) |
| Gain on acquisition in steps | (40,398) | (29,101) | - | (69,499) | - | - | (69,499) | - | - | (69,499) |
| Swap variation | (12,232) | 12,232 | - | - | - | - | - | (52,180) | - | (52,180) |
| Deferred revenue | (23,423) | - | - | (23,423) | 2,074 | - | (21,349) | 10,880 | - | (10,469) |
| Total deferred tax liabilities | (473,656) | (95,109) | - | (568,765) | (72,422) | - | (641,187) | (99,529) | - | (740,716) |
| Net effect - asset (liability) | (135,640) | 40,055 | 15,738 | (79,847) | (47,290) | 22,084 | (105,053) | 29,265 | 8,182 | (67,606) |
| Assets as per balance sheet | 80,607 | - | - | 70,668 | - | - | 113,043 | - | - | 195,597 |
| Liabilities as per balance sheet | (216,247) | - | - | (150,515) | - | - | (218,096) | - | - | (263,203) |

The reconciliation of income tax and social contribution to the amount determined at the statutory rate for 2018, 2017 and 2016 is as follows:

| | Parent Company | | | Consolidated | | |
|---|----------------|-----------|----------|--------------|-----------|-----------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Income before income tax and social contribution | 1,491,088 | 1,226,293 | 966,404 | 1,645,384 | 1,424,934 | 1,115,073 |
| Income tax and social contribution expense at the statutory rate of 34% | 506,970 | 416,940 | 328,577 | 559,431 | 484,478 | 379,125 |
| Adjustments to determine the effective tax rate | | | | | | |
| Equity pickup | (89,393) | (90,648) | (77,865) | (8,014) | (6,405) | (6,580) |
| Stock option expenses | 13,825 | 11,084 | 10,494 | 13,825 | 11,084 | 10,494 |
| Interest on equity | (98,548) | (103,733) | (91,541) | (98,548) | (103,733) | (91,541) |
| Unrecognized tax credit | - | 32,475 | - | - | 36,883 | 5,389 |
| Effects of companies under the regime whereby income tax is computed as a percentage of gross revenue | - | - | - | 20,411 | 15,648 | 9,136 |
| Other | (11,730) | 6,151 | (5,132) | (21,339) | 8,382 | (6,908) |
| Expense in the income statement | 321,124 | 272,269 | 164,533 | 465,766 | 446,337 | 299,115 |
| Effective rate | 22% | 22% | 17% | 28% | 31% | 27% |

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18. Income tax and social contribution (Continued)

Accumulated tax losses may be carried indefinitely, however, offsetting is limited to 30% of taxable income generated in each fiscal year.

The Company expects that deferred tax assets from tax losses will be realized within 1 or 2 years. The other temporary differences will be realized between 1 and 5 years, except for deferred gain on property sale, given the realization occurs during the lease contract term.

19. Net revenue

| | Parent Company | | | Consolidated | | |
|---------------------------|------------------|------------------|------------------|-------------------|------------------|------------------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Gross revenue | 8,343,863 | 7,167,548 | 6,262,733 | 12,314,972 | 10,472,482 | 8,816,530 |
| Deductions from revenue | | | | | | |
| Cancellations and rebates | (380,950) | (288,852) | (230,925) | (661,682) | (476,077) | (383,920) |
| Taxes on revenues | (481,052) | (378,566) | (362,394) | (738,398) | (578,998) | (520,142) |
| | 7,481,861 | 6,500,130 | 5,669,414 | 10,914,892 | 9,417,407 | 7,912,468 |

The Company has no revenues arising from customers outside Brazil.

20. Costs of services provided

| | Parent Company | | | Consolidated | | |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Personnel | (2,070,306) | (1,946,255) | (1,698,432) | (3,132,808) | (2,799,092) | (2,327,391) |
| Materials and medicines | (1,385,522) | (1,148,334) | (1,075,610) | (2,196,994) | (1,779,388) | (1,525,510) |
| Third-party services | (1,088,001) | (798,500) | (740,685) | (1,866,410) | (1,506,311) | (1,345,521) |
| Utilities and services | (132,880) | (113,190) | (97,251) | (193,023) | (161,134) | (136,302) |
| Rentals | (312,594) | (286,867) | (265,183) | (372,109) | (352,483) | (283,994) |
| Depreciation and amortization | (248,524) | (211,372) | (213,191) | (348,184) | (282,544) | (253,704) |
| | (5,237,827) | (4,504,518) | (4,090,352) | (8,109,528) | (6,880,952) | (5,872,422) |

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21. General and administrative expenses

| | Parent Company | | | Consolidated | | |
|-------------------------------|------------------|-----------|-----------|------------------|-----------|-----------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Personnel | (290,164) | (222,085) | (182,381) | (290,164) | (222,085) | (182,381) |
| Third-party services | (52,856) | (50,475) | (38,526) | (52,856) | (50,475) | (38,526) |
| Trips and lodging | (18,839) | (17,174) | (14,965) | (25,593) | (22,871) | (18,866) |
| Depreciation and amortization | (45,085) | (25,432) | (17,909) | (45,085) | (25,432) | (17,909) |
| Provision for contingencies | - | (2,522) | - | 1,676 | (2,789) | (4,040) |
| | (406,944) | (317,688) | (253,781) | (412,022) | (323,652) | (261,722) |

22. Selling expenses

| | Parent Company | | | Consolidated | | |
|---------------------------------|-----------------|----------|----------|-----------------|----------|-----------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Allowance for doubtful accounts | - | (37,058) | (84,409) | - | (37,300) | (114,251) |
| Marketing | (17,542) | (16,190) | (13,823) | (24,216) | (20,871) | (16,787) |
| | (17,542) | (53,248) | (98,232) | (24,216) | (58,171) | (131,038) |

