

Financial Statements

Rede D'Or São Luiz S.A.

December 31, 2019, 2018 and 2017
with Independent Auditor's Report

Rede D'Or São Luiz S.A.

Financial statements

December 31, 2019, 2018 and 2017

Contents

Independent auditor's report on financial statements	1
Audited financial statements	
Balance sheets	9
Income statements.....	11
Statements of comprehensive income	12
Statements of changes in equity	13
Statements of cash flows	14
Statements of value added	15
Notes to financial statements	16

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

Independent auditor's report on individual and consolidated financial statements

The Shareholders, Board of Directors and Officers

Rede D'Or São Luiz S.A.

Rio de Janeiro - RJ

Opinion

We have audited the individual and consolidated financial statements of Rede D'Or São Luiz S.A. ("Company"), identified as Parent Company and Consolidated, respectively, which comprise the balance sheets as at December 31, 2019 and the related statements of income, of comprehensive income, of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Rede D'Or São Luiz S.A. as at December 31, 2019, its individual and consolidated financial performance and its related individual and consolidated cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

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



Emphasis of a matter

On March 12, 2020, we issued an unmodified audit report on the individual and consolidated financial statements of Rede D'Or São Luiz S.A. for the year ended December 31, 2019, which are currently being restated. As described in Note 2, these financial statements have been changed and are being restated as required by the Brazilian Securities and Exchange Commission (CVM), through Official Letter No. 226/2020-CVM/SRE-SEP, to enhance certain disclosures in the Management Report and, consequently, implying the disclosure of subsequent events to date, including the effects of stock split, made on September 24, 2020. Our opinion is not modified in respect of this matter.

Key audit matters

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

We have fulfilled the responsibilities described in the section of our report referenced as “Auditor’s Responsibilities for the audit of the individual and consolidated financial statements” including those relating to these key audit matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement in the financial statements. The results of our procedures, including those performed to address the matters below, provide a basis for our audit opinion on the Company’s financial statements.

1. Revenue recognition

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

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

Key audit matters (Continued)

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

How our audit addressed this matter

Our audit procedures included, among others (i) the understanding and evaluation of the internal control environment specifically related to the processes of revenue recognition; (ii) confirmation procedures, for a sample of the balance of trade accounts receivable by sending confirmation letters; (iii) evaluation of revenue recognition according to the progress of the service provided, through documental tests for a selected sample; (iv) monthly analysis of revenues using aggregated and disaggregated data to identify differences to our expectations based on our knowledge of the Company and the industry in which it operates; (v) analysis of assumptions used to determine the percentages of loss from disallowances; (vi) recalculation of provisions for disallowances, based on the position of trade accounts receivable at December 31, 2019 and percentage obtained of losses from disallowances; and (vii) evaluation of the adequacy of disclosures made by the Company on this matter in the financial statements. As a result of these procedures, we identified an audit adjustment indicating the need to increase the provision for disallowances, which was not performed by the Company due to its immateriality to the individual and consolidated financial statements taken as a whole.

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

2. Business combinations

In 2019, the Company carried out several business combinations, having determined total goodwill amounting to R\$404,191 thousand, as disclosed in Notes 3 and 10. The fair value measurement process and the allocation of assets acquired and liabilities assumed in a business combination are complex and involve a high degree of subjectivity.

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

Key audit matters (Continued)

How our audit conducted this matter

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

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

3. Impairment of nonfinancial assets

As mentioned in Notes 9 and 10, as at December 31, 2019, the Company has significant nonfinancial assets, mainly represented by property and equipment and intangible assets, including goodwill generated in business combinations. These assets are annually tested for the purpose of evaluating events or changes in economic and operating circumstances that may indicate deterioration or impairment. Indefinite-lived intangible assets, including goodwill, must be annually tested for impairment, regardless of indications of deterioration. The impairment test of these assets, including the definition of Cash-Generating Units (CGUs), has a high degree of subjectivity, and is based on various assumptions and their realization is impacted by market projections and uncertain economic scenarios.

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

How our audit addressed this matter

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



Key audit matters (Continued)

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

4. Contingent liabilities

As mentioned in Note 16, the Company is party to tax, social security, civil and labor lawsuits arising from the ordinary course of its activities. The most significant legal proceeding refers to the engagement of physicians that provides services to hospitals through legal entities. After an inspection, the Brazilian Internal Revenue Service (RFB) considered that certain physicians are effectively employees of the Company and, therefore, challenges the non-payment of Social Security Tax (INSS). The measurement and accounting recognition of a provision, when applicable, and the respective disclosures require a high judgment by the Company's professionals and its legal advisors.

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

How our audit addressed this matter

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

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



Other matters

Statements of value added

The individual and consolidated statements of value added (SVA) for year ended December 31, 2019, prepared under the responsibility of Company management, and presented as supplementary information for purposes of IFRS, were submitted to audit procedures conducted together with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by NBC TG 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned accounting pronouncement, and are consistent in relation to the overall individual and consolidated financial statements.

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

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

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

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

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

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

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

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



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

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

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

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



- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the individual and consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

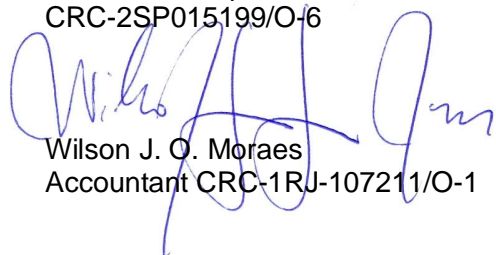
We communicate with those charged with governance regarding, among other matters, the scope and timing of the planned audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

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

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

Rio de Janeiro, November 16, 2020.

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

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

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

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

Rede D'Or São Luiz S.A.

Balance sheets
December 31, 2019, 2018 and 2017
(In thousands of reais)

	Note	Parent Company			Consolidated		
		2019	2018	2017	2019	2018	2017
Assets							
Current assets							
Cash and cash equivalents	4	33,580	47,782	32,559	68,684	192,008	140,383
Marketable securities	4	3,782,360	2,768,894	1,006,117	4,701,418	3,864,700	3,120,454
Trade accounts receivable	5	2,503,118	2,139,001	1,886,908	4,117,916	3,259,349	2,836,744
Inventories	6	182,844	169,688	151,838	335,481	284,429	229,235
Recoverable taxes		49,488	60,313	60,886	90,783	116,793	116,095
Derivative financial instruments	27	116,530	82,357	9,350	116,530	82,357	9,350
Related parties	7	2,423	9,206	7,066	-	-	-
Dividends receivable		69,657	53,195	41,195	275	-	-
Receivables from sale of property		40,198	17,500	-	40,198	17,500	-
Other		151,039	152,350	109,889	257,937	237,623	161,438
Total current assets		6,931,237	5,500,286	3,305,808	9,729,222	8,054,759	6,613,699
Noncurrent assets							
Related parties	7	798,347	405,782	535,143	38,876	23,466	23,483
Deposit for acquisition of building		-	-	-	96,588	92,373	89,823
Judicial deposits	16	137,189	113,168	92,807	185,618	147,810	119,472
Deferred income tax and social contribution	19	-	-	-	318,655	195,597	113,043
Derivative financial instruments	27	442,121	185,276	90,618	694,512	478,602	90,618
Investments in subsidiaries, affiliates and jointly-controlled entities	8	6,266,080	3,808,176	2,702,604	1,226,878	144,529	89,971
Property and equipment	9	3,011,742	2,827,842	2,709,178	6,439,385	4,994,831	3,955,640
Intangible assets	10	2,631,182	2,523,451	2,225,688	5,365,466	4,812,604	3,557,352
Right of use - lease	11	1,653,342	-	-	2,370,117	-	-
Other		53,629	50,849	30,560	134,348	84,333	59,477
Total noncurrent assets		14,993,632	9,914,544	8,386,598	16,870,443	10,974,145	8,098,879
Total assets		21,924,869	15,414,830	11,692,406	26,599,665	19,028,904	14,712,578

	Nota	Parent Company			Consolidated		
		2019	2018	2017	2019	2018	2017
Liabilities and equity							
Current liabilities							
Trade accounts payable		216,267	248,051	278,647	498,066	528,975	475,546
Derivative financial instruments	27	5,591	8,339	68,512	92,905	98,387	68,512
Loans, financing and debentures	13	602,556	621,388	475,361	584,960	607,704	588,037
Salaries, provisions and social charges		343,994	310,234	281,994	510,293	436,641	370,030
Tax liabilities	14	114,647	154,870	119,563	313,799	343,611	272,259
Accounts payable for acquisitions	15	20,411	22,357	18,904	163,063	105,094	26,249
Dividends and interest on equity payable	18	264,527	1,101	268,282	287,394	8,940	275,496
Deferred gain on property sales	12	3,920	3,920	3,920	3,920	3,920	3,920
Lease agreements	17	108,724	-	-	171,074	-	-
Other		26,169	26,020	37,818	67,367	47,967	54,858
Total current liabilities		1,706,806	1,396,280	1,553,001	2,692,841	2,181,239	2,134,907
Noncurrent liabilities							
Derivative financial instruments	27	-	-	44,830	-	-	44,830
Loans, financing and debentures	13	12,633,669	9,010,443	5,028,195	14,821,417	11,238,881	7,136,514
Related parties	7	21,098	57,201	54,881	415	60	60
Tax liabilities	14	75,193	91,108	132,778	228,685	233,326	282,481
Accounts payable for acquisitions	15	44,227	57,875	72,892	299,993	258,288	112,255
Deferred income tax and social contribution	19	166,730	190,424	178,249	301,548	263,203	218,096
Provision for contingencies	16	139,749	130,044	128,189	227,509	189,795	177,979
Provision for losses on investments	8	105,334	36,064	77,803	-	-	-
Deferred gain on property sales	12	68,370	72,280	76,200	68,370	72,280	76,200
Lease agreements	17	1,652,691	-	-	2,356,098	-	-
Other		100,872	37,592	29,546	160,789	64,105	48,112
Total noncurrent liabilities		15,007,933	9,683,031	5,823,563	18,464,824	12,319,938	8,096,527
Equity							
Capital stock	18	867,776	867,776	867,776	867,776	867,776	867,776
Capital reserves		2,345,109	2,343,782	2,333,532	2,345,109	2,343,782	2,333,532
Treasury shares		(474,462)	(473,193)	(339,468)	(474,462)	(473,193)	(339,468)
Income reserves		2,467,483	1,592,930	1,449,778	2,467,483	1,592,930	1,449,778
Advance for future capital increase		4,224	4,224	4,224	4,224	4,224	4,224
Total equity attributable to Company shareholders		5,210,130	4,335,519	4,315,842	5,210,130	4,335,519	4,315,842
Noncontrolling interests		-	-	-	231,870	192,208	165,302
Total equity		5,210,130	4,335,519	4,315,842	5,442,000	4,527,727	4,481,144
Total liabilities and equity		21,924,869	15,414,830	11,692,406	26,599,665	19,028,904	14,712,578

See accompanying notes.

Rede D'Or São Luiz S.A.

Income statements

Years ended December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

	Note	Parent Company			Consolidated		
		2019	2018	2017	2019	2018	2017
Net revenues	20	8,315,398	7,481,861	6,500,130	13,319,835	10,914,892	9,417,407
Costs of services provided	21	(5,733,558)	(5,237,827)	(4,504,518)	(9,838,962)	(8,109,528)	(6,880,952)
Gross profit		2,581,840	2,244,034	1,995,612	3,480,873	2,805,364	2,536,455
General and administrative expenses	22	(461,595)	(406,944)	(317,688)	(474,102)	(412,022)	(323,652)
Selling expenses	23	(14,663)	(17,542)	(53,248)	(24,033)	(24,216)	(58,171)
Equity pickup	8	321,628	262,921	266,611	4,427	23,572	18,838
Other operating income (expenses), net	24	(125,950)	(74,769)	(89,098)	(211,313)	(115,716)	(165,730)
Income before financial income (expenses) and income tax and social contribution		2,301,260	2,007,700	1,802,189	2,775,852	2,276,982	2,007,740
Financial income	25	773,502	635,067	105,576	1,567,286	943,503	181,070
Financial expenses	25	(1,609,546)	(1,151,679)	(681,472)	(2,644,182)	(1,575,101)	(763,876)
Income before income taxes		1,465,216	1,491,088	1,226,293	1,698,956	1,645,384	1,424,934
Income taxes	19	(298,145)	(321,124)	(272,269)	(507,439)	(465,766)	(446,337)
Net income for the year		1,167,071	1,169,964	954,024	1,191,517	1,179,618	978,597
Net income attributable to controlling shareholders		1,167,071	1,169,964	954,024	1,167,071	1,169,964	954,024
Net income attributable to noncontrolling shareholders		-	-	-	24,446	9,654	24,573
Basic earnings per share (in Reais)	26	0.6620	0.6636	0.5387	0.6620	0.6636	0.5387
Diluted earnings per share (in Reais)	26	0.6594	0.6603	0.5351	0.6594	0.6603	0.5351

See accompanying notes.

Rede D'Or São Luiz S.A.

Statements of comprehensive income
Years ended December 31, 2019, 2018 and 2017
(In thousands of reais)

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Net income for the year	1,167,071	1,169,964	954,024	1,191,517	1,179,618	978,597
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	1,167,071	1,169,964	954,024	1,191,517	1,179,618	978,597
Attributable to:						
Controlling shareholders	1,167,071	-	-	1,167,071	1,169,964	954,024
Noncontrolling shareholders	-	-	-	24,446	9,654	24,573

See accompanying notes.

Rede D'Or São Luiz S.A.

Statements of changes in equity
Years ended December 31, 2019, 2018 and 2017
(In thousands of reais)

Description	Capital reserves				Controlling shareholders						Total equity	Noncontrolling shareholders	Total
	Capital Stock	Capital reserve (issue of shares)	Goodwill on capital transactions	Share-based payment reserve	Treasury shares	Legal reserve	Investment reserve	Additional dividends in excess of mandatory minimum dividends	Advances for future capital increase	Retained earnings			
Balances at December 31, 2016	867,776	2,335,941	(85,322)	148,523	(331,525)	8,666	607,279	730,717	4,224	-	4,286,279	180,453	4,466,732
Acquisition of control in jointly-controlled entity	-	-	-	-	-	-	-	-	-	-	-	(4,004)	(4,004)
Acquisition of noncontrolling interest (Note 18)	-	-	(98,209)	-	-	-	-	-	-	-	(98,209)	(22,729)	(120,938)
Treasury shares (Note 18)	-	-	-	-	(7,943)	-	-	-	-	-	(7,943)	-	(7,943)
Share-based payment (Note 18)	-	-	-	32,599	-	-	-	-	-	-	32,599	-	32,599
Net income for the year	-	-	-	-	-	-	-	-	-	954,024	954,024	24,573	978,597
Proposed dividends and interest on equity (Note 18)	-	-	-	-	-	-	(305,151)	(730,717)	-	-	(1,035,868)	(12,991)	(1,048,859)
Reinvested dividends (Note 18)	-	-	-	-	-	-	184,960	-	-	-	184,960	-	184,960
Allocation to investment reserve (Note 18)	-	-	-	-	-	-	954,024	-	-	(954,024)	-	-	-
Balances at December 31, 2017	867,776	2,335,941	(183,531)	181,122	(339,468)	8,666	1,441,112	-	4,224	-	4,315,842	165,302	4,481,144
Acquisition of noncontrolling interest (Note 18)	-	-	(30,412)	-	-	-	-	-	-	-	(30,412)	(3,419)	(33,831)
Acquisition of subsidiary (Note 3)	-	-	-	-	-	-	-	-	-	-	-	23,017	23,017
Treasury shares (Note 18)	-	-	-	-	(133,725)	-	-	-	-	-	(133,725)	-	(133,725)
Share-based payment (Note 18)	-	-	-	40,662	-	-	-	-	-	-	40,662	-	40,662
Net income for the year	-	-	-	-	-	-	-	-	-	1,169,964	1,169,964	9,654	1,179,618
Proposed dividends and interest on equity (Note 18)	-	-	-	-	-	-	(316,637)	-	-	(710,175)	(1,026,812)	(2,346)	(1,029,158)
Allocation to investment reserve (Note 18)	-	-	-	-	-	-	459,789	-	-	(459,789)	-	-	-
Balances at December 31, 2018	867,776	2,335,941	(213,943)	221,784	(473,193)	8,666	1,584,264	-	4,224	-	4,335,519	192,208	4,527,727
Subsidiaries acquisitions (Note 3)	-	-	-	-	-	-	-	-	-	-	-	13,711	13,711
Capital transactions at subsidiaries and acquisition of noncontrolling interests (Note 18)	-	-	(40,079)	-	-	-	-	-	-	-	(40,079)	29,340	(10,739)
Treasury shares (Note 18)	-	-	-	-	(1,269)	-	-	-	-	-	(1,269)	-	(1,269)
Share-based payment (Note 18)	-	-	-	40,656	-	-	-	-	-	-	40,656	-	40,656
Net income for the year	-	-	-	-	-	-	-	-	-	1,167,071	1,167,071	24,446	1,191,517
Dividends and interest on equity (Note 18)	-	-	-	-	-	-	(291,768)	-	-	-	(291,768)	(27,836)	(319,604)
Allocation to investment reserve	-	-	-	-	-	-	1,167,071	-	-	(1,167,071)	-	-	-
Balances at December 31, 2019	867,776	2,335,941	(254,022)	262,440	(474,462)	8,666	2,459,567	-	4,224	-	5,210,130	231,870	5,442,000

See accompanying notes.

