

Interim Financial Information

Rede D'Or São Luiz S.A.

September 30, 2019
with Independent Auditor's Review Report

Rede D'Or São Luiz S.A.

Interim financial information

September 30, 2019

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A free translation from Portuguese into English of Independent Auditor's Review Report on Interim Financial Information prepared in Brazilian currency in accordance with CPC 21 (R1) and IAS 34

Independent auditor's review report on interim financial information

To the Shareholders, Board of Directors and Officers of
Rede D'Or São Luiz S.A.
Rio de Janeiro - RJ, Brazil

Introduction

We have reviewed the accompanying individual and consolidated interim balance sheets of Rede D'Or São Luiz S.A. (the "Company") as at September 30, 2019, and the related statements of income, of comprehensive income, of changes in equity and of cash flows for the nine-month period then ended, including the explanatory notes.

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

Scope of review

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

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying individual and consolidated interim financial information was not prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34, applicable to the preparation of interim financial information.



Other matters

Statements of value added

We have also reviewed the individual and consolidated statements of value added (SVA) for the nine-month period ended September 30, 2019, prepared under the responsibility of Company's management, the presentation of which is required by the Brazilian Corporation Law for publicly-held companies, but is not required of privately-held entities. These statements have been subject to the same review procedures previously described and, based on our review, nothing has come to our attention that causes us to believe that they are not fairly prepared, in all material respects, consistently with the overall individual and consolidated interim financial information.

Rio de Janeiro, November 7, 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

Rede D'Or São Luiz S.A.

Balance sheets
September 30, 2019 and December 31, 2018
(In thousands of Reais)

	Note	Parent Company		Consolidated	
		09/30/2019	12/31/2018	09/30/2019	12/31/2018
Assets					
Current assets					
Cash and cash equivalents	4	18,425	47,782	31,486	192,008
Marketable securities	4	2,623,674	2,768,894	3,505,750	3,864,700
Trade accounts receivable	5	2,469,905	2,139,001	4,057,852	3,259,349
Inventories	6	158,726	169,688	285,473	284,429
Taxes recoverable		73,948	60,313	115,117	116,793
Derivative financial instruments	27	130,190	82,357	130,190	82,357
Related parties	7	4,811	9,206	-	-
Dividends receivable		72,993	53,195	-	-
Receivables from sale of property		39,500	17,500	39,500	17,500
Other		163,304	152,350	287,753	237,623
Total current assets		5,755,476	5,500,286	8,453,121	8,054,759
Noncurrent assets					
Related parties	7	902,852	405,782	32,609	23,466
Deposit for acquisition of property		-	-	96,776	92,373
Judicial deposits	16	128,978	113,168	171,083	147,810
Deferred income and social contribution taxes	19	-	-	277,207	195,597
Derivative financial instruments	27	435,839	185,276	824,965	478,602
Investments in subsidiaries, associates and jointly-controlled entities	8	4,736,754	3,808,176	252,875	144,529
Property and equipment	9	2,898,123	2,827,842	6,066,093	4,994,831
Intangible assets	10	2,580,041	2,523,451	5,334,668	4,812,604
Right of use - lease	11	1,662,820	-	2,340,926	-
Other		200,739	50,849	275,346	84,333
Total noncurrent assets		13,546,146	9,914,544	15,672,548	10,974,145
Total assets		19,301,622	15,414,830	24,125,669	19,028,904

	Note	Parent Company		Consolidated	
		09/30/2019	12/31/2018	09/30/2019	12/31/2018
Liabilities and equity					
Current liabilities					
Trade accounts payable		224,104	248,051	537,185	528,975
Derivative financial instruments	27	6,379	8,339	88,444	98,387
Loans, financing and debentures	13	621,661	621,388	633,037	607,704
Salaries, provisions and social charges		418,527	310,234	636,510	436,641
Tax obligations	14	115,433	154,870	307,865	343,611
Accounts payable for acquisitions	15	23,141	22,357	162,637	105,094
Dividends and interest on equity payable	18	190,794	1,101	210,472	8,940
Deferred gain on property sales	12	3,920	3,920	3,920	3,920
Lease obligation	17	337,887	-	460,264	-
Other		28,976	26,020	78,954	47,967
Total current liabilities		1,970,822	1,396,280	3,119,288	2,181,239
Noncurrent liabilities					
Loans, financing and debentures	13	10,214,946	9,010,443	12,521,649	11,238,881
Related parties	7	22,232	57,201	340	60
Tax obligations	14	83,617	91,108	252,970	233,326
Accounts payable for acquisitions	15	61,205	57,875	319,749	258,288
Deferred income and social contribution taxes	19	193,937	190,424	306,936	263,203
Provision for legal proceedings	16	131,884	130,044	208,112	189,795
Provision for losses on investments	8	95,755	36,064	-	-
Deferred gain on property sales	12	69,348	72,280	69,348	72,280
Lease obligation	17	1,411,609	-	2,001,687	-
Other		40,407	37,592	99,763	64,105
Total noncurrent liabilities		12,324,940	9,683,031	15,780,554	12,319,938
Equity					
Capital	18	867,776	867,776	867,776	867,776
Capital reserves		2,334,505	2,343,782	2,334,505	2,343,782
Treasury shares		(474,462)	(473,193)	(474,462)	(473,193)
Income reserves		1,384,595	1,592,930	1,384,595	1,592,930
Retained earnings		889,222	-	889,222	-
Advances for future capital contribution		4,224	4,224	4,224	4,224
Total equity attributable to controlling interests		5,005,860	4,335,519	5,005,860	4,335,519
Noncontrolling interests		-	-	219,967	192,208
Total equity		5,005,860	4,335,519	5,225,827	4,527,727
Total liabilities and equity		19,301,622	15,414,830	24,125,669	19,028,904

See accompanying notes.

Rede D'Or São Luiz S.A.

Statements of income

Nine-month periods ended September 30, 2019 and 2018

(In thousands of Reais, unless otherwise stated)

	Note	Parent Company		Consolidated	
		09/30/2019	09/30/2018	09/30/2019	09/30/2018
Net revenue	20	6,201,149	5,565,077	9,891,531	8,026,372
Costs of services rendered	21	(4,248,403)	(3,880,260)	(7,253,062)	(5,933,955)
Gross profit		1,952,746	1,684,817	2,638,469	2,092,417
General and administrative expenses	22	(357,296)	(298,228)	(366,786)	(301,348)
Selling expenses	23	(9,626)	(10,984)	(15,183)	(14,865)
Equity pickup	8	256,994	213,174	13,633	17,651
Other operating income (expenses), net	24	(82,561)	(65,765)	(139,090)	(86,177)
Income before financial income (expenses) and income taxes		1,760,257	1,523,014	2,131,043	1,707,678
Financial income	25	470,362	374,528	914,260	979,661
Financial expenses	25	(1,114,556)	(763,870)	(1,741,695)	(1,446,193)
Income before income taxes		1,116,063	1,133,672	1,303,608	1,241,146
Income taxes	19	(226,841)	(244,903)	(395,265)	(346,517)
Net income for the period		889,222	888,769	908,343	894,629
Net income attributable to controlling interests		889,222	888,769	889,222	888,769
Net income attributable to noncontrolling interests		-	-	19,121	5,860
Basic earnings per share (in Reais)	26	1.0088	1.0036	1.0088	1.0036
Diluted earnings per share (in Reais)	26	1.0049	1.0001	1.0049	1.0001

See accompanying notes.

Rede D'Or São Luiz S.A.

Statements of comprehensive income
Nine-month periods ended September 30, 2019 and 2018
(In thousands of Reais)

	Parent Company		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Net income for the period	889,222	888,769	908,343	894,629
Other comprehensive income	-	-	-	-
Total comprehensive income	<u>889,222</u>	<u>888,769</u>	<u>908,343</u>	<u>894,629</u>
Attributable to:				
Controlling interests	889,222	888,769	889,222	888,769
Noncontrolling interests	-	-	19,121	5,860

See accompanying notes.

Rede D'Or São Luiz S.A.

Statements of changes in equity
 Nine-month periods ended September 30, 2019 and 2018
 (In thousands of Reais)

Description	Attributable to Company's shareholders											Total
	Capital reserves					Income reserves					Noncontrolling interests	
	Capital	Capital reserve (issue of shares)	Capital transactions	Share-based payment reserve	Treasury shares	Legal reserve	Investment reserve	Advances for future capital contribution	Retained earnings	Total equity		
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 control of jointly-controlled entity	-	-	-	-	-	-	-	-	-	-	(30,651)	(30,651)
Acquisition of noncontrolling interests	-	-	(30,412)	-	-	-	-	-	-	(30,412)	(401)	(30,813)
Dividends and interest on equity (Note 18)	-	-	-	-	-	-	(241,390)	-	-	(241,390)	(2,291)	(243,681)
Treasury shares (Note 18)	-	-	-	-	(137,049)	-	-	-	-	(137,049)	-	(137,049)
Net income for the period	-	-	-	-	-	-	-	-	888,769	888,769	5,860	894,629
Share-based payment (Note 18)	-	-	-	30,496	-	-	-	-	-	30,496	-	30,496
Balances at September 30, 2018	<u>867,776</u>	<u>2,335,941</u>	<u>(213,943)</u>	<u>211,618</u>	<u>(476,517)</u>	<u>8,666</u>	<u>1,199,722</u>	<u>4,224</u>	<u>888,769</u>	<u>4,826,256</u>	<u>137,819</u>	<u>4,964,075</u>
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
Capital transactions of subsidiaries	-	(20,768)	(19,001)	-	-	-	-	-	-	(39,769)	35,910	(3,859)
Dividends and interest on equity (Note 18)	-	-	-	-	-	-	(208,335)	-	-	(208,335)	(27,273)	(235,608)
Treasury shares (Note 18)	-	-	-	-	(1,269)	-	-	-	-	(1,269)	-	(1,269)
Net income for the period	-	-	-	-	-	-	-	-	889,222	889,222	19,122	908,344
Share-based payment (Note 18)	-	-	-	30,492	-	-	-	-	-	30,492	-	30,492
Balances at September 30, 2019	<u>867,776</u>	<u>2,315,173</u>	<u>(232,944)</u>	<u>252,276</u>	<u>(474,462)</u>	<u>8,666</u>	<u>1,375,929</u>	<u>4,224</u>	<u>889,222</u>	<u>5,005,860</u>	<u>219,967</u>	<u>5,225,827</u>

See accompanying notes.

Rede D'Or São Luiz S.A.

Statements of cash flows

Nine-month periods ended September 30, 2019 and 2018

(In thousands of Reais)

	Parent Company		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Cash flows from operating activities				
Income before income and social contribution taxes	1,116,063	1,133,672	1,303,608	1,241,146
Adjustments to reconcile net income to cash from operating activities				
Depreciation and amortization	361,095	209,227	504,943	278,952
Gain from property sales	(2,940)	(2,940)	(2,940)	(2,940)
Fair value of debt	257,334	(173,106)	192,190	(173,106)
Interest, monetary variation and exchange differences, net	324,897	433,582	552,438	492,563
Share-based payment	30,492	30,496	30,492	30,496
Provision for legal proceedings	18,000	-	18,147	(2,095)
Equity pickup	(256,994)	(213,174)	(13,633)	(17,651)
Provision for disallowances	333,685	299,453	621,371	500,251
(Increase) decrease in assets and increase (decrease) in liabilities				
Trade accounts receivable	(664,589)	(515,519)	(1,372,239)	(739,479)
Inventories	10,962	16,718	6,977	11,882
Taxes recoverable	(13,635)	(24,965)	22,084	(18,510)
Judicial deposits	(15,810)	(12,976)	(18,091)	(15,479)
Other assets	(139,609)	(95,967)	(229,350)	50,844
Trade accounts payable	(23,947)	(21,960)	(32,086)	(34,151)
Salaries and social charges	108,293	74,265	181,120	109,659
Tax obligations	(83,725)	(8,466)	(163,038)	(107,924)
Related parties	(496,643)	(147,306)	(10,953)	382
Provision for legal proceedings	(16,160)	(12,953)	(14,697)	(14,231)
Other liabilities	(241,707)	(29,872)	(233,246)	(293,630)
	605,062	938,209	1,343,097	1,296,979
Payment of interest	(610,452)	(295,236)	(628,591)	(413,373)
Payment of income and social contribution taxes	(186,729)	(185,348)	(350,233)	(259,081)
Net cash from (used in) operating activities	(192,119)	457,625	364,273	624,525
Cash flows from investing activities				
Payment for business combinations, net of cash acquired	(141,953)	(306,000)	(408,278)	(841,691)
Advances for future capital contribution	(570,503)	(382,663)	(532)	(750)
Acquisition of property and equipment	(352,718)	(395,599)	(1,330,504)	(1,019,095)
Sale of property and equipment	-	250,000	-	250,000
Acquisition of intangible assets	(103,694)	(16,506)	(168,365)	(36,468)
Cash from merger of subsidiary	-	12,404	-	-
Acquisition of marketable securities	(9,432,848)	(19,077,374)	(12,369,466)	(24,922,054)
Redemption of marketable securities	9,686,467	16,432,654	12,883,774	23,096,769
Dividends and interest on equity received	125,780	23,188	7,037	3,888
Net cash used in investing activities	(789,469)	(3,459,896)	(1,386,334)	(3,469,401)
Cash flows from financing activities				
Acquisition of treasury shares	(1,269)	(137,049)	(1,269)	(137,049)
Acquisition of noncontrolling interests	(39,769)	(35,252)	(2,960)	(49,196)
Payment of dividends and interest on equity	-	(294,914)	(12,098)	(294,914)
Loans, financing and debentures raised	2,638,542	5,052,537	2,674,450	5,053,387
Repayment of loans, financing and debentures	(1,706,884)	(1,592,052)	(1,746,671)	(1,771,022)
Settlement of swap	61,730	25,400	(34,508)	25,400
Accounts payable for acquisitions	(119)	(14,071)	(15,405)	(27,000)
Net cash from financing activities	952,231	3,004,599	861,539	2,799,606
Increase (decrease) in cash and cash equivalents	(29,357)	2,328	(160,522)	(45,270)
Cash and cash equivalents at beginning of period	47,782	32,559	192,008	140,383
Cash and cash equivalents at end of period	18,425	34,887	31,486	95,113

See accompanying notes.

Rede D'Or São Luiz S.A.

Statements of value added

Nine-month periods ended September 30, 2019 and 2018

(In thousands of Reais, unless otherwise stated)

	Parent Company		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Revenue	6,567,218	5,924,392	10,520,294	8,569,497
Sales of goods, products and services	6,897,963	6,220,905	11,138,725	9,066,808
Provision for disallowances	(333,685)	(299,453)	(621,371)	(500,251)
Other revenues	2,940	2,940	2,940	2,940
Inputs acquired from third parties	(2,107,707)	(1,945,983)	(3,744,591)	(3,112,376)
Costs of services sold	(1,950,424)	(1,825,086)	(3,525,075)	(2,969,281)
Materials, energy, third-party services and other expenses	(139,283)	(120,897)	(201,369)	(145,190)
Loss/recovery of assets	(18,000)	-	(18,147)	2,095
Gross value added	4,459,511	3,978,409	6,775,703	5,457,121
Depreciation and amortization	(361,095)	(209,227)	(504,943)	(278,952)
Net value added	4,098,416	3,769,182	6,270,760	5,178,169
Value added received in transfer	727,356	587,702	927,893	997,312
Equity pickup	256,994	213,174	13,633	17,651
Financial income	470,362	374,528	914,260	979,661
Total value added	4,825,772	4,356,884	7,198,653	6,175,481
Distribution of value added	(4,825,772)	(4,356,884)	(7,198,653)	(6,175,481)
Personnel and related charges	(2,101,326)	(1,759,758)	(3,310,966)	(2,510,906)
Taxes, charges and contributions	(589,970)	(601,278)	(1,021,088)	(886,702)
Interest, lease and other operating expenses	(1,245,254)	(1,107,079)	(1,958,256)	(1,883,244)
Dividends and interest on equity	(208,335)	(241,390)	(235,608)	(243,681)
Retained profits	(680,887)	(647,379)	(672,735)	(650,948)

See accompanying notes.

Rede D'Or São Luiz S.A.

Notes to interim financial information

September 30, 2019

(In thousands of reais, unless otherwise stated)

1. Operations

Rede D'Or São Luiz S.A. ("Company" or "Parent Company", jointly with its subsidiaries "Rede D'Or" or "Group"), headquartered at Rua Francisco Marengo, 1312, in the city and state of São Paulo, are 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 Bahia and Sergipe, with 45 own hospitals and three under construction, as well as oncology and radiotherapy clinics and laboratories. Currently, the Group has 6,827 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. Since 2004, there have been strategic partnerships with other hospitals, increasing the expertise and reaching other areas in Rio de Janeiro. Since 2007, Rede D'Or has been operating, also through partnerships and acquisitions, in the state of Pernambuco, in 2018 in the states of Maranhão and Bahia, and in 2019 in the state of Sergipe.