23. Other operating expenses, net

| | Parent Company | | | Consolidated | | |
|--|-----------------|----------|----------|------------------|-----------|----------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Taxes, charges and fines | (58,040) | (28,228) | (24,976) | (86,656) | (58,846) | (34,215) |
| Gain on property sale | 3,920 | 3,920 | 3,920 | 3,920 | 3,920 | 3,920 |
| Gain on acquisition in steps | - | - | 77,165 | - | - | 85,335 |
| Loss on divestiture and impairment of goodwill (a) | - | (1,974) | - | - | (1,974) | (22,475) |
| Rentals of machinery and equipment | (14,394) | (12,321) | (11,451) | (21,876) | (17,624) | (14,902) |
| Disposal of property and equipment | - | (2,000) | (4,671) | - | (2,086) | (4,669) |
| Freight expenses | (18,764) | (16,990) | (4,036) | (22,338) | (19,007) | (4,600) |
| Legal fees | (14,598) | (6,537) | (2,728) | (17,477) | (9,764) | (3,853) |
| Other (b) | 27,107 | (24,968) | (34,645) | 28,711 | (60,349) | (55,782) |
| | (74,769) | (89,098) | (1,422) | (115,716) | (165,730) | (51,241) |

(a) In 2016, the amount of loss comprises: (i) divestiture in São Pellegrino for the amount of R\$3,256, with a loss of R\$16,453; and (ii) impairment of goodwill of IOPE in the amount of R\$6,022.

(b) Refers mainly to the gains from sales leaseback transactions (Note 9) and other gain from investment transactions in 2018, whilst certain assets write-offs in previous years.

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24. Financial income (expenses), net

Financial income (expenses) for the years ended December 31, 2018, 2017 and 2016 are as follows:

| | Parent Company | | | Consolidated | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Short-term investment yield | 162,477 | 87,794 | 208,611 | 258,049 | 162,013 | 258,293 |
| Foreign exchange differences from loans financing and debentures, net | (277,855) | (76,136) | 205,288 | (660,219) | (76,180) | 205,792 |
| Fair value of debt | (39,461) | (22,448) | (24,768) | (39,461) | (22,448) | (24,768) |
| Derivatives' fair value (swaps) | 313,880 | (16,205) | (295,026) | 517,158 | (16,205) | (295,026) |
| Interest and monetary variation on financing and debentures | (603,479) | (455,850) | (557,525) | (593,155) | (520,087) | (615,655) |
| Taxes on financial income (expenses) | (13,310) | (12,184) | (15,355) | (19,404) | (17,436) | (18,422) |
| Other | (58,864) | (80,867) | (9,462) | (94,566) | (92,463) | (10,538) |
| | (516,612) | (575,896) | (488,237) | (631,598) | (582,806) | (500,324) |
| Total financial income | 635,067 | 105,576 | 432,532 | 943,503 | 181,070 | 491,340 |
| Total financial expenses | (1,151,679) | (681,472) | (920,769) | (1,575,101) | (763,876) | (991,664) |
| | (516,612) | (575,896) | (488,237) | (631,598) | (582,806) | (500,324) |

25. Earnings per share

a) Basic earnings per share

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

| | 2018 | 2017 | 2016 |
|---|------------|------------|------------|
| | (Restated) | (Restated) | (Restated) |
| Profit attributable to Company shareholders | 1,169,964 | 954,024 | 801,871 |
| Weighted average number of issued common and preferred shares (thousands) * | 881,468 | 885,538 | 878,594 |
| Basic earnings per share in reais (R\$) | 1.3273 | 1.0773 | 0.9127 |

* On April 1, 2019, the Company carried out the split of common shares in the proportion of two shares for each existing share. The adjustment was reflected retrospectively for the quarters ended March 31, 2019 and 2018, pursuant to CPC 41.

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25. Earnings per share (Continued)

b) Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding common and preferred shares assuming the conversion of all the potentially dilutive common shares. The Company has one category of potentially dilutive common shares: the stock options of the plan.

| | 2018 | 2017 | 2016 |
|---|------------------|-------------|-------------|
| | (Restated) | (Restated) | (Restated) |
| Income attributable to the Company's controlling shareholders | 1,169,964 | 954,024 | 801,871 |
| Weighted average number of issued common and preferred shares (thousands) * | 881,468 | 885,538 | 878,594 |
| Dilution instruments - weighted average number of shares (thousands) | | | |
| Stock options | 4,402 | 5,944 | 9,028 |
| Total dilution instruments | 2,526 | 5,944 | 9,028 |
| Diluted earnings per share - in reais (R\$) | 1.3207 | 1.0702 | 0.9034 |

* On April 1, 2019, the Company carried out the split of common shares in the proportion of two shares for each existing share. The adjustment was reflected retrospectively for the quarters ended March 31, 2019 and 2018, pursuant to CPC 41.

26. Financial instruments and financial risk management

26.1. Classification of financial instruments by category

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 and 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.

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Notes to financial statements (Continued)
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26. Financial instruments and financial risk management (Continued)

26.1. Classification of financial instruments by category (Continued)

The following tables present breakdown of financial assets and liabilities at December 31, 2018, 2017 and 2016:

| Parent Company | | | | | |
|---|----------------------------|----------------------|-------------------|------------------|------------------|
| Financial assets | Classification by category | Fair value hierarchy | Book balance | | |
| | | | 2018 | 2017 | 2016 |
| Cash and cash equivalents | Fair value through P&L | Level 2 | 47,782 | 32,559 | 20,306 |
| Marketable securities | Fair value through P&L | Level 2 | 2,768,894 | 1,006,117 | 1,968,899 |
| Trade accounts receivable | Amortized cost | | 2,139,001 | 1,886,908 | 1,446,998 |
| Dividends receivable | Amortized cost | | 53,195 | 41,195 | - |
| Judicial deposits | Amortized cost | | 113,168 | 92,807 | 72,115 |
| Derivatives | Fair value through P&L | Level 2 | 267,633 | 99,968 | 30,275 |
| | | | 5,389,673 | 3,159,554 | 3,538,593 |
| Financial liabilities | Classification by category | Fair value hierarchy | Book balance | | |
| | | | 2018 | 2017 | 2016 |
| Trade accounts payable | Amortized cost | | 248,051 | 278,647 | 265,787 |
| Loans, financing and debentures | Amortized cost (a) | Level 2 | 9,631,831 | 5,503,556 | 5,003,980 |
| Salaries, provisions and social charges | Amortized cost | | 310,234 | 281,994 | 282,584 |
| Accounts payable for acquisitions | Amortized cost | | 80,232 | 91,796 | 193,677 |
| Derivatives | Fair value through P&L | Level 2 | 8,339 | 113,342 | 168,083 |
| | | | 10,278,687 | 6,269,335 | 5,914,111 |