Rede D'Or São Luiz S.A.

Statements of cash flows Years ended December 31, 2019, 2018 and 2017 (In thousands of reais)

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Cash flows from operating activities						
Income before income tax and social contribution	1,465,216	1,491,088	1,226,293	1,698,956	1,645,384	1,424,934
Adjustments to reconcile net income to cash provided by operating activities						
Depreciation and amortization	497,653	293,609	236,804	708,797	393,269	307,976
Gain on property sale	(3,920)	(3,920)	(3,920)	(3,920)	(3,920)	(3,920)
Fair value of debt	283,264	39,461	22,448	165,916	39,461	22,448
Interest and monetary and foreign exchange differences, net	327,447	653,124	460,397	834,073	400,195	450,459
Share-based payment	40,656	40,662	32,599	40,656	40,662	32,599
Provision for contingencies	18,000	-	2,522	18,394	(1,676)	2,789
Equity pickup	(321,628)	(262,921)	(266,611)	(4,427)	(23,572)	(18,838)
Allowance for doubtful accounts and provision for disallowances	446,334	380,950	325,910	833,852	661,682	513,377
(Increase) decrease in assets and liabilities						
Trade accounts receivable	(810,451)	(574,673)	(765,820)	(1,642,736)	(917,821)	(1,182,828)
Inventories	(13,156)	(10,558)	(30,341)	(43,031)	(37,294)	(40,897)
Recoverable taxes	10,825	2,152	85,227	47,110	956	70,752
Judicial deposits	(24,021)	(17,008)	(19,372)	(32,626)	(20,684)	(3,612)
Other assets	29,972	(120,953)	29,176	(27,371)	77,773	66,332
Trade accounts payable	(31,784)	(41,587)	12,860	(71,424)	(62,255)	41,316
Salaries, provisions and social charges	33,760	18,550	17,379	54,103	13,540	(6,837)
Tax obligations	(116,617)	(74,387)	(43,680)	(192,192)	(115,965)	(74,387)
Related parties	(391,759)	(346,006)	75,449	(17,181)	13,979	(1,915)
Provision for contingencies	(17,331)	(8,376)	(9,758)	(1,989)	(4,759)	(23,921)
Leases	(319,851)	-	-	(378,784)	-	-
Other liabilities	73,840	(62,485)	(4,883)	58,473	(395,196)	28,318
	1,176,449	1,396,722	1,382,679	2,044,649	1,703,759	1,604,145
Payment of interest	(538,048)	(482,337)	(484,748)	(773,909)	(520,912)	(526,539)
Payment of income tax and social contribution	(258,422)	(236,633)	(182,926)	(488,769)	(394,025)	(339,570)
Net cash provided by operating activities	379,979	677,752	715,005	781,971	788,822	738,036
Cash flow from investing activities						
Payment in business acquisition, net of cash acquired	(82,153)	(306,926)	(138,063)	(320,912)	(933,058)	(138,063)
Acquisition of equity interest	(990,701)	-	-	(1,090,701)	-	-
Future capital contribution	(1,040,056)	(494,886)	(118,190)	(10,532)	-	-
Acquisitions of property and equipment	(539,316)	(574,600)	(746,967)	(1,792,270)	(1,460,781)	(1,023,879)
Property and equipment sales	-	250,340	-	-	250,680	21
Acquisition of intangible assets	(176,681)	(28,310)	(61,365)	(247,854)	(92,526)	(88,743)
Cash from merger of subsidiary	-	12,404	-	-	-	-
Acquisitions of marketable securities	(14,529,686)	(24,283,312)	(11,793,924)	(19,264,665)	(30,944,905)	(24,893,387)
Redemptions of marketable securities	13,640,689	22,654,109	12,821,971	18,603,190	30,418,808	24,523,535
Dividends and interest on equity received	127,927	35,188	250,120	14,538	3,888	11,192
Net cash provided by (used in) investing activities	(3,589,977)	(2,735,993)	213,582	(4,109,206)	(2,757,894)	(1,609,324)
Cash flows from financing activities						
Treasury shares	(1,269)	(133,725)	(7,943)	(1,269)	(133,725)	(7,943)
Acquisition of noncontrolling interests	(39,329)	(30,412)	(81,701)	(1,033)	(53,573)	(123,523)
Payment of dividends and interest on equity	-	(1,263,416)	(965,562)	(12,808)	(1,265,137)	(976,176)
Loans, financing and debentures raised	5,061,407	6,528,379	2,453,269	5,174,450	6,537,131	4,453,269
Repayments of loans, financing and debentures	(1,884,226)	(3,048,441)	(2,083,150)	(1,903,403)	(3,057,531)	(2,167,426)
Swap settlement	81,090	40,923	(118,291)	(15,149)	40,923	(118,291)
Accounts payable for acquisitions	(21,877)	(19,844)	(112,956)	(36,877)	(47,391)	(169,255)
Net cash provided by (used in) financing activities	3,195,796	2,073,464	(916,334)	3,203,911	2,020,697	890,655
Increase (decrease) in cash and cash equivalents	(14,202)	15,223	12,253	(123,324)	51,625	19,367
Cash and cash equivalents at beginning of year	47,782	32,559	20,306	192,008	140,383	121,016
Cash and cash equivalents at end of year	33,580	47,782	32,559	68,684	192,008	140,383

See accompanying notes.

Rede D'Or São Luiz S.A.

Statements of value added

Years ended December 31, 2019, 2018 and 2017

(In thousands of Brazilian reais, unless otherwise stated)

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Revenues	8,804,100	7,966,833	6,845,558	14,159,127	11,657,210	9,963,025
Sales of goods, products and services	9,246,514	8,343,863	7,167,548	14,989,059	12,314,972	10,472,482
Allowance for disallowances and allowance for doubtful accounts	(446,334)	(380,950)	(325,910)	(833,852)	(661,682)	(513,377)
Other income	3,920	3,920	3,920	3,920	3,920	3,920
Inputs acquired from third parties	(2,876,327)	(2,622,610)	(2,109,039)	(5,111,547)	(4,258,436)	(3,529,484)
Cost of services sold	(2,656,800)	(2,473,523)	(1,946,834)	(4,796,892)	(4,063,404)	(3,285,699)
Materials, energy, third-party services and other expenses	(201,527)	(149,087)	(159,683)	(296,261)	(196,708)	(240,996)
Loss/recovery of assets	(18,000)	-	(2,522)	(18,394)	1,676	(2,789)
Gross value added	5,927,773	5,344,223	4,736,519	9,047,580	7,398,774	6,433,541
Depreciation and amortization	(497,653)	(293,609)	(236,804)	(708,797)	(393,269)	(307,976)
Value added, net	5,430,120	5,050,614	4,499,715	8,338,783	7,005,505	6,125,565
Value added received in transfer	1,095,130	897,988	372,187	1,571,173	1,146,859	199,908
Equity pickup	321,628	262,921	266,611	4,427	23,572	18,838
Financial income	773,502	635,067	105,576	1,567,286	1,123,287	181,070
Total value added	6,525,250	5,948,602	4,871,902	9,910,496	8,152,364	6,325,473
Distribution of value added	(6,525,250)	(5,948,602)	(4,871,902)	(9,910,496)	(8,152,364)	(6,325,473)
Personnel and charges	(2,789,295)	(2,360,470)	(2,168,340)	(4,443,108)	(3,422,972)	(3,021,177)
Taxes, charges and contributions	(782,927)	(802,176)	(650,835)	(1,342,810)	(1,204,164)	(1,025,335)
Interest, rents and other operating expenses	(1,785,957)	(1,615,992)	(1,073,157)	(2,933,061)	(2,345,610)	(1,274,818)
Dividends and interest on equity	(291,768)	(1,026,812)	(305,151)	(319,605)	(1,029,158)	(305,151)
Retained profits	(875,303)	(143,152)	(674,419)	(871,912)	(150,460)	(698,992)

See accompanying notes.

Rede D'Or São Luiz S.A.

Notes to financial statements

December 31, 2019, 2018 and 2017

(In thousands of reais, unless otherwise stated)

1. Operations

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

Rede D'Or operates in the States of Rio de Janeiro, São Paulo, Pernambuco, Brasília, Maranhão Bahia and Sergipe, with 45 own hospitals and 3 under construction, as well as oncology, radiotherapy clinics and laboratories. Currently, the Group has 6,839 hospital beds in total.

In 1998, the first hospital unit, Hospital Barra D'Or, was opened, and in 2000 and 2001, respectively, Hospital Copa D'Or and Hospital Quinta D'Or were opened. Starting in 2004, there have been strategic partnerships with other hospitals, increasing the range of expertise and reaching other areas in Rio de Janeiro. In 2007, Rede D'Or started 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 fundraising from new shareholders, in the market and own cash generation, Rede D'Or started a strong expansion process through acquisitions and construction of new units. The main control acquisitions of hospitals and laboratories performed since 2010 were:

Hospital	Location	Year of acquisition
Hospital Brasil	Santo André, SP	2010
Hospital Assunção	São Bernardo, SP	2010
Hospital São Luiz	São Paulo, SP	2010
Hospital Rio de Janeiro	Rio de Janeiro, RJ	2010
Hospital Prontolinda	Rio de Janeiro, RJ	2010
Vivalle Serviços de Saúde	São José dos Campos, SP	2011
Centro Hospitalar São Marcos	Recife, PE	2011
Nossa Senhora de Lourdes	São Paulo, SP	2012
Hospital da Criança	São Paulo, SP	2012
Santa Luzia	Brasília, DF	2012
Hospital do Coração	Brasília, DF	2012
Hospital Norte D'Or	Rio de Janeiro, RJ	2013
Hospital IFOR	São Bernardo, SP	2013
Hospital Villa-Lobos	São Paulo, SP	2015
Sino Brasileiro Serviços Hospitalares	São Paulo, SP	2015
Hospital Maternidade Bartira	São Paulo, SP	2015
Hospital Fluminense	Rio de Janeiro, RJ	2015
Hospital Memorial São José	Recife, PE	2016
Hospital Alpha-Med	São Paulo, SP	2016
Hospital Ribeirão Pires	São Paulo, SP	2016
Hospital São Vicente	Rio de Janeiro, RJ	2017
Hospital UDI	São Luís, MA	2018
Laboratório Richet	Rio de Janeiro, RJ	2018
Hospital São Rafael	Salvador, BA	2018
Hospital Samer	Rio de Janeiro, RJ	2018
Hospital de Clínicas Rio Mar	Rio de Janeiro, RJ	2019
Hospital São Lucas	Aracaju, SE	2019
Hospital Avicenna	São Paulo, SP	2019

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

1. Operations (Continued)

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

Seasonality

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

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

The authorization for conclusion of preparation of these individual and consolidated financial statements (together denominated simply "financial statements") by management was provided on November 16, 2020.

Individual and consolidated financial statements

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

Basis of measurement

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

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

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

Restatement of financial statements

In connection with the initial registration process as a publicly-held company - Category A - initiated by the Company in October 2020, the Brazilian Securities and Exchange Commission (CVM), through Official Letter no. 226/2020-CVM/SRE-SEP, required some disclosures to be supplemented. Accordingly, in compliance with CVM requirements, the Company has supplemented such disclosures described below and is restating these financial statements, originally issued on March 12, 2020.

The changes made were:

- i) Disclosure about the relationship with the Independent Auditors in the Management Report; and
- ii) Subsequent events - considering the restatement of these financial statements, the Company's Management supplemented Note 29 - Subsequent events, to disclose the significant events occurring from March 12, 2020, original issue date, to the present date. Additionally, considering that one of the subsequent events was the stock split of the Company, where on September 24, 2020 each existing share was split into two shares, from 919,824,834 to 1,839,649,668 common registered shares with no par value, the Company restated the share unit value and earnings per share originally disclosed in Notes 18.a, 18.c, 18.d and 26, to reflect the stock split retroactively, as required by CPC 41.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

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

	Interest ownership (%)					
	2019		2018		2017	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Parent Company - Rede D'Or São Luiz S.A. (a)						
Fully consolidated entities						
Rodin Empreendimentos e Participações S.A.	99.99	0.01	99.99	0.01	99.99	0.01
Hospital Esperança S.A. ("Esperança")	100.00	-	100.00	-	100.00	-
Hospital UDI (acquired in 2018 and merged in 2019)	-	-	-	100.00	-	-
UDI Cárdio - 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	-	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	99.99	0.01
Advance Plano de Saúde S.A.	99.99	0.01	99.99	0.01	99.99	0.01
PMJ Empreendimentos Imobiliários S.A.	100.00	-	100.00	-	100.00	-
Quinta Empreendimentos Imobiliários Ltda.	99.99	0.01	99.99	0.01	99.99	0.01
Onco D'Or Oncologia S.A.	98.90	-	98.90	-	98.90	-
Onco D'Or PE S.A.	-	67.25	-	67.25	-	67.25
Instituto Oncológico de Pernambuco Ltda. ("IOPE")	-	67.18	-	67.18	-	67.18
Núcleo Especializado em Oncologia e Hemato (NEOH)	-	67.15	-	67.15	-	67.15
Clinica de Oncologia Dr. Paulo Emilio Pinto Ltda.	-	49.45	-	49.45	-	49.45
Oncobrasilia - Inst. Bras. Onco Clínica Ltda.	0.10	97.91	0.10	97.91	-	98.90
Acreditar Oncologia S.A.	-	98.90	-	98.90	-	98.90
Em Frente Distribuição, Manipulação e Nutrição Ltda. (merged in 2018)	-	-	-	-	-	59.99
Centro de Oncologia Médica Ltda. (acquired in 2018)	-	98.90	-	98.90	-	-
Onco D'Or Oncologia BA Ltda.	-	98.81	-	98.81	-	98.57
Onco Star SP Oncologia Ltda.	75.00	-	75.00	-	75.00	-
Jenner S.A.	50.00	41.25	50.00	41.25	50.00	37.50
Oncologia D'Or S.A.	7.39	83.35	7.39	83.35	7.39	78.36
Centro de Oncologia do RJ Ltda. ("Salus")	-	90.66	-	90.66	-	89.55
RDSL Farmácia Ltda.	-	90.74	99.99	0.01	99.99	0.01
Centro Médico Jabaquara S.A. (e)	100.00	-	97.58	-	97.58	-
Maxclínicas Clínicas e Diagnósticos Ltda.	99.99	0.01	99.99	0.01	99.99	0.01
TJK Empreendimentos Imobiliários Ltda.	99.99	0.01	99.99	0.01	99.99	0.01
Centro Hospitalar São Marcos S.A.	100.00	-	100.00	-	100.00	-
Esperança Serviços Médicos e de Diagnósticos S.A.	100.00	-	100.00	-	100.00	-
Hospital Fluminense S.A.	100.00	-	100.00	-	100.00	-
Cardial Serviços Médicos Ltda.	100.00	-	100.00	-	84.00	-
ONCORAD - Serviços de Radioterapia Ltda.	0.02	99.98	0.02	99.98	0.01	83.99
Unidade de Radiologia Clínica Ltda. ("URC")	72.00	-	72.00	-	72.00	-
Instituto de Ultrassonografia Médica Ltda. ("IUSM")	72.00	-	72.00	-	72.00	-
Laboratório Análises Clínicas - Labvivalle Ltda.	50.10	-	50.10	-	50.10	-
Norte D'Or Participações S.A.	100.00	-	100.00	-	100.00	-
Hospital Norte D'Or de Cascadura S.A. ("Norte D'Or")	-	70.00	-	70.00	-	70.00
Proncordis Pronto Atendimento Cardiológico Ltda.	1.70	98.30	1.70	98.30	1.70	98.30
Café Verde da Quinta Ltda.	99.99	0.01	99.99	0.01	99.99	0.01
Campinas Empreendimentos Imobiliários Ltda.	99.99	0.01	99.99	0.01	99.99	0.01
Olimpia Projeto Rua do Rocio 86 SPE S.A. (acquired in 2018)	100.00	-	100.00	-	-	-
IFOR Empreendimentos Imobiliários S.A.	99.99	0.01	99.99	0.01	99.99	0.01