As from 2010, through the admission of new shareholders, fundraising in the market and own cash generation, Rede D'Or started a strong expansion process through acquisitions and construction of new units. The main business combinations since 2010 include:

Hospital	Location	Year of acquisition
Hospital Brasil	Santo Andre, 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
Hospital 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
Hospital de Clínicas Rio Mar	Rio de Janeiro, RJ	2019
Hospital São Lucas	Aracaju, SE	2019
Hospital Aviccena	São Paulo, SP	2019

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

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

1. Operations (Continued)

Seasonality

There is no significant seasonality in the Company's operations; however, a smaller volume of customers is observed in December, January and February, due to the year-end holidays and vacation period, and a larger volume during the Winter.

2. Basis of preparation and presentation and significant accounting policies

This unaudited interim financial information was prepared in accordance with CPC 21 (R1)/IAS 34 - Interim Financial Reporting.

The significant accounting policies adopted by the Group in this unaudited interim financial information are consistent with those adopted in the financial statements for the year ended December 31, 2018, disclosed on February 18, 2019 and restated on September 24, 2019, except for the adoption of IFRS 16/CPC 06 (R2) - Leases, effective from January 1, 2019, the impacts of which are summarized below.

P&L for the nine-month period ended September 30, 2019 does not necessarily indicate the P&L expected for the entire year ending December 31, 2019. The interim financial information and related notes do not include all the information and disclosures required for the annual financial statements. Therefore, this interim financial information shall be read jointly with the audited annual financial statements as of December 31, 2018.

The estimates and critical accounting judgments adopted by the Company in this interim financial information are consistent with those adopted in the financial statements for the year ended December 31, 2018.

The authorization to complete the preparation of this financial information was provided by Company's management on November 7, 2019.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

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

2.1. IFRS 16/CPC 06 (R2) - Leases

IFRS 16/CPC 06 (R2) supersedes IAS 17 - Leases and IFRIC 4 - Determining whether an Arrangement contains a Lease. IFRS 16/ CPC06 (R2) establishes the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single model in the statement of financial position, similar to accounting for finance leases under IAS 17. At the lease inception, the lessee recognizes a liability relating to lease payments and an asset that represents the right to use the underlying asset over the lease term (i.e. the right-of-use asset). Lessees recognize separately the interest expense on the liability over the lease period to produce a constant periodic interest rate, and the depreciation expense on the right-of-use asset.

Lessees shall also 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). In general, the lessee recognizes the revaluation amount of the lease liability as an adjustment to the right-of-use asset.

There is no substantial change in lessor accounting based on IFRS 16/CPC 06 (R2) in relation to the current accounting under IAS 17. Lessors will continue to classify all leases in accordance with the same IAS 17 classification principle, distinguishing them between two types: operating and finance leases.

The Company adopted IFRS 16/CPC 06 (R2) using the modified retrospective approach and elected to apply the standard to agreements that were previously identified as leases applying IAS 17 and IFRIC 4. The Company also elected to use the exemptions proposed by the standard on lease agreements for which the lease terms end within 12 months as of the first-time adoption date, and lease agreements for which the underlying asset is of low value.

Upon adoption of IFRS 16, the Company recognized the right-of-use assets and lease obligations classified as "operating leases" under IAS 17. These liabilities were measured at present value of future lease payments, discounted at the Company's incremental borrowing rate on January 1, 2019.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

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

2.1. IFRS 16/CPC 06 (R2) - Leases (Continued)

The impact of first-time adoption of IFRS 16 at September 30, 2019 is as follows:

	Parent Company			Consolidated		
	Assets	Liabilities	Expense	Assets	Liabilities	Expense
First-time adoption - 01/01/2019	1,725,239	(1,725,239)	-	2,312,074	(2,312,074)	-
Additions	54,321	(54,321)	-	154,713	(154,713)	-
Payments	-	231,406	-	-	284,840	-
Amortization (Note 9)	(116,740)	-	(116,740)	(125,861)	-	(125,861)
Interest (Note 25)	-	(201,342)	(201,341)	-	(280,004)	(280,004)
Balances at September 30, 2019	1,662,820	(1,749,496)	(318,081)	2,340,926	(2,461,951)	(405,865)

The Company has lease agreements for assets such as real estate, machinery and equipment. The average term of real estate lease agreements is 18 years, and may include extension options. The lease terms are negotiated individually and contain a wide range of different terms and conditions.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

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

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

	09/30/2019		12/31/2018	
	Direct	Indirect	Direct	Indirect
Parent Company - Rede D'Or São Luiz S.A. (a)				
Fully consolidated entities				
Rodin Empreendimentos e Participações S.A.	99.99	0.01	99.99	0.01
Hospital Esperança S.A. ("Esperança")	100.00	-	100.00	-
Hospital UDI (acquired in 2018 and merged in 2019)	-	-	-	100.00
UDI Córdio - Unidade de Diagnóstico e Tratamento Cardiológico Ltda.	-	100.00	-	100.00
UDI Imagem - Unidade de Diagnóstico por Imagem Ltda.	-	100.00	-	100.00
Diagno São Marcos Ltda.	-	100.00	-	100.00
Hospital São Rafael S.A. (acquired in 2018) (d)	-	80.00	-	75.00
São Lucas Médico Hospitalar S.A. (acquired in 2019)	-	75.00	-	-
Rede D'Or São Luiz Serviços Médicos S.A. ("RM")	99.99	0.01	99.99	0.01
Advance Plano de Saúde S.A.	99.99	0.01	99.99	0.01
PMJ Empreendimentos Imobiliários S.A.	100.00	-	100.00	-
Quinta Empreendimentos Imobiliários Ltda.	99.99	0.01	99.99	0.01
Onco D'Or Oncologia S.A.	98.90	-	98.90	-
Onco D'Or PE S.A.	-	67.25	-	67.25
Instituto Oncológico de Pernambuco Ltda. ("IOPE")	-	67.18	-	67.18
Núcleo Especializado em Oncologia e Hemato (NEOH)	-	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	0.10	97.91
Acreditar Oncologia S.A.	-	98.90	-	98.90
Centro de Oncologia Médica Ltda.	-	98.90	-	-
Onco Star SP Oncologia Ltda.	75.00	-	75.00	-
Jenner S.A.	50.00	41.25	50.00	41.25
Oncologia D'Or S.A.	7.39	83.35	7.39	83.35
Centro de Oncologia do RJ Ltda. ("Salus")	-	90.66	-	90.66
RDSL Farmácia Ltda. (former GNI07 Empreendimentos Imobiliários Ltda.)	-	90.74	-	-
Onco D'Or Oncologia BA Ltda.	-	98.81	-	98.81
Centro Médico Jabaquara S.A. (e)	100.00	-	97.58	-
Maxclínicas Clínicas e Diagnósticos Ltda.	99.99	0.01	99.99	0.01
TJK Empreendimentos Imobiliários Ltda.	99.99	0.01	99.99	0.01
Centro Hospitalar São Marcos S.A.	100.00	-	100.00	-
Esperança Serviços Médicos e de Diagnósticos S.A.	100.00	-	100.00	-
Hospital Fluminense S.A.	100.00	-	100.00	-
Cardial Serviços Médicos Ltda.	100.00	-	100.00	-
ONCORAD - Serviços de Radioterapia Ltda.	0.02	99.98	0.02	99.98
Unidade de Radiologia Clínica Ltda. ("URC")	72.00	-	72.00	-
Instituto de Ultrassonografia Médica Ltda. ("IUSM")	72.00	-	72.00	-
Laboratório Análises Clínicas - Labvivalle Ltda.	50.10	-	50.10	-
Norte D'Or Participações S.A.	100.00	-	100.00	-
Hospital Norte D'Or de Cascadura S.A. ("Norte D'Or")	-	70.00	-	70.00
Proncordis Pronto Atendimento Cardiológico Ltda.	1.70	98.30	1.70	98.30
Café Verde da Quinta Ltda.	99.99	0.01	99.99	0.01
Campinas Empreendimentos Imobiliários Ltda.	99.99	0.01	99.99	0.01

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

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

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

	09/30/2019		12/31/2018	
	Direct	Indirect	Direct	Indirect
Olimpia Projeto Rua do Rocio 86 SPE S.A. (acquired in 2018)	100.00	-	100.00	-
IFOR Empreendimentos Imobiliários S.A.	99.99	0.01	99.99	0.01
OPUNER do Brasil Ltda.	99.99	0.01	99.99	0.01
Medise Medicina Diagnóstico e Serviços S.A. ("Medise")	87.82	10.18	87.82	10.18
Assunção Emp. Imobiliários Ltda.	99.99	0.01	99.99	0.01
Villa Lobos Empreendimentos Imobiliários S.A.	99.99	0.01	99.99	0.01
Santa Luzia II Emp. Imobiliários Ltda.	99.99	0.01	99.99	0.01
RDSL Empreendimentos Imobiliários S.A.	100.00	-	100.00	-
Rede D'Or São Luiz Soluções Saúde e Segurança	85.00	-	85.00	-
JTO Holding S.A. (c)	97.00	-	92.00	-
JTO-Fundadores Participações Ltda.	19.30	77.60	18.40	73.60
D'Or Consultoria Corretagem, Seguros e Benefícios	-	97.00	-	92.00
D'Or MG Consultoria em Corretagem de Seguros e Benefícios	-	97.00	-	92.00
D'Or PME Corretagem de Seguros e Serviços Online Ltda.	-	77.60	-	73.60
D'Or Rio em Corretagem de Seguros S.A.	-	72.75	-	69.00
New Trix Corretora de Seguros Ltda.	-	72.75	-	69.00
D'Or Bahia Consultoria em Corretagem de Seguros e Benefícios	-	77.60	-	73.60
D'Or Kappius Consultoria Empresarial e Corretagem de Seguros	-	49.47	-	46.92
Coriben Consultoria de Risco, Benefícios e Corretora de Seguros Ltda. (acquired in 2019)	-	49.47	-	-
APR Consultoria em Benefícios e Corretora de Seguros Ltda. (acquired in 2019)	-	49.47	-	-
D'Or Consultoria Holgind Nordeste S.A. (former GNI14 Empreendimentos Imobiliários Ltda. - created in 2019)	-	48.60	-	-
Hospital Santa Helena S.A.	100.00	-	100.00	-
Prontimagem Serviços Médicos Ltda.	100.00	-	100.00	-
Laboratório Richet Pesquisas de Physiopathologia Humana Ltda. (acquired in 2018)	-	100.00	-	100.00
GNI01 Empreend. Imobiliários Ltda.	99.99	0.01	99.99	0.01
GNI02 Empreend. Imobiliários Ltda.	99.99	0.01	99.99	0.01
GNI05 Empreend. Imobiliários Ltda.	99.99	0.01	99.99	0.01
GNI06 Empreend. Imobiliários Ltda.	99.99	0.01	99.99	0.01
GNI04 Empreend. Imobiliários Ltda.	99.99	0.01	99.99	0.01
GNI09 Empreend. Imobiliários Ltda.	99.99	0.01	99.99	0.01
GNI10 Empreend. Imobiliários Ltda.	99.99	0.01	99.99	0.01
GNI11 Empreend. Imobiliários Ltda.	99.99	0.01	99.99	0.01
GNI12 Empreend. Imobiliários Ltda.	99.99	0.01	99.99	0.01
GNI13 Empreend. Imobiliários Ltda.	99.99	0.01	99.99	0.01

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)

September 30, 2019

(In thousands of reais, unless otherwise stated)

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

	09/30/2019		12/31/2018	
	Direct	Indirect	Direct	Indirect
GNI15 Empreend. Imobiliários Ltda. (created in 2019)	99.99	0.01	-	-
GNI16 Empreend. Imobiliários Ltda. (created in 2019)	99.99	0.01	-	-
GNI17 SP Empreend. Imobiliários Ltda.(created in 2019)	99.99	0.01	-	-
GNI18 SP Empreend. Imobiliários Ltda.(created in 2019)	99.99	0.01	-	-
GNI19 RJ Empreend. Imobiliários Ltda.(created in 2019)	99.99	0.01	-	-
GNI20 RJ Empreend. Imobiliários Ltda.(created in 2019)	99.99	0.01	-	-
GNI21 RJ Empreend. Imobiliários Ltda.(created in 2019)	99.99	0.01	-	-
GNI22 SP Empreend. Imobiliários Ltda.(created in 2019)	99.99	0.01	-	-
GNI23 SP Empreend. Imobiliários Ltda.(created in 2019)	99.99	0.01	-	-
GNI24 SP Empreend. Imobiliários Ltda.(created in 2019)	99.99	0.01	-	-
Maximagem com Diag. por imagem Ltda.	99.99	0.01	99.99	0.01
Hospital Alpha Med Ltda.	65.99	34.01	65.99	34.01
Gestão Total da Saúde Ltda.	99.99	0.01	99.99	0.01
Sator Empreendimentos e Participações Ltda.	100.00	-	100.00	-
Svgávea Empreendimentos e Participações S.A.	-	100.00	-	100.00
Hospitais Integrados da Gávea S.A. - Clínica São Vicente	-	100.00	-	100.00
Hospital de Clínicas Rio Mar S.A. (acquired in 2019)	-	95.31	-	-
Centro Médico Rio Mar S.A. (acquired in 2019)	-	95.31	-	-
Hospital Jutta Batista (established in 2019)	-	100.00	-	-
Samer Serviços de Assistência Médica de Resende Ltda.	0.01	100.00	-	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	100.00	-	100.00	-
Califórnia Investimentos Imobiliários Ltda. (acquired in 2019)	99.99	0.01	-	-
Clínica Médica São Remo Ltda. (acquired in 2019)	99.99	0.01	-	-
Memorial Imagem e Diag Ltda. ("MediAx") (b)	70.00	-	15.00	-
Hospital Glória D'Or (established in 2019)	100.00	-	-	-
Hospital DF Star (established in 2019)	100.00	-	-	-
Hospital Aviccena S.A. (acquired in 2019)	100.00	-	-	-

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

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

	09/30/2019		12/31/2018	
	Direct	Indirect	Direct	Indirect
Companies accounted for under the equity method in the consolidated statements				
Fujidayclinic Ltda.	-	49.45	-	49.45
Acreditar Tocantins Oncologia S.A.	-	49.45	-	49.45
Centro Oncológico do Vale Ltda.	-	49.45	-	49.45
Instituto de Radioterapia do Vale do Paraíba Ltda. ("Onco São José dos Campos")	-	49.45	-	49.45
JMJB Diagnósticos e Serviços Hospitalares S.A.	50.00	-	50.00	-
J Badim S.A. ("Hospital Badim")	-	50.00	-	50.00
EAH Administração Hospitalar Ltda.	-	50.00	-	50.00
GGSH Part. S.A.	34.46	-	34.46	-
G2D Serviços Tecnológicos S.A. ("Boa Consulta")	15.00	-	15.00	-
Eldorado do Sul Participações Ltda.	-	33.33	-	33.33
Cárdio Pulmonar da Bahia S.A. (acquired in 2019)	-	47.66	-	-

- (a) This includes hospitals São Luiz Itaim, São Luiz Morumbi, São Luiz Anália Franco, Copa D'Or, Quinta D'Or, Caxias D'Or, Brasil, Assunção, Prontolinda, Joari, Realcordis, HGB, HCB, Rio de Janeiro, Vivalle, 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"), and Hospital Ribeirão Pires Ltda.
- (b) On March 21, 2019, Rede D'Or acquired additional interest of 55% in Memorial Imagem e Diagnóstico Ltda. (Mediix). As from March 2019, Mediix began to be fully consolidated. In 2018, the investment was accounted for by the equity pickup method.
- (c) On April 25, 2019, D'Or Consultoria S.A. acquired 51% of Coriben Consultoria de Riscos, Benefícios e Corretora de Seguros Ltda. Through this acquisition, the Company's interest in JTO Holding S.A. increased by 5%.
- (d) On July 26, 2019, Hospital Esperança made a capital increase at Hospital São Rafael of R\$40,000, with the issue of 27,034,944 new registered common shares with no par value, increasing its interest therein to 80%.
- (e) On August 27, 2019, the reverse share split of all Centro Médico Jabaquara's shares was approved, without change in capital, increasing the Company's interest to 100%.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

3. Business combinations

The fair value of assets acquired and liabilities assumed, as well as goodwill determined on the key acquisitions in 2018 and in the nine-month period ended September 30, 2019 are as follows:

	2019				2018		
	Hospital Aviccena (a)	Hospital São Lucas (a)	Hospital Clínicas Rio Mar (a)	Hospital Samer (a)	Hospital São Rafael (b)	Laboratório Richet (b)	Hospital UDI (b)
Acquisition date	24/06/2019	22/01/2019	18/01/2019	04/12/2018	01/08/2018	05/07/2018	07/02/2018
Location	SP	SE	RJ	RJ	BA	RJ	MA
Interest acquired (%)	100.00	75.00	95.31	100.00	75.00	100.00	100.00
Total consideration	71,729	235,500	85,326	78,322	607,500	191,964	441,480
Payment on acquisition date	71,729	188,950	25,326	66,574	417,500	177,464	406,480
Accounts payable	-	46,550	60,000	11,748	190,000	14,500	35,000
Assets							
Cash and cash equivalents	5,849	3,030	795	2,407	6,992	1,227	4,217
Trade accounts receivable	11,826	28,346	6,548	19,737	99,341	14,193	40,389
Inventories	728	4,362	2,803	822	12,048	1,340	2,491
Taxes recoverable	1,403	15,856	3,079	848	-	338	373
Related parties	-	-	-	-	171,643	-	4,120
Judicial deposits	3,100	649	1,418	-	-	-	551
Deferred income and social contribution taxes	-	2,656	8,378	-	-	1,363	5,943
Indemnifiable assets	5,837	-	6,336	-	-	1,427	13,919
Property and equipment	1,769	57,712	6,255	2,658	72,248	35,602	122,252
Intangible assets	-	-	197	-	10,489	392	1,070
Right of use - Lease	26,577	-	-	-	-	-	-
Other	-	313	686	72	5,473	165	3,164
	57,089	112,924	36,495	26,544	378,234	56,047	198,489
Liabilities							
Trade accounts payable	(2,609)	(33,277)	(4,176)	(6,776)	(82,781)	(13,709)	(10,606)
Loans and financing	-	(21,111)	(9,982)	(3,149)	(109,265)	(21,424)	(13,726)
Salaries, provisions and social charges	(4,510)	(9,614)	(4,045)	(2,848)	(39,540)	(3,166)	(7,243)
Tax obligations	(3,925)	(46,690)	(25,915)	(7,668)	(2,046)	(5,805)	(37,747)
Related parties	-	-	-	(6,339)	-	-	(4,120)
Provision for legal proceedings	(5,837)	(1,207)	(7,823)	(343)	-	(3,989)	(13,919)
Lease	(26,577)	-	-	-	-	-	-
Other	(2,011)	(1,777)	(6,356)	(277)	(13,753)	(222)	(5,531)
	(45,469)	(113,676)	(58,297)	(27,400)	(247,385)	(48,315)	(92,892)
Total identifiable assets, net	11,620	(752)	(21,802)	(856)	130,849	7,732	105,597
Total net indemnifiable assets - noncontrolling interests	-	188	917	-	(32,712)	-	-
Goodwill on acquisition (Note 10)	60,109	236,064	106,211	79,178	509,363	184,232	335,883
Contribution for the Group of revenues since the acquisition date	28,099	264,673	46,308	9,526	262,695	46,756	302,551
Contribution for the Group with income (loss) before taxes since the acquisition date	5,491	58,705	(12,979)	4,324	(14,687)	3,496	61,763
Revenue of acquiree since the beginning of year	70,989	264,673	46,308	103,566	262,695	100,092	354,282
Income (loss) of acquiree before taxes since the beginning of year	18,349	58,705	(12,979)	14,585	(14,687)	12,803	86,677

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

(b) The fair value assessment of the assets and liabilities was concluded and the only adjustments identified were additional allocations to the property and equipment, against goodwill, at the hospitals São Rafael and Richet in the amount of R\$38,783 and R\$3,261, respectively.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

3. Business combinations

Other information:

In addition to the business combinations stated above, in 2019 the Company acquired Clínica Médica São Remo Ltda., additional interest of 55% in Memorial Imagem e Diagnóstico Ltda. (MediAx), 51% interest in Coriben Consultoria de Risco Benefícios e Corretora de Seguro Ltda., and 51% interest in APR Consultoria em Benefícios e Corretora de Seguros Ltda. Goodwill generated in these acquisitions totaled R\$2,380, R\$2,805, R\$4,598, and R\$6,481, respectively. In 2018, the Company acquired New Trix Corretora de Seguros Ltda. and 51% interest in Kappius Consultoria Empresarial e Corretagem de Seguros Ltda., and goodwill generated in these acquisitions totaled R\$23,977 and R\$1,125, respectively.

Outstanding amounts payable are used as guarantees for certain liabilities assumed by sellers (e.g. occurrence of contingencies), and are payable within six years of the signature dates, restated by reference to the Interbank Deposit Certificate (CDI), Extended Consumer Price Index (IPCA), and SELIC, accounted for as Accounts payable for acquisitions (Note 15).

As part of the acquisition of Hospital São Rafael in 2018, a contingent consideration was agreed based on achievement of certain financial goals in the twelve months following the transaction closing date. After twelve months, the parties will assess, confirm, and settle this amount within 150 days. The total amount related to this contingent consideration is R\$75 million, included in the balance of Accounts payable for acquisitions (Note 15).

On June 18, 2019, the Company entered into an agreement for acquisition of Casa de Saúde Laranjeiras Ltda., Unidade Neonatal da Lagoa Ltda., and CSEU - Cia de Serviços Especiais Unificados Ltda., located in Rio de Janeiro. The completion of this transaction is still conditional upon approval by the Brazilian Antitrust Agency (CADE). In addition, the agreement entered into with the counterparty contains a confidentiality provision that prevents the Company's management from disclosing further information of this transaction until it has been executed.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

4. Cash and cash equivalents and marketable securities

	Parent Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Cash and cash equivalents				
Cash and banks	14,403	45,121	21,520	87,063
Short-term investments	4,022	2,661	9,966	104,945
Cash and cash equivalents	18,425	47,782	31,486	192,008
Marketable securities				
Non-boutique investment funds	865,711	1,589,583	1,275,278	2,163,056
Repurchase agreements	206,391	288,360	338,246	484,566
Financial treasury bill	8,961	-	9,973	-
Bank Deposit Certificate (CDB)	1,542,611	890,951	1,882,253	1,217,078
Marketable securities	2,623,674	2,768,894	3,505,750	3,864,700

Short-term investments classified as cash equivalents mature within three months of 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 mostly to Bank Deposit Certificates (CDBs) and repurchase agreements backed by government securities, which are part of the "FI Plataforma" and "FIC Plataforma Star" boutique fund portfolio, issued by first-tier financial institutions, and with average yield of 99.9% (100.2% at December 31, 2018) of the Interbank Deposit Certificate (CDI).

5. Trade accounts receivable

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

	Parent Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Accounts receivable from health insurance and health plans	3,021,675	2,646,828	5,155,118	4,199,603
Accounts receivable from individuals	53,788	51,137	86,063	67,934
Allowance for doubtful accounts and provision for disallowances	(605,558)	(558,964)	(1,183,329)	(1,008,188)
	2,469,905	2,139,001	4,057,852	3,259,349

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

5. Trade accounts receivable (Continued)

Changes in provision for disallowances

	Parent Company		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Balance at beginning of year	(558,964)	(417,340)	(1,008,188)	(705,980)
Recognition of provision for disallowances	(333,685)	(299,453)	(621,371)	(500,251)
Write-off of uncollectible amounts	287,091	231,742	461,782	351,243
Provision arising from acquisitions	-	-	(15,552)	(73,767)
Balance at end of year	(605,558)	(485,051)	(1,183,329)	(928,755)

At September 30, 2019 and December 31, 2018, 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	
09/30/2019	3,075,463	2,085,604	118,067	58,081	46,304	45,825	74,002	238,487	409,093
12/31/2018	2,697,965	1,763,781	85,660	61,307	45,527	52,200	82,850	240,751	365,889

	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	
09/30/2019	5,241,181	3,811,832	169,638	103,482	84,345	93,866	125,819	345,562	506,637
12/31/2018	4,267,537	2,701,045	160,141	111,571	82,186	87,433	135,903	390,555	598,703

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 to in exchange for providing 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 sufficient by management to cover any losses on the realization of amounts billed.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

5. Trade accounts receivable (Continued)

The Company recognizes provision for disallowances annually analyzing the performance of collection of invoices overdue from 360 to 720 days, a period deemed sufficient for the collection process to be concluded. The percentage reached is applied to 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 provision for disallowances in the year.

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

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 Amil's decision, the Company was required to de-accredit additional hospitals as of the same date. The Company, in its best judgment, estimates that for the year ending 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 hospitals impacted by the de-accreditations.

6. Inventories

	Parent Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Medication	42,098	48,570	108,170	110,573
Special materials	50,888	44,429	65,734	59,181
Disposable materials	39,216	44,027	55,884	55,050
Laboratory materials	1,037	1,363	3,083	7,597
Materials for use and consumption	7,140	12,713	19,177	25,351
Food items	3,181	2,550	3,947	2,881
Dressing room materials	695	581	2,480	1,437
Surgical sutures	3,478	3,596	5,295	4,579
Other	10,993	11,859	21,703	17,780
	158,726	169,688	285,473	284,429

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

7. Transactions with related parties

Significant related-party transactions

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

- (i) *Lease* - the Group leases properties owned by the controlling shareholders, namely: properties of the hospitals Copa D'Or, Quinta D'Or and the property of the administrative unit. The properties are leased at market value. Impact on P&L for the nine-month period ended September 30, 2019 totaled R\$15,734 (R\$14,678 at September 30, 2018). Lease agreements are restated annually by reference to the IPCA.
- (ii) *Transfers of funds between companies* - to enhance the operations of certain investees and provide funds for expansion and/or acquisitions, the Company transfers funds to its investees. The balances are substantially eliminated in the consolidated interim financial information. These balances are not restated, do not have maturity date, and the collection is substantially expected for the subsequent fiscal year. The remaining consolidated balances refer to transfer of funds to affiliates and joint ventures.
- (iii) *Shared services* - these are centralized services rendered by the Company, such as legal assistance, marketing, accounting, treasury, accounts payable and accounts receivable, which are shared among the other entities of the Group and have specific allocation criteria based on the contribution of each entity to the consolidated gross revenue. The balances are substantially eliminated for consolidation purposes.
- (iv) *Debentures* - certain subsidiaries issued nonconvertible debentures, which were acquired by the Company. These debentures are intended to provide funds to the investees for investment in operations and expansion. These balances are substantially eliminated for consolidation purposes.

In addition to the balances presented in the tables below, the Parent Company and subsidiary Rede D'Or Finance carried out a transaction of issue and purchase of debentures on January 17, 2018. As described in Note 13, subsidiary Rede D'Or Finance issued senior notes totaling US\$500,000, and at the same time, the Company issued debentures (10th issue), which were substantially acquired by subsidiary Rede D'Or Finance.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)

September 30, 2019

(In thousands of reais, unless otherwise stated)

7. Transactions with related parties (Continued)

Related-party balances

Company	Parent Company								
	09/30/2019				12/31/2018				09/30/2018
	Current assets	Noncurrent assets	Noncurrent liabilities	Profit or loss	Current assets	Noncurrent assets	Noncurrent liabilities	Profit or loss	Profit or loss
Debentures Norte D'Or	4,811	25,000	-	2,133	9,206	-	-	1,326	791
Debentures São Lucas (a)	-	39,133	-	-	-	-	-	-	-
Shared services									
Medise Medicina Diagnóstico e Serviços Ltda.	-	20,168	-	8,284	-	23,874	-	10,531	7,124
Hospital Esperança S.A.	-	58,282	-	24,670	-	33,605	-	32,291	23,147
Hospital São Marcos S.A.	-	11,567	-	4,661	-	6,905	-	5,240	3,944
Hospital Norte D'Or de Cascadura S.A.	-	691	-	6,110	-	-	-	6,438	5,084
Rede D'Or São Luiz Serviços Médicos S.A.	-	-	-	-	-	-	-	13,824	11,396
J. Badim S.A.	-	7,074	-	2,255	-	5,447	-	2,254	600
Oncologia D'Or S.A.	-	2,016	-	1,224	-	1,088	-	1,631	1,224
Hospital Fluminense S.A.	-	-	-	3,418	-	-	-	4,730	3,596
Clínica São Vicente	-	1,821	-	5,179	-	-	-	7,088	5,295
Hospital Santa Helena S.A.	-	-	-	12,074	-	-	-	16,729	12,636
Hospital Alpha-Med Ltda.	-	2,485	-	2,224	-	645	-	2,680	1,812
Centro Médico Jabaquara S.A.	-	368	-	-	-	368	-	-	-
Diagno SM	-	107	-	104	-	-	-	-	3
URC	-	611	-	611	-	-	-	-	69
Hospital UDI	-	10,467	-	10,467	-	-	-	-	-
Other	-	2,023	-	1,993	-	146	-	2,070	143
São Luiz Serviços Médicos S.A. (b)	-	-	2,955	-	-	-	2,405	-	-
Hospital Norte D'Or de Cascadura S.A. (b)	-	-	230	-	-	-	856	-	-
Hospital Alpha Med (b)	-	-	528	-	-	-	-	-	-
Unidade de Radiologia Clínica Ltda. (b)	-	12,730	-	-	-	12,132	-	-	-
Medise Medicina Diagnóstico e Serviços Ltda. (b)	-	1,425	-	-	-	-	14,285	-	-
Jenner S.A (b)	-	2,000	-	-	-	16,668	-	-	-
PMJ Empreendimentos Imobiliários S.A.	-	284	-	-	-	-	-	-	-
Oncologia D'Or S.A. (b)	-	-	2,161	-	-	1,441	-	-	-
Hospital Fluminense S.A. (b)	-	-	-	-	-	-	99	-	-
Hospital Esperança S.A. (b)	-	-	5,104	-	-	-	28,759	-	-
JMJB Diagnósticos e Serviços Hospitalares S.A. (b)	-	7,578	-	-	-	7,578	-	-	-
Proncordis PA Cardiológico Ltda. (b)	-	709	-	-	-	157	-	-	-
Onco D'Or Oncologia S.A. (b)	-	48,588	-	-	-	81,086	-	-	-
Campinas Empreendimentos Imobiliários Ltda. (b)	-	-	-	-	-	3,230	-	-	-
Hospital Santa Helena S.A. (b)	-	-	5,446	-	-	-	3,262	-	-
Santa Luzia II Emp. Imobiliários Ltda. (b)	-	31,430	-	-	-	-	-	-	-
GNI01 Emp. Imob. Ltda. (b)	-	-	-	-	-	10	-	-	-
Opuner do Brasil Ltda. (b)	-	-	5,808	-	-	-	5,808	-	-
Instituto D'Or de Pesquisa e Ensino (b)	-	7,487	-	-	-	7,454	-	-	-
JM&AM Empreendimentos Imobiliários S.A. (b)	-	360	-	15,734	-	-	-	19,570	14,678
Onco Star SP (d)	-	499,823	-	-	-	167,484	-	-	-
JTO Holding S.A. (b)	-	34,350	-	-	-	-	-	-	-
Santa Luzia III Emp. Imobiliários Ltda.	-	58,115	-	-	-	-	-	-	-
Other	-	16,160	-	-	-	36,464	1,727	-	-
	4,811	902,852	22,232	101,141	9,206	405,782	57,201	126,402	91,542

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

7. Transactions with related parties (Continued)

Related-party balances (Continued)

Company	Consolidated								
	09/30/2019				12/31/2018				09/30/2018
	Current assets	Noncurrent assets	Noncurrent liabilities	Profit or loss	Current assets	Noncurrent assets	Noncurrent liabilities	Profit or loss	Profit or loss
Shared services									
J Badim S.A.	-	7,074	-	2,255	-	5,447	-	2,254	600
JMJB Diagnósticos e Serviços Hospitalares S.A.	-	7,578	-	-	-	7,578	-	-	-
Instituto D'Or de Pesquisa e Ensino (b)	-	7,487	-	-	-	7,454	-	-	-
J Badim S.A. (b)	-	2,612	-	-	-	1,302	-	-	-
JM&AM Empreendimentos Imobiliários S.A. (c)	-	360	-	15,734	-	-	-	19,570	14,678
Monte Tabor Centro Ítalo-Brasileiro de Promoção Sanitária (b)	-	1,719	-	-	-	-	-	-	-
Other	-	5,779	340	-	-	1,685	60	-	-
	-	32,609	340	17,989	-	23,466	60	21,824	15,278

- (a) On May 28, 2019, Hospital São Lucas held a private issue of nonconvertible registered debentures in a single series, in the amount R\$38,000, maturing on May 28, 2024, with the Parent Company Rede D'Or as the debenture holder. Debentures are remunerated on a pro rata temporis basis with interest corresponding to 100% of the DI (Interbank Deposit), plus 2.5% p.a. Interest is paid annually and the nominal amount will be fully paid on the maturity date. Debentures have no guarantees.
- (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) Lease of properties owned by the controlling shareholders of Rede D'Or..
- (d) Onco Star SP was created in 2017. Rede D'Or provided resources for acquisition of machinery and equipment, under the same conditions described in Note b above.