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Notes to financial statements (Continued)
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26. Financial instruments and financial risk management (Continued)

26.1. Classification of financial instruments by category (Continued)

| Consolidated | | | | | |
|---|----------------------------|----------------------|-------------------|------------------|------------------|
| Financial assets | Classification by category | Fair value hierarchy | Book balance | | |
| | | | 2018 | 2017 | 2016 |
| Cash and cash equivalents | Fair value through P&L | Level 2 | 192,008 | 140,383 | 121,016 |
| Marketable securities | Fair value through P&L | Level 2 | 3,864,700 | 3,120,454 | 2,620,387 |
| Trade accounts receivable | Amortized cost | | 3,259,349 | 2,836,744 | 2,142,744 |
| Judicial deposits | Amortized cost | | 147,810 | 119,472 | 89,759 |
| Derivatives | Fair value through P&L | Level 2 | 560,959 | 99,968 | 30,275 |
| | | | 8,024,826 | 6,317,021 | 5,004,181 |
| Financial liabilities | Classification by category | Fair value hierarchy | Book balance | | |
| | | | 2018 | 2017 | 2016 |
| Trade accounts payable | Amortized cost | | 528,975 | 475,546 | 423,941 |
| Loans, financing and debentures | Amortized cost (a) | Level 2 | 11,846,585 | 7,724,551 | 5,272,526 |
| Salaries, provisions and social charges | Amortized cost | | 436,641 | 370,030 | 385,023 |
| Accounts payable for acquisitions | Amortized cost | | 363,382 | 138,504 | 250,318 |
| Derivatives | Fair value through P&L | Level 2 | 98,387 | 113,342 | 168,083 |
| | | | 13,273,970 | 8,821,973 | 6,499,891 |

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

The financial assets and liabilities accounted for at amortized cost approximate their fair values given they are adjusted by allowances, present values and/or restated by market post-fixed rates.

26.2. Risk management

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

a) Capital management

The main purpose of capital management is to ensure the continuity of the business and maximize the return to shareholders.

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26. Financial instruments and financial risk management (Continued)

26.2. 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 intended to optimize its capital structure. The Company manages its capital structure and makes adjustments considering changes in economic conditions. At December 31, the Company has the following capital structure:

| | Parent Company | | | Consolidated | | |
|---------------------------------|------------------|-------------|-------------|------------------|-------------|-------------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Cash and cash equivalents | 47,782 | 32,559 | 20,306 | 192,008 | 140,383 | 121,016 |
| Marketable securities | 2,768,894 | 1,006,117 | 1,968,899 | 3,864,700 | 3,120,454 | 2,620,387 |
| | 2,816,676 | 1,038,676 | 1,989,205 | 4,056,708 | 3,260,837 | 2,741,403 |
| Loans, financing and debentures | (9,631,831) | (5,503,556) | (5,003,980) | (11,846,585) | (7,724,551) | (5,272,526) |
| Net debt | (6,815,155) | (4,464,880) | (3,014,775) | (7,789,877) | (4,463,714) | (2,531,123) |
| Total equity | 4,335,959 | 4,315,842 | 4,286,279 | 4,479,972 | 4,481,144 | 4,466,732 |
| Total net debt and equity | (2,479,196) | (149,038) | 1,271,504 | (3,309,905) | 17,430 | 1,935,609 |
| Financial leverage ratio | 1.57 | 1.03 | 0.70 | 1.74 | 1.00 | 0.57 |

b) Interest rate risk

The Company has loans and financing in local currency subject particularly to CDI rate, IPCA rate and Long-term Interest Rate (TJLP) fluctuation. 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 of interest on loans, financing and debentures considered as probable scenario (Scenario I) the referential rates obtained with BM&FBOVESPA at December 31, 2018, 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.) | 6.40% | 8.00% | 9.60% |
| IPCA rate (p.a.) | 3.75% | 4.69% | 5.63% |
| Projected interest expenses (*) | 3,055 | 3,819 | 4,583 |

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

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26. Financial instruments and financial risk management (Continued)

26.2. 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.

The amounts disclosed below are projected considering inflation and interest up to maturity.

| | Parent Company | | | | | Total financial liabilities |
|---|------------------|-------------------------|-------------------|-------------------|------------------|-----------------------------|
| | 2018 | | | | | |
| | Within 6 months | From 6 months to 1 year | From 1 to 2 years | From 2 to 5 years | Over 5 years | |
| Trade accounts payable | 248,051 | - | - | - | - | 248,051 |
| Loans, financing and debentures | 367,636 | 264,511 | 1,359,589 | 4,391,384 | 4,843,769 | 11,226,889 |
| Salaries, provisions and social charges | 310,234 | - | - | - | - | 310,234 |
| Accounts payable for acquisitions | 4,405 | 18,714 | 17,633 | 47,768 | - | 88,520 |
| Derivatives | 4,138 | 4,201 | - | - | - | 8,339 |
| | 934,464 | 287,426 | 1,377,222 | 4,439,152 | 4,843,769 | 11,882,033 |
| | Consolidated | | | | | Total financial liabilities |
| | 2018 | | | | | |
| | Within 6 months | From 6 months to 1 year | From 1 to 2 years | From 2 to 5 years | Over 5 years | |
| Trade accounts payable | 528,975 | - | - | - | - | 528,975 |
| Loans, financing and debentures | 351,764 | 266,791 | 1,363,283 | 5,824,412 | 6,057,033 | 13,863,283 |
| Salaries, provisions and social charges | 436,641 | - | - | - | - | 436,641 |
| Accounts payable for acquisition | 18,131 | 90,651 | 67,437 | 140,068 | 90,831 | 407,118 |
| Derivatives | 46,375 | 52,012 | - | - | - | 98,387 |
| | 1,381,886 | 409,454 | 1,430,720 | 5,964,480 | 6,147,864 | 15,334,404 |

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26. Financial instruments and financial risk management (Continued)