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

	Interest ownership (%)					
	2019		2018		2017	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
OPUNER do Brasil Ltda.	99.99	0.01	99.99	0.01	99.99	0.01
Medise Medicina Diagnóstico e Serviços S.A. ("Medise")	87.82	10.18	87.82	10.18	87.82	10.18
Assunção Emp. Imobiliários Ltda.	99.99	0.01	99.99	0.01	99.99	0.01
Villa Lobos Empreendimentos Imobiliários S.A.	99.99	0.01	99.99	0.01	99.99	0.01
Santa Luzia II Emp. Imobiliários Ltda.	99.99	0.01	99.99	0.01	99.99	0.01
RDSL Empreendimentos Imobiliários S.A.	100.00	-	100.00	-	100.00	-
Rede D'Or São Luiz Soluções Saúde e Segurança	85.00	-	85.00	-	65.00	-
JTO Holding S.A. (c)	97.00	-	92.00	-	92.00	-
JTO-Fundadores Participações Ltda.	19.30	77.60	18.40	73.60	18.40	73.60
D'Or Consultoria Corretagem, Seguros e Benefícios	-	97.00	-	92.00	-	92.00
D'Or MG Consultoria em Corretagem de Seguros e Benefícios Ltda. (created in 2018)	-	97.00	-	92.00	-	-
D'Or PME Corretagem de Seguros e Serviços Online Ltda. (created in 2018)	-	77.60	-	73.60	-	-
D'Or Rio em Corretagem de Seguros S.A. (created in 2018)	-	72.75	-	69.00	-	-
New Trix Corretora de Seguros Ltda. (acquired in 2018)	-	72.75	-	69.00	-	-
D'Or Bahia Consultoria em Corretagem de Seguros e Benefícios Ltda.	-	77.60	-	73.60	-	40.01
D'Or Kappius Consultoria Empresarial e Corretagem de Seguros S.A. (acquired in 2018)	-	49.47	-	46.92	-	-
Coriben Consultoria de Risco, Benefícios e Corretora de Seguros Ltda. (acquired in 2019) (c)	-	49.47	-	-	-	-
APR Consultoria em Benefícios e Corretora de Seguros Ltda. (acquired in 2019)	-	49.47	-	-	-	-
D'Or Consultoria Holding Nordeste S.A. (Former GNI14 Empreendimentos Imobiliários Ltda.– created in 2019)	-	48.60	-	-	-	-
D'Or Saúdecorp Corretora de Seguros e Consultoria em Gestão Empresarial Ltda. (acquired in 2019)	-	75.00	-	-	-	-
JMS Serviços de Saúde Ltda. (acquired in 2019)	-	75.00	-	-	-	-
Hospital Santa Helena S.A.	100.00	-	100.00	-	100.00	-
Hospital Memorial São José Ltda. ("MSJ") (merged in 2018)	-	-	-	-	100.00	-
Prontimagem Serviços Médicos Ltda.	100.00	-	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	99.99	0.01
GNI02 Empreend. Imobiliários Ltda.	99.99	0.01	99.99	0.01	99.99	0.01
GNI04 Empreend. Imobiliários Ltda. (created in 2017)	99.99	0.01	99.99	0.01	99.99	0.01
GNI05 Empreend. Imobiliários Ltda.	99.99	0.01	99.99	0.01	99.99	0.01
GNI06 Empreend. Imobiliários Ltda.	99.99	0.01	99.99	0.01	99.99	0.01
GNI09 Empreend. Imobiliários Ltda. (incorporated in 2018)	99.99	0.01	99.99	0.01	-	-
GNI10 Empreend. Imobiliários Ltda. (Sold)	0.00	0.00	99.99	0.01	-	-
GNI11 Empreend. Imobiliários Ltda. (Sold)	0.00	0.00	99.99	0.01	-	-
GNI12 Empreend. Imobiliários Ltda. (incorporated in 2018)	99.99	0.01	99.99	0.01	-	-
GNI13 Empreend. Imobiliários Ltda. (incorporated in 2018)	99.99	0.01	99.99	0.01	-	-
GNI15 Empreend. Imobiliários Ltda. (incorporated in 2019)	99.99	0.01	-	-	-	-
GNI16 Empreend. Imobiliários Ltda. (incorporated in 2019)	99.99	0.01	-	-	-	-
GNI17 SP Empreend. Imobiliários Ltda. (incorporated in 2019)	99.99	0.01	-	-	-	-
GNI18 SP Empreend. Imobiliários Ltda. (incorporated in 2019)	99.99	0.01	-	-	-	-
GNI19 RJ Empreend. Imobiliários Ltda. (incorporated in 2019)	99.99	0.01	-	-	-	-
GNI20 RJ Empreend. Imobiliários Ltda. (incorporated in 2019)	99.99	0.01	-	-	-	-
GNI21 RJ Empreend. Imobiliários Ltda. (incorporated in 2019)	99.99	0.01	-	-	-	-
GNI22 SP Empreend. Imobiliários Ltda. (incorporated in 2019)	99.99	0.01	-	-	-	-
GNI23 SP Empreend. Imobiliários Ltda. (incorporated in 2019)	99.99	0.01	-	-	-	-
GNI24 SP Empreend. Imobiliários Ltda. (incorporated in 2019)	99.99	0.01	-	-	-	-

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

	Interest ownership (%)					
	2019		2018		2017	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Maximagem com Diag. por imagem Ltda.	99.99	0.01	99.99	0.01	99.99	0.01
Noventa e Nove Participações S.A. (merged in 2018)	-	-	-	-	100.00	-
Hospital Ribeirão Pires Ltda. (merged in 2018)	-	-	-	-	-	100.00
Hospital Alpha Med Ltda.	65.99	34.01	65.99	34.01	65.99	34.01
Gestão Total da Saúde Ltda.	99.99	0.01	99.99	0.01	99.99	0.01
Sator Empreendimentos e Participações Ltda.	100.00	-	100.00	-	100.00	-
Svgávea Empreendimentos e Participações S.A.	-	100.00	-	100.00	-	100.00
Hospitais Integrados da Gávea S.A. - Clínica São Vicente	-	100.00	-	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 (incorporated in 2019)	-	100.00	-	-	-	-
Samer Serviços de Assistência Médica de Resende Ltda. (acquired in 2018)	-	100.00	-	100.00	-	-
Keiki Empreendimentos e Participações S.A.	100.00	-	100.00	-	100.00	-
Santa Luzia III Emp. Imobiliários Ltda.	99.99	0.01	99.99	0.01	99.99	0.01
Rede D'Or Finance S.A (created in 2018)	100.00	-	100.00	-	100.00	-
Califórnia Invest. 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. ("Mediix") (b)	70.00	-	15.00	-	15.00	-
Hospital Glória D'Or (incorporated in 2019)	100.00	0.00	-	-	-	-
Hospital DF Star (incorporated in 2019)	100.00	0.00	-	-	-	-
Hospital Aviccena S.A. (acquired in 2019)	100.00	0.00	-	-	-	-
Policlínica Taboão (acquired in 2019)	95.00	0.00	-	-	-	-
Companies accounted for under the equity method in the consolidated statements						
Qualicorp Consultoria e Corretora de Seguros S.A. (acquired in 2019)	10.00	-	-	-	-	-
Fujidayclinic Ltda.	-	49.45	-	49.45	-	49.45
Acreditar Tocantins Oncologia S.A.	-	49.45	-	49.45	-	49.45
Centro Oncológico do Vale Ltda.	-	49.45	-	49.45	-	49.45
Instituto de Radioterapia do Vale do Paraíba Ltda. ("Onco São José dos Campos")	-	49.45	-	49.45	-	49.45
JMJB Diagnósticos e Serviços Hospitalares S.A.	50.00	-	50.00	-	50.00	-
J Badim S.A. ("Hospital Badim")	-	50.00	-	50.00	-	50.00
EAH Administração Hospitalar Ltda.	-	50.00	-	50.00	-	50.00
GGSH Part. S.A.	34.46	-	34.46	-	23.88	-
G2D Serviços Tecnológicos S.A. ("Boa Consulta")	15.00	-	15.00	-	15.00	-
Eldorado do Sul Participações Ltda. (acquired in 2018)	-	33.33	-	33.33	-	-
Cárdio Pulmonar da Bahia S.A. (acquired in 2019)	-	47.66	-	-	-	-

- (a) These include the following hospitals São Luiz Itaim, São Luiz Morumbi, São Luiz Anália Franco, Copa D'Or, Quinta D'Or, Caxias D'Or, Brasil, Assunção, Prontolinda, Joari, Realcardis, 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\$10,000, 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 split of the totality of Centro Médico Jabaquara shares was approved, without change in capital, increasing the Company's interest to 100%.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

a) Basis of consolidation

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

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

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

b) Business combination

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

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

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

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

b) Business combinations (Continued)

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

c) Financial instruments

Financial instruments are recorded in accordance with IFRS 9/CPC 48 - Financial Instruments, which determines the classification of financial assets in three categories: (i) measured at fair value through profit or loss, (ii) measured at fair value through other comprehensive income, and (iii) measured at amortized cost. Depending on the characteristics of each instrument, they can be classified into finance or comprehensive income. These classifications are based on the business model adopted by management and the characteristics of the contractual cash flows.

Financial assets - Amortized cost

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

Financial assets - Fair value through profit or loss

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

Financial assets – Initial measurement

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

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

Financial assets – Subsequent measurement

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

Impairment

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

Financial liabilities – Initial recognition

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

Financial liabilities – Subsequent measurement

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

Hedge accounting

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

Currently, the derivatives recorded for as hedge accounting are classified as fair value hedges given the exposure to changes in the fair value of recognized debt are protected. At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

d) Revenue from contract with customers and cost recognition

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

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

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

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

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

Transaction costs and expenses are recognized on an accrual basis.

e) Current and noncurrent assets and liabilities

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

f) Inventories

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

g) Property and equipment

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

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

h) Intangible assets

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

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

h) Intangible assets (Continued)

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

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

i) Provisions

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

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

j) Taxes

Current income tax and social contribution

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

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

Deferred taxes

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

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

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

- When the deferred tax asset related to the deductible temporary difference is generated upon initial recognition of an asset or liability in a transaction other than a business combination and does not affect, at transaction date, the book income or tax income or loss.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

j) Taxes (Continued)

Deferred taxes (Continued)

- On deductible temporary differences with investments in subsidiaries. Deferred tax assets are only recognized to the extent that temporary differences are reversed in the near future and taxable profit is available for temporary differences to be used.

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

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

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

Taxes on revenue

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

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

k) Borrowing costs

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

l) Present value adjustment of assets and liabilities

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

m) Share-based payment

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

n) Treasury shares

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

o) Statements of cash flows

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

p) Statements of value added

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

q) Segment reporting

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

r) Earnings per share

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

Diluted earnings per share are calculated by dividing net income attributed to holders of Company common shares, after adjustments to the stock option plan, as described in Note 26, by the weighted average number of Company common shares available in the year, plus the weighted average number of common shares that would be issued when converting all potential diluted common shares into common shares.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

s) Significant accounting judgments, estimates and assumptions

Judgments

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

Estimates and assumptions

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

Allowance for doubtful accounts and disallowances

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

Fair value of financial instruments

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

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

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

s) Significant accounting judgments, estimates and assumptions (Continued)

Estimates and assumptions (Continued)

Useful lives of property and equipment and intangible assets

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

Impairment of nonfinancial assets

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

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

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

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

s) Significant accounting judgments, estimates and assumptions (Continued)

Estimates and assumptions (Continued)

Income tax and social contribution

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

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

Provision for contingencies

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

Assessment of the likelihood of loss includes analysis of available evidence, the hierarchy of laws, available case law, the most recent court decisions and their relevance in the legal system, as well as the opinion of external legal advisors. Provisions are reviewed and adjusted to take into consideration changes in circumstances, such as applicable statute barring period, conclusion of tax audits or additional exposures identified based on new matters or court decisions. Actual results could differ from those estimates. The grounds for and nature of the provision for contingencies are mentioned in Note 16.

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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

t) New accounting standards adopted

The following new standards were approved and issued by the IASB and CPC, which became effective and were adopted as of January 1, 2019.

(i) IFRIC 23 - Uncertainty over Income Tax Treatments – ICPC 22

This interpretation establishes recognition and measurement requirements for cases where the Company has defined, when determining income tax and social contribution, the use of uncertain tax treatments that could be challenged by the tax authority.

In circumstances where certain treatments are uncertain, the Company should consider whether it is probable that a tax authority will accept them and present them separately, determining any contingencies if it is concluded that the taxing authority will not accept such treatment.

Company management started to consider the aspects of IFRIC 23 (ICPC 22) and reviewed the judgments made in calculating income tax and social contribution, concluding that there are no uncertain treatments that would require a provision to be recognized.

(ii) CPC 06 (R2) / IFRS 16 – Leases

CPC 06(R2) / IFRS 16 replaces IAS 17 – Leases and IFRIC 4 – Determining whether an arrangement contains a lease. It sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to accounting for finance leases under IAS 17. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability over the lease term to achieve a constant rate of interest and the amortization expense on the right-of-use asset.

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

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

t) New accounting standards adopted (Continued)

(ii) CPC 06 (R2) / IFRS 16 – Leases (Continued)

Lessor accounting under COC06 (R2) is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Company adopted CPC06 (R2) / IFRS 16 using the modified retrospective approach, electing to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company also elected to use the exemptions proposed by the standard on lease agreements for which the lease terms ends within 12 months as of the date of initial application, and lease agreements for which the underlying asset is of low value.

Upon adoption, the Company recognized right-of-use assets and lease liabilities related to leases that were previously classified as "operating leases". These liabilities were measured at the present value of future lease payments, discounted at the Company's incremental borrowing rate at January 1, 2019.

The impact from the initial adoption of CPC06 (R2) at December 31, 2019 is as follows:

	Parent Company			Consolidated		
	Assets	Liabilities	Expense	Assets	Liabilities	Expense
Initial adoption - 01/01/2019	1,725,239	(1,725,239)	-	2,312,074	(2,312,074)	-
Additions	85,701	(85,701)	-	239,784	(239,784)	-
Payments	-	319,851	-	-	405,653	-
Amortization	(157,598)	-	(157,598)	(181,741)	-	(181,741)
Interest	-	(270,326)	(270,326)	-	(380,967)	(380,967)
Balances at December 31, 2019	1,653,342	(1,761,415)	(427,924)	2,370,117	(2,527,172)	(562,708)

The Company leases property, machinery and equipment. Property lease agreements have an average term of 18 years; however, they may include extension options. Lease terms are negotiated individually and contain a wide range of different terms and conditions.

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

u) Standards issued but not yet effective

(i) Amendments to CPC 26 (R1) and IAS 8: Definition of material omission

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which were reflected in review 14 of the CPC, amending CPC 26 (R1) and CPC 23 to align the definition "material omission" or "material misstatement" in all standards and to clarify certain aspects of the definition. The new definition determines that: "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of the general purpose financial statements make on the basis of those financial statements, which provide financial information on the entity's specific report."

These amendments are not expected to have a significant impact on the Company's financial statements.

(ii) Amendments to CPC 15 (R1): Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3, which are reflected in review 14 of the CPC. These amendments to CPC 15 (R1) help entities determine whether or not an acquired set of activities and assets comprises a business. They clarify the minimum requirements for a company, eliminate the assessment of whether market participants are able to replace any missing element, include guidelines to help entities assess whether an acquired process is substantive, provide better business and product definitions and introduce an optional fair value concentration test. New illustrative cases were provided with the amendments.