Key management personnel compensation

The Group considers "Key management personnel" only the members of its Statutory Board and Board of Directors. For the nine-month periods ended September 30, 2019 and 2018, key management personnel compensation was as follows:

	09/30/2019	09/30/2018
Salaries and bonuses	43,771	35,670
Benefits	92	133
Share-based payment	30,492	30,496
	63,453	66,299

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

8. Investments

Breakdown and changes in investments - Company

Company	12/31/2018	Equity pickup	Dividends	Acquisition of interest	Capital increase/ future capital contribution	Transfer	Other	09/30/2019
Medise Medicina Diagnóstico e Serviços S.A.	211,761	25,849	(27,055)	-	-	-	-	210,555
Hospital Esperança S.A.	140,130	114,484	(21,220)	-	-	-	(17,308)	216,086
Hospital São Marcos (including goodwill)	85,845	15,957	-	-	-	-	-	101,802
PMJ Empreendimentos Imobiliários S.A.	394,927	(597)	-	-	165,309	-	-	559,639
Norte D'Or Participações S.A. (including goodwill)	85,417	10,724	(5,600)	-	19	-	-	90,560
Onco D'Or Oncologia S.A.	321,160	47,182	-	-	-	-	(4,620)	363,722
Jenner S.A. (including goodwill)	113,123	11,864	-	-	-	-	(6,399)	118,588
JMJB Diagnósticos e Serviços Hospitalares	28,405	(637)	(500)	-	-	-	-	27,268
Rodin Empreendimentos e Participações S.A.	54,209	(17)	-	-	2,875	-	-	57,067
Quinta Empreendimentos Imobiliários Ltda.	51,467	5,348	(12,000)	-	-	-	-	44,815
Hospital Fluminense S.A. (including goodwill)	82,200	7,686	(24,000)	-	6,679	-	-	72,565
Cardial Serviços Médicos (including goodwill)	61,703	5,052	(5,440)	-	-	-	-	61,315
Hospital Santa Helena S.A. (including goodwill)	402,743	10,032	(7,000)	-	12,074	-	-	417,849
TJK Empreendimentos Imobiliários Ltda.	22,340	587	(1,569)	-	-	-	-	21,358
Villa Lobos Empreendimentos Imobiliários Ltda.	204,125	7,955	(10,534)	-	-	-	-	201,546
Santa Luzia II Empreendimentos Imobiliários Ltda.	160,633	385	-	-	52,942	(203,961)	-	9,999
Campinas Empreendimentos Imobiliários Ltda.	46,442	(243)	-	-	-	-	-	46,199
Sator Empreendimentos e Participações Ltda.	328,187	(6,701)	-	-	339,227	-	-	660,713
Rede D'Or Finance	5,369	(103)	-	-	-	-	-	5,266
Rede D'Or São Luiz Serviços Médicos S.A.	67,168	13,462	-	-	699	-	-	81,329
GGSH Participações S.A.	47,354	11,947	-	-	-	-	(7,429)	51,872
Olimpia Projeto Rua do Rocio 86 SPE S.A. (a)	306,007	-	-	-	3,563	-	-	309,570
Proncordis Pronto Atendimento Cardiológico Ltda.	11,194	(15)	-	-	-	-	-	11,179
Prontimagem Serviços Médicos Ltda.	208,867	11,933	-	-	-	-	-	220,800
Maximagem com Diag. por imagem Ltda.	74,319	7,106	-	-	-	-	-	81,425
Califórnia Investimentos Imobiliários Ltda. (b)	-	-	-	60,000	-	-	-	60,000
Hospital Aviccena S.A.	-	3,630	-	71,729	-	-	-	75,359
Santa Luzia III Empreendimentos Imobiliários Ltda.	37,080	(3,880)	-	-	15,468	203,961	-	252,629
Other	256,001	19,210	(10,862)	2,547	33,616	-	5,167	305,679
	3,808,176	318,200	(125,780)	134,276	632,471	-	(30,589)	4,736,754
Onco Star SP Oncologia Ltda.	(23,431)	(55,255)	-	-	-	-	-	(78,686)
Centro Hospitalar São Marcos S.A.	(11,595)	(1,060)	-	-	-	-	-	(12,655)
Clínica São Remo	-	(1,202)	-	(2,017)	281	-	2,380	(558)
Café Verde da Quinta Ltda.	(1,038)	(3,689)	-	-	-	-	871	(3,856)
	(36,064)	(61,206)	-	(2,017)	281	-	3,251	(95,755)
Equity pickup		256,994						

(a) Acquisition of land in 2018 through subsidiary.

(b) Acquisition of land through subsidiary.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

8. Investments (Continued)

Breakdown and changes in investments - Company (Continued)

Company	12/31/2017	Equity pickup	Dividends	Acquisition of interest	Capital increase/ future capital contribution	Transfer	Other	Merger	09/30/2018
Medise Medicina Diagnóstico e Serviços S.A.	173,056	32,233	-	-	-	-	-	-	205,289
Hospital Esperança S.A.	71,346	61,417	-	-	-	-	-	-	132,763
Hospital São Marcos (including goodwill)	65,705	13,401	-	-	-	-	-	-	79,106
PMJ Empreendimentos Imobiliários S.A.	180,403	1,398	-	-	152,178	-	-	-	333,979
Norte D'Or Participações S.A. (including goodwill)	71,695	8,369	-	-	67	-	-	-	80,131
Onco D'Or Oncologia S.A.	275,950	42,150	-	-	-	-	(8,954)	-	309,146
Jenner S.A. (including goodwill)	101,233	8,490	-	-	-	-	-	-	109,723
JMJB Diagnósticos e Serviços Hospitalares	23,291	4,220	-	-	-	-	-	-	27,511
Rodin Empreendimentos e Participações S.A.	54,285	(56)	-	-	-	-	-	-	54,229
Quinta Empreendimentos Imobiliários Ltda.	55,137	5,595	-	-	-	-	-	-	60,732
Hospital Fluminense S.A. (including goodwill)	58,588	12,562	-	-	7,599	-	-	-	78,749
Cardial Serviços Médicos (including goodwill)	62,308	2,466	(9,987)	962	5,296	-	-	-	61,045
Hospital Santa Helena S.A. (including goodwill)	332,878	17,741	-	-	46,745	-	-	-	397,364
TJK Empreendimentos Imobiliários Ltda.	21,926	232	-	-	-	-	-	-	22,158
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	3,810	(12,000)	-	-	-	-	-	201,628
Santa Luzia II Empreendimentos Imobiliários Ltda.	33,538	(1,756)	-	-	79,854	-	-	-	111,636
Campinas Empreendimentos Imobiliários Ltda.	45,882	(29)	-	-	457	-	-	-	46,310
Sator Empreendimentos e Participações Ltda.	168,819	12,419	-	-	35,729	-	-	-	216,967
Rede D'Or Finance	-	(9,018)	-	-	14,387	-	-	-	5,369
Rede D'Or São Luiz Serviços Médicos S.A.	-	(20,073)	-	-	151,418	(59,630)	-	-	71,715
GSSH Participações S.A.	18,925	5,790	-	12,833	-	-	7,347	-	44,895
Olimpia Projeto Rua do Rocio 86 SPE S.A.	-	-	-	306,000	-	-	-	-	306,000
Proncordis Pronto Atendimento Cardiológico Ltda.	-	(18)	-	-	11,098	(31)	-	-	11,049
Prontimagem Serviços Médicos Ltda.	5,337	4,452	-	-	196,131	-	-	-	205,920
Maximagem com Diag. por imagem Ltda.	62,427	9,127	-	-	-	-	-	-	71,554
Other	262,849	15,843	(1,201)	-	8,366	-	523	-	286,380
	<u>2,702,604</u>	<u>231,863</u>	<u>(23,188)</u>	<u>319,795</u>	<u>709,325</u>	<u>(59,661)</u>	<u>(1,084)</u>	<u>(348,306)</u>	<u>3,531,348</u>
Rede D'Or São Luiz Serviços Médicos S.A.	(59,630)	-	-	-	-	59,630	-	-	-
Onco Star	-	(15,856)	-	-	-	-	-	-	(15,856)
Centro Hospitalar São Marcos S.A.	(16,121)	484	-	-	-	-	-	-	(15,637)
Proncordis Pronto Atendimento Cardiológico Ltda.	(31)	-	-	-	-	31	-	-	-
Café Verde	(2,021)	(3,317)	-	-	2,776	-	(278)	-	(2,840)
	<u>(77,803)</u>	<u>(18,689)</u>	<u>-</u>	<u>-</u>	<u>2,776</u>	<u>59,661</u>	<u>(278)</u>	<u>-</u>	<u>(34,333)</u>
Equity pickup		<u>213,174</u>							

(a) Subsidiary merged by the Company in 2018.

Rede D'Or São Luiz S.A.

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

8. Investments (Continued)

Breakdown and changes in investments - Consolidated

Company	12/31/2018	Equity pickup	Acquisition of interest	Dividends	Capital increase/ future capital contribution	Other	09/30/2019
JMJB Diagnósticos e Serviços Hospitalares S.A.	28,405	(637)	-	(500)	-	-	27,268
Instituto de Radioterapia do Vale do Paraíba Ltda.	40,134	7,259	-	(4,000)	-	-	43,393
GGSH Participações S.A.	47,354	11,947	-	-	-	(7,429)	51,872
Eldorado do Sul Participações Ltda.	14,595	528	-	(914)	-	(217)	13,992
Cárdio Pulmonar da Bahia S.A. (i)	-	(6,452)	100,000	-	10,000	-	103,548
Other	14,041	988	-	(1,623)	532	(1,136)	12,802
	144,529	13,633	100,000	(7,037)	10,532	(8,782)	252,875

Company	12/31/2017	Equity pickup	Acquisition of interest	Dividends	Future capital contribution	Other	09/30/2018
JMJB Diagnósticos e Serviços Hospitalares S.A.	23,291	4,220	-	-	-	-	27,511
Instituto de Radioterapia do Vale do Paraíba Ltda.	34,206	5,623	-	(2,577)	750	-	38,002
GGSH Participações S.A.	18,925	5,790	12,833	-	-	7,347	44,895
Other	13,549	2,018	-	(1,311)	-	-	12,256
	89,971	17,651	12,833	(3,888)	750	7,347	124,664

- (i) 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 consideration transferred totaled R\$110,000 for 47.66% of the shares, without acquisition of control.

On August 8, 2019, the Company signed a purchase agreement for acquisition of 10% of the shares of Qualicorp Consultoria e Corretora de Seguros S.A., located in São Paulo. The completion of this transaction is still conditional upon approval by the Brazilian Antitrust Agency (CADE). Furthermore, the agreement entered into with the counterparty contains a confidentiality provision that prevents the Company's management from disclosing further information in relation to this transaction until its execution.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

8. Investments (Continued)

Summary of information of the key investees

	09/30/2019					09/30/2018		
	% total	% Voting capital	Assets	Liabilities	Equity	Operating income (expenses)	P&L for the period	P&L for the period
Direct and indirect subsidiaries								
Medise Medicina Diagnóstico e Serviços S.A. ("Medise")	98.00	98.00	612,462	390,025	222,437	39,726	28,845	35,969
Hospital Esperança S.A. ("Esperança")	100.00	100.00	4,332,979	3,940,359	392,615	263,465	114,484	61,417
PMJ Empreendimentos Imobiliários S.A.	100.00	100.00	564,205	4,138	560,067	1,070	(597)	1,398
Norte D'Or Participações S.A.	100.00	100.00	67,370	5,261	62,109	10,790	10,724	8,369
Onco D'Or Oncologia S.A.	98.90	98.90	315,162	141,122	174,040	41,594	25,726	18,395
Jenner S.A.	91.25	91.25	157,335	2,000	155,335	23,727	20,762	15,564
Rodin Empreendimentos e Participações S.A.	100.00	100.00	57,754	698	57,056	(4)	(17)	(56)
Quinta Empreendimentos Imobiliários Ltda.	100.00	100.00	47,139	2,324	44,815	8,300	5,348	5,595
Hospital Fluminense S.A.	100.00	100.00	97,576	38,233	59,343	12,084	7,686	12,562
Cardial Serviços Médicos Ltda.	100.00	100.00	43,171	18,210	24,961	7,350	5,052	2,466
Hospital Santa Helena S.A.	100.00	100.00	558,148	261,208	296,940	37,256	10,032	17,741
TJK Empreendimentos Imobiliários Ltda.	100.00	100.00	22,258	900	21,358	569	587	232
Villa Lobos Empreendimentos Imobiliários S.A.	100.00	100.00	202,607	1,061	201,546	9,264	7,955	3,810
Santa Luzia II Emp. Imobiliários Ltda.	100.00	100.00	39,660	29,661	9,999	2,445	385	(1,756)
Campinas Empreendimentos Imob.	100.00	100.00	49,868	3,670	46,198	(66)	(243)	(29)
Sator Empreendimentos e Participações Ltda.	100.00	100.00	1	(115,238)	115,239	(6,700)	(6,701)	12,419
Rede D'Or Finance	100.00	100.00	2,029,108	2,023,842	5,266	(4)	(103)	-
Rede D'Or São Luiz Serviços Médicos S.A.	100.00	100.00	336,207	254,959	81,248	21,940	13,462	(20,073)
Olimpia Projeto Rua do Rocio 86 SPE S.A.	100.00	100.00	310,335	719	309,616	242	84	-
Proncordis Pronto Atendimento Cardiológico Ltda.	100.00	100.00	8,515	1,421	7,094	(825)	(877)	(1,097)
Prontimagem Serviços Médicos Ltda.	100.00	100.00	235,524	23,289	212,235	8,077	7,106	5,575
Maximagem com Diag. por imagem Ltda.	100.00	100.00	41,703	5,969	35,734	13,119	11,933	9,127
Onco Star SP Oncologia Ltda.	75.00	75.00	664,791	775,940	(111,149)	(51,081)	(55,255)	(15,856)
Centro Hospitalar São Marcos S.A.	100.00	100.00	931	13,586	(12,655)	(1,055)	(1,060)	(634)
Hospital Avicenna S.A.	100.00	100.00	63,910	48,121	15,789	6,728	3,630	-
Santa Luzia III Empreendimentos Imobiliários Ltda.	100.00	100.00	312,135	59,506	252,629	(3,880)	(3,880)	-
Companies recognized by the equity method in the consolidated financial information								
JMJB Diagnósticos e Serviços Hospitalares S.A.	50.00	50.00	63,998	9,342	54,656	(1,273)	(637)	4,220
Instituto de Radioterapia do Vale do Paraíba Ltda.	49.45	49.45	38,205	25,397	12,808	16,327	7,259	5,623
GGSH Participações S.A.	34.46	34.46	197,874	52,723	145,151	35,435	11,947	7,048
Eldorado do Sul Participações Ltda.	33.33	33.33	19,417	-	19,417	2,966	989	-
Cárdio Pulmonar da Bahia S.A.	47.66	47.66	306,050	210,702	95,348	(8,499)	(6,452)	-

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

9. Property and equipment

Breakdown of balances

Description	Depreciation rate	Company					
		09/30/2019			12/31/2018		
		Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount
Hospital machinery and equipment	12% to 20%	985,438	(578,087)	407,351	923,373	(509,296)	414,077
Surgical instruments	20%	52,006	(30,687)	21,319	48,994	(25,990)	23,004
Machinery and equipment	7% to 10%	352,783	(226,480)	126,303	315,354	(191,814)	123,540
Buildings	2.5% to 4%	607,721	(116,381)	491,340	595,058	(99,790)	495,268
Improvements in own buildings	4%	281,460	(51,588)	229,872	169,801	(35,994)	133,807
Leasehold improvements	3% to 4%	1,330,078	(335,654)	994,424	1,131,558	(297,415)	834,143
Furniture and fixtures	10%	154,313	(85,266)	69,047	140,496	(74,144)	66,352
Vehicles	20%	4,199	(3,343)	856	3,988	(3,081)	907
Facilities	10%	118,070	(45,301)	72,769	110,470	(38,228)	72,242
Land	-	167,589	-	167,589	155,530	-	155,530
Construction in progress	-	308,227	-	308,227	501,378	-	501,378
Other	5% to 10%	14,078	(5,052)	9,026	12,430	(4,836)	7,594
		4,375,962	(1,477,839)	2,898,123	4,108,430	(1,280,588)	2,827,842

Description	Depreciation rate	Consolidated					
		09/30/2019			12/31/2018		
		Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount
Hospital machinery and equipment	12% to 20%	1,571,509	(712,922)	858,587	1,204,717	(608,634)	596,083
Surgical instruments	20%	79,543	(36,503)	43,040	57,586	(30,342)	27,244
Machinery and equipment	7% to 10%	562,409	(318,622)	243,787	474,285	(265,693)	208,592
Buildings	2.5% to 4%	1,617,220	(181,689)	1,435,531	1,067,049	(140,907)	926,142
Improvements in own buildings	4%	314,770	(55,387)	259,383	184,234	(38,636)	145,598
Leasehold improvements	3% to 4%	1,711,672	(455,844)	1,255,828	1,432,885	(401,454)	1,031,431
Furniture and fixtures	10%	227,772	(117,032)	110,740	195,542	(99,936)	95,606
Vehicles	20%	17,646	(7,737)	9,909	4,717	(4,717)	-
Facilities	10%	178,399	(76,510)	101,889	167,142	(65,273)	101,869
Land	-	936,798	-	936,798	802,896	-	802,896
Construction in progress	-	763,076	-	763,076	1,016,424	-	1,016,424
Other	5% to 10%	54,969	(7,444)	47,525	49,338	(6,392)	42,946
		8,035,783	(1,969,690)	6,066,093	6,656,815	(1,661,984)	4,994,831

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)