26.2. Risk management (Continued)

d) Liquidity risk (Continued)

| Parent Company | | | | | | |
|---|-----------------|-------------------------|-------------------|-------------------|--------------|-----------------------------|
| 2017 | | | | | | |
| | Within 6 months | From 6 months to 1 year | From 1 to 2 years | From 2 to 5 years | Over 5 years | Total financial liabilities |
| Trade accounts payable | 278,647 | - | - | - | - | 278,647 |
| Loans, financing and debentures | 261,512 | 229,420 | 1,270,635 | 3,619,058 | 1,505,556 | 6,886,181 |
| Salaries, provisions and social charges | 281,994 | - | - | - | - | 281,994 |
| Accounts payable for acquisitions | 15,891 | 3,234 | 20,577 | 58,091 | 12,807 | 110,600 |
| Derivatives | (38,283) | (35,342) | (79,788) | 4,952 | 175,313 | 26,852 |
| | 799,761 | 197,312 | 1,211,424 | 3,682,101 | 1,693,676 | 7,584,274 |
| Consolidated | | | | | | |
| 2017 | | | | | | |
| | Within 6 months | From 6 months to 1 year | From 1 to 2 years | From 2 to 5 years | Over 5 years | Total financial liabilities |
| Trade accounts payable | 475,546 | - | - | - | - | 475,546 |
| Loans, financing and debentures | 333,712 | 272,856 | 1,321,108 | 4,669,681 | 3,273,152 | 9,870,509 |
| Salaries, provisions and social charges | 370,030 | - | - | - | - | 370,030 |
| Accounts payable for acquisition | 16,599 | 10,355 | 20,577 | 108,481 | 12,805 | 168,817 |
| Derivatives | (38,283) | (35,342) | (79,788) | 4,952 | 175,313 | 26,852 |
| | 1,157,604 | 247,869 | 1,261,897 | 4,783,114 | 3,461,270 | 10,911,754 |
| Parent Company | | | | | | |
| 2016 | | | | | | |
| | Within 6 months | From 6 months to 1 year | From 1 to 2 years | From 2 to 5 years | Over 5 years | Total financial liabilities |
| Trade accounts payable | 265,787 | - | - | - | - | 265,787 |
| Loans, financing and debentures | 456,840 | 453,031 | 848,775 | 3,817,439 | 539,691 | 6,115,776 |
| Salaries, provisions and social charges | 282,584 | - | - | - | - | 282,584 |
| Accounts payable for acquisition | 42,973 | 86,023 | 15,309 | 69,558 | 5,080 | 218,943 |
| Derivatives | (62,929) | (58,128) | (91,673) | (70,808) | 107,365 | (176,173) |
| | 985,255 | 480,926 | 772,411 | 3,816,189 | 652,136 | 6,706,917 |
| Consolidated | | | | | | |
| 2016 | | | | | | |
| | Within 6 months | From 6 months to 1 year | From 1 to 2 years | From 2 to 5 years | Over 5 years | Total financial liabilities |
| Trade accounts payable | 424,037 | - | - | - | - | 424,037 |
| Loans, financing and debentures | 499,025 | 493,926 | 933,358 | 3,961,017 | 539,691 | 6,427,017 |
| Salaries, provisions and social charges | 385,052 | - | - | - | - | 385,052 |
| Accounts payable for acquisitions | 59,886 | 89,854 | 22,633 | 106,040 | 5,094 | 283,507 |
| Derivatives | (62,929) | (58,128) | (91,673) | (70,808) | 107,365 | (176,173) |
| | 1,305,071 | 525,652 | 864,318 | 3,996,249 | 652,150 | 7,343,440 |

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Notes to financial statements (Continued)
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26. Financial instruments and financial risk management (Continued)

26.2. 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 related to those assets and liabilities arise from the possibility of the Company's incurring losses due to fluctuations in exchange rates. Liabilities in foreign currency account for 17.7% of total consolidated liabilities at December 31, 2018 (13.9% at December 31, 2017 and 9.0% at December 31, 2016). The Company enters into financial instruments to hedge against exchange rate fluctuation (see the following topic) to loan and financing. Management understands that the risk of exposure to foreign currency is not significant in relation to its financial position.

f) Derivatives

At December 31, 2018, the Company has swaps accounted for as fair value hedge entered to hedge the Company against in foreign currency fluctuations. The swaps exchange the flow of interest and principal in foreign currency for Brazilian reais plus a percentage of CDI. In addition, the Company has other swaps to cover its exposure in US Dollars which not designated as hedge under the hedge accounting strategy.

The fair value of those instruments at the financial statement date is as follows:

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26. Financial instruments and financial risk management (Continued)

26.2. Risk management (Continued)

f) Derivatives (Continued)

| Description | Range of Maturity month/year | Reference value (notional) | Parent Company | | |
|--------------------|------------------------------------|-------------------------------|---------------------------------------|--|---------------------------------------|
| | | | 2018 Reference value Fair value | 2017 Reference value Fair value | 2016 Reference value Fair value |
| Swap (CDI vs TJLP) | 01/16/2017 | | | | |
| Long position | CDI + 2.0% | | | | |
| Short position | TJLP + 7.07% | R\$ | - | - | 42 |
| Swap (CDI vs TJLP) | 12/10/2018 | | | | |
| Long position | CDI + 2.30% | | | | |
| Short position | TJLP + 7.46% | R\$ | 18,750 | (422) | (261) |
| Swap (currency) | 04/15/2020 | | | | |
| Long position | LIBOR + 3.30% | US\$ | 14,850 | | |
| Short position | CDI + 1.00% | R\$ | 49,124 | 22,587 | 30,234 |
| Swap (currency) | 11/18/2024 | | | | |
| Long position | USD/BRL + 3.00% | US\$ | 26,274 | | |
| Short position | CDI + 1.47% | R\$ | 86,915 | (9,817) | (15,021) |
| Swap (currency) | 11/18/2024 | | | | |
| Long position | USD/BRL + 3.00% | US\$ | 30,262 | | |
| Short position | CDI + 1.62% | R\$ | 100,108 | (14,124) | (20,830) |
| Swap (currency) | 11/18/2024 | | | | |
| Long position | USD/BRL + 3.00% | US\$ | 75,069 | | |
| Short position | CDI + 1.47% | R\$ | 248,330 | (28,216) | (43,160) |
| Swap (currency) | 11/16/2022 | | | | |
| Long position | USD/BRL + 2.70% | US\$ | 9,277 | | |
| Short position | CDI + 1.00% | R\$ | 30,689 | (3,909) | (6,063) |
| Swap (currency) | 11/16/2022 | | | | |
| Long position | USD/BRL + 2.70% | US\$ | 2,319 | | |
| Short position | CDI + 1.23% | R\$ | 7,672 | (1,205) | (1,848) |
| Swap (currency) | 11/16/2027 | | | | |
| Long position | USD/BRL + 6.00% | US\$ | 15,133 | | |
| Short position | CDI - 1.71% | R\$ | 50,061 | 2,157 | (1,776) |
| Swap (currency) | 11/18/2024 | | | | |
| Long position | USD/BRL + 3.00% | US\$ | 19,706 | | |
| Short position | CDI + 1.47% | R\$ | 65,186 | (7,406) | (11,329) |
| Swap (currency) | 11/18/2024 | | | | |
| Long position | EUR/BRL + 3.00% | EUR | 37,452 | | |
| Short position | CDI + 2.30% | R\$ | 148,658 | (3,888) | (32,237) |