As the amendments are applied prospectively to transactions or other events that occur on the date or after the first application, the Company will not be affected by these changes on the transition date.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

3. Business combination

The fair value of assets acquired and liabilities assumed as well as goodwill determined on acquisitions are as follows:

	2019			2018			2017	
	Hospital Avicena (a)	Hospital São Lucas (b)	Hospital Clínicas Rio Mar (b)	Hospital Samer (b)	Hospital São Rafael (b)	Laboratório Richet (b)	Hospital UDI	Sator
Acquisition date	24/06/2019	22/01/2019	18/01/2019	04/12/2018	01/08/2018	05/07/2018	07/02/2018	19/04/2017
Location	SP	SE	RJ	RJ	BA	RJ	MA	RJ
Interest acquired (%)	100.00	75.00	95.31	100.00	75.00	100.00	100.00	100.00
Total consideration	71,729	235,500	85,326	78,322	607,500	191,964	441,480	125,244
Payment on acquisition date	71,729	188,950	25,326	66,574	417,500	177,464	406,480	110,244
Accounts payable for acquisition (Note 15)	-	46,550	60,000	11,748	190,000	14,500	35,000	15,000
Assets								
Cash and cash equivalents	5,849	3,030	795	2,407	6,992	1,227	4,217	2,361
Trade accounts receivable	11,826	25,937	6,548	19,737	99,341	14,193	40,389	24,003
Inventories	728	4,362	2,803	822	12,048	1,340	2,491	3,589
Recoverable taxes	1,403	15,856	3,079	848	-	338	373	12,119
Related parties	-	-	-	-	171,643	-	4,120	18,087
Judicial deposits	3,100	649	1,418	-	-	-	551	16,546
Deferred tax income and social contribution	-	2,656	8,831	-	-	1,363	5,943	22,001
Indemnification assets	5,837	-	6,255	-	-	1,427	13,919	8,777
Property and equipment	1,769	77,434	18,274	10,987	72,248	35,602	122,252	75,619
Intangible assets	-	-	197	-	10,489	392	1,070	-
Right of use - lease	26,577	-	-	-	-	-	-	-
Other	-	313	686	72	5,473	165	3,164	3,351
	57,089	130,237	48,886	34,783	378,234	56,047	198,489	186,453
Liabilities								
Trade accounts payable	(2,609)	(33,277)	(4,176)	(6,776)	(82,781)	(13,709)	(10,606)	(10,257)
Loans and financing	-	(21,112)	(9,982)	(3,149)	(109,265)	(21,424)	(13,726)	(12,283)
Salaries, provisions and social charges	(4,510)	(9,614)	(4,045)	(2,848)	(39,540)	(3,166)	(7,243)	(27,887)
Tax liabilities	(3,925)	(46,690)	(26,368)	(7,668)	(2,046)	(5,805)	(37,747)	(125,608)
Related parties	-	-	-	(6,339)	-	-	(4,120)	(18,089)
Provision for contingencies	(5,837)	(1,207)	(7,823)	(343)	-	(3,989)	(13,919)	(8,777)
Lease	(26,577)	-	-	-	-	-	-	-
Other	(2,011)	(1,777)	(6,356)	(277)	(13,752)	(222)	(5,531)	(21,397)
	(45,469)	(113,677)	(58,750)	(27,400)	(247,384)	(48,315)	(92,892)	(224,298)
Total net identifiable assets	11,620	16,561	(9,864)	7,383	130,849	7,732	105,597	(37,845)
Total net identifiable assets, noncontrolling interest	-	4,140	(357)	-	(32,712)	-	-	-
Goodwill on acquisition (Note 10)	60,109	223,079	94,833	70,939	509,363	184,232	335,883	163,089
Contribution for the Group of revenues since the acquisition date	50,481	342,293	64,436	9,526	262,695	46,756	302,551	109,742
Contribution for the Group with income (loss) before taxes since the acquisition date	4,786	73,252	(20,590)	4,324	(14,687)	3,496	61,763	8,368
Acquiree's revenues since the beginning of year	93,371	342,293	64,436	103,566	262,695	100,092	354,282	153,353
Acquiree's income (loss) before taxes since the beginning of year	17,644	73,252	(20,590)	14,585	(14,687)	12,803	86,677	2,991

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

(b) After completion of the analysis of assets and liabilities, an adjustment was made to the fair value of property and equipment, matched against goodwill, at the hospitals São Rafael, Laboratório Richet, Hospital Samer, Hospital Clínicas Rio Mar, Hospital São Lucas in the respective amounts of R\$38,783, R\$3,261, R\$8,239, R\$11,378 and R\$14,792.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

3. Business combinations (Continued)

In addition to the business combinations stated above, in 2019 the Company acquired 100% of 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., 51% interest in APR Consultoria em Benefícios e Corretora de Seguros Ltda., 95% interest in Policlínica Taboão S.A., and 51% interest in SaúdeCorp de Seguros e Consultoria em Gestão Empresarial Ltda. Goodwill generated in these acquisitions totaled R\$2,380, R\$2,805, R\$4,598, R\$6,481, R\$9,229 and R\$4,880, respectively. In 2018, the Company acquired 69% interest in New Trix Corretora de Seguros Ltda., 51% interest in Kappius Consultoria Empresarial e Corretagem de Seguros Ltda., and Centro de Oncologia Médica Ltda., and goodwill generated in these acquisitions totaled R\$23,977, R\$1,125 and R\$13,095, respectively.

On June 18, 2019, the Company executed a purchase agreement for 100% of Casa de Saúde Laranjeiras Ltda., Unidade Neonatal da Lagoa Ltda. and CSEU - Cia de Serviços Especiais Unificados Ltda., located in Rio de Janeiro, for the amount of R\$812,667. On January 10, 2020, the transaction was approved by the Brazilian Antitrust Agency ("CADE"), and the consideration therefor was paid in full.

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 achieving certain financial goals in the subsequent twelve months and closing date of the operation. After this period, the parties have 150 days to realize, confirm and settle this amount. This amount was measured at R\$75 million, included in the balance of "Accounts payable for acquisitions" (Note 15).

Expenses related to business combinations totaled R\$18,287 and were recognized in P&L for 2019 (R\$22,029 in 2018 and R\$7,706 in 2017).

On November 25, 2019, through the wholly-owned subsidiary Hospital Esperança S.A., Rede D'Or signed a share purchase agreement to acquire 75.0% of the shares of Hospital São Carlos S.A. ("Hospital São Carlos"), a corporation that operates a hospital located in the city of Fortaleza, state of Ceará. The total consideration transferred was R\$ 159,763, of which R\$ 148,138 was paid on the closing date of the transaction and the remaining amount will be paid upon compliance with the conditions defined in the purchase and sale agreement. Completion of this transaction and control transfer was approved by Brazilian Antitrust Agency ("CADE") at August 6, 2020; therefore, this investment has not yet been consolidated in the Company's financial statements of December 31, 2019.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

3. Business combinations (Continued)

On June 5, 2020, through the subsidiaries Hospital Alpha-Med Ltda. and Advance Planos de Saúde Ltda., Rede D'Or signed a purchase and sale agreement to acquire 100% of the shares of Hospital Santa Cruz S.A. ("Hospital Santa Cruz") and Paraná Clínicas - Planos de Saúde S.A. ("Paraná Clínicas"), respectively. On September 10, 2020, after meeting all precedent conditions established in the subsidiary's purchase agreement, Advance Planos de Saúde Ltda. ("Advance"), completed the sale of 100% of the shares of Paraná Clínicas - Planos de Saúde S.A. ("Paraná Clínicas") to Sul América Serviços de Saúde S.A. ("SulAmérica"), in the amount of R\$387,412, generating a gain of R\$6,336 on the transaction. This investment has not yet been consolidated in the Company's financial statements of December 31, 2019.

4. Cash and cash equivalents and marketable securities

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Cash and cash equivalents						
Cash and banks	29,370	45,121	30,235	52,840	87,063	48,511
Short-term investments	4,210	2,661	2,324	15,844	104,945	91,872
Cash and cash equivalents	33,580	47,782	32,559	68,684	192,008	140,383
Marketable securities						
Non exclusive investment funds	1,468,948	1,589,583	419,191	1,913,219	2,163,056	1,476,716
Repurchase agreements	16,490	288,360	457,187	20,227	484,566	1,202,868
Financial Treasury Bills (LFT)	17,081	-	-	20,108	-	-
Bank Deposit Certificates (CDBs)	2,279,841	890,951	129,739	2,747,864	1,217,078	440,870
Marketable securities	3,782,360	2,768,894	1,006,117	4,701,418	3,864,700	3,120,454

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

Short-term investments classified as marketable securities refer to Bank Deposit Certificates (CDBs) and repurchase agreements backed by debentures, which are part of the "FI Plataforma" and "FIC Plataforma Star" investment fund portfolio, issued by first-tier financial institutions, and with average yield of 99.9% (100.2% in 2018 and 102.0% in 2017) of the Interbank Deposit Certificate (CDI).

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

5. Trade accounts receivable

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

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Accounts receivable from health insurance and health plans	3,067,407	2,646,828	2,267,263	5,280,431	4,199,603	3,501,612
Accounts receivable from individuals	60,063	51,137	36,985	87,998	67,934	41,112
Allowances for doubtful accounts and for disallowances	(624,352)	(558,964)	(417,340)	(1,250,513)	(1,008,188)	(705,980)
	2,503,118	2,139,001	1,886,908	4,117,916	3,259,349	2,836,744

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

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Balance at beginning of year	(558,964)	(417,340)	(617,418)	(1,008,188)	(705,980)	(972,464)
Recognition of provision for disallowances and allowance for doubtful accounts	(446,334)	(380,950)	(325,910)	(833,852)	(661,682)	(513,377)
Write-off of uncollectible amounts	380,946	271,826	525,988	607,079	433,654	797,019
Provision arising from acquisitions	-	(32,500)	-	(15,552)	(74,180)	(17,158)
Balance at end of year	(624,352)	(558,964)	(417,340)	(1,250,513)	(1,008,188)	(705,980)

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

	Parent Company								
	Total	Falling due	Overdue						360 - 720 days
			1 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days	121 - 180 days	181 - 360 days	
2019	3,127,470	2,098,549	107,552	82,970	58,920	59,757	81,151	222,874	415,697
2018	2,697,965	1,763,781	85,660	61,307	45,527	52,200	82,850	240,751	365,889
2017	2,304,248	1,463,931	69,177	52,109	49,618	45,560	89,509	222,514	311,830

	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	
2019	5,368,429	3,499,088	210,520	145,722	120,260	105,031	155,914	407,503	724,391
2018	4,267,537	2,701,045	160,141	111,571	82,186	87,433	135,903	390,555	598,703
2017	3,542,724	2,171,336	115,694	83,487	79,410	70,963	141,715	343,135	536,984

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

5. Trade accounts receivable (Continued)

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

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

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

On June 21, 2019, the partial or full de-accreditation of certain Company hospitals by Amil became effective, due to the healthcare operator's strategy for greater verticalization. As a result of this decision by Amil, the Company needed to de-accredit additional hospitals as of the same date. The financial impact arising from said de-accreditation was approximately 2% of the Company's gross revenue.

6. Inventories

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Medicines	45,746	48,570	46,944	130,173	110,573	85,633
Special materials	57,333	44,429	38,918	73,900	59,181	49,410
Disposable materials	49,862	44,027	38,606	70,185	55,050	48,359
Laboratory materials	1,146	1,363	1,496	4,024	7,597	1,794
Materials for use and consumption	8,623	12,713	8,971	21,778	25,351	14,348
Food items	3,336	2,550	2,627	4,073	2,881	3,079
Dressing room materials	769	581	1,370	1,902	1,437	2,366
Surgical sutures	4,004	3,596	3,108	6,136	4,579	3,888
Other	12,025	11,859	9,798	23,310	17,780	20,358
	182,844	169,688	151,838	335,481	284,429	229,235

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(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 Company leases properties owned by the controlling shareholders: the hospitals Copa D'Or and Quinta D'Or and the property of the administrative unit. They are leased at market value and generated impact on the P&L for 2019 in the amount of R\$20,690 (R\$19,570 and R\$21,172 in 2018 and 2017, respectively). Leases are annually restated by reference to the Extended Consumer Price Index (IPCA).
- (ii) *Transfers of funds between companies* - to enhance the operations of certain investees and provide funds for expansion and/or acquisitions, Management makes transfers of funds among the Group companies. The significant balances are eliminated in the consolidated financial statements. These balances are not restated, do not have a defined maturity, and their collection is expected for the subsequent fiscal year. The remaining balances in the consolidated figures refer to the transfer of funds to associates.
- (iii) *Shared services* - these are centralized services rendered by the parent company, Rede D'Or, such as legal, marketing, accounting, treasury, accounts payable and accounts receivable, which are shared among the other entities of the group and have specific apportionment criteria based on the contribution of each entity to the consolidated gross revenue.
- (iv) *Debentures* - certain subsidiaries issued nonconvertible debentures, which were acquired by the parent company. These debentures are intended to provide funds to the investees for investment in operations and expansion.

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 Parent Company issued debentures (10th issue), which were substantially acquired by subsidiary Rede D'Or Finance.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

7. Transactions with related parties (Continued)

Related-party balances

Companies	Parent Company											
	2019				2018				2017			
	Current assets	Noncurrent assets	Noncurrent liabilities	Profit or loss	Current assets	Noncurrent assets	Noncurrent liabilities	Profit or loss	Current assets	Noncurrent assets	Noncurrent liabilities	Profit or loss
Debentures Norte D'Or	555	25,000	-	1,510	9,206	-	-	1,326	7,066	11,364	-	3,027
Debentures São Lucas (a)	1,868	38,000	-	2,494	-	-	-	-	-	-	-	-
Shared services												
Medise Medicina Diagnóstico e Serviços Ltda.	-	22,950	-	11,032	-	23,874	-	10,531	-	13,343	-	9,122
Hospital Esperança S.A.	-	-	-	35,037	-	33,605	-	32,291	-	7,449	-	29,224
Hospital São Marcos S.A.	-	-	-	6,756	-	6,905	-	5,240	-	1,668	-	4,930
Hospital Norte D'Or de Cascadura S.A.	-	397	-	7,899	-	-	-	6,438	-	-	-	5,456
Rede D'Or São Luiz Serviços Médicos S.A.	-	-	-	-	-	-	-	13,824	-	142,060	-	13,742
J. Badim S.A.	-	7,342	-	1,993	-	5,447	-	2,254	-	3,214	-	2,052
Oncologia D'Or S.A.	-	2,424	-	1,632	-	1,088	-	1,631	-	9,627	-	1,631
Hospital Fluminense S.A.	-	-	-	5,090	-	-	-	4,730	-	1,472	-	4,066
Hospital Ribeirão Pires LTDA.	-	-	-	-	-	-	-	-	-	5,426	-	5,383
Clínica São Vicente	-	4,405	-	7,635	-	-	-	7,088	-	3,619	-	3,589
Hospital Memorial São José LTDA.	-	-	-	-	-	-	-	-	-	5,808	-	5,769
Hospital Santa Helena S.A.	-	-	-	15,142	-	-	-	16,729	-	13,066	-	12,972
Hospital Alpha-Med LTDA.	-	-	-	2,772	-	645	-	2,680	-	1,976	-	1,962
Esperança Serviços Médicos e Diagnósticos S.A.	-	-	-	-	-	-	-	-	-	51	-	128
Centro Médico Jabaquara S.A.	-	-	-	-	-	368	-	-	-	368	-	260
Diagno SM	-	71	-	74	-	-	-	-	-	-	-	-
URC	-	784	-	792	-	-	-	-	-	-	-	-
Hospital UDI	-	-	-	14,942	-	-	-	-	-	-	-	-
Other	-	1,140	-	2,647	-	146	-	2,070	-	-	-	-
São Luiz Serviços Médicos S.A. (b)	-	-	3,267	-	-	-	2,405	-	-	-	2,368	-
Centro Diagnóstico NSL (b)	-	-	-	-	-	420	-	-	-	2,578	-	-
Hospital Norte D'Or de Cascadura S.A. (b)	-	18	-	-	-	-	856	-	-	10,093	-	-
Hospital Ribeirão Pires LTDA (b)	-	-	-	-	-	-	-	-	-	4,457	-	-
Unidade de Radiologia Clínica Ltda. (b)	-	12,165	-	-	-	12,132	-	-	-	11,993	-	-
Medise Medicina Diagnóstico e Serviços Ltda. (b)	-	2,885	-	-	-	-	14,285	-	-	-	9,234	-
PMJ Assessoria e Consultoria Financeira S.A. (b)	-	263	-	-	-	-	-	-	-	60,894	-	-
Jenner S.A. (b)	-	2,000	-	-	-	16,668	-	-	-	16,688	-	-
Oncologia D'Or S.A. (b)	-	-	3,562	-	-	1,441	-	-	-	6,481	-	-
Hospital Fluminense S.A. (b)	-	-	3,131	-	-	-	99	-	-	2,086	-	-
Hospital São Marcos Ltda. (b)	-	-	-	-	-	-	-	-	-	-	-	-
Hospital Esperança S.A. (b)	-	-	1,362	-	-	-	28,759	-	-	-	36,055	-
JMJB Diagnósticos e Serviços Hospitalares S.A. (b)	-	7,578	-	-	-	7,578	-	-	-	7,499	-	-
Proncordis PA Cardiológico Ltda. (b)	-	709	-	-	-	157	-	-	-	10,578	-	-
Onco D'Or Oncologia S.A. (b)	-	47,882	-	-	-	81,086	-	-	-	99,009	-	-
Campinas Empreendimentos Imobiliários Ltda. (b)	-	-	-	-	-	3,230	-	-	-	-	-	-
Hospital Santa Helena S.A. (b)	-	-	3,968	-	-	-	3,262	-	-	12,103	-	-
Santa Luzia II Emp. Imobiliários Ltda. (b)	-	3,064	-	-	-	-	-	-	-	24,550	-	-
GNI01 Emp. Imob. Ltda. (b)	-	-	-	-	-	10	-	-	-	-	-	-
Opuner do Brasil Ltda. (b)	-	-	5,808	-	-	-	5,808	-	-	-	5,808	-
Instituto D'Or de Pesquisa e Ensino (b)	-	7,501	-	-	-	7,454	-	-	-	7,454	-	-
JM&AM Empreendimentos Imobiliários S.A. (c)	-	360	-	20,690	-	-	-	19,570	-	-	-	21,172
Onco Star SP (d)	-	554,006	-	-	-	167,484	-	-	-	-	-	-
JTO Holding S.A. (b)	-	36,850	-	-	-	28,162	-	-	-	-	-	-
Other	-	20,553	-	-	-	7,882	1,727	-	-	38,169	1,416	-
	2,423	798,347	21,098	138,137	9,206	405,782	57,201	126,402	7,066	535,143	54,881	124,485