September 30, 2019

(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in the Parent Company

	12/31/2018	Disposals	Disposals	Transfers	09/30/2019
Cost					
Hospital machinery and equipment	923,373	62,065	-	-	985,438
Surgical instruments	48,994	3,012	-	-	52,006
Machinery and equipment	315,354	37,429	-	-	352,783
Buildings	595,058	2,659	-	10,004	607,721
Improvements in own buildings	169,801	1,683	-	109,976	281,460
Leasehold improvements	1,131,558	21,388	(22,000)	199,132	1,330,078
Furniture and fixtures	140,496	13,817	-	-	154,313
Vehicles	3,988	211	-	-	4,199
Facilities	110,470	7,600	-	-	118,070
Land	155,530	59	-	12,000	167,589
Construction in progress	501,378	231,212	-	(424,363)	308,227
Other	12,430	1,648	-	-	14,078
	4,108,430	382,783	(22,000)	(93,251)	4,375,962
Depreciation					
Hospital machinery and equipment	(509,296)	(68,791)	-	-	(578,087)
Surgical instruments	(25,990)	(4,697)	-	-	(30,687)
Machinery and equipment	(191,814)	(34,666)	-	-	(226,480)
Buildings	(99,790)	(16,591)	-	-	(116,381)
Improvements in own buildings	(35,994)	(15,594)	-	-	(51,588)
Leasehold improvements	(297,415)	(38,239)	-	-	(335,654)
Furniture and fixtures	(74,144)	(11,122)	-	-	(85,266)
Vehicles	(3,081)	(262)	-	-	(3,343)
Facilities	(38,228)	(7,073)	-	-	(45,301)
Other	(4,836)	(216)	-	-	(5,052)
	(1,280,588)	(197,251)	-	-	(1,477,839)
Property and equipment, net	2,827,842	185,532	(22,000)	(93,251)	2,898,123

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)

September 30, 2019

(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in Parent Company (Continued)

	12/31/2017	Additions	Sales / disposals	Transfers	Additions from mergers	09/30/2018
Cost						
Hospital machinery and equipment	784,172	67,219	-	4,979	12,708	869,078
Surgical instruments	39,749	3,687	-	-	2,108	45,544
Machinery and equipment	227,864	26,209	-	48,542	1,387	304,002
Properties	848,716	851	(257,500)	814	-	592,881
Improvements in own buildings	99,610	2,109	-	61,933	14	163,666
Leasehold improvements	816,341	17,895	(10,000)	296,747	3,308	1,124,291
Furniture and fixtures	115,418	13,213	-	-	4,941	133,572
Vehicles	3,939	47	-	-	-	3,986
Facilities	85,242	12,909	-	150	1,316	99,617
Land	130,020	-	-	-	25,510	155,530
Construction in progress	582,239	264,527	-	(440,350)	11,727	418,143
Other	11,799	412	-	-	10	12,221
	<u>3,745,109</u>	<u>409,078</u>	<u>(267,500)</u>	<u>(27,185)</u>	<u>63,029</u>	<u>3,922,531</u>
Depreciation						
Hospital machinery and equipment	(430,982)	(57,626)	-	-	-	(488,608)
Surgical instruments	(18,224)	(6,132)	-	-	-	(24,356)
Machinery and equipment	(144,110)	(35,911)	-	-	-	(180,021)
Properties	(77,508)	(21,894)	5,150	-	-	(94,252)
Improvements in own buildings	(22,738)	(8,598)	-	-	-	(31,336)
Leasehold improvements	(244,250)	(36,282)	200	-	-	(280,332)
Furniture and fixtures	(60,013)	(10,456)	-	-	-	(70,469)
Vehicles	(2,690)	(291)	-	-	-	(2,981)
Facilities	(30,804)	(5,461)	-	-	-	(36,265)
Other	(4,612)	(157)	-	-	-	(4,769)
	<u>(1,035,931)</u>	<u>(182,808)</u>	<u>5,350</u>	<u>-</u>	<u>-</u>	<u>(1,213,389)</u>
Property and equipment, net	<u>2,709,178</u>	<u>226,270</u>	<u>(262,150)</u>	<u>(27,185)</u>	<u>63,029</u>	<u>2,709,142</u>

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in Consolidated

	12/31/2018	Additions	Disposals	Transfers	Business combination	09/30/2019
Cost						
Hospital machinery and equipment	1,204,717	365,583	-	-	1,209	1,571,509
Surgical instruments	57,586	21,957	-	-	-	79,543
Machinery and equipment	474,285	71,823	-	-	16,301	562,409
Properties	1,067,049	113,151	-	402,324	34,696	1,617,220
Improvements in own buildings	184,234	2,623	-	127,909	4	314,770
Leasehold improvements	1,432,885	37,399	(22,000)	263,388	-	1,711,672
Furniture and fixtures	195,542	28,502	-	-	3,728	227,772
Vehicles	4,717	12,927	-	-	2	17,646
Facilities	167,142	10,511	-	-	746	178,399
Land	802,896	66,489	-	66,290	1,123	936,798
Construction in progress	1,016,424	625,709	-	(886,536)	7,479	763,076
Other	49,338	3,895	-	-	1,736	54,969
	6,656,815	1,360,569	(22,000)	(26,625)	67,024	8,035,783
Depreciation						
Hospital machinery and equipment	(607,829)	(105,093)	-	-	-	(712,922)
Surgical instruments	(30,342)	(6,161)	-	-	-	(36,503)
Machinery and equipment	(265,693)	(52,929)	-	-	-	(318,622)
Properties	(140,907)	(40,782)	-	-	-	(181,689)
Improvements in own buildings	(38,636)	(16,751)	-	-	-	(55,387)
Leasehold improvements	(401,454)	(54,390)	-	-	-	(455,844)
Furniture and fixtures	(99,936)	(17,096)	-	-	-	(117,032)
Vehicles	(5,522)	(2,215)	-	-	-	(7,737)
Facilities	(65,273)	(11,237)	-	-	-	(76,510)
Other	(6,392)	(1,052)	-	-	-	(7,444)
	(1,661,984)	(307,706)	-	-	-	(1,969,690)
Property and equipment, net	4,994,831	1,052,863	(22,000)	(26,625)	67,024	6,066,093

The main changes in the nine-month period ended September 30, 2019 were as follows:

- (i) Acquisition of Hospital Rio Mar, Hospital São Lucas, and Hospital Aviccena.
- (ii) Acquisition of land through acquisition of Califórnia Investimentos Imobiliários for R\$60,000.
- (iii) Acquisition of hospital machinery and equipment as part of the Company's operational routine, and reformulation and remodeling of Hospital Niterói D'Or, Hospital Bartira, Hospital DF Star, Hospital Glória D'Or, and Onco Star.
- (iv) Hospital DF Star and Hospital Gloria began operations during the year and the balances were subject to depreciation.
- (v) Capitalized interest at September 30, 2019 totaled R\$74,797 (R\$44,732 in the year ended December 31, 2018).
- (vi) On August 9, 2019, at the same time that the Company completed the expansion of the outpatient facility of Hospital Brasil (reclassifying it for its depreciable assets), located in São Paulo, a sale and leaseback transaction was carried out, for the total amount of R\$22,000, to be collected upon compliance with certain contractual provisions. The lease term is 25 years. This operation did not result in gain or loss to the Company.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in Consolidated (Continued)

	12/31/2017	Additions	Sales / disposals	Transfers	Business combination	09/30/2018
Cost						
Hospital machinery and equipment	992,902	120,057	-	5,093	-	1,118,052
Surgical instruments	48,636	4,369	-	-	621	53,626
Machinery and equipment	291,036	44,788	-	54,760	66,141	456,725
Properties	1,258,561	18,375	(257,500)	814	34,405	1,054,655
Improvements in own buildings	104,053	2,410	-	62,307	-	168,770
Leasehold improvements	1,032,436	29,291	(10,000)	335,464	32,560	1,419,751
Furniture and fixtures	157,720	16,590	-	-	11,903	186,213
Vehicles	4,495	18	-	-	186	4,699
Facilities	139,140	16,718	-	152	13	156,023
Land	463,442	306,000	-	-	24,356	793,798
Construction in progress	743,591	473,482	-	(490,460)	9,627	736,240
Other	48,645	476	-	-	-	49,121
	<u>5,284,657</u>	<u>1,032,574</u>	<u>(267,500)</u>	<u>(31,870)</u>	<u>179,812</u>	<u>6,197,673</u>
Depreciation						
Hospital machinery and equipment	(511,585)	(72,394)	-	-	-	(583,979)
Surgical instruments	(21,655)	(6,903)	-	-	-	(28,558)
Machinery and equipment	(196,134)	(48,433)	-	-	-	(244,567)
Properties	(99,842)	(34,885)	5,150	-	-	(129,577)
Improvements in own buildings	(24,517)	(9,236)	-	-	-	(33,753)
Leasehold improvements	(331,362)	(46,368)	200	-	-	(377,530)
Furniture and fixtures	(81,750)	(13,382)	-	-	-	(95,132)
Vehicles	(3,054)	(1,841)	-	-	-	(4,895)
Facilities	(52,972)	(9,132)	-	-	-	(62,104)
Other	(6,146)	(172)	-	-	-	(6,318)
	<u>(1,329,017)</u>	<u>(242,746)</u>	<u>5,350</u>	<u>-</u>	<u>-</u>	<u>(1,566,413)</u>
Property and equipment, net	<u>3,955,640</u>	<u>789,828</u>	<u>(262,150)</u>	<u>(31,870)</u>	<u>179,812</u>	<u>4,631,260</u>

The main changes in the nine-month period ended September 30, 2018 were as follows:

- (i) Acquisition of Hospital UDI, Laboratório Richet, and Hospital São Rafael S.A.
- (ii) On June 29, 2018, the Company performed two sale and leaseback transactions with the Hospital São Luiz Morumbi building and with the Hospital Brasil administration building, located in the city of São Paulo, for the total amount of R\$276,861. The lease term is 25 years. The gain of R\$9,360 was recorded to P&L on the contract execution date.
- (iii) Expansions of Hospital Vivalle, Hospital Coração, remodeling of Hospital Bartira and Onco Star, and expansion in various hospitals.
- (iv) Acquisition of hospital machinery and equipment as part of the Company's operational routine and reformulation of Niterói D'Or.
- (v) Capitalized interest at September 30, 2018 totaled R\$37,493 (R\$24,014 in the year ended December 31, 2017).
- (vi) Acquisition, through the investee Olímpia Projeto Rua do Rocio 86 SPE S.A., of land located in the city of São Paulo, in the amount of R\$306,000.

There is no indication of impairment of P&E.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)

September 30, 2019

(In thousands of reais, unless otherwise stated)

10. Intangible assets

	Annual amortization rate	Parent Company		Consolidated	
		09/30/2019	12/31/2018	09/30/2019	12/31/2018
Finite useful life					
Software	20%	216,951	160,361	233,104	183,240
Exclusive agreements	20%	16,974	16,974	134,681	60,664
Indefinite useful life					
Goodwill (a)					
Acquisition of Copa D'Or		80,058	80,058	80,058	80,058
Acquisition of HMSL		668,339	668,339	668,339	668,339
Acquisition of Hospital Brasil		121,398	121,398	121,398	121,398
Acquisition of Hospital Prontolinda		30,595	30,595	30,595	30,595
Acquisition of Vivalle		38,692	38,692	38,692	38,692
Acquisition of São Marcos		-	-	10,807	10,807
Acquisition of Santa Luzia		199,333	199,333	199,333	199,333
Acquisition of Sinisgalli		156,646	156,646	156,646	156,646
Acquisition of Hospital Esperança		-	-	108,408	108,408
Acquisition of Norte D'Or		-	-	28,450	28,450
Acquisition of IFOR		85,724	85,724	85,724	85,724
Acquisition of Sino Brasileiro		241,947	241,947	241,947	241,947
Acquisition of Villa-Lobos		136,074	136,074	136,074	136,074
Acquisition of Bartira		105,584	105,584	105,584	105,584
Acquisition of Onco ABC/Cardeal/JLD		-	-	52,174	52,174
Acquisition of Oncoholding		-	-	159,445	159,445
Acquisition of Hospital Fluminense		-	-	10,658	10,658
Acquisition of Hospital Santa Helena		-	-	125,802	125,802
Acquisition of Acreditar		-	-	155,720	155,720
Acquisition of Memorial São Jose		112,528	112,528	112,528	112,528
Acquisition of Alpha-Med		-	-	43,815	43,815
Acquisition of CEHON		-	-	68,757	68,757
Acquisition of Maximagem		-	-	46,742	46,742
Acquisition of Ribeirão Pires		129,739	129,739	129,739	129,739
Acquisition of NEOH		-	-	33,422	33,422
Acquisition of JTO		-	-	12,567	12,567
Acquisition of Salus		-	-	8,956	8,956
Acquisition of Prontimagem		-	-	6,220	6,220
Acquisition of Sator		-	-	163,089	163,089
Acquisition of Hospital São Rafael (Note 3)		-	-	509,363	538,449
Acquisition of Laboratório Richet (Note 3)		-	-	184,232	187,493
Acquisition of UDI (Note 3)		-	-	335,883	335,883
Acquisition of Samer (Note 3)		-	-	79,178	79,178
Acquisition of Hospital Rio Mar (Note 3)		-	-	106,211	-
Acquisition of Hospital São Lucas (Note 3)		-	-	236,064	-
Acquisition of Hospital Aviccena (Note 3)		-	-	60,109	-
Other goodwill		48,649	48,649	123,344	95,198
Trademarks and patents (b)		190,810	190,810	190,810	190,810
		2,580,041	2,523,451	5,334,668	4,812,604

(a) The goodwill balances were generated from business combination. See Note 3 for further details of acquisitions made in 2019 and 2018.

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

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Notes to interim financial information (Continued)
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10. Intangible assets (Continued)

Impairment

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. Value in use calculations use cash flow projections before income and social contribution taxes 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 Group and is derived from its weighted average cost of capital (WACC - Actual). Actual WACC takes into account 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 Group is required to honor. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

There is no indication of impairment of intangible assets to date.

11. Right of use

Breakdown of balances

Description	09/30/2019					
	Parent Company			Consolidated		
	Cost	Amortization	Net	Cost	Amortization	Net
Hospital machinery and equipment	29,556	(3,731)	25,825	42,654	(6,032)	36,622
Properties	1,750,004	(113,009)	1,636,995	2,424,133	(119,829)	2,304,304
	<u>1,779,560</u>	<u>(116,740)</u>	<u>1,662,820</u>	<u>2,466,787</u>	<u>(125,861)</u>	<u>2,340,926</u>

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11. Right of use (Continued)

Changes in the Parent Company

	First-time adoption - 01/01/2019	Additions (a)	Amortization	09/30/2019
Cost				
Hospital machinery and equipment	21,483	8,073	-	29,556
Properties	1,703,756	46,248	-	1,750,004
	1,725,239	54,321	-	1,779,560
Amortization				
Hospital machinery and equipment	-	-	(3,731)	(3,731)
Properties	-	-	(113,009)	(113,009)
	-	-	(116,740)	(116,740)
Right of use, net	1,725,239	54,321	(116,740)	1,662,820

Changes in Consolidated

	First-time adoption - 01/01/2019	Additions (a)	Business combination (b)	Amortization	09/30/2019
Cost					
Hospital machinery and equipment	28,452	14,202	-	-	42,654
Properties	2,283,622	113,934	26,577	-	2,424,133
	2,312,074	128,136		-	2,466,787
Amortization					
Hospital machinery and equipment	-	-	-	(6,032)	(6,032)
Properties	-	-	-	(119,829)	(119,829)
	-	-	-	(125,861)	(125,861)
Right of use, net	2,312,074	128,136	26,577	(125,861)	2,340,926

(a) Additions referring to new agreements and renewals due to maturity.

(b) Acquisition of Hospital Aviccena.

The rights of use are amortized over the lease agreement term and take into consideration the expected renewal, when management intends to exercise this right, and in accordance with the terms of the agreements.

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Notes to interim financial information (Continued)
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12. Deferred gain on property sale

On October 11, 2013 and December 26, 2012, the Company performed sale and leaseback transactions of properties, and the properties leased back were accounted for as operating lease.