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Notes to financial statements (Continued)
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26. Financial instruments and financial risk management (Continued)

26.2. Risk management (Continued)

f) Derivatives (Continued)

| Description | Range of maturity month/year | Reference value (notional) | | Parent Company | | |
|---|---------------------------------|-------------------------------|-----------|----------------|----------|-----------|
| | | | | 2018 | 2017 | 2016 |
| | | | | Fair value | | |
| Swap (currency) | 11/18/2024 | | | | | |
| Long position | EUR/BRL + 3.00% | US\$ | 9,363 | | | |
| Short position | CDI + 2.46% | R\$ | 37,165 | - | (911) | (8,007) |
| Swap (currency) | 04/20/2020 | | | | | |
| Long position | USD/BRL + 3.35% | US\$ | 85,582 | | | |
| Short position | 115% CDI | R\$ | 331,612 | 27,491 | (15,872) | (27,552) |
| Swap (currency) | 08/09/2022 | | | | | |
| Long position | USD/BRL + 0.99% | US\$ | 65,212 | | | |
| Short position | CDI + 1.00% | R\$ | 215,720 | - | 15,673 | - |
| Swap (currency) | 04/15/2025 | | | | | |
| Long position | USD/BRL + 3.30% | US\$ | 51,369 | | | |
| Short position | CDI + 2.084% | R\$ | 199,045 | 39,932 | 8,944 | - |
| Swap (currency) | 04/15/2024 | | | | | |
| Long position | USD/BRL + 3.00% | US\$ | 82,077 | | | |
| Short position | CDI + 1.68% | R\$ | 318,032 | 62,434 | 13,905 | - |
| Swap (currency) | 04/15/2026 | | | | | |
| Long position | USD/BRL + 5.50% | US\$ | 31,134 | | | |
| Short position | CDI + 0.25% | R\$ | 120,638 | 8,512 | 9,130 | - |
| Swap (currency) | 11/21/2023 | | | | | |
| Long position | USD/Libor + 0.46% | US\$ | 80,311 | | | |
| Short position | 109% CDI | R\$ | 311,188 | 7,121 | - | - |
| Swap (interest) | 01/18/2028 | | | | | |
| Long position | BRL Fixed 11.82% | R\$ | 1,633,615 | | | |
| Short position | CDI + 2.01% | R\$ | 1,633,615 | 113,804 | - | - |
| Current assets position | | | | 82,357 | 9,350 | 7,145 |
| Noncurrent assets position | | | | 185,276 | 90,618 | 23,130 |
| Current liabilities position | | | | (8,339) | (68,512) | (113,923) |
| Noncurrent liabilities position | | | | - | (44,830) | (54,160) |
| Effect on profit or loss for the year (fair value of derivatives - swaps) | | | | 313,880 | (16,205) | (295,026) |

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Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

26. Financial instruments and financial risk management (Continued)

26.2. Risk management (Continued)

f) Derivatives (Continued)

| Description | Range of maturity month/year | Reference value (notional) | Consolidated | | |
|--------------------|---------------------------------|-------------------------------|--------------|------|----------|
| | | | 2018 | 2017 | 2016 |
| | | | Fair value | | |
| Swap (CDI vs TJLP) | 01/16/2017 | | | | |
| Long position | CDI + 2.0% | | | | |
| Short position | TJLP + 7.07% | R\$ | - | - | 42 |
| Swap (CDI vs TJLP) | 12/10/2018 | | | | |
| Long position | CDI + 2.30% | | | | |
| Short position | TJLP + 7.46% | R\$ | 18,750 | - | (422) |
| Swap (currency) | 04/15/2020 | | | | |
| Long position | LIBOR + 3.30% | US\$ | 14,850 | | |
| Short position | CDI + 1.00% | R\$ | 49,124 | - | 22,587 |
| Swap (currency) | 11/18/2024 | | | | |
| Long position | USD/BRL + 3.00% | US\$ | 26,274 | | |
| Short position | CDI + 1.47% | R\$ | 86,915 | - | (9,817) |
| Swap (currency) | 11/18/2024 | | | | |
| Long position | USD/BRL + 3.00% | US\$ | 30,262 | | |
| Short position | CDI + 1.62% | R\$ | 100,108 | - | (14,124) |
| Swap (currency) | 11/18/2024 | | | | |
| Long position | USD/BRL + 3.00% | US\$ | 75,069 | | |
| Short position | CDI + 1.47% | R\$ | 248,330 | - | (28,216) |
| Swap (currency) | 11/16/2022 | | | | |
| Long position | USD/BRL + 2.70% | US\$ | 9,277 | | |
| Short position | CDI + 1.00% | R\$ | 30,689 | - | (3,909) |
| Swap (currency) | 11/16/2022 | | | | |
| Long position | USD/BRL + 2.70% | US\$ | 2,319 | | |
| Short position | CDI + 1.23% | R\$ | 7,672 | - | (1,205) |
| Swap (currency) | 11/16/2027 | | | | |
| Long position | USD/BRL + 6.00% | US\$ | 15,133 | | |
| Short position | CDI - 1.71% | R\$ | 50,061 | - | 2,157 |
| Swap (currency) | 11/18/2024 | | | | |
| Long position | USD/BRL + 3.00% | US\$ | 19,706 | | |
| Short position | CDI + 1.47% | R\$ | 65,186 | - | (7,406) |
| Swap (currency) | 11/18/2024 | | | | |
| Long position | EUR/BRL + 3.00% | EUR | 37,452 | | |
| Short position | CDI + 2.30% | R\$ | 148,658 | - | (3,888) |