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

7. Transactions with related parties (Continued)

Related-party balances (Continued)

Companies	Consolidated											
	2019				2018				2017			
	Current assets	Noncurrent assets	Noncurrent liabilities	Profit or loss	Current assets	Noncurrent assets	Noncurrent liabilities	Profit or loss	Current assets	Noncurrent assets	Noncurrent liabilities	Profit or loss
Shared services												
J Badim S.A.	-	7,342	-	1,993	-	5,447	-	2,254	-	3,214	-	2,052
JMJB Diagnósticos e Serviços Hospitalares S.A.	-	7,578	-	-	-	7,578	-	-	-	7,499	-	-
Instituto D'Or de Pesquisa e Ensino J Badim S.A. (b)	-	7,501	-	-	-	7,454	-	-	-	7,454	-	-
J Badim S.A. (b)	-	2,865	-	-	-	1,302	-	-	-	1,489	-	-
JM&AM Empreendimentos Imobiliários S.A. (c)	-	360	-	20,690	-	-	-	19,570	-	-	-	21,172
Monte Tabor Centro Ítalo-Brasileiro de Promoção Sanitária	-	11,832	-	-	-	-	-	-	-	-	-	-
Other	-	1,398	415	-	-	1,685	60	-	-	3,827	60	-
	-	38,876	415	22,683	-	23,466	60	21,824	-	23,483	60	23,224

- (a) On May 28, 2019, Hospital São Lucas privately issued nonconvertible, single-series, registered debentures amounting to R\$38,000, maturing on May 28, 2024, with Rede D'Or as the debenture holder. The debentures are remunerated on a pro rata temporis basis bearing interest equivalent to 100% of DI (Interbank Deposits) plus 2.5% p.a. Interest is payable annually, while the nominal value will be settled in full on the maturity date. There are no guarantees for the debentures.
- (b) Transfers of funds for acquisition of companies, properties, expansion of operations, among others. These balances are substantially eliminated in the consolidated financial statements. There are no maturity or monetary restatement on these balances.
- (c) Transactions referring to the lease of properties owned by the controlling shareholders of Rede D'Or.
- (d) Onco Star SP was created in 2017 and, during 2018, Rede D'Or provided resources to Onco Star to purchase machinery and equipment, as part of operational routine.

Key management personnel compensation

The Company considers "Key management personnel" only the members of its Statutory Board and Board of Directors. For the years ended December 31, 2019, 2018 and 2017, key management personnel compensation was as follows:

	2019	2018	2017
Salaries and bonuses	54,489	41,291	35,579
Benefits	122	164	160
Share-based payment	40,656	40,662	32,599
	95,267	82,117	68,338

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

8. Investments

Breakdown of changes in investments – Parent Company

Companies	2018	Equity pickup	Dividends	Acquisition of interest	Capital increase/ Advance for future capital increase	Transfer	Other	2019
Medise Medicina Diagnóstico e Serviços S.A.	211,760	34,921	(27,055)	-	-	-	-	219,626
Hospital Esperança S.A.	140,130	136,439	(21,220)	-	84,289	-	(10,954)	328,684
Hospital São Marcos (including goodwill)	85,845	22,653	-	-	-	-	(214)	108,284
PMJ Empreendimentos Imobiliários S.A.	394,928	1,499	-	-	280,239	-	-	676,666
Norte D'Or Participações S.A. (including goodwill)	85,416	13,453	(5,600)	-	102	-	-	93,371
Onco D'Or Oncologia S.A.	321,161	47,153	-	-	-	-	(4,797)	363,517
Jenner S.A. (including goodwill)	113,123	16,551	-	-	-	-	(6,399)	123,275
JMJB Diagnósticos e Serviços Hospitalares	28,405	(10,192)	(500)	-	-	-	-	17,713
Rodin Empreendimentos e Participações S.A.	54,209	(7)	-	-	4,861	-	-	59,063
Quinta Empreendimentos Imobiliários Ltda.	51,467	9,439	(12,000)	-	-	-	-	48,906
Hospital Fluminense S.A. (including goodwill)	82,200	17,000	(24,000)	-	40,709	-	-	115,909
Cardial Serviços Médicos (including goodwill)	61,703	7,997	(5,440)	-	-	-	-	64,260
Hospital Santa Helena S.A. (including goodwill)	402,742	12,587	(7,000)	-	12,074	-	-	420,403
TJK Empreendimentos Hospitalares	22,340	786	(1,569)	-	-	-	-	21,557
Villa Lobos Empreendimentos Imobiliários Ltda.	204,125	10,856	(10,534)	-	-	-	-	204,447
Santa Luzia II Empreendimentos Imobiliários Ltda.	160,633	382	-	-	90,118	(203,961)	-	47,172
Campinas Empreendimentos Imobiliários Ltda.	46,442	(220)	-	-	-	-	-	46,222
Sator Empreendimentos e Participações Ltda	328,626	(14,274)	-	-	433,688	-	-	748,040
Rede D'or Finance	5,369	(287)	-	-	-	-	-	5,082
Rede D'Or São Luiz Serviços Médicos S.A.	67,168	26,089	-	-	5,377	-	-	98,634
GGSH Participações S.A (including goodwill)	47,355	15,813	(2,147)	-	-	-	(7,429)	53,592
Olimpia Projeto Rua do Rocio 86 SPE S.A.	306,007	-	-	-	9,717	-	-	315,724
Proncordis Pronto Atendimento Cardiológico Ltda.	11,194	(20)	-	-	163	-	-	11,337
Maximagem - Diagnóstico por Imagem Ltda. (including goodwill)	74,319	13,516	-	-	1,666	-	-	89,501
Prontimagem Serviços Médicos Ltda.	208,867	6,740	-	-	756	-	-	216,363
California Investimentos Imobiliários Ltda. (a)	-	-	-	60,000	-	-	-	60,000
Hospital Aviccena S.A.	-	3,171	-	71,729	-	-	-	74,900
Santa Luzia III	37,080	(6,306)	-	-	73,630	203,961	-	308,365
Qualicorp Consultoria e Corretora de Seguros S.A.	-	-	-	990,701	-	-	-	990,701
Clínica Médica São Remo	-	(1,209)	-	(2,017)	12,845	-	2,380	11,999
Other	255,562	28,430	(10,862)	2,550	51,096	-	(4,009)	322,767
	3,808,176	392,960	(127,927)	1,122,963	1,101,330	-	(31,422)	6,266,080
Onco Star	(23,431)	(64,402)	-	-	-	-	-	(87,833)
Centro Hospitalar São Marcos S.A.	(11,596)	(1,660)	-	-	-	-	-	(13,256)
Café Verde	(1,037)	(5,270)	-	-	1,190	-	872	(4,245)
	(36,064)	(71,332)	-	-	1,190	-	872	(105,334)
Equity pickup		321,628						

(a) Acquisition of land through this subsidiary.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)

December 31, 2019, 2018 and 2017

(In thousands of reais, unless otherwise stated)

8. Investments (Continued)

Breakdown of changes in investments – Parent Company (Continued)

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

(a) Acquisition of land through subsidiary.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

8. Investments (Continued)

Breakdown of changes in investments – Parent Company (Continued)

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

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

8. Investments (Continued)

Breakdown of changes in investments - Consolidated

Companies	2018	Equity pickup	Acquisition of interest	Dividends	Capital increase/ Advance for future capital increase	Other	2019
JMJB Diagnósticos e Serviços Hospitalares S.A.	28,405	(10,192)	-	(500)	-	-	17,713
Instituto de Radioterapia do Vale do Paraíba Ltda.	40,134	9,116	-	(4,206)	-	-	45,044
GGSH Participações S.A.	47,354	15,813	-	(4,295)	-	(7,429)	51,443
Qualicorp Consultoria e Corretora de Seguros S.A. (a)	-	-	990,701	-	-	-	990,701
Cardio Pulmonar (b)	-	(12,902)	100,000	-	10,000	-	97,098
Eldorado do Sul Participações Ltda.	14,595	1,379	-	(914)	-	(304)	14,756
Other	14,041	1,213	-	(4,623)	532	(1,040)	10,123
	144,529	4,427	1,090,701	(14,538)	10,532	(8,773)	1,226,878

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

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

(a) 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. ("Qualicorp"), a publicly-traded company that provides brokerage, agency, management and insurance consulting services, health care plans and benefits in general, for the amount of R\$990.7 million. In November 2019, all conditions precedent were met, including CADE approval, and the amount was paid in full. Based on the shareholders' agreement signed in November 2019, considering the appointments/nominations to the Executive Board and Board of Directors that the Company is entitled to, it was concluded that Rede D'Or has significant influence over Qualicorp; therefore, it records the investment using the equity method. Considering that the acquisition of the investment occurred in October 2019, the Company did not recognize equity pickup until December 31, 2019, as permitted by the accounting standards, since Qualicorp's financial information is not yet available.

The amount paid is higher than Qualicorp's equity; the surplus is substantially supported by future profitability. The Company is carrying out an analysis of Qualicorp's assets and liabilities for an appropriate allocation of the amount paid and the future impact on equity pickup.

(b) 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.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

8. Investments (Continued)

Summary of information of significant subsidiaries

	2019					2018		2017	
	% Total	% Voting	Assets	Liabilities	Equity	Operating income (expenses)	Income (loss) for the year	Income (loss) for the year	Income (loss) for the year
Direct and indirect subsidiaries (a)									
Medise Medicina Diagnóstico e Serviços S.A. ("Medise")	98.00	98.00	707,520	474,780	232,740	53,462	38,969	43,191	21,936
Rodin Empreendimentos e Participações S.A.	100.00	100.00	59,400	347	59,053	(3)	(7)	(76)	43
Hospital Esperança S.A. ("Esperança")	100.00	100.00	4,096,000	3,840,613	255,387	249,440	59,108	68,784	82,633
PMJ Empreendimentos Imobiliários S.A.	100.00	100.00	679,839	2,746	677,093	484	1,499	1,141	2,829
Quinta Empreendimentos Imobiliários Ltda.	100.00	100.00	50,063	1,157	48,906	11,347	9,439	8,330	7,064
Hospital Fluminense S.A.	100.00	100.00	137,094	34,406	102,688	26,391	17,000	14,879	10,222
Cardial Serviços Médicos Ltda.	100.00	100.00	46,861	18,607	28,254	11,192	7,997	3,124	10,764
Norte D'Or Participações S.A.	100.00	100.00	80,758	15,838	64,920	13,518	13,453	13,636	10,684
Hospital Santa Helena S.A.	100.00	100.00	564,581	265,084	299,497	50,095	12,587	19,027	30,232
Onco D'Or Oncologia S.A.	98.90	98.90	318,418	133,910	184,508	58,445	35,887	25,756	18,835
Jenner S.A.	91.25	91.25	166,709	2,000	164,709	33,101	28,965	21,146	12,990
TJK Empreendimentos Imobiliários Ltda.	100.00	100.00	22,504	946	21,558	777	786	414	452
Villa Lobos Empreendimentos Imobiliários S.A.	100.00	100.00	205,164	718	204,446	12,455	10,856	6,307	-
Santa Luzia II Emp. Imobiliários Ltda.	100.00	100.00	48,511	1,339	47,172	1,576	382	(2,345)	-
Campinas Empreendimentos Imob.	100.00	100.00	49,891	3,669	46,222	(184)	(220)	(69)	(2)
IFOR Empreendimentos Imobiliários S.A (Park D'Or)	100.00	100.00	27	24	3	(6)	(6)	(6)	-
Sator Empreendimentos e Participações Ltda.	100.00	100.00	1	(107,665)	107,666	(14,273)	(14,274)	14,019	2,348
Rede D'Or Finance	100.00	100.00	2,310,059	2,304,977	5,082	(6)	(287)	(9,018)	-
Rede D'Or São Luiz Serviços Médicos S.A.	100.00	100.00	443,397	336,260	107,137	39,930	26,089	-	-
Olimpia Projeto Rua do Rocio 86 SPE S.A.	100.00	100.00	316,164	439	315,725	198	38	(906)	-
Onco Star SP Oncologia Ltda.	75.00	75.00	725,258	848,604	(123,346)	(61,730)	(64,402)	(23,431)	(6,236)
Proncordis Pronto Atendimento Cardiológico Ltda.	100.00	100.00	8,371	1,395	6,976	(1,105)	(1,175)	(1,418)	(4,595)
Prontimagem Serviços Médicos Ltda.	100.00	100.00	235,205	22,580	212,625	7,735	6,740	8,519	(983)
Maximagem com Diag. por imagem Ltda.	100.00	100.00	47,239	8,256	38,983	15,147	13,516	11,892	(1,027)
Café Verde	100.00	100.00	2,789	7,762	(4,973)	(5,561)	(5,863)	(4,400)	3,815
Centro Hospitalar São Marcos S.A	100.00	100.00	940	13,632	(12,692)	(1,654)	(1,660)	(649)	(2,875)
Hospital Avicena S.A.	100.00	100.00	63,291	47,371	15,920	7,281	3,171	-	-
Santa Luzia III Empreendimentos Imobiliários Ltda.	100.00	100.00	309,738	1,372	308,366	(6,305)	(6,306)	-	-
Hospital São Marcos	100.00	100.00	227,634	133,986	93,648	25,755	22,653	16,096	-
Clínica Médica São Remo	100.00	100.00	14,212	4,518	9,694	(767)	(1,209)	-	-
California Investimentos Imobiliários Ltda.	100.00	100.00	59,999	-	59,999	-	-	-	-

Summary of information of affiliates and jointly-controlled entities

	2019					2018		2017	
	% Total	% Voting	Assets	Liabilities	Equity	Operating income (expenses)	Income (loss) for the year	Income (loss) for the year	Income (loss) for the year
Companies recognized by the equity pickup method in the consolidated financial information									
JMJB Diagnósticos e Serviços Hospitalares S.A.	50	50	44,888	9,343	35,545	(20,384)	(10,192)	5,114	10,225
Instituto de Radioterapia do Vale do Paraíba Ltda.	50	50	40,189	24,405	15,784	20,466	9,116	7,755	11,969
GGSH Participações S.A.	34.46	34.46	212,205	74,047	138,158	47,501	15,813	9,365	22,964
Eldorado do Sul Participações Ltda.	33.33	33.33	20,589	-	20,589	4,138	1,379	1,952	-
Cárdio Pulmonar da Bahia S.A.	47.66	47.66	295,598	214,881	80,717	(17,431)	(12,902)	-	-
Qualicorp Consultoria e Corretora de Seguros S.A. (*)	10.00	10.00	4,294,687	1,970,338	2,324,349	544,585	326,048	-	-

(*) Qualicorp's financial information as of December 31, 2019 is not yet available; therefore, the Administration considers the public information as of September 30, 2019.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

9. Property and equipment

Breakdown of balances

Description	Depreciation rate	Parent Company								
		2019			2018			2017		
		Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount
Hospital machinery and equipment	12% to 20%	1,016,968	(602,986)	413,982	923,373	(509,296)	414,077	784,172	(430,982)	353,190
Surgical instruments	20%	56,636	(30,924)	25,712	48,994	(25,990)	23,004	39,749	(18,224)	21,525
Machinery and equipment	7% to 10%	365,199	(239,352)	125,847	315,354	(191,814)	123,540	227,864	(144,110)	83,754
Buildings	2.5% to 4%	632,620	(122,878)	509,742	595,058	(99,790)	495,268	848,716	(77,508)	771,208
Improvements in own buildings	4%	307,985	(59,848)	248,137	169,801	(35,994)	133,807	99,610	(22,738)	76,872
Leasehold improvements	3% to 4%	1,376,086	(350,047)	1,026,039	1,131,558	(297,415)	834,143	816,341	(244,250)	572,091
Furniture and fixtures	10%	161,979	(89,277)	72,702	140,496	(74,144)	66,352	115,418	(60,013)	55,405
Vehicles	20%	4,199	(3,407)	792	3,988	(3,081)	907	3,939	(2,690)	1,249
Facilities	10%	120,215	(47,824)	72,391	110,470	(38,228)	72,242	85,242	(30,804)	54,438
Land	-	167,530	-	167,530	155,530	-	155,530	130,020	-	130,020
Construction in progress	-	340,669	-	340,669	501,378	-	501,378	582,239	-	582,239
Other	5% to 10%	13,349	(5,150)	8,199	12,430	(4,836)	7,594	11,799	(4,612)	7,187
		4,563,435	(1,551,693)	3,011,742	4,108,430	(1,280,588)	2,827,842	3,745,109	(1,035,931)	2,709,178