Part of the gain, related to the excess of sales proceeds versus the fair value of properties, was deferred, as required by CPC 06/IAS 17 - Leases, and has been amortized over the lease term. At September 30, 2019 and December 31, 2018, the deferred gain balances are as follows:

	Parent Company and Consolidated	
	09/30/2019	12/31/2018
Caxias D'Or	33,118	34,400
Hospital Brasil	40,150	41,800
	73,268	76,200
Current	3,920	3,920
Noncurrent	69,348	72,280

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13. Loans, financing and debentures

Banks	Index	Spread	Currency	Principal raised (R\$)	Beginning of maturity	Maturity	Amortization	Guarantees	Parent Company		Consolidated	
									09/30/2019	12/31/2018	09/30/2019	12/31/2018
FINEP/BNDES	TJLP/PRE	0.50%	R\$	170,252	Sept/24	Sept/24	Monthly	Surety bond	121,791	156,490	123,202	163,409
IFC III A1 Loan (a)	LIBOR	3.30%	US\$	157,685	May/17	Apr /25	Semiannually	n/a	197,652	194,132	197,652	194,132
IFC III A2 Loan	LIBOR	3.30%	US\$	157,685	May/17	Apr /26	Semiannually	Shares and receivables	158,853	155,398	158,853	155,398
IFC III B Loan (a)	LIBOR	3.00%	US\$	252,296	May/17	Apr /24	Semiannually	n/a	308,769	308,943	308,769	308,943
IFC III C Loan (a)	LIBOR	5.50%	US\$	94,611	May/17	Apr /26	Bullet	n/a	132,815	122,201	132,815	122,201
JP Morgan (a)	PRE	3.35%	US\$	300,000	Apr/16	Apr /20	Quarterly	n/a	213,913	331,601	213,913	331,601
Citibank II (a)	LIBOR	0.46%	US\$	301,200	Nov/18	Nov/23	Bullet	n/a	332,625	310,591	332,625	310,591
Senior notes (a) / (b)	PRE	4.95%	US\$	1,596,400	Jan/18	Jan/28	Bullet	n/a	-	-	2,286,364	1,935,389
Debentures – 3rd issue	100% of DI	2.30%	R\$	650,000	Dec/11	Dec/20	Monthly	n/a	160,850	261,220	160,850	261,220
Debentures – 9th issue 1st series (g)	110% of DI	-	R\$	800,000	Aug/17	Aug/20	Bullet	n/a	-	878,454	-	878,454
Debentures – 9th issue 2nd series (g)	100% of DI	1.75%	R\$	600,000	Aug/17	Aug/24	Semiannually	n/a	-	614,031	-	614,031
Debentures – 10th issue (b)	PRE	11.82%	R\$	1,628,100	Jan/18	Jan/28	Bullet	n/a	2,011,710	1,765,979	32,460	33,397
Debentures – 13th issue	100% of DI	1.02%	R\$	1,400,000	Sept/18	Sept/24	Annually	n/a	1,384,898	1,418,105	1,384,898	1,418,105
Debentures – 14th issue	106% of DI	-	R\$	500,000	Oct/18	Oct/26	Annually	Property	506,811	500,408	506,811	500,408
Debentures – 17th issue (d)	112% of DI	-	R\$	1,000,000	Jun/19	Jun/29	Annually	n/a	1,004,095	-	1,004,095	-
Promissory note – 3rd issue	112.5% of DI	-	R\$	1,000,000	Apr/18	Apr/23	Bullet	n/a	1,088,102	1,045,386	1,088,102	1,045,386
Promissory note (f)	103.0% of DI	-	R\$	800,000	Sept/19	Sept/22	Bullet	n/a	791,368	-	791,368	-
Debentures – 3rd issue – Esperança	110.85% of DI	-	R\$	1,000,000	Aug/17	Aug/24	Semiannually	n/a	-	-	995,636	1,011,362
Debentures – 4th issue – Esperança	100% of DI	1.27%	R\$	1,000,000	Feb/18	Dec/25	Semiannually	n/a	-	-	1,008,945	989,039
Mortgage-backed Securities (CRIs) – 1st issue	99% of DI	-	R\$	662,837	Mar/18	Mar/23	Bullet	n/a	657,423	667,919	657,423	667,919
Mortgage-backed Securities (CRIs) – 2nd issue	IPCA	6.6%	R\$	300,000	Jul/18	Jul/25	Bullet	n/a	311,624	307,306	311,624	307,306
Mortgage-backed Securities (CRIs) – 3rd issue	96.5% of DI	-	R\$	227,051	Dec/18	Dec/23	Bullet	n/a	228,245	224,701	228,245	224,701
Mortgage-backed Securities (CRIs) – 3rd issue	IPCA	4.65%	R\$	372,949	Dec/18	Dec/25	Bullet	n/a	391,898	368,966	391,898	368,966
Mortgage-backed Securities (CRIs) – 4th issue (c)	95.75% of DI	-	R\$	269,900	Feb/19	Feb/23	Bullet	n/a	268,660	-	268,660	-
Mortgage-backed Securities (CRIs) – 4th issue (c)	IPCA	3.93%	R\$	30,100	Feb/19	Feb/26	Bullet	n/a	30,522	-	30,522	-
Mortgage-backed Securities (CRIs) – 5th issue (e)	IPCA	3.45%	R\$	538,328	Sept/19	Aug/29	Annually	n/a	533,983	-	533,983	-
Other	CDI/PRE	-	R\$	n/a	n/a	Dec/26	Monthly	Fiduciary lien of contracts and receivables	-	-	4,973	4,627
									10,836,607	9,631,831	13,154,686	11,846,585
								Current	621,661	621,388	633,037	607,704
								Noncurrent	10,214,946	9,010,443	12,521,649	11,238,881

(a) As mentioned in Note 27, the Group contracts derivative financial instruments to hedge against exchange differences and adopted the fair value hedge 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 a bullet 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 against exchange differences and interest, converting into Reais plus CDI + 2.01% p.a. Additionally, the Company issued debentures (10th issue), which were substantially acquired by the subsidiary Rede D'Or Finance. There are no guarantees.

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(In thousands of reais, unless otherwise stated)

13. Loans, financing and debentures (Continued)

- (c) On December 15, 2019, through a securitization company, Rede D'Or issued registered Mortgage-backed Securities (CRIs) in the amount of R\$300,000. The first series is in the amount of R\$269,900, maturing on February 15, 2023 in a bullet payment, remunerated semiannually on a pro rata temporis basis, with interest equivalent to 95.75% of the CDI, while the second series totals R\$30,100, maturing on February 15, 2026 in a bullet payment, remunerated by IPCA + 3.9317%, payable semiannually. There are no guarantees.
- (d) On June 20, 2019, Rede D'Or issued simple nonconvertible unsecured debentures in up to three series, of 17th issue, in the amount of up to R\$2 billion. On June 24, 2019, Rede D'Or raised the 3rd series in the amount of R\$1 billion, maturing on June 20, 2029, in installments payable annually in 2027, 2028, and 2029, remunerated semiannually on a pro rata temporis basis with interest corresponding to 112% of the CDI.. There are no guarantees.
- (e) On August 15, 2019, through a securitization company, Rede D'Or issued registered Mortgage-backed Securities (CRIs) in the amount of R\$538,328, in a single series, maturing on August 15, 2029 in three annual installments beginning August 15, 2027, monetarily restated by the IPCA and interest of 3.45% p.a., payable semiannually. There are no guarantees.
- (f) On September 6, 2019, Rede D'Or issued the 4th issue of Promissory Notes, totaling R\$800,000, maturing on September 6, 2022 in a bullet payment, remunerated at interest corresponding to 103.0% of the CDI, payable upon maturity. There are no guarantees.
- (g) In the nine-month period ended September 30, 2019, the Company settled the totality of these debentures.

The loans, financing and debentures were raised mainly for general corporate purposes, to perform acquisitions of companies, to expand the hospitals and for construction of new units.

Total capitalized costs related to the issues of loans, financing and debentures, in the amount of R\$145,459 at September 30, 2019 (R\$135,695 at December 31, 2018), 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 net financial income. To date, the Group is in compliance with all debt covenants.

At September 30, 2019, the noncurrent maturity schedule is as follows:

Parent Company		Consolidated	
Year	Amount	Year	Amount
2020	96,003	2020	96,688
2021	140,228	2021	389,051
2022	931,596	2022	1,426,758
2023	3,519,551	2023	4,014,561
2024	916,961	2024	1,411,957
2025	827,583	2025	1,075,088
2026	292,784	2026	292,830
2027	505,851	2027	505,851
2028 to 2029	2,984,389	2028 to 2029	3,308,865
	<u>10,214,946</u>		<u>12,521,649</u>

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Notes to interim financial information (Continued)
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14. Tax obligations

	Parent Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Contribution Tax on Gross Revenue for Social Integration Program (PIS)	3,609	3,531	5,870	4,982
Contribution tax on gross revenue for social security financing (COFINS)	25,241	24,394	43,613	38,264
Service Tax (ISS)	45,815	68,449	109,037	114,867
Withholding Income Tax (IRRF)	7,028	15,959	10,631	23,507
Income tax (IRPJ)	5,963	-	52,988	53,717
Social contribution tax (CSLL)	1,885	-	16,749	16,980
Other	15,179	26,237	33,478	47,217
Tax refinancing programs:				
Service Tax (ISS)	9,852	14,420	45,067	36,532
Refinancing - Law No. 11941/09	14,027	15,969	31,983	30,025
Social security payable	49,910	55,333	157,534	158,966
Other	20,541	21,686	53,885	51,880
	199,050	245,978	560,835	576,937
Current	115,433	154,870	307,865	343,611
Noncurrent	83,617	91,108	252,970	233,326

At September 30, 2019, the noncurrent maturity schedule is as follows:

Parent Company		Consolidated	
Year	Amount	Year	Amount
2020	13,892	2020	37,418
2021	11,106	2021	29,167
2022	9,321	2022	23,923
2023	9,321	2023	23,412
2024 to 2030	39,977	2024 to 2030	139,050
	83,617		252,970

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Notes to interim financial information (Continued)
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15. Accounts payable for acquisitions

Acquisitions	index	Parent Company		Consolidated	
		09/30/2019	12/31/2018	09/30/2019	12/31/2018
Ribeirão Pires	CDI	22,162	20,763	22,162	20,763
IFOR	CDI	12,954	12,377	12,954	12,377
Alphamed	CDI	7,527	7,192	7,527	7,192
Oncologia RJ	CDI	-	-	43,876	41,894
Salus	IPCA	-	-	5,312	5,139
Sator	SELIC	17,738	16,461	17,738	16,461
UDI	CDI	-	-	38,709	36,983
São Rafael	SELIC	-	-	181,603	173,506
Richet	CDI	-	-	9,161	10,820
Samer	CDI	-	-	8,234	11,800
Maximagem	CDI	17,229	16,947	17,229	16,947
Hospital Rio Mar	IPCA	-	-	66,502	-
Hospital São Lucas	CDI	-	-	41,712	-
Other	CDI/IPCA	6,736	6,492	9,667	9,500
		84,346	80,232	482,386	363,382
Current		23,141	22,357	162,637	105,094
Noncurrent		61,205	57,875	319,749	258,288

Accounts payable for acquisitions refer to the remaining balance payable from business combinations considerations. At September 30, 2019, the noncurrent maturity schedule is as follows:

Parent Company		Consolidated	
Year	Amount	Year	Amount
2020	17,482	2020	17,482
2021	8,738	2021	16,549
2022	25,786	2022	109,474
2023	9,000	2023	11,500
2024 to 2030	199	2024 to 2030	164,744
	61,205		319,749

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16. Provision for legal proceedings and judicial deposits

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

	Parent Company				Consolidated			
	09/30/2019		12/31/2018		09/30/2019		12/31/2018	
	Provision for legal proceedings	Judicial deposits	Provision for legal proceedings	Judicial deposits	Provision for legal proceedings	Judicial deposits	Provision for legal proceedings	Judicial deposits
Tax and social security	35,032	(103,533)	39,489	(88,067)	70,591	(138,331)	61,728	(117,222)
Labor	49,070	(20,778)	41,474	(11,878)	73,972	(25,744)	54,837	(15,105)
Civil	47,782	(4,667)	49,081	(13,223)	63,549	(7,008)	73,230	(15,483)
	131,884	(128,978)	130,044	(113,168)	208,112	(171,083)	189,795	(147,810)

16.1. Proceedings assessed as probable loss

Changes in provisions for legal proceedings in the nine-month periods ended September 30, 2019 and 2018 are as follows:

	Parent Company			
	Tax and social security	Labor	Civil	Total
Balances at December 31, 2017	24,198	53,219	50,772	128,189
Additions, net of reversals	5,267	(4,083)	(1,184)	-
Payments	(108)	(9,265)	(3,558)	(12,931)
Additions from mergers	7,344	2,865	-	10,209
Balances at September 30, 2018	36,701	42,736	46,030	125,467
Balances at December 31, 2018	39,489	41,474	49,081	130,044
Additions, net of reversals	(4,064)	12,557	9,507	18,000
Payments	(393)	(4,961)	(10,806)	(16,160)
Balances at September 30, 2019	35,032	49,070	47,782	131,884

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16. Provision for legal proceedings and judicial deposits (Continued)

16.1. Proceedings assessed as probable loss (Continued)

	Consolidated			
	Tax and social security	Labor	Civil	Total
Balances at December 31, 2017	24,198	53,219	50,772	128,189
Additions, net of reversals	5,267	(4,083)	(1,184)	-
Payments	(108)	(9,265)	(3,558)	(12,931)
Additions from business combinations	7,344	2,865	-	10,209
Balances at September 30, 2018	36,701	42,736	46,030	125,467
Balances at December 31, 2018	61,728	54,837	73,230	189,795
Additions, net of reversals	(744)	21,379	(2,488)	18,147
Payments	(721)	(5,661)	(12,835)	(19,217)
Additions from business combinations	10,328	3,417	5,642	19,387
Balances at September 30, 2019	70,591	73,972	63,549	208,112

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

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

Civil and administrative proceedings refer to compensation for alleged pain and suffering and property 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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16. Provision for legal proceedings and judicial deposits (Continued)

16.2. Proceedings assessed as possible loss

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

	Parent Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Tax and social security (a)	1,122,402	1,128,187	1,180,525	1,210,075
Labor (b)	150,795	168,369	194,133	224,981
Civil (c)	157,292	86,150	235,941	170,988
	1,430,489	1,382,706	1,610,599	1,606,044

- (a) The main issue refers to administrative proceedings in the total amount of R\$1.0 billion, of which R\$308 million refers to notices served in 2016 and 2017, and R\$741 million is related to notice served in early 2018. These challenges derive mostly from allegations of the Brazilian Internal Revenue Service (RFB) that certain doctors who render services in hospitals through legal entities would be effectively Company's employees. Therefore, the Brazilian tax authorities served notices to the Company 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 court. Outsourcing of core activities is governed by Law No. 13429 of March 31, 2017, as amended (Law No. 13429). Prior to enactment of Law No. 13429, labor liability was governed by Precedent No. 331 of the Superior Labor Court of Brazil, which defined that outsourcing of activities would only be acceptable when involving specialized services for the purpose of providing support to the entity that received the services, and outsourcing of core activities was considered unlawful, resulting in employment relationship between the service contractor and the outsourced employee.

Based on current legislation and the advice from its internal and external legal advisors, the Company adopts the practice of engaging 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), the amounts of which are not individually material.

- (b) Proceedings largely derived from alleged overtime, 13th month salary, resignation notice, vacation pay, and Unemployment Compensation Fund (FGTS). There are no individually material proceedings.
- (c) Proceedings related to compensation for property damage and pain and suffering. There are no individually material 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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17. Lease

At September 30, 2019, lease liabilities are as follows:

	<u>Parent Company</u> <u>09/30/2019</u>	<u>Consolidated</u> <u>09/30/2019</u>
Nominal value of future payments	5,076,480	8,330,000
Present value adjustment	<u>(3,326,984)</u>	<u>(5,868,049)</u>
	<u>1,749,496</u>	<u>2,461,951</u>
Current	337,887	460,264
Noncurrent	1,411,609	2,001,687

The liabilities were measured at the present value of the remaining lease payments discounted by the rate of 16.26%.

At September 30, 2019, the noncurrent maturity schedule is as follows:

<u>Parent Company</u>		<u>Consolidated</u>	
<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2020	17,255	2020	26,182
2021	76,167	2021	116,702
2022	83,783	2022	126,229
2023	86,708	2023	125,853
2024 to 2055	1,147,696	2024 to 2055	1,606,721
	<u>1,411,609</u>		<u>2,001,687</u>

18. Equity

a) Capital

Breakdown of capital is as follows:

<u>Shareholders</u>	<u>09/30/2019</u>		<u>12/31/2018</u>	
	<u>Number of shares</u>	<u>Equity interest</u>	<u>Number of shares</u>	<u>Equity interest</u>
Controlling family (a)	527,699,568	57.37%	527,699,568	57.37%
Pacific Mezz Investco S.A.R.L (b)	238,539,496	25.93%	238,539,496	25.93%
Carlyle Group (c)	109,251,886	11.88%	109,251,886	11.88%
Other	44,333,884	4.82%	44,333,884	4.82%
Total common shares	<u>919,824,834</u>	<u>100.00%</u>	<u>919,824,834</u>	<u>100.00%</u>

(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'.

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18. Equity (Continued)

a) Capital (Continued)

(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 September 30, 2019 and December 31, 2018 amounts to R\$867,776, represented by 919,824,834 registered common 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 split was reflected retrospectively, as required by CPC 41.

Under the Company's articles of incorporation, each common share entitles to a vote in the Company's general meetings.