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Notes to financial statements (Continued)
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26. Financial instruments and financial risk management (Continued)

26.2. Risk management (Continued)

f) Derivatives (Continued)

| Description | Range of Range of maturity month/year | Reference value (notional) | Consolidated | | |
|---|---|-------------------------------|--------------|----------|-----------|
| | | | 2018 | 2017 | 2016 |
| | | | Fair value | | |
| Swap (currency) | 11/18/2024 | | | | |
| Long position | EUR/BRL + 3.00% | US\$ 9,363 | | | |
| Short position | CDI + 2.46% | R\$ 37,165 | - | (911) | (8,007) |
| Swap (currency) | 04/20/2020 | | | | |
| Long position | USD/BRL + 3.35% | US\$ 85,582 | | | |
| Short position | 115% CDI | R\$ 331,612 | 27,491 | (15,872) | (27,552) |
| Swap (currency) | 08/09/2022 | | | | |
| Long position | USD/BRL + 0.99% | US\$ 65,212 | | | |
| Short position | CDI + 1.00% | R\$ 215,720 | - | 15,673 | - |
| Swap (currency) | 04/15/2025 | | | | |
| Long position | USD/BRL + 3.30% | US\$ 51,369 | | | |
| Short position | CDI + 2.084% | R\$ 199,045 | 39,932 | 8,944 | - |
| Swap (currency) | 04/15/2024 | | | | |
| Long position | USD/BRL + 3.00% | US\$ 82,077 | | | |
| Short position | CDI + 1.68% | R\$ 318,032 | 62,434 | 13,905 | - |
| Swap (currency) | 04/15/2026 | | | | |
| Long position | USD/BRL + 5.50% | US\$ 31,134 | | | |
| Short position | CDI + 0.25% | R\$ 120,638 | 8,512 | 9,130 | - |
| Swap (currency) | 11/21/2023 | | | | |
| Long position | USD/Libor + 0.46% | US\$ 80,311 | | | |
| Short position | 109% CDI | R\$ 311,188 | 7,121 | - | - |
| Swap (currency) | 01/18/2028 | | | | |
| Long position | USD/Fixed + 4.95% | US\$ 505,044 | | | |
| Short position | BRL Fixed 11,82% | R\$ 1,956,944 | 203,278 | - | - |
| Swap (interest) | 01/18/2028 | | | | |
| Long position | BRL Fixed 11,82% | R\$ 1,633,615 | | | |
| Short position | CDI + 2.01% | R\$ 1,633,615 | 113,804 | - | - |
| Current assets position | | | 82,357 | 9,350 | 7,145 |
| Noncurrent assets position | | | 478,602 | 90,618 | 23,130 |
| Current liabilities position | | | (98,387) | (68,512) | (113,923) |
| Noncurrent liabilities position | | | - | (44,830) | (54,160) |
| Effect on profit or loss for the year (fair value of derivatives - swaps) | | | 517,158 | (16,205) | (295,026) |

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Notes to financial statements (Continued)
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26. Financial instruments and financial risk management (Continued)

26.2. Risk management (Continued)

f) Derivatives (Continued)

Given the changes in market rates, these amounts may change up to their maturity or early settlement of transactions.

For derivative financial instruments, the Company considers as probable scenario (Scenario I) future exchange rates of the Brazilian real in relation to the US dollar, obtained from BM&FBOVESPA at their maturities, calculated based on the nominal amount of the agreement.

The Company adopted the scenarios corresponding to -25% (Scenario II), -50% (Scenario III), 25% (Scenario IV) and 50% (Scenario V) in relation to the exchange rates used to determine the probable scenario.

| Debt - International Finance Corporation (IFC) | Scenario I | Scenario II | Scenario III | Scenario IV | Scenario V |
|--|------------|-------------|--------------|-------------|------------|
| Exchange rate variation | 5% | -25% | -50% | +25% | +50% |
| Devaluation of US\$ (rate in R\$) | - | 3,0514 | 2,0343 | - | - |
| Appreciation of US\$ (rate in R\$) | 4,0685 | - | - | 5,0857 | 6,1028 |
| Effect on liabilities in US\$ | | | | | |
| International Finance Corporation (IFC) | 6,296 | (31,479) | (62,958) | 31,479 | 62,958 |
| Effect on derivatives | | | | | |
| Swap | 426 | (2,128) | (4,256) | 2,128 | 4,256 |
| Net effect | 6,721 | (33,607) | (67,214) | 33,607 | 67,214 |
| Debt - JP Morgan and Citibank | Scenario I | Scenario II | Scenario III | Scenario IV | Scenario V |
| Exchange rate variation | 5% | -25% | -50% | +25% | +50% |
| Devaluation of US\$ (rate in R\$) | - | 3,0514 | 2,0343 | - | - |
| Appreciation of US\$ (rate in R\$) | 4,0685 | - | - | 5,0857 | 6,1028 |
| Effect on liabilities in US\$ | | | | | |
| Loan 4131 - JP Morgan and Citibank | 32,101 | (160,505) | (321,010) | 160,505 | 321,010 |
| Effect on derivatives | | | | | |
| Swap | (32,101) | 160,505 | 321,010 | (160,505) | (321,010) |
| Net effect | - | - | - | - | - |

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Notes to financial statements (Continued)
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26. Financial instruments and financial risk management (Continued)

26.2. Risk management (Continued)

f) Derivatives (Continued)

| Senior Notes Debt | Scenario I | Scenario II | Scenario III | Scenario IV | Scenario V |
|------------------------------------|------------|-------------|--------------|-------------|------------|
| Exchange rate variation | 5% | -25% | -50% | +25% | +50% |
| Devaluation of US\$ (rate in R\$) | - | 3,0514 | 2,0343 | - | - |
| Appreciation of US\$ (rate in R\$) | 4,0685 | - | - | 5,0857 | 6,1028 |
| Effect on liabilities in US\$ | | | | | |
| Senior Notes | 98,689 | (493,444) | (986,888) | 493,444 | 986,888 |
| Effect on derivatives | | | | | |
| Swap | (98,689) | 493,444 | 986,888 | (493,444) | (986,888) |
| Net effect | - | - | - | - | - |