Description	Depreciation rate	Consolidated								
		2019			2018			2017		
		Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount
Hospital machinery and equipment	12% to 20%	1,671,003	(755,340)	915,663	1,204,717	(607,829)	596,888	992,902	(511,585)	481,317
Surgical instruments	20%	93,411	(37,170)	56,241	57,586	(30,342)	27,244	48,636	(21,655)	26,981
Machinery and equipment	7% to 10%	595,331	(341,732)	253,599	474,285	(265,693)	208,592	291,036	(196,134)	94,902
Buildings	2.5% to 4%	1,748,938	(196,366)	1,552,572	1,067,049	(140,907)	926,142	1,258,561	(99,842)	1,158,719
Improvements in own buildings	4%	347,774	(64,500)	283,274	184,234	(38,636)	145,598	104,053	(24,517)	79,536
Leasehold improvements	3% to 4%	1,758,428	(475,298)	1,283,130	1,432,885	(401,454)	1,031,431	1,032,436	(331,362)	701,074
Furniture and fixtures	10%	247,265	(125,424)	121,841	195,542	(99,936)	95,606	157,720	(81,750)	75,970
Vehicles	20%	17,646	(8,830)	8,816	4,717	(5,522)	(805)	4,495	(3,054)	1,441
Facilities	10%	181,076	(80,408)	100,668	167,142	(65,273)	101,869	139,140	(52,972)	86,168
Land	-	936,739	-	936,739	802,896	-	802,896	463,442	-	463,442
Construction in progress	-	880,550	-	880,550	1,016,424	-	1,016,424	743,591	-	743,591
Other	5% to 10%	53,106	(6,815)	46,291	49,338	(6,392)	42,946	48,645	(6,146)	42,499
		8,531,267	(2,091,883)	6,439,384	6,656,815	(1,661,984)	4,994,831	5,284,657	(1,329,017)	3,955,640

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in Parent Company

	2018	Additions	Sales/ disposals	Transfers	2019
Cost					
Hospital machinery and equipment	923,373	105,784	-	(12,189)	1,016,968
Surgical instruments	48,994	7,642	-	-	56,636
Machinery and equipment	315,354	49,845	-	-	365,199
Buildings	595,058	2,686	-	34,876	632,620
Improvements in own buildings	169,801	9,081	-	129,103	307,985
Leasehold improvements	1,131,558	45,731	(22,000)	220,797	1,376,086
Furniture and fixtures	140,496	21,483	-	-	161,979
Vehicles	3,988	211	-	-	4,199
Facilities	110,470	9,745	-	-	120,215
Land	155,530	-	-	12,000	167,530
Construction in progress	501,378	316,254	-	(476,963)	340,669
Other	12,430	919	-	-	13,349
	4,108,430	569,381	(22,000)	(92,376)	4,563,435
Depreciation					
Hospital machinery and equipment	(509,296)	(93,690)	-	-	(602,986)
Surgical instruments	(25,990)	(4,934)	-	-	(30,924)
Machinery and equipment	(191,814)	(47,538)	-	-	(239,352)
Buildings	(99,790)	(23,088)	-	-	(122,878)
Improvements in own buildings	(35,994)	(23,854)	-	-	(59,848)
Leasehold improvements	(297,415)	(52,632)	-	-	(350,047)
Furniture and fixtures	(74,144)	(15,133)	-	-	(89,277)
Vehicles	(3,081)	(326)	-	-	(3,407)
Facilities	(38,228)	(9,596)	-	-	(47,824)
Other	(4,836)	(314)	-	-	(5,150)
	(1,280,588)	(271,105)	-	-	(1,551,693)
Property and equipment, net	2,827,842	298,276	(22,000)	(92,376)	3,011,742

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in Parent Company (Continued)

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in Parent Company (Continued)

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in Consolidated

	2018	Additions	Sales/ disposals	Transfers	Business combinations	2019
Cost						
Hospital machinery and equipment	1,204,717	426,790	-	9,306	30,190	1,671,003
Surgical instruments	57,586	34,731	-	75	1,019	93,411
Machinery and equipment	474,285	99,644	-	-	21,651	595,331
Buildings	1,067,049	212,603	-	434,590	34,696	1,748,938
Improvements in own buildings	184,234	14,385	-	149,151	4	347,774
Leasehold improvements	1,432,885	67,255	(22,000)	280,288	-	1,758,428
Furniture and fixtures	195,542	43,130	-	1	8,592	247,265
Vehicles	4,717	12,927	-	-	2	17,646
Facilities	167,142	13,188	-	-	746	181,076
Land	802,896	66,430	-	66,290	1,123	936,739
Construction in progress	1,016,424	829,220	-	(972,573)	7,479	880,550
Other	49,338	2,032	-	-	1,736	53,106
	6,656,815	1,822,335	(22,000)	(32,872)	101,500	8,531,267
Depreciation						
Hospital machinery and equipment	(607,829)	(147,511)	-	-	-	(755,340)
Surgical instruments	(30,342)	(6,828)	-	-	-	(37,170)
Machinery and equipment	(265,693)	(76,039)	-	-	-	(341,732)
Buildings	(140,907)	(55,459)	-	-	-	(196,366)
Improvements in own buildings	(38,636)	(25,864)	-	-	-	(64,500)
Leasehold improvements	(401,454)	(73,844)	-	-	-	(475,298)
Furniture and fixtures	(99,936)	(25,488)	-	-	-	(125,424)
Vehicles	(5,522)	(3,308)	-	-	-	(8,830)
Facilities	(65,273)	(15,135)	-	-	-	(80,408)
Other	(6,392)	(423)	-	-	-	(6,815)
	(1,661,984)	(429,899)	-	-	-	(2,091,883)
Property and equipment, net	4,994,831	1,392,436	(22,000)	(32,872)	106,989	6,439,384

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in Consolidated (Continued)

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Changes in Consolidated (Continued)

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

Significant changes for the years were:

2019

- (i) Acquisition of Hospital Rio Mar, Hospital São Lucas, Hospital Aviccena and Policlínica Tabão.
- (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) Start of operations of hospitals DF Star and Hospital Vila Nova Star, so their assets are now depreciated.
- (v) On August 9, 2019, at the same time that the Company completed the works for expansion of the outpatient clinic of Hospital Brasil, located in São Paulo, a sale and leaseback transaction was carried out, for the total amount of R\$22,000, receivable upon compliance with certain contractual provisions. The lease term is 25 years. This operation did not result in gain or loss to the Company.

2018

- (i) Acquisition of Hospital UDI, Laboratório Richet, São Rafael S.A. and Hospital Samer;
- (ii) On June 29, 2018, the Company performed two sale and leaseback transactions with the Hospital São Luiz Morumbi's building and with the Hospital Brasil's administration building, located in the city of São Paulo, for the total amount of R\$276,861, of which R\$10,000 shall be received until June 2019, and the remaining amount of R\$7,500 shall be received as soon as Company complies with certain contractual clauses. That remaining amount is adjusted in accordance with the Interbank Deposit Certificate - CDI. The rental term is 25 years. The gain of R\$9,360 was recorded on P&L at the contract execution date;
- (iii) Expansions of Hospital Vivalle, Hospital Coração and Hospital Bartira, remodeling of Onco Star and expansion in various hospitals;
- (iv) Purchase of hospital machinery and equipment as part of the Company's operational routine and renovation of Hospital Niterói D'Or; and
- (v) Acquisition, through the investee Olímpia Projeto Rua do Rocio, 86 SPE S.A., of a land located in the city of São Paulo, in the amount of R\$306,000.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

9. Property and equipment (Continued)

2017

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

Capitalized borrowing costs

The Company capitalizes borrowings costs attributable to qualifying assets. In 2019, the amount of R\$38,353 of interest on loans and financing were capitalized to property and equipment, net of financial income arising from fundraising (R\$20,718 in 2018).

Impairment analysis of property and equipment

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

10. Intangible assets

	Annual amortization rate	Parent Company			Consolidated		
		2019	2018	2017	2019	2018	2017
Finite useful life							
Software	20%	242,594	160,361	110,242	267,562	183,240	120,173
Exclusive agreements	20%	42,472	16,974	11,597	160,178	60,664	47,679
Indefinite useful life							
Goodwill							
Acquisition of Copa D'Or		80,058	80,058	80,058	80,058	80,058	80,058
Acquisition of HMSL		668,339	668,339	668,339	668,339	668,339	668,339
Acquisition of Hospital Brasil		121,398	121,398	121,398	121,398	121,398	121,398
Acquisition of Hospital Prontolinda		30,595	30,595	30,595	30,595	30,595	30,595
Acquisition of Vivalle		38,692	38,692	38,692	38,692	38,692	38,692
Acquisition of São Marcos		-	-	-	10,807	10,807	10,807
Acquisition of Santa Luzia		199,333	199,333	199,333	199,333	199,333	199,333
Acquisition of Sinisgalli		156,646	156,646	156,646	156,646	156,646	156,646
Acquisition of Hospital Esperança		-	-	-	108,408	108,408	108,408
Acquisition of Norte D'Or		-	-	-	28,450	28,450	28,450
Acquisition of IFOR		85,724	85,724	85,724	85,724	85,724	85,724
Acquisition of Sino Brasileiro		241,947	241,947	241,947	241,947	241,947	241,947
Acquisition of Villa-Lobos		136,074	136,074	136,074	136,074	136,074	136,074
Acquisition of Bartira		105,584	105,584	105,584	105,584	105,584	105,584
Acquisition of Onco ABC/Cardeal/JLD		-	-	-	52,174	52,174	52,174
Acquisition of Oncoholding		-	-	-	159,445	159,445	159,445
Acquisition of Hospital Fluminense		-	-	-	10,658	10,658	10,658
Acquisition of Hospital Santa Helena		-	-	-	125,802	125,802	125,802
Acquisition of Acreditar		-	-	-	155,720	155,720	155,720
Acquisition of Memorial São José (b)		112,528	112,528	-	112,528	112,528	112,528
Acquisition of Alpha-Med		-	-	-	43,815	43,815	43,815
Acquisition of CEHON		-	-	-	68,757	68,757	68,757
Acquisition of Maximagem		-	-	-	46,742	46,742	46,742
Acquisition of Ribeirão Pires (b)		129,739	129,739	-	129,739	129,739	129,739
Acquisition of NEOH		-	-	-	33,422	33,422	33,422
Acquisition of JTO		-	-	-	12,567	12,567	12,567
Acquisition of Salus		-	-	-	8,956	8,956	8,956
Acquisition of Prontimagem		-	-	-	6,220	6,220	6,220
Acquisition of Sator		-	-	-	163,089	163,089	163,089
Acquisition of Hospital São Rafael		-	-	-	509,363	538,449	-
Acquisition of Laboratório Richet		-	-	-	184,232	187,493	-
Acquisition of UDI		-	-	-	335,883	335,883	-
Acquisition of Samer		-	-	-	70,939	79,178	-
Acquisition of Hospital Rio Mar		-	-	-	94,833	-	-
Acquisition of Hospital São Lucas		-	-	-	223,079	-	-
Acquisition of Hospital Aviccena		-	-	-	60,109	-	-
Acquisition of Saúde Corp		-	-	-	4,880	-	-
Other goodwill		48,649	48,649	48,649	121,909	95,198	57,001
Trademarks and patents (a)		190,810	190,810	190,810	190,810	190,810	190,810
		2,631,182	2,523,451	2,225,688	5,365,466	4,812,604	3,557,352

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

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

The goodwill balances were generated on business combinations. The acquisitions occurred in 2019, 2018 and 2017 are described in Note 3.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

10. Intangible assets (Continued)

Goodwill impairment testing

Goodwill is allocated to the Cash-Generating Units (CGU) identified by management as being each of the hospitals, as set out in the table above.

The recoverable amount of a CGU is based on value in use calculations. The value in use calculations use cash flow projections before income tax and social contribution based on financial budgets approved by management covering a five-year period. The cash flows beyond the five-year period did not consider a growth rate, since they were based on an actual projection model.

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and is derived from its weighted average cost of capital (WACC - Actual). Actual WACC considers both debt and equity cost. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest-bearing financing the Company is obliged to honor. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. At December 31, 2019, the discount rate used for determining the value in use of the CGU was 8.01% (13.25% in 2018 and 11.44% in 2017) and perpetuity was 3.5%. Management determined projected gross margin based on past performance and its expectation for market development. The discount rate used corresponds to the pre-tax rate and reflects sector specific risks.

There is no indication of impairment of intangible assets as of the present date.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

11. Right of use

Balance breakdown

Description	2019					
	Parent Company			Consolidated		
	Cost	Amortization	Net	Cost	Amortization	Net
Hospital machinery and equipment	47,625	(5,055)	42,570	71,108	(8,224)	62,884
Buildings	1,763,315	(152,543)	1,610,772	2,480,750	(173,517)	2,307,233
	1,810,940	(157,598)	1,653,342	2,551,858	(181,741)	2,370,117

Changes in Parent Company

	First-time adoption - 01/01/2019	Additions (a)	Amortization	2019
Cost				
Hospital machinery and equipment	21,483	26,142	-	47,625
Buildings	1,703,756	59,559	-	1,763,315
	1,725,239	85,701	-	1,810,940
Amortization				
Hospital machinery and equipment	-	-	(5,055)	(5,055)
Buildings	-	-	(152,543)	(152,543)
	-	-	(157,598)	(157,598)
Right of use, net	1,725,239	85,701	(157,598)	1,653,342

Changes in Consolidated

	First-time adoption - 01/01/2019	Additions (a)	Business combination	Amortization	2019
Cost					
Hospital machinery and equipment	28,452	42,656	-	-	71,108
Buildings	2,283,622	170,551	26,577	-	2,480,750
	2,312,074	213,207	26,577	-	2,551,858
Amortization					
Hospital machinery and equipment	-	-	-	(8,224)	(8,224)
Buildings	-	-	-	(173,517)	(173,517)
	-	-	-	(181,741)	(181,741)
Right of use, net	2,312,074	213,207	26,577	(181,741)	2,370,117

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

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

12. Deferred gain on property sales

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

Part of the gain referring to the excess of sales proceeds and fair value was deferred, as required by CPC 06/IAS 17 - Leases, and has been amortized over the lease term. At December 31, 2019, December 31, 2018 and December 31, 2017, the deferred gain balance is broken down as follows:

	Parent Company and Consolidated		
	2019	2018	2017
Caxias D'Or	32,690	34,400	36,120
Hospital Brasil	39,600	41,800	44,000
	72,290	76,200	80,120
Current	3,920	3,920	3,920
Noncurrent	68,370	72,280	76,200