Capital reserves were substantially the result of 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 an increase in capital and R\$452,336 as goodwill reserve in the subscription of shares; and (ii) on April 27, 2015, by HPT Participações S.A. (Carlyle Group investee), in the amount of R\$1,819,435, of which R\$181,943 was recorded as capital increase and R\$1,637,491 as a capital reserve in the subscription of shares.

b) Distribution of profit

Changes in the balances of dividends and interest on equity payable in the nine-month periods ended September 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Balance payable at December 31	8,940	275,496
Allocation of dividends and interest on equity	235,608	243,681
Payment of dividends and interest on equity	(12,098)	(294,914)
Withholding Income Tax (IRRF)	(21,978)	(23,727)
Balance payable at September 30	<u>210,472</u>	<u>200,536</u>

The distribution and payment of dividends and interest on equity were approved at the General Meeting.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

18. Equity (Continued)

c) Treasury shares

At September 30, 2019, the Company held 38,337,656 registered common shares with no par value of Rede D'Or, in the amount of R\$474,462, recorded as treasury shares in equity.

Changes in treasury shares are as follows:

	2019			2018		
	Number of shares (*)	Share value (in reais)	Total	Number of shares (*)	Share value (in reais)	Total
Balance at December 31	38,357,334	12.34	473,193	38,445,238	8.83	339,468
Acquisitions	92,870	21.82	2,026	5,921,226	23.49	139,100
Sales	(112,548)	6.73	(757)	(460,422)	4.45	(2,051)
Balance at September 30	38,337,656	12.38	474,462	43,906,042	10.85	476,517

(*) Opening balances were adjusted to include the aforementioned stock split.

On February 23, 2018, Rede D'Or repurchased the preferred shares of noncontrolling shareholders for R\$130,506, recorded as treasury shares. With this repurchase, third parties no longer hold any preferred shares.

Other share purchases and sales substantially refer to the share-based payment option plan and acquisition of noncontrolling interests.

d) Share-based payment (stock options)

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

First Stock Option Plan

At the 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.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

18. Equity (Continued)

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

First Stock Option Plan (Continued)

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 stock options, beneficiaries would have to complete three years with the Company (vesting period). Company managing officers 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 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 these 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.

Fourth Stock Option Plan

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

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

18. Equity (Continued)

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

Fourth Stock Option Plan (Continued)

The Company granted to beneficiaries of the second series of the Fourth Plan the option to purchase 2,406,994 registered common shares, with no par value, through an individual contract between each beneficiary and the Company. In order to be entitled to stock options, beneficiaries have to complete three years with the Company (vesting period). 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 term of 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, R\$4.50 per share, 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 registered common shares, with no par value, through an individual contract between each beneficiary and the Company.

In order to be entitled to stock options, beneficiaries have to complete three years with the Company (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 of 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 had already been granted, totaling 159,024 registered common shares, with no par value. The participants have a maximum term of 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, R\$6.34 per share, increased by the CDI variation, on a pro rata day basis, until the effective date of exercise of any Stock Option.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

18. 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 registered common 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 term of 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 registered common 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 registered common 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 term of 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.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

18. 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 registered common 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 the subsequent year. The participants have between 36 and 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 registered common 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 the subsequent year. The participants have between 36 and 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).

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

18. Equity (Continued)

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

The result of the calculation of the fair value of options restated at the interim financial information date is as follows:

Beginning of maturity	Number of shares (*)	Annual volatility	Risk-free rate	Fair value of options (in reais) (*)	Vesting status
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 – 1st 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	25,082	30.27%	11.66%	7.90	Vested
03/31/2019	25,082	30.27%	11.82%	7.91	Vested
Fourth Stock Option Plan – 2nd 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	Vested
06/02/2020	240,700	30.17%	11.41%	9.33	Not vested
06/02/2021	240,700	30.17%	11.40%	9.25	Not vested
Fifth Stock Option Plan – 1st 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 – 2nd 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 – 1st series					
03/31/2017	140,000	33.72%	12.06%	26.19	Vested
Seventh Stock Option Plan – 2nd series					
03/31/2017	920,000	33.72%	11.98%	26.19	Vested
Seventh Stock Option Plan – 3rd series					
03/31/2017	160,000	33.75%	11.87%	26.33	Vested
Seventh Stock Option Plan – 4th series					
01/01/2021	1,026,502	25.65%	10.73%	34.51	Not vested
01/01/2022	373,004	25.65%	10.73%	34.51	Not vested
01/01/2023	140,000	25.65%	10.73%	34.51	Not vested
Seventh Stock Option Plan – 5th series					
01/01/2018	469,004	25.95%	7.57%	35.20	Vested
01/01/2019	469,004	25.95%	7.57%	35.20	Vested
01/01/2020	469,004	25.95%	7.57%	35.20	Not vested
01/01/2021	469,004	25.95%	7.57%	35.20	Not vested
01/01/2022	469,004	25.95%	7.57%	35.20	Not vested
	<u>35,116,448</u>				

(*) The number of shares and amounts already include the stock split mentioned above.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

18. Equity (Continued)

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

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

	<u>Fair value of options per year</u>	<u>Effects on profit or loss for the period</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	30,492	30,492	252,276
2020	2,977		
2021	1,216		
2022	257		
2023	64		
	<u>256,790</u>		

The Company grants a put option to each beneficiary on total shares that are acquired. The periods for exercising the option 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).

Should the beneficiary withdraw from his/her position, options not yet exercisable expire, with no right to indemnification or 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.

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

19. Income and social contribution taxes

Income and social contribution tax expenses for the nine-month periods ended September 30, 2019 and 2018 are as follows:

	Parent Company		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Deferred				
Income tax (IRPJ)	(2,583)	(12,228)	19,757	11,733
Social contribution tax (CSLL)	(930)	(4,402)	7,086	4,204
	(3,513)	(16,630)	26,843	15,937
Current				
Income tax (IRPJ)	(162,567)	(165,859)	(307,164)	(263,292)
Social contribution tax (CSLL)	(60,761)	(62,414)	(114,944)	(99,162)
	(223,328)	(228,273)	(422,108)	(362,454)
Income and social contribution tax expenses	(226,841)	(244,903)	(395,265)	(346,517)

Changes in deferred income and social contribution tax assets and liabilities for nine-month period ended September 30, 2019 are as follows:

	Parent Company			Consolidated			
	12/31/2018	Additional benefits (expenses)	09/30/2019	12/31/2018	Additional benefits (expenses)	Additions from business combinations	09/30/2019
Assets							
Income tax losses	-	-	-	25,976	4,159	2,737	32,872
Social contribution tax losses	-	-	-	9,350	1,497	985	11,832
Allowance for doubtful accounts	117,562	-	117,562	154,350	-	-	154,350
Provision for disallowances	140,434	15,842	156,276	248,532	45,296	5,251	299,079
Provision for legal proceedings	51,400	626	52,026	79,637	(364)	2,061	81,334
Provision for bonus	21,333	(7,353)	13,980	22,937	(6,749)	-	16,188
Exchange differences	101,910	22,280	124,190	101,910	22,280	-	124,190
Deferred gain on property sale	25,908	(1,000)	24,908	25,908	(1,000)	-	24,908
Lease amortization (IFRS 16)	-	39,692	39,692	-	50,636	-	50,636
Present value effect (IFRS 16)	-	68,456	68,456	-	89,126	-	89,126
Other provisions	6,392	2,635	9,027	4,510	5,150	-	9,660
Total deferred tax assets	464,939	141,178	606,117	673,110	210,031	11,034	894,175
Liabilities							
Differences between book balance and tax base of goodwill	(554,310)	(46,716)	(601,026)	(608,568)	(63,846)	-	(672,414)
Gain from acquisition in steps	(48,873)	-	(48,873)	(69,499)	-	-	(69,499)
Swap variation	(52,180)	(14,627)	(66,807)	(52,180)	(14,627)	-	(66,807)
Lease (IFRS 16)	-	(83,348)	(83,348)	-	(107,435)	-	(107,435)
Deferred revenue	-	-	-	(10,469)	2,720	-	(7,749)
Total deferred tax liabilities	(655,363)	(144,691)	(800,054)	(740,716)	(183,188)	-	(923,904)
Net effect - asset (liability)	(190,424)	(3,513)	(193,937)	(67,606)	26,843	11,034	(29,729)
Assets as per balance sheets	-	-	-	195,597	-	-	277,207
Liabilities as per balance sheets	(190,424)	-	(193,937)	(263,203)	-	-	(306,936)

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)

September 30, 2019

(In thousands of reais, unless otherwise stated)

19. Income and social contribution taxes (Continued)

Changes in deferred income and social contribution tax assets and liabilities for nine-month period ended September 30, 2018 are as follows:

	Parent Company			Consolidated				
	12/31/2017	Additional benefits (expenses) recorded	Additions from mergers	09/30/2018	12/31/2017	Additional benefits (expenses) recorded	Additions from business combinations	09/30/2018
Assets								
Income tax losses	-	-	-	-	14,713	7,766	-	22,479
Social contribution tax losses	-	-	-	-	5,295	2,796	-	8,091
Allowance for doubtful accounts	116,545	-	1,015	117,560	154,567	-	-	154,567
Provision for disallowances	96,792	23,022	6,540	126,354	180,680	39,890	-	220,570
Provision for legal proceedings	48,173	(4,397)	6,067	49,843	75,737	(5,464)	6,088	76,361
Provision for bonus	19,171	(2,867)	110	16,414	20,651	(2,950)	-	17,701
Exchange differences	25,129	123,620	-	148,749	25,129	123,620	-	148,749
Deferred gain on property sale	27,241	(1,000)	-	26,241	27,241	(1,000)	-	26,241
Taxes - Judicial deposits	4,970	1,795	-	6,765	969	1,892	-	2,861
Swap variation	27,065	(27,065)	-	-	27,065	(27,065)	-	-
Other provisions	1,619	(2,909)	148	(1,142)	4,087	(2,499)	2,094	3,682
Total deferred tax assets	366,705	110,199	13,880	490,784	536,134	136,986	8,182	681,302
Liabilities								
Differences between book balance and tax base of goodwill	(496,081)	(42,657)	-	(538,738)	(550,339)	(42,657)	-	(592,996)
Swap variation	-	(84,172)	-	(84,172)	-	(84,172)	-	(84,172)
Gain from acquisition in steps	(48,873)	-	-	(48,873)	(69,499)	-	-	(69,499)
Deferred revenue	-	-	-	-	(21,349)	5,780	-	(15,569)
Total deferred tax liabilities	(544,954)	(126,829)	-	(671,783)	(641,187)	(121,049)	-	(762,236)
Net effect - asset (liability)	(178,249)	(16,630)	13,880	(180,999)	(105,053)	15,937	8,182	(80,934)
Assets as per balance sheets	-	-	-	-	113,043	-	-	177,856
Liabilities as per balance sheets	(178,249)	-	-	(180,999)	(218,096)	-	-	(258,790)

The reconciliation of income and social contribution taxes and the amount determined at the statutory rate at September 30, 2019 and 2018 is as follows:

	Parent Company		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Income before income and social contribution taxes	1,116,063	1,133,672	1,303,608	1,241,146
Income and social contribution taxes expenses at statutory rates	379,461	385,448	443,227	421,990
Adjustments to determine the effective rate:				
Equity pickup	(87,378)	(72,479)	(4,635)	(6,001)
Stock option expenses	10,367	10,369	10,367	10,369
Interest on equity	(70,834)	(72,968)	(70,834)	(72,968)
Other	(4,775)	(5,467)	17,140	(6,873)
Expenses recorded in the statement of profit or loss	226,841	244,903	395,265	346,517
Effective rate	20%	22%	30%	28%

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

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)

September 30, 2019

(In thousands of reais, unless otherwise stated)

19. Income and social contribution taxes (Continued)

The Company expects that deferred tax assets calculated on income and social contribution tax losses will be realized within 2 years. Management expects that other temporary differences will be realized between 1 and 5 years, except for deferred gain on property sales, the realization of which will take place over the lease term.

20. Net revenue

	Parent Company		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Gross revenue	6,897,963	6,220,905	11,138,725	9,066,808
Deductions from revenue				
Cancellations and rebates	(333,685)	(299,453)	(621,371)	(500,251)
Taxes on revenues	(363,129)	(356,375)	(625,823)	(540,185)
Net revenue from hospital services	6,201,149	5,565,077	9,891,531	8,026,372

The Company has no revenues from customers outside Brazil.

21. Costs of services rendered

	Parent Company		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Personnel	(1,873,286)	(1,545,003)	(3,082,926)	(2,296,151)
Materials and medication	(1,165,239)	(1,033,232)	(2,063,580)	(1,614,735)
Third-party services	(785,185)	(791,854)	(1,461,495)	(1,354,546)
Utilities and services	(110,513)	(96,995)	(174,301)	(140,203)
Rentals	(370)	(232,224)	(13,102)	(277,643)
Depreciation and amortization	(313,810)	(180,952)	(457,658)	(250,677)
	(4,248,403)	(3,880,260)	(7,253,062)	(5,933,955)

22. General and administrative expenses

	Parent Company		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Personnel	(228,040)	(214,755)	(228,040)	(214,755)
Third-party services	(44,156)	(41,208)	(44,156)	(41,208)
Travel and lodging	(19,815)	(13,990)	(29,158)	(19,205)
Depreciation and amortization	(47,285)	(28,275)	(47,285)	(28,275)
Provision for legal proceedings	(18,000)	-	(18,147)	2,095
	(357,296)	(298,228)	(366,786)	(301,348)

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23. Selling expenses

	Parent Company		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Marketing	(9,626)	(10,984)	(15,183)	(14,865)
	(9,626)	(10,984)	(15,183)	(14,865)

24. Other operating expenses, net

	Parent Company		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Taxes, charges and fines	(33,287)	(27,743)	(50,299)	(39,486)
Gain from property sales	2,940	2,940	2,940	2,940
Lease of machinery and equipment	(7,871)	(11,082)	(13,594)	(15,943)
Freight expenses	(13,337)	(13,878)	(20,605)	(16,149)
Notary and court fees	(7,520)	(10,955)	(10,948)	(12,826)
Advisory expenses	(746)	(13,930)	(12,550)	(13,930)
Other expenses and revenues	(22,740)	8,883	(34,034)	9,217
	(82,561)	(65,765)	(139,090)	(86,177)

25. Financial income (expenses), net

	Parent Company		Consolidated	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Short-term investment yield	126,942	109,887	170,802	186,178
Exchange differences, net	(80,568)	(375,840)	(222,726)	(895,098)
Fair value of debt	(257,334)	173,106	(192,190)	173,106
Fair value of derivatives (swaps)	362,086	179,859	369,630	567,205
Interest and monetary variation on financing and debentures	(537,059)	(426,969)	(595,182)	(420,527)
Taxes on financial income (costs)	(9,563)	(9,417)	(13,527)	(14,291)
Interest on lease liability	(201,341)	-	(280,004)	-
Other	(47,357)	(39,968)	(64,238)	(63,105)
	(644,194)	(389,342)	(827,435)	(466,532)
Total financial income	470,362	374,528	914,260	979,661
Total financial expenses	(1,114,556)	(763,870)	(1,741,695)	(1,446,193)
	(644,194)	(389,342)	(827,435)	(466,532)

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26. Earnings per share

a) Basic earnings per share

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

	<u>09/30/2019</u>	<u>09/30/2018</u>
Income attributable to the Company's controlling shareholders	889,222	888,769
Weighted average number of common shares issued (in thousands)*	881,487	885,600
Basic earnings per share (R\$)	<u>1.0088</u>	<u>1.0036</u>

(*) On April 1, 2019, the Company carried out the split of common shares, in the proportion of two shares per existing share. The retrospective adjustment was reflected for the nine-month period ended September 30, 2018, in accordance with CPC 41.

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.

	<u>09/30/2019</u>	<u>09/30/2018</u>
Income attributable to the Company's controlling shareholders	889,222	888,769
Weighted average number of common shares issued, including dilutive factors (in thousands)*	884,915	888,660
Diluted earnings per share (R\$)	<u>1.0049</u>	<u>1.0001</u>

(*) On April 1, 2019, the Company carried out the split of common shares, in the proportion of two shares per existing share. The retrospective adjustment was reflected for the nine-month period ended September 30, 2018, in accordance with CPC 41.

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27. Financial instruments and financial risk management

27.1. 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.

The tables below present breakdown of financial assets and liabilities at September 30, 2019 and December 31, 2018:

Parent Company					
Financial assets	Classification by category	Fair value hierarchy	Book balance		
			09/30/2019	12/31/2018	
Cash and cash equivalents	Fair value through P&L	Level 2	18,425	47,782	
Marketable securities	Fair value through P&L	Level 2	2,623,674	2,768,894	
Trade accounts receivable	Amortized cost		2,469,905	2,139,001	
Dividends receivable	Amortized cost		72,993	53,195	
Judicial deposits	Amortized cost		128,978	113,168	
Derivatives	Fair value through P&L	Level 2	566,029	267,633	
			5,880,004	5,389,673	
Financial liabilities	Classification by category	Fair value hierarchy	Book balance		
			09/30/2019	12/31/2018	
Trade accounts payable	Amortized cost		224,104	248,051	
Loans, financing and debentures	Amortized cost (a)	Level 2	10,836,607	9,631,831	
Salaries, provisions and social charges	Amortized cost		418,527	310,234	
Accounts payable for acquisitions	Amortized cost		84,346	80,232	
Derivatives	Fair value through P&L	Level 2	6,379	8,339	
			11,569,963	10,278,687	

(a) The portion of the debt recorded as hedge accounting is measured at fair value through P&L, totaling R\$1,237,658 at September 30, 2019 (R\$1,320,502 at December 31, 2018).