26.3. Changing in liabilities from financing activities

| Parent Company | Parent Company | | | | | | | | 2018 | |
|--|------------------|--|--|--------------------------------------|---------------------|--------------------|--|---|------------------|------------------|
| | 2017 | Loans, financing and debentures raised | Interest, and monetary and foreign exchange differences, net | Payment of acquisition and principal | Payment of interest | Fair value of debt | Allocation of dividends and interest on equity | Payment of dividends and interest on equity | | Other |
| Loans, financing and debentures | 5,503,556 | 6,528,379 | 1,255,385 | (3,048,441) | (477,176) | (39,461) | - | - | (90,411) | 9,631,831 |
| Accounts payable for acquisitions | 91,796 | - | 13,441 | (19,844) | (5,161) | - | - | - | - | 80,232 |
| Derivatives | 113,342 | - | - | - | - | (105,003) | - | - | - | 8,339 |
| Dividends and interest on equity payable | 268,282 | - | - | - | - | - | 1,026,812 | (1,263,416) | (30,577) | 1,101 |
| | 5,976,976 | 6,528,379 | 1,268,826 | (3,068,285) | (482,337) | (144,464) | 1,026,812 | (1,263,416) | (120,988) | 9,721,503 |
| Current | 831,059 | | | | | | | | | 653,185 |
| Noncurrent | 5,145,917 | | | | | | | | | 9,068,318 |

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Notes to financial statements (Continued)
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26. Financial instruments and financial risk management (Continued)

26.3. Changing in liabilities from financing activities (Continued)

| Parent Company | | | | | | | | | | |
|--|------------------|--|--|--------------------------------------|---------------------|--------------------|--|---|------------------|------------------|
| Parent Company | 2016 | Loans, financing and debentures raised | Interest, and monetary and foreign exchange differences, net | Payment of acquisition and principal | Payment of interest | Fair value of debt | Allocation of dividends and interest on equity | Payment of dividends and interest on equity | Other | 2017 |
| Loans, financing and debentures | 5,003,980 | 2,453,269 | 543,030 | (2,083,150) | (462,780) | 22,448 | - | - | 26,759 | 5,503,556 |
| Accounts payable for acquisitions | 193,677 | 15,000 | 18,043 | (112,956) | (21,968) | - | - | - | - | 91,796 |
| Derivatives | 168,083 | - | 63,550 | (118,291) | - | - | - | - | - | 113,342 |
| Dividends and interest on equity payable | 419,089 | - | - | - | - | - | 1,035,868 | (962,229) | (224,446) | 268,282 |
| | 5,784,829 | 2,468,269 | 624,623 | (2,314,397) | (484,748) | 22,448 | 1,035,868 | (962,229) | (197,687) | 5,976,976 |
| Current | 1,534,089 | | | | | | | | | 831,059 |
| Noncurrent | 4,250,740 | | | | | | | | | 5,145,917 |

| Parent Company | | | | | | | | | | |
|--|------------------|--|--|--------------------------------------|---------------------|--------------------|--|---|-----------------|------------------|
| Parent Company | 2015 | Loans, financing and debentures raised | Interest, and monetary and foreign exchange differences, net | Payment of acquisition and principal | Payment of interest | Fair value of debt | Allocation of dividends and interest on equity | Payment of dividends and interest on equity | Other | 2016 |
| Loans, financing and debentures | 3,911,965 | 1,703,596 | 326,792 | (491,806) | (477,946) | 24,768 | - | - | 6,611 | 5,003,980 |
| Accounts payable for acquisitions | 146,428 | 101,613 | 39,906 | (86,067) | (8,203) | - | - | - | - | 193,677 |
| Derivatives | - | - | 289,345 | (121,262) | - | - | - | - | - | 168,083 |
| Dividends and interest on equity payable | 309,051 | - | - | - | - | - | 269,283 | (121,384) | (37,861) | 419,089 |
| | 4,367,444 | 1,805,209 | 656,043 | (699,135) | (486,149) | 24,768 | 269,283 | (121,384) | (31,250) | 5,784,829 |
| Current | 938,360 | | | | | | | | | 1,534,089 |
| Noncurrent | 3,429,084 | | | | | | | | | 4,250,740 |

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26. Financial instruments and financial risk management (Continued)

26.3. Changing in liabilities from financing activities (Continued)

| Consolidated | | | | | | | | | | |
|--|------------------|---|--|---|------------------------|-----------------------|---|--|-----------------|-------------------|
| Consolidated | 2017 | Loans, financing and debentures raised | Interest, and monetary and foreign exchange differences, net | Payment of acquisition and principal | Payment of interest | Fair value of debt | Allocation of dividends and interest on equity | Payment of dividends and interest on equity | Other | 2018 |
| Loans, financing and debentures | 7,724,551 | 6,537,131 | 1,240,964 | (3,057,532) | (515,365) | (39,461) | - | - | (43,703) | 11,846,585 |
| Accounts payable for acquisitions | 138,504 | 261,248 | 16,567 | (47,391) | (5,546) | - | - | - | - | 363,382 |
| Derivatives | 113,342 | - | - | - | - | (14,955) | - | - | - | 98,387 |
| Dividends and interest on equity payable | 275,496 | - | - | - | - | - | 1,029,158 | (1,265,137) | (30,577) | 8,940 |
| | 8,251,893 | 6,798,379 | 1,257,531 | (3,104,923) | (520,911) | (54,416) | 1,029,158 | (1,265,137) | (74,280) | 12,317,294 |
| Current | 958,294 | | | | | | | | | 820,125 |
| Noncurrent | 7,293,599 | | | | | | | | | 11,497,169 |

| Consolidated | 2016 | Loans, financing and debentures raised | Interest, and monetary and foreign exchange differences, net | Payment of acquisition and principal | Payment of interest | Fair value of debt | Allocation of dividends and interest on equity | Payment of dividends and interest on equity | Other | 2017 |
|--|------------------|---|--|---|------------------------|-----------------------|---|--|------------------|------------------|
| Loans, financing and debentures | 5,272,526 | 4,453,269 | 606,662 | (2,167,426) | (504,133) | 22,448 | - | - | 41,205 | 7,724,551 |
| Accounts payable for acquisitions | 250,318 | 15,000 | 19,339 | (169,255) | (22,406) | - | - | - | 45,508 | 138,504 |
| Derivatives | 168,083 | - | 63,550 | (118,291) | - | - | - | - | - | 113,342 |
| Dividends and interest on equity payable | 427,259 | - | - | - | - | - | 1,048,859 | (976,176) | (224,446) | 275,496 |
| | 6,118,186 | 4,468,269 | 689,551 | (2,454,972) | (526,539) | 22,448 | 1,048,859 | (976,176) | (137,733) | 8,251,893 |
| Current | 1,644,104 | | | | | | | | | 958,294 |
| Noncurrent | 4,474,082 | | | | | | | | | 7,293,599 |