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

13. Loans, financing and debentures

Operation/Instruments	Indexes	Spread	Curren- cy	Principal (R\$)	Beginning	Maturity	Amortization	Guarantees	Parent Company			Consolidated			
									2019	2018	2017	2019	2018	2017	
FINEP/BNDES	TULP/PRE	0,5%/4,1%	R\$	170,252	Feb/15	Sept/24	Monthly	Surety bond	115,680	156,490	307,498	116,994	163,409	315,968	
IFC-I Loan (a)	LIBOR	3,30%	US\$	93,790	Sept/11	Apr/20	Semiannually	Shares and receivables	-	-	48,283	-	-	48,283	
IFC-II-A Loan (a)	LIBOR	3,00%	US\$	135,349	Dec/14	Nov/24	Semiannually	Shares and receivables	-	-	112,576	-	-	112,576	
IFC-II-B1 Loan (a)	LIBOR	3,00%	US\$	386,712	Dec/14	Nov/24	Semiannually	Shares and receivables	-	-	321,607	-	-	321,607	
IFC II B2 Loan (a)	LIBOR	2,70%	US\$	58,007	Dec/14	Nov/22	Semiannually	Shares and receivables	-	-	39,102	-	-	39,102	
IFC II C Loan (a)	LIBOR	6,00%	US\$	57,863	Dec/14	Nov/27	Semiannually	n/a	-	-	51,365	-	-	51,365	
IFC II MCPP Loan (a)	LIBOR	3,00%	US\$	101,512	Dec/14	Nov/24	Semiannually	Shares and receivables	-	-	84,421	-	-	84,421	
IFC III A1 Loan (a)	LIBOR	3,30%	US\$	157,685	May/17	Apr/25	Semiannually	n/a	172,558	194,132	166,693	172,558	194,132	166,693	
IFC III A2 Loan	LIBOR	3,30%	US\$	157,685	May/17	Apr/26	Semiannually	Shares and receivables	154,740	155,398	158,037	154,740	155,398	158,037	
IFC III B Loan (a)	LIBOR	3,00%	US\$	252,296	May/17	Apr/24	Semiannually	n/a	264,561	308,943	266,100	264,561	308,943	266,100	
IFC III C Loan (a)	LIBOR	5,50%	US\$	94,611	May/17	Apr/26	Bullet	n/a	125,568	122,201	108,013	125,568	122,201	108,013	
Proparco Loan (a)	EURIBOR	3,00%	EUR	212,221	Dec/14	Nov/24	Semiannual	Shares and receivables	-	-	193,390	-	-	193,390	
JP Morgan (a)	Fixed rate	3,35%	US\$	300,000	Apr/16	Apr/20	Quarterly	n/a	137,998	331,601	288,692	137,998	331,601	288,692	
Citibank (a)	LIBOR	0,99%	US\$	203,190	Aug/17	Aug/22	Lump-sum payment	n/a	-	-	221,041	-	-	221,041	
Other	CDI/fix rate	-	R\$	n/a	n/a	May/21	Monthly	Fiduciary alienation and receivables	-	-	40	2,844	4,627	7,239	
Debentures – 3 rd issuance	100% of ID	2,30%	R\$	650,000	Dec/11	Dec/20	Monthly	n/a	128,916	261,220	388,255	128,916	261,220	388,255	
Debentures – 5 th issuance	100% of ID	2,00%	R\$	100,000	Dec/13	Dec/18	Annual	n/a	-	-	49,691	-	-	49,691	
Debentures – 7 th issuance 1 st series	100% of ID	1,90%	R\$	600,000	Jul/16	Jul/19	Lump-sum payment	Receivables	-	-	621,399	-	-	621,399	
Debentures – 7 th issuance 2 nd series	100% of ID	2,00%	R\$	300,000	Jul/16	Jul/20	Lump-sum payment	Receivables	-	-	310,763	-	-	310,763	
Debentures – 7 th issuance 3 rd series	100% of ID	2,10%	R\$	300,000	Jul/16	Jul/21	Lump-sum payment	Receivables	-	-	310,825	-	-	310,825	
Debentures – 9 th issuance 1 st series (c)	110% of ID	-	R\$	800,000	Aug/17	Aug/20	Bullet	n/a	-	878,454	833,360	-	878,454	833,360	
Debentures – 9 th issuance 2 nd series (c)	100% of ID	1,75%	R\$	600,000	Aug/17	Aug/24	Semiannual	n/a	-	614,031	600,810	-	614,031	600,810	
Senior notes (a) / (b)	Fixed rate	4,95%	US\$	1,596,400	Jan/18	Jan/28	Bullet	n/a	-	-	-	2,217,662	1,935,389	-	
Debentures – 10 th issuance (a)	Fixed rate	11,82%	R\$	1,628,100	Jan/18	Jan/28	Bullet	n/a	2,085,907	1,765,979	-	33,397	33,397	-	
Mortgage-backed Securities (CRIs) – 1 st issuance	99% of ID	-	R\$	662,837	Mar/18	Mar/23	Bullet	n/a	666,042	667,919	-	666,042	667,919	-	
Debentures – 1 st issuance – Medise	100% of ID	2,20%	R\$	100,000	Dec/11	Dec/18	Monthly	Receivables	-	-	21,595	-	-	21,595	
Debentures – 1 st issuance – Esperança	100% of ID	2,40%	R\$	200,000	Oct/12	Oct/21	Monthly	Shares and receivables	-	-	-	-	-	150,525	
Debentures – 2 nd issuance – Esperança	100% of ID	1,90%	R\$	100,000	Dec/13	Dec/18	Semiannual	Receivables	-	-	-	-	-	36,335	
Debentures – 3 rd issuance – Esperança	110,85% of ID	-	R\$	1,000,000	Aug/17	Aug/24	Semiannual	n/a	-	-	-	1,009,879	1,011,362	1,025,161	
Debentures – 4 th issuance – Esperança	100% of ID	1,27%	R\$	1,000,000	Feb/18	Dec/25	Semiannual	n/a	-	-	-	990,963	989,039	993,305	
Promissory note – 3 rd issuance	112,5% of ID	-	R\$	1,000,000	Apr/18	Apr/23	Bullet	n/a	1,109,662	1,045,386	-	1,109,662	1,045,386	-	
Mortgage-backed Securities (CRIs) – 2 nd issuance	IPCA	6,6%	R\$	300,000	Jul/18	Jul/25	Bullet	n/a	319,013	307,306	-	319,013	307,306	-	
Debentures – 13 th issuance	100% of ID	1,02%	R\$	1,400,000	Sept/18	Sept/20	Annual	n/a	1,409,222	1,418,105	-	1,409,222	1,418,105	-	
Citibank II (a)	LIBOR	0,46%	US\$	301,200	Nov/18	Nov/23	Bullet	n/a	322,843	310,591	-	322,843	310,591	-	
Debentures – 14 th issuance	100% of ID	-	R\$	500,000	Oct/18	Oct/26	Annual	Property	498,567	500,408	-	498,567	500,408	-	
Mortgage-backed Securities (CRIs) – 3 rd issuance 1 st series	96,5% of ID	-	R\$	227,051	Dec/18	Dec/23	Bullet	n/a	225,015	224,701	-	225,015	224,701	-	
Mortgage-backed Securities (CRIs) – 3 rd issuance 2 nd series	IPCA	4,65%	R\$	372,949	Dec/18	Dec/25	Bullet	n/a	382,530	368,966	-	382,530	368,966	-	
Debentures – 17 th issuance 3 rd series (e)	100% of ID	0,79%	R\$	1,000,000	Jun/19	Jun/29	Annual	n/a	989,286	-	-	989,286	-	-	
Debentures – 17 th issuance 2 nd series (e)	100% of ID	1,25%	R\$	2,500,000	Dec/19	Dec/26	Annual	n/a	2,475,662	-	-	2,475,662	-	-	
Promissory note (g) – 4 th issuance	103,0% of ID	-	R\$	800,000	Sept/19	Sept/22	Bullet	n/a	806,102	-	-	806,102	-	-	
Mortgage-backed Securities (CRIs) – 4 th issuance (d)	95,75% of ID	-	R\$	269,900	Feb/19	Feb/23	Bullet	n/a	272,073	-	-	272,073	-	-	
Mortgage-backed Securities (CRIs) – 4 th issuance (d)	IPCA	3,93%	R\$	30,100	Feb/19	Feb/26	Bullet	n/a	31,085	-	-	31,085	-	-	
Mortgage-backed Securities (CRIs) – 5 th issuance (f)	IPCA	3,45%	R\$	538,328	Sep/19	Aug/29	Annual	n/a	543,195	-	-	543,195	-	-	
									13,236,225	9,631,831	5,503,556	15,406,377	11,846,585	7,724,551	
									Current	602,556	621,388	475,361	584,960	607,704	588,037
									Noncurrent	12,633,669	9,010,443	5,028,195	14,821,417	11,238,881	7,136,514

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

13. Loans, financing and debentures (Continued)

- (a) As mentioned in Note 27, the Group contracts derivative financial instruments to hedge foreign exchange differences and adopted the fair value hedge accounting as accounting practice; therefore, these debts are recorded at fair value through profit or loss.
- (b) On January 17, 2018, through its wholly owned subsidiary Rede D'Or Finance, the Company issued Senior Notes, in the total amount of US\$500,000, restated by interest of 4.95% p.a., maturing on January 17, 2028, with semiannual interest payments starting on July 17, 2018 and the principal in one payment on January 17, 2028. At the same time, also through its subsidiary Rede D'Or Finance, the Company contracted derivative financial instruments to hedge against the exchange variation and interest, exchanging for Reais plus CDI + 2.01% p.a. Additionally, the Parent Company issued debentures (10th issuance), which were substantially acquired by the subsidiary Rede D'Or Finance. There are no guarantees.
- (c) At the year ended December 31, 2019, the Company fully settled those debts.
- (d) On December 15, 2019, through a securitization company, Rede D'Or issued registered book-entry 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.
- (e) 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\$6 billion. On June 24, 2019, Rede D'Or made a disbursement of R\$1 billion referring to the 3rd issue series, 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. On December 17, 2019, Rede D'Or made a disbursement of R\$2.5 billion referring to the 2nd issue series, maturing on December 21, 2026, in installments payable annually in 2024, 2025, and 2026, remunerated semiannually on a pro rata temporis basis with interest corresponding to 100% of the CDI plus 1.25% p.a. There are no guarantees.
- (f) On August 15, 2019, through a securitization company, Rede D'Or issued registered book-entry 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.
- (g) 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.

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

The costs related to the issuance of loans, financing and debentures, in the amount of R\$153,586 at December 31, 2019 (R\$135,695 and R\$75,071 at December 31, 2018 and 2017, respectively), were recorded as a reduction of the balances and have been amortized over the term of the agreements.

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

At December 31, 2019, the long-term maturity schedule is as follows:

Parent Company		Consolidated	
Year	Amount	Year	Amount
2021	136,933	2021	386,804
2022	943,036	2022	1,438,417
2023	3,530,925	2023	4,026,154
2024	1,657,698	2024	2,152,913
2025	1,815,999	2025	2,063,630
2026	1,029,724	2026	1,029,724
2027	506,860	2027	506,860
2028	3,012,494	2028	3,217,914
	12,633,669		14,821,417

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

14. Tax liabilities

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Contribution Tax on Gross Revenue for Social Integration Program (PIS)	3,494	3,531	2,785	6,091	4,982	3,341
Contribution Tax on Gross Revenue for Social Security Financing (COFINS)	26,114	24,394	18,405	45,465	38,264	27,249
Service Tax (ISS)	40,612	68,449	40,181	100,530	114,867	65,023
Withholding Income Tax (IRRF)	11,323	15,959	15,186	16,584	23,507	19,052
Income tax	-	-	-	52,810	53,717	49,902
Social contribution	-	-	-	12,155	16,980	15,180
Other	17,439	26,237	23,343	32,268	47,217	52,562
Tax refinancing programs:						
Tax on services (ISS)	8,754	14,420	17,505	41,628	36,532	43,457
Refinancing - Law No. 11.941/09	12,973	15,969	63,642	29,007	30,025	80,053
Social security payable (a)	49,022	55,333	70,965	155,113	158,966	178,322
Other	20,109	21,686	329	50,833	51,880	20,599
	189,840	245,978	252,341	542,484	576,937	554,740
Current	114,647	154,870	119,563	313,799	343,611	272,259
Noncurrent	75,193	91,108	132,778	228,685	233,326	282,481

At December 31, 2019, the long-term maturity schedule is as follows:

	Parent Company		Consolidated	
	Year	Amount	Year	Amount
2020	2020	12,492	2020	33,826
2021	2021	9,987	2021	26,367
2022	2022	8,382	2022	21,626
2023	2023	8,382	2023	21,164
2024 to 2030	2024 to 2030	35,950	2024 to 2030	125,702
		75,193		228,685

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

15. Accounts payable for acquisitions

Acquisitions	Restatement index	Parent Company			Consolidated		
		2019	2018	2017	2019	2018	2017
Ribeirão Pires	CDI	22,438	20,763	19,510	22,438	20,763	19,510
IFOR	CDI	13,115	12,377	11,630	13,115	12,377	11,630
Acreditar	CDI	-	-	13,827	-	-	13,827
Alphamed	CDI	7,621	7,192	6,758	7,621	7,192	6,758
Oncologia RJ	CDI	-	-	-	44,394	41,894	39,364
Salus	IPCA	-	-	-	5,370	5,139	6,862
Sator	SELIC	17,958	16,461	15,923	17,958	16,461	15,923
UDI	CDI	-	-	-	33,592	36,983	-
São Rafael	SELIC	-	-	-	183,860	173,506	-
Richet	CDI	-	-	-	9,275	10,820	-
Samer	CDI	-	-	-	8,336	11,800	-
Maximagem	CDI	317	16,947	15,467	317	16,947	15,467
Hospital Rio Mar	IPCA	-	-	-	66,914	-	-
Hospital São Lucas	CDI	-	-	-	42,231	-	-
Other	CDI/IPCA	3,189	6,492	8,681	7,635	9,500	9,163
		64,638	80,232	91,796	463,056	363,382	138,504
Current		20,411	22,357	18,904	163,063	105,094	26,249
Noncurrent		44,227	57,875	72,892	299,993	258,288	112,255

Accounts payable for acquisitions refer to the remaining balance of the considerations for acquisitions made. At December 31, 2019, noncurrent maturity schedule is as follows:

Parent Company		Consolidated	
Year	Amount	Year	Amount
2021	8,958	2021	16,829
2022	26,069	2022	108,475
2023	9,000	2023	11,500
2024/2029	200	2024/2029	163,189
	44,227		299,993

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

16. Provision for contingencies and judicial deposits

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

	Parent Company					
	2019		2018		2017	
	Provision for contingencies	Judicial deposits	Provision for contingencies	Judicial deposits	Provision for contingencies	Judicial deposits
Tax and social security	35,374	(103,908)	39,489	(88,067)	24,198	(76,755)
Labor	60,457	(21,522)	41,474	(11,878)	53,219	(5,240)
Civil	43,918	(11,759)	49,081	(13,223)	50,772	(10,812)
	139,749	(137,189)	130,044	(113,168)	128,189	(92,807)

	Consolidated					
	2019		2018		2017	
	Provision for contingencies	Judicial deposits	Provision for contingencies	Judicial deposits	Provision for contingencies	Judicial deposits
Tax and social security	71,838	(143,932)	61,728	(117,222)	49,424	(99,169)
Labor	95,859	(26,678)	54,837	(15,105)	63,136	(7,718)
Civil	59,812	(15,008)	73,230	(15,483)	65,419	(12,585)
	227,509	(185,618)	189,795	(147,810)	177,979	(119,472)

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

16. Provision for contingencies and judicial deposits (Continued)

16.1. Contingencies assessed as probable loss

Changes in provisions for contingencies for 2019, 2018 and 2017 were as follows:

	Parent Company			Total
	Tax and social security	Labor	Civil	
Balances at December 31, 2016	58,944	50,170	26,311	135,425
Additions, net of reversals	(34,126)	9,872	26,776	2,522
Monetary restatement	3,676	3,129	1,641	8,446
Payments	(4,296)	(9,952)	(3,956)	(18,204)
Balances at December 31, 2017	24,198	53,219	50,772	128,189
Additions, net of reversals	5,267	(4,083)	(1,184)	-
Monetary restatement	2,788	3,099	3,480	9,367
Payments	(108)	(13,626)	(3,987)	(17,721)
Additions from mergers (*)	7,344	2,865	-	10,209
Balances at December 31, 2018	39,489	41,474	49,081	130,044
Additions, net of reversals	(6,060)	21,675	2,385	18,000
Monetary restatement	2,400	3,362	3,274	9,036
Payments	(455)	(6,054)	(10,822)	(17,331)
Balances at December 31, 2019	35,374	60,457	43,918	139,749

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

16. Provision for contingencies and judicial deposits (Continued)

16.1. Contingencies assessed as probable loss (Continued)

	Consolidated			
	Tax and social security	Labor	Civil	Total
Balances at December 31, 2016	79,811	60,014	50,284	190,109
Additions, net of reversals	(26,662)	15,423	14,028	2,789
Monetary restatement	4,234	3,184	2,668	10,086
Payments	(9,217)	(15,485)	(1,561)	(26,263)
Enrollment with REFIS (Note 13)	(7,519)	-	-	(7,519)
Additions from acquisitions (*)	8,777	-	-	8,777
Balances at December 31, 2017	49,424	63,136	65,419	177,979
Additions, net of reversals	(4,418)	1,104	1,638	(1,676)
Monetary restatement	4,422	4,611	5,957	14,990
Payments	(115)	(14,142)	(5,492)	(19,749)
Additions from acquisitions (*)	12,415	128	5,708	18,251
Balances at December 31, 2018	61,728	54,837	73,230	189,795
Additions, net of reversals	(3,718)	32,707	(10,595)	18,394
Monetary restatement	4,351	4,860	5,186	14,397
Payments	(851)	(6,404)	(13,651)	(20,906)
Additions from acquisitions (*)	10,328	9,859	5,642	25,829
Balances at December 31, 2019	71,838	95,859	59,812	227,509

(*) Additions related to acquisitions performed in the respective years, described in Note 3.

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

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

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

Considering the complexities of the lawsuits, as well as of the Brazilian legal system, the Company does not estimate with reasonable precision the disbursement term to settle these legal proceedings.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

16. Provision for contingencies and judicial deposits (Continued)

16.2. Contingencies assessed as possible loss

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

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Tax and social security (a)	1,111,187	1,128,187	381,909	1,188,018	1,210,075	459,095
Labor (b)	121,383	168,369	263,482	151,526	224,981	325,258
Civil (c)	165,689	86,150	114,004	247,472	170,988	204,031
	1,398,259	1,382,706	759,395	1,587,016	1,606,044	988,384

(a) The most significant matters refers to administrative proceedings in the total amount of R\$1.1 billion, of which R\$310 million refers to assessments received in 2016 and 2017, and R\$749 million is related to notice served in early 2018. These challenges derive mostly from allegations of the Brazilian Internal Revenue Service (IRS) that certain doctors that render services in hospitals through legal entities would be effectively Company's employees. Therefore, the Brazilian IRS issued notifications demanding the payment of the Social Security Tax (INSS). The Company is currently challenging such allegations.