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

27. Financial instruments and financial risk management (Continued)

27.1. Financial instruments by category (Continued)

Consolidated				
Financial assets	Classification by category	Fair value hierarchy	Book balance	
			09/30/2019	12/31/2018
Cash and cash equivalents	Fair value through P&L	Level 2	31,486	192,008
Marketable securities	Fair value through P&L	Level 2	3,505,750	3,864,700
Trade accounts receivable	Amortized cost		4,057,852	3,259,349
Judicial deposits	Amortized cost		171,083	147,810
Derivatives	Fair value through P&L	Level 2	955,155	560,959
			8,721,326	8,024,826
Consolidated				
Financial liabilities	Classification by category	Fair value hierarchy	Book balance	
			09/30/2019	12/31/2018
Trade accounts payable	Amortized cost		537,185	528,975
Loans, financing and debentures	Amortized cost (a)	Level 2	13,154,686	11,846,585
Salaries, provisions and social charges	Amortized cost		636,510	436,641
Accounts payable for acquisitions	Amortized cost		482,386	363,382
Derivatives	Fair value through P&L	Level 2	88,444	98,387
			14,899,211	13,273,970

(a) The debt portion recorded as hedge accounting is measured at fair value through P&L, totaling R\$3,524,022 at September 30, 2019 (R\$3,294,278 at December 31, 2018).

27.2. 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 are 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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Notes to interim financial information (Continued)
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27. Financial instruments and financial risk management (Continued)

27.2. Risk management (Continued)

a) Capital management (Continued)

The Company uses own and third-party capital to finance its activities, and the purpose of the latter is to optimize its capital structure. The Company monitors its capital structure and makes adjustments according to changes in economic conditions. At September 30, 2019 and December 31, 2018, the Company's capital structure is as follows:

	Parent Company		Consolidated	
	09/30/2019	12/31/2018	09/30/2019	12/31/2018
Cash and cash equivalents	18,425	47,782	31,486	192,008
Marketable securities	2,623,674	2,768,894	3,505,750	3,864,700
	2,642,099	2,816,676	3,537,236	4,056,708
Loans, financing and debentures	(10,836,607)	(9,631,831)	(13,154,686)	(11,846,585)
Net debt	(8,194,508)	(6,815,155)	(9,617,450)	(7,789,877)
Total equity	5,005,860	4,335,959	5,225,827	4,479,972
Total net debt and equity	(3,188,648)	(2,479,196)	(4,391,623)	(3,309,905)
Financial leverage ratio	1.64	1.57	1.84	1.74

b) Interest rate risk

The Company has loans, financing and debentures in local currency subject particularly to the fluctuation of the CDI, IPCA and Long-term Interest Rate (TJLP). The risk inherent in these liabilities arises from the possibility of fluctuation in these rates, impacting the Company's cash flows.

The sensitivity analysis of interest on loans, financing and debentures considered as the probable scenario (Scenario I) the reference rates obtained with B3 at September 30, 2019, and Scenarios II and III take into consideration an increase to this rate by 25% and 50%, respectively. The results, in nominal values, are as follows:

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Notes to interim financial information (Continued)
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27. Financial instruments and financial risk management (Continued)

27.2. Risk management (Continued)

b) Interest rate risk (Continued)

Scenarios	Scenario I current	Scenario II +25%	Scenario III +50%
CDI rate (p.a.)	5.40%	6.75%	8.10%
IPCA rate (p.a.)	2.89%	3.61%	4.34%
Projected interest expenses (*)	3,237	4,046	4,856

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

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 accounts receivable) 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 through to maturity.

	Parent Company – 09/30/2019					Total financial liabilities
	Up to 6 months	From 6 months to 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years	
Trade accounts payable	224,104	-	-	-	-	224,104
Loans, financing and debentures	416,640	213,714	183,317	6,107,455	5,860,136	12,781,262
Salaries, accruals and social charges	418,527	-	-	-	-	418,527
Accounts payable for acquisitions	23,035	110	27,905	40,228	245	91,523
Derivatives	3,271	3,108	-	-	-	6,379
	1,085,577	216,932	211,222	6,147,683	5,860,381	13,521,795

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Notes to interim financial information (Continued)
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27. Financial instruments and financial risk management (Continued)

27.2. Risk management (Continued)

d) Liquidity risk (Continued)

Consolidated – 09/30/2019						
	Up to 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	537,185	-	-	-	-	537,185
Loans, financing and debentures	426,648	215,140	448,698	7,682,031	6,716,457	15,488,974
Salaries, accruals and social charges	636,510	-	-	-	-	636,510
Accounts payable for acquisitions	123,646	40,645	36,218	168,347	172,482	541,338
Derivatives	40,380	48,064	-	-	-	88,444
	1,764,369	303,849	484,916	7,850,378	6,888,939	17,292,451

Parent Company – 12/31/2018						
	Up to 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	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, accruals 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 – 12/31/2018						
	Up to 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	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, accruals and social charges	436,641	-	-	-	-	436,641
Accounts payable for acquisitions	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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Notes to interim financial information (Continued)
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27. Financial instruments and financial risk management (Continued)

27.2. Risk management (Continued)

e) Foreign currency

The Company has loans, financing, and trade accounts payable in foreign currency (mainly the US dollar). The risk related to these assets and liabilities arises from the possibility of incurring losses due to fluctuations in exchange rates. Liabilities in foreign currency represent 22.5% of total consolidated indebtedness (corresponding to the sum of the balances of loans, financing, debentures, and derivative financial instruments, net - current and noncurrent) at September 30, 2019 (25.4% at December 31, 2018). The Company has derivative financial instruments to hedge against exchange rate fluctuation (see topic below). Management understands that the risk of exposure to foreign currency is not significant in relation to its financial position.

f) Derivatives

At September 30, 2019, the Company has swaps recorded based on fair value hedge accounting contracted to protect the Company's financing in foreign currency. The swaps exchange the flow of interest and principal in foreign currency for CDI+ spread or a percentage of CDI in Brazilian reais. In addition, the Company also has other swaps that were contracted to cover exposure to indebtedness and variable interest, which, however, were not designated for the hedge accounting strategy. The fair value of these instruments is as follows:

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Notes to interim financial information (Continued)
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27. Financial instruments and financial risk management (Continued)

27.2. Risk management (Continued)

f) Derivatives (Continued)

Description	Maturity ranges month/year	Reference value (notional)	09/30/2019		
			Parent Company	Consolidated	
			Reference value - fair value		
Swap (currency)	04/20/2020				
Long position	USD/BRL + 3.35%	US\$	51,311		
Short position	115% of CDI	R\$	213,763	31,539	31,539
Swap (currency)	11/21/2023				
Long position	USD/Libor + 0.46%	US\$	80,232		
Short position	109% of CDI	R\$	334,119	29,370	29,370
Swap (currency)	04/15/2025				
Long position	USD/BRL + 3.30%	US\$	47,432		
Short position	CDI + 2.084%	R\$	197,524	52,554	52,554
Swap (currency)	04/15/2024				
Long position	USD/BRL + 3.00%	US\$	74,639		
Short position	CDI + 1.68%	R\$	310,826	80,555	80,555
Swap (currency)	04/15/2026				
Long position	USD/BRL + 5.50%	US\$	31,138		
Short position	CDI + 0.25%	R\$	129,673	9,043	9,043
Swap (currency)	01/81/2028				
Long position	USD/fixed rate + (4.95%)	US\$	505,019		
Short position	BRL fixed rate (11.82%)	R\$	2,103,100	-	307,061
Swap (currency)	01/18/2028				
Long position	BRL fixed rate (11.82%)	R\$	1,634,663		
Short position	CDI + 2.01%	R\$	1,634,663	356,589	356,589
Current assets position				130,190	130,190
Noncurrent assets position				435,839	824,965
Current liabilities position				(6,379)	(88,444)
Effect on P&L for the period (fair value of derivatives - swaps)				362,086	369,630

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Notes to interim financial information (Continued)
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27. Financial instruments and financial risk management (Continued)

27.2. Risk management (Continued)

f) Derivatives (Continued)

Description	Maturity ranges month/year	Reference value (notional value)	12/31/2018	
			Parent Company	Consolidated
			Reference value - Fair value	
Swap (currency)	04/20/2020			
Long position	USD/BRL + 3.35%	US\$ 85,582		
Short position	115% of CDI	R\$ 331,612	27,491	27,491
Swap (currency)	04/20/2025			
Long position	USD/BRL + 3.30%	US\$ 51,369		
Short position	CDI + 2.084%	R\$ 199,045	39,932	39,932
Swap (currency)	04/20/2024			
Long position	USD/BRL + 3.00%	US\$ 82,077		
Short position	CDI + 1.68%	R\$ 318,032	62,434	62,434
Swap (currency)	04/20/2026			
Long position	USD/BRL + 5.50%	US\$ 31,134		
Short position	CDI + 0.25%	R\$ 120,638	8,512	8,512
Swap (currency)	11/21/2023			
Long position	USD/Libor + 0.46%	US\$ 80,311		
Short position	109% of CDI	R\$ 311,188	7,121	7,121
Swap (currency)	01/81/2028			
Long position	USD/fixed rate + (4.95%)	US\$ 505,044		
Short position	BRL fixed rate (11.82%)	R\$ 1,956,944	-	203,278
Swap (currency)	01/18/2028			
Long position	BRL fixed rate (11.82%)	R\$ 1,633,615		
Short position	CDI + 2.01%	R\$ 1,633,615	113,804	113,804
Current assets position			82,357	82,357
Noncurrent assets position			185,276	478,602
Current liabilities position			(8,339)	(98,387)
Effect on profit or loss for the year (fair value of derivatives - swaps)			313,880	517,158

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Notes to interim financial information (Continued)
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27. Financial instruments and financial risk management (Continued)

27.2. Risk management (Continued)

f) Derivatives (Continued)

Given the changes in market rates, these amounts may change up to early settlement or maturity of the 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 B3 for instrument maturity, calculated 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.

	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario V
Debt - International Finance Corporation (IFC)					
Exchange difference	5%	(25%)	(50%)	25%	50%
Depreciation of US\$ (rate in R\$)	-	3.2795	2.1863	-	-
Appreciation of US\$ (rate in R\$)	4.3726	-	-	5.4658	6.5589
Effect on liabilities in US\$	6,838	(34,191)	(68,381)	34,191	68,381
Effect on derivatives - Swap	452	(2,261)	(4,521)	2,261	4,521
Net effect	7,290	(36,451)	(72,903)	36,451	72,903
Debt 4131 - JP Morgan and Citibank					
Exchange difference	5%	(25%)	(50%)	25%	50%
Depreciation of US\$ (rate in R\$)	-	3.2795	2.1863	-	-
Appreciation of US\$ (rate in R\$)	4.3726	-	-	5.4658	6.5589
Effect on liabilities in US\$	27,327	(136,634)	(273,269)	136,634	273,269
Effect on derivatives - Swap	(27,327)	136,634	273,269	(136,634)	(273,269)
Net effect	-	-	-	-	-
Debt - Senior Notes					
Exchange difference	5%	(25%)	(50%)	25%	50%
Depreciation of US\$ (rate in R\$)	-	3.2795	2.1863	-	-
Appreciation of US\$ (rate in R\$)	4.3726	-	-	5.4658	6.5589
Effect on liabilities in US\$	114,318	(571,591)	(1,143,182)	571,591	1,143,182
Effect on derivatives - Swap	(114,318)	571,591	1,143,182	(571,591)	(1,143,182)
Net effect	-	-	-	-	-

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Notes to interim financial information (Continued)
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27. Financial instruments and financial risk management (Continued)

27.3. Changes in liabilities from financing activities

	Parent Company									
	12/31/2018	Loans, financing and debentures taken out	Interest, monetary variation and exchange differences, net	Repayment/ receipt of debentures, loans and financing	Payment of interest	Fair value of debt	Allocation of dividends and interest on equity	Payment of dividends and interest on equity	Other	09/30/2019
Loans, financing and debentures	9,631,831	2,638,542	639,015	(1,706,884)	(610,301)	257,334	-	-	(12,930)	10,836,607
Accounts payable for acquisitions	80,232	750	3,634	(119)	(151)	-	-	-	-	84,346
Derivatives	8,339	-	59,770	(61,730)	-	-	-	-	-	6,379
Dividends and interest on equity payable	1,101	-	-	-	-	-	208,335	-	(18,642)	190,794
	<u>9,721,503</u>	<u>2,639,292</u>	<u>702,419</u>	<u>(1,768,733)</u>	<u>(610,452)</u>	<u>257,334</u>	<u>208,335</u>	<u>-</u>	<u>(31,572)</u>	<u>11,118,126</u>
Current	653,185									841,975
Noncurrent	9,068,318									10,276,151

	Parent Company									
	12/31/2017	Loans, financing and debentures taken out	Interest, monetary variation and exchange differences, net	Repayment/ receipt of debentures, loans and financing	Payment of interest	Fair value of debt	Allocation of dividends and interest on equity	Payment of dividends and interest on equity	Other	09/30/2018
Loans, financing and debentures	5,503,556	5,052,537	731,844	(1,592,052)	(291,631)	(173,106)	-	-	(20,490)	9,210,658
Accounts payable for acquisitions	91,796	-	4,962	(14,071)	(3,605)	-	-	-	-	79,082
Derivatives	113,342	-	72,457	25,400	-	-	-	-	-	211,199
Dividends and interest on equity payable	268,282	-	-	-	-	-	243,681	(294,914)	(23,727)	193,322
	<u>5,976,976</u>	<u>5,052,537</u>	<u>809,263</u>	<u>(1,580,723)</u>	<u>(295,236)</u>	<u>(173,106)</u>	<u>243,681</u>	<u>(294,914)</u>	<u>(44,217)</u>	<u>9,694,261</u>
Current	831,059									889,851
Noncurrent	5,145,917									8,804,410

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Notes to interim financial information (Continued)
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27. Financial instruments and financial risk management (Continued)

27.3. Changes in liabilities from financing activities

Consolidated										
	12/31/2018	Loans, financing and debentures taken out	Interest, monetary variation and exchange differences, net	Repayment of loans, financing and debentures	Payment of interest	Fair value of debt	Allocation of dividends and interest on equity	Payment of dividends and interest on equity	Other	09/30/2019
Loans, financing and debentures	11,846,585	2,674,450	826,119	(1,746,671)	(628,591)	192,190	-	-	(8,718)	13,155,364
Accounts payable for acquisitions	363,382	117,115	16,811	(15,405)	(195)	-	-	-	-	481,708
Derivatives	98,387	-	24,565	(34,508)	-	-	-	-	-	88,444
Dividends and interest on equity payable	8,940	-	-	-	-	-	235,608	(12,098)	(21,978)	210,472
	12,317,294	2,791,565	867,495	(1,796,584)	(628,786)	192,190	235,608	(12,098)	(30,696)	13,935,988
Current	820,125									1,094,590
Noncurrent	11,497,169									12,841,398

Consolidated										
	12/31/2017	Loans, financing and debentures taken out	Interest, monetary variation and exchange differences, net	Repayment of loans, financing and debentures	Payment of interest	Fair value of debt	Allocation of dividends and interest on equity	Payment of dividends and interest on equity	Other	30/06/2018
Loans, financing and debentures	7,724,551	5,053,387	1,246,379	(1,771,022)	(408,000)	(173,106)	-	-	4,064	11,676,253
Accounts payable for acquisitions	138,504	250,000	13,046	(27,000)	(5,373)	-	-	-	-	369,177
Derivatives	113,342	-	155,307	25,400	-	-	-	-	-	294,049
Dividends and interest on equity payable	275,496	-	-	-	-	-	243,681	(294,914)	(23,727)	200,536
	8,251,893	5,303,387	1,414,732	(1,772,622)	(413,373)	(173,106)	243,681	(294,914)	(19,663)	12,540,015
Current	958,294									1,049,523
Noncurrent	7,293,599									11,490,492

Rede D'Or São Luiz S.A.

Notes to interim financial information (Continued)
September 30, 2019
(In thousands of reais, unless otherwise stated)

28. Insurance coverage

At September 30, 2019, the Company maintains insurance coverage at amounts deemed sufficient by management to cover risks, if any, on its assets and/or liabilities.

<u>Insurance line</u>	<u>Amount insured</u>
Property risk	3,628,162
Civil liability (D&O)	200,000
General civil liability	1,500
Engineering risks	1,402,804

29. Subsequent events

On October 21, 2019, the Brazilian Securities and Exchange Commission (CVM) granted the Company's registration as securities issuer, according to the CVM ruling No. 480/09, under category "B", with authorization to trade the Company's securities in regulated markets, except shares and share deposit certificates, or securities that give the holder the right to acquire shares and share deposit certificates, pursuant to paragraph 2, article 2 of CVM Ruling No. 480 of December 7, 2009.