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Notes to financial statements (Continued)
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(In thousands of reais, unless otherwise stated)

26. Financial instruments and financial risk management (Continued)

26.3. Changing in liabilities from financing activities (Continued)

| Consolidated | 2015 | Loans, financing and debentures raised | Interest, and monetary and foreign exchange differences, net | Payment of acquisition and principal | Payment of interest | Fair value of debt | Allocation of dividends and interest on equity | Payment of dividends and interest on equity | Other | 2016 |
|--|------------------|---|--|---|------------------------|-----------------------|---|--|-----------------|------------------|
| Loans, financing and debentures | 4,236,502 | 1,711,262 | 386,257 | (547,944) | (542,373) | 24,768 | - | - | 4,054 | 5,272,526 |
| Accounts payable for acquisitions | 179,137 | 123,710 | 44,976 | (88,768) | (8,737) | - | - | - | - | 250,318 |
| Derivatives | - | - | 289,345 | (121,262) | - | - | - | - | - | 168,083 |
| Dividends and interest on equity payable | 316,004 | - | - | - | - | - | 274,326 | (125,210) | (37,861) | 427,259 |
| | 4,731,643 | 1,834,972 | 720,578 | (757,974) | (551,110) | 24,768 | 274,326 | (125,210) | (33,807) | 6,118,186 |
| Current | 987,369 | | | | | | | | | 1,644,104 |
| Noncurrent | 3,744,274 | | | | | | | | | 4,474,082 |

27. Insurance coverage

At December 31, 2018, the Company maintains insurance coverage at amounts deemed sufficient by management to cover risks, if any, on its assets and/or liabilities.

| Type of coverage | Insured amount |
|--|----------------|
| Property risk | 2,529,794 |
| Directors and Officers Liability (D&O) | 150,000 |
| Engineering risks | 399,846 |

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Notes to financial statements (Continued)
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(In thousands of reais, unless otherwise stated)

28. Subsequent events

On January 18, 2019, through its wholly owned subsidiary Hospital Integrados da Gávea S.A. – Clínica São Vicente., Rede D'Or acquired 95,31% of the shares of Hospital de Clínicas Rio Mar Barra Ltda (“Hospital Rio Mar”), a limited liability entity that operates a hospital located in the city of Rio de Janeiro (Rio de Janeiro State). The consideration transferred totaled R\$85,326, of which R\$25,326 were paid on the contract execution date and the remaining amount was withheld as collateral for indemnifications by the sellers, and will be paid in ten years, restated by reference to the IPCA.

On January 22, 2019, through its wholly owned subsidiary Hospital Esperança S.A., Rede D'Or acquired the shares of São Lucas Médico Hospitalar Ltda. (“Hospital São Lucas”), a limited liability entity that operates a hospital located in the city of Aracaju (Sergipe State). The consideration transferred totaled R\$200,057 to acquire 75.0% of the shares.

On June 3, 2019, Rede D'Or acquired shares of Córdio Pulmonar da Bahia S.A., a limited liability entity that operates a hospital in the city of Salvador, state of Bahia. The total consideration transferred was R\$110,000 for 47.66% of shares, with no acquisition of control.

On June 18, 2019, the Company entered into an agreement to purchase Casa de Saúde Laranjeiras Ltda., Unidade Neonatal da Lagoa Ltda. and CSEU - Cia de Serviços Especiais Unificados Ltda., located in Rio de Janeiro. Completion of this transaction still depends on the approval by Cade – the Brazilian Antitrust Agency. In addition, the agreement entered into with the counterparty contains a confidentiality clause that prevents the Company management from disclosing further information on said transaction until it is has been realized.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2018, 2017 and 2016
(In thousands of reais, unless otherwise stated)

28. Subsequent events (Continued)

On June 20, 2019, Rede D'Or issued non-privileged unsecured nonconvertible debentures, in up to three series, of 17th Issue, amounting up to R\$2 billion. On June 24, 2019, the 3rd series of issue was obtained in the amount of R\$1 billion, maturing on June 20, 2029, in installments to be paid annually in 2027, 2028 and 2029, remunerated semi-annually on a *pro rata temporis* basis with interest equivalent to 112% of the total CDI. There are no guarantees.

On June 21, 2019, the partial or full de-accreditation of certain Company's hospitals by Amil became effective, due to the healthcare operator's strategy for greater verticalization. As a result of this decision of Amil, the Company needed to de-accredit additional hospitals as of the same date. The Company, in its best judgment, estimates that for the year ended December 31, 2019, in the worst-case scenario, the financial impact resulting from such de-accreditations will be approximately 2% of its gross revenue. However, the Company's management expects the financial impact to be insignificant due to the high occupancy rate of the Company's hospital units that are impacted by the de-accreditations.

On June 24, 2019, Rede D'Or acquired all the shares of Hospital Aviccena S.A., a limited liability entity that operates a hospital in the city of São Paulo, state of São Paulo. The total consideration transferred was R\$71,729 paid on the date the agreement was entered into.

On August 8, 2019, the Company entered into an agreement to purchase 10% of the shares of Qualicorp Consultoria e Corretora de Seguros S.A., located in São Paulo. Completion of this transaction still depends on the approval by Cade – the Brazilian Antitrust Agency. In addition, the agreement entered into with the counterparty contains a confidentiality clause that prevents the Company management from disclosing further information on said transaction until it has been realized.