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

(b) Proceedings largely derived from overtime payment, 13th month salary, resignation notice, vacation pay and Unemployment Compensation Fund (FGTS). There are no individually significant proceedings.

(c) Proceedings related to compensation for alleged property and pain and suffering damages. There are no individually significant proceedings.

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

17. Leases

At December 31, 2019, lease liabilities are as follows:

	2019	
	Parent Company	Consolidated
Nominal value of future payments	5,127,984	7,244,736
Present value adjustment	(3,366,569)	(4,717,564)
	<u>1,761,415</u>	<u>2,527,172</u>
Current	108,724	171,074
Noncurrent	1,652,691	2,356,098

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

At December 31, 2019, noncurrent maturity schedule is as follows:

Parent Company		Consolidated	
Year	Amount	Year	Amount
2021	71,367	2021	107,950
2022	80,178	2022	120,680
2023	86,482	2023	128,789
2024	90,507	2024	126,336
2025 to 2055	1,324,157	2025 to 2055	1,872,343
	<u>1,652,691</u>		<u>2,356,098</u>

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

18. Equity

a) Capital

The Company's capital is broken down as follows:

Shareholders	2019		2018		2017	
	Number of shares	Equity interest	Number of shares	Equity interest	Number of shares	Equity interest
Controlling family (a)	1,055,399,136	57.37%	1,055,399,136	57.37%	1,055,399,136	57.03%
Pacific Mezz PTE. Ltda. (b)	477,078,992	25.93%	477,078,992	25.93%	477,078,992	25.78%
Carlyle Group (c)	218,503,772	11.88%	218,503,772	11.88%	218,503,772	11.81%
Other	88,667,768	4.82%	88,667,768	4.82%	88,667,768	4.79%
Total common shares	1,839,649,668	100.00%	1,839,649,668	100.00%	1,839,649,668	99.41%
Preferred shares	-	-	-	-	10,938,400	0.59%
Total shares	1,839,649,668	100.00%	1,839,649,668	100.00%	1,850,588,068	100.00%

- (a) This represents equity interest directly held by the "Moll Family" (individuals) and by means of investment fund 'Delta FM&B Fundo Inv. em Participações'.
- (b) This represents Singapore Sovereign Fund (GIC).
- (c) Represented by funds HPT Fundo de Investimento em Participações, HPT II Fundo de Investimento em Participações, RDSL Investimento Secundário FIP, Fundo Brasil de Internacionalização de Empresas - FIP and Fundo Brasil de Internacionalização de Empresas - FIP II.

Subscribed and paid-in capital at December 31, 2019, 2018 and 2017 amounts to R\$867,776, divided into 1,839,649,668 registered common shares with no par value, already considering the splits of shares on April 1, 2019 and on September 24, 2020, in the proportion of two shares for each existing share. Such split was reflected retroactively, as required by CPC 41. As of December 31, 2017, there were 10,938,400 class A preferred shares at nominative value, fully repurchased on February 23, 2018. The authorized capital limit approved in the Company's bylaws is up to 8 billion shares (units).

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

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

18. Equity (Continued)

b) Allocation of income

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

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net income for the year	1,167,071	1,169,964	954,024
Legal reserve (article 193 of Law no. 6404) (*)	-	-	-
Mandatory minimum dividend calculation base	<u>1,167,071</u>	<u>1,169,964</u>	<u>954,024</u>
Mandatory minimum dividend (including interest on equity)	291,768	292,491	238,506
Dividends and interest on equity in addition to mandatory minimum dividend approved at the General Meeting	-	734,321	797,362
Dividends per thousand shares - in reais	0.3171	1.1161	1.1259

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

	<u>Consolidated</u>
Balance at January 1, 2017	<u>427,259</u>
Allocation of additional dividends in excess of mandatory minimum dividend	797,362
Allocation of dividends and interest on equity	238,506
Non-controlling dividends	12,991
Payment of dividends and interest on equity	(976,176)
Reinvested dividends	(184,960)
Withholding Income Tax (IRRF)	(39,486)
Balance payable at December 31, 2017	<u>275,496</u>
Allocation of additional dividends in excess of mandatory minimum dividend	734,321
Allocation of dividends and interest on equity	292,491
Non-controlling dividends	2,346
Payment of dividends and interest on equity	(1,265,137)
Withholding Income Tax (IRRF)	(30,577)
Balance payable at December 31, 2018	<u>8,940</u>
Allocation of dividends and interest on equity	291,768
Non-controlling dividends	27,836
Payment of dividends and interest on equity	(12,808)
Withholding Income Tax (IRRF)	(28,342)
Balance payable at December 31, 2019	<u>287,394</u>

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

18. Equity (Continued)

b) Allocation of income (Continued)

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

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

c) Treasury shares

Changes in treasury shares are as follows:

	Number of shares	Share value (in reais)	Total
Balance at December 31, 2016	78,937,596	4.2	331,525
Acquisitions	5,930,556	8.3	49,225
Disposals	(7,977,676)	5.2	(41,282)
Balance at December 31, 2017	76,890,476	4.4	339,468
Acquisitions	11,842,452	11.7	139,100
Cancellations (*)	(10,938,400)	-	-
Disposals	(1,079,860)	5.0	(5,375)
Balance at December 31, 2018	76,714,668	6.2	473,193
Acquisitions	185,740	10.9	2,026
Disposals	(225,096)	3.4	(757)
Balance at December 31, 2019	76,675,312	6.2	474,462

(*) On February 23, 2018, Rede D'Or repurchased 10,938,400 preferred shares from noncontrolling shareholders for R\$130,506, and subsequently cancelled these shares. With this purchase, there is no more preferred shares.

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

18. Equity (Continued)

d) Share-based payment (stock options)

The number of shares and amounts described below already reflect the share split that occurred in April 2019 and September 2020.

First Stock Option Plan

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

On November 30, 2011, the stock option plan comprising the right to purchase 28,299,760 shares was granted, by means of an individual agreement and its amendments, entered into between the Company and each beneficiary.

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

The strike price of options granted was R\$2.03 per nominal share and should remain the same until the options are effectively exercised, subject to monetary restatement (CDI or IPCA).

Second and Third Stock Option Plans

The Company granted to beneficiaries of the Second and Third Plans the option for the purchase of 9,560,320 and 15,739,200 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\$2.31 per share for the Second Plan and R\$2.34 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.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

18. Equity (Continued)

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

Fourth Stock Option Plan

The Company granted to beneficiaries of the first series of the Four Plan the option to purchase 230,460 common registered shares, with no par value, through an individual contract between each beneficiary and the Company. These contracts follow the same conditions of the First Stock Option Plan.

The Company granted to beneficiaries of the second series of the Fourth Plan the option to purchase 4,813,992 common registered shares, with no par value, through an individual contract between each beneficiary and the Company. In order to be entitled to the right to stock options, beneficiaries have to work for the Company for at least three years (vesting period). The Company's managing officers and employees participating in this 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 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\$3.50 per share and for the second series is R\$2.25 per shares, increased by the CDI variation, on a *pro rata* day basis, until the effective date of exercise of any Stock Option.

Fifth Stock Option Plan

The Company granted to beneficiaries of the first series of the Fifth Plan the option to purchase 530,052 common registered shares, with no par value, through an individual contract between each beneficiary and the Company.

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

For the beneficiaries of the second series, the stock option is composed of five lots of 159,024 common shares, to be granted annually and exercised as from January 31 of each subsequent year. At the end of 2016, two series have already been granted totaling 318,048 common registered shares, with no par value. The participants have a maximum forty-eight-month term from the end of the vesting period to exercise the options.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

18. Equity (Continued)

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

Fifth Stock Option Plan (Continued)

The strike price of options granted in the first series is R\$2.25 per share and for the second series is R\$3.17 per share, increased by the CDI variation, on a *pro rata* day basis, until the effective date of exercise of any Stock Option.

Sixth Stock Option Plan

The Company granted to beneficiaries of the Sixth Plan the option to purchase 2,660,080 common registered shares, with no par value, through an individual contract between each beneficiary and the Company. The stock option is composed of five lots of 532,016 common shares, to be granted annually and exercised as from January 31 of each subsequent year. The participants have a maximum forty-eight months term 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\$11.81 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 2,800,000 common registered shares, with no par value, through an individual contract between each beneficiary and the Company. The 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 10,800,000 common registered shares, with no par value, through an individual contract between each beneficiary and the Company. The stock option is composed of five lots of 2,160,000 common shares, to be granted annually and exercised as from January 31 of each subsequent year. The participants have a maximum forty-eight months term 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\$12.58 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 financial statements (Continued)
December 31, 2019, 2018 and 2017
(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 3,079,012 common registered shares, with no par value, through an individual contract between each beneficiary and the Company. The stock option is composed of a single lot of 3,079,012 common shares, to be granted as from January 1 of subsequent year. The participants have from 36 to 60 months, as from the end of the vesting period, to exercise the options.

The strike price of options granted in the fourth series is R\$13.43 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 4,690,040 common registered shares, with no par value, through an individual contract between each beneficiary and the Company. The stock option is composed of a single lot of 4,690,040 common shares, to be granted as from January 1 of subsequent year. The participants have from 36 to 60 months, as from the end of the vesting period, to exercise the options.

The strike price of options granted in the fifth series is R\$13.60 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 financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

18. Equity (Continued)

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

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

Beginning of maturity	Number of shares	Annual volatility	Risk-free rate	Fair value of options (in Reais)	Vesting
First Stock Option Plan					
01/01/2012	5,659,952	39.60%	10.50%	1.91	Vested
01/01/2013	5,659,952	39.60%	10.50%	1.98	Vested
01/01/2014	5,659,952	39.60%	10.60%	2.07	Vested
01/01/2015	5,659,952	39.60%	10.70%	2.16	Vested
01/01/2016	5,659,952	39.60%	10.70%	2.25	Vested
Second Stock Option Plan					
03/31/2013	1,912,064	32.39%	7.10%	3.48	Vested
03/31/2014	1,912,064	32.39%	7.25%	3.42	Vested
03/31/2015	1,912,064	32.39%	7.61%	3.39	Vested
03/31/2016	1,912,064	32.39%	8.06%	3.38	Vested
03/31/2017	1,912,064	32.39%	8.39%	3.38	Vested
Third Stock Option Plan					
03/31/2014	3,147,840	31.74%	9.11%	3.57	Vested
03/31/2015	3,147,840	31.74%	10.23%	3.56	Vested
03/31/2016	3,147,840	31.74%	10.89%	3.54	Vested
03/31/2017	3,147,840	31.74%	11.34%	3.54	Vested
03/31/2018	3,147,840	31.74%	11.53%	3.53	Vested
Fourth Stock Option Plan - First series					
03/31/2015	29,812	30.27%	10.81%	4.00	Vested
03/31/2016	50,160	30.27%	11.16%	3.97	Vested
03/31/2017	50,160	30.27%	11.50%	3.96	Vested
03/31/2018	50,164	30.27%	11.66%	3.95	Vested
03/31/2019	50,164	30.27%	11.82%	3.96	Vested
Fourth Stock Option Plan - Second series					
06/02/2015	481,400	30.17%	10.76%	4.93	Vested
06/02/2016	481,400	30.17%	10.91%	4.86	Vested
06/02/2017	962,796	30.17%	11.09%	4.80	Vested
06/02/2018	962,796	30.17%	11.18%	4.75	Vested
06/02/2019	962,796	30.17%	11.29%	4.70	Vested
06/02/2020	481,400	30.17%	11.41%	4.67	Unvested
06/02/2021	481,400	30.17%	11.40%	4.63	Unvested
Fifth Stock Option Plan - First series					
03/31/2015	353,368	30.94%	12.81%	5.73	Vested
03/30/2016	176,684	30.94%	12.67%	5.64	Vested
Fifth Stock Option Plan - Second series					
03/31/2015	159,024	30.94%	13.12%	5.13	Vested
03/30/2016	159,024	30.94%	13.00%	5.06	Vested
Sixth Stock Option Plan					
01/31/2017	532,016	32.00%	15.95%	12.58	Vested
Seventh Stock Option Plan - First series					
03/31/2017	280,000	33.72%	12.06%	13.10	Vested
Seventh Stock Option Plan - Second series					
03/31/2017	1,840,000	33.72%	11.98%	13.10	Vested
Seventh Stock Option Plan - Third series					
03/31/2017	320,000	33.75%	11.87%	13.17	Vested
Seventh Stock Option Plan - Fourth series					
01/01/2021	2,053,004	25.65%	10.73%	17.26	Unvested
01/01/2022	746,008	25.65%	10.73%	17.26	Unvested
01/01/2023	280,000	25.65%	10.73%	17.26	Unvested
Seventh Stock Option Plan - Fifth series					
01/01/2018	938,008	25.95%	7.57%	17.60	Vested
01/01/2019	938,008	25.95%	7.57%	17.60	Vested
01/01/2020	938,008	25.95%	7.57%	17.60	Unvested
01/01/2021	938,008	25.95%	7.57%	17.60	Unvested
01/01/2022	938,008	25.95%	7.57%	17.60	Unvested
	70,232,896				

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

18. Equity (Continued)

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

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

	<u>Fair value of options per year</u>	<u>Effects on profit or loss for the year</u>	<u>Cumulative effect on equity</u>
2011	1,457	1,457	1,457
2012	16,234	16,234	17,691
2013	20,656	20,656	38,347
2014	27,363	27,363	65,710
2015	51,949	51,949	117,659
2016	30,864	30,864	148,523
2017	32,599	32,599	181,122
2018	40,662	40,662	221,784
2019	40,656	40,656	262,440
2020	2,977		
2021	1,216		
2022	257		
2023	64		
	<u>266,954</u>		

The Company grants a put option to each beneficiary on total shares that are acquired. The periods for exercising the options are determined by individual agreements between the parties, and the acquisition price by the Company will be determined based on specific measurement criteria involving multiples of the Company's EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). In 2017, 2018 and 2019, the executives exercised put options of shares vested against the Company, which repurchased 5,930,556, 11,842,452 and 185,740 shares, respectively, and recorded them as treasury shares.

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

18. Equity (Continued)

e) Capital transactions at subsidiaries and acquisition of noncontrolling interests

In 2019, Rede D'Or acquired additional interest of 4.5% and 0.90% in JTO Holding S.A. and JTO Fundadores S.A., as well as made capital transactions and acquisitions of minority companies of controlled companies, which resulted in the impact of R\$ 40,079 as capital transactions, directly on shareholders' equity.

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

In 2017, 42%, Rede D'Or acquired additional interest of 42% in JTO Holding, 40% in Acreditar, and 30% in Oncobrasília. The consideration transferred for the additional interest totaled R\$119,525. Since the Company already had control over these investees, the excess amount of R\$72,022 paid over their equity value was recorded as capital transactions directly in equity. In addition, in 2017 the Company also acquired other smaller additional interests in subsidiaries and excess amounts of R\$26,187 paid over their equity value was recorded as capital transactions directly in equity.

19. Income tax and social contribution

Income tax and social contribution expenses for the years ended December 31, 2019, 2018 and 2017 are as follows:

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Deferred taxes						
Income tax	17,422	(19,158)	(41,116)	54,136	21,545	(34,746)
Social contribution	6,272	(6,897)	(14,801)	19,543	7,720	(12,544)
	23,694	(26,055)	(55,917)	73,679	29,265	(47,290)
Current taxes						
Income tax	(231,943)	(212,590)	(156,051)	(418,695)	(358,011)	(288,665)
Social contribution	(89,896)	(82,479)	(60,301)	(162,423)	(137,020)	(110,382)
	(321,839)	(295,069)	(216,352)	(581,118)	(495,031)	(399,047)
Income tax and social contribution expenses	(298,145)	(321,124)	(272,269)	(507,439)	(465,766)	(446,337)

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

19. Income tax and social contribution (Continued)

Changes in deferred income tax and social contribution assets and liabilities at December 31, 2019, 2018 and 2017 were as follows:

	Parent Company							
	2016	Additional benefits (expenses) recorded	2017	Additional benefits (expenses) recorded	Additions from mergers	2018	Additional benefits (expenses) recorded	2019
Assets								
Tax losses	2,383	(2,383)	-	-	-	-	-	-
Social contribution losses	857	(857)	-	-	-	-	-	-
Allowance for doubtful accounts and provision for disallowances	169,736	43,601	213,337	37,104	7,555	257,996	54,143	312,139
Contingencies	50,633	(2,460)	48,173	(2,840)	6,067	51,400	3,300	54,700
Provision for inventories	1,159	(1,159)	-	-	-	-	-	-
Provision for bonus	15,510	3,661	19,171	2,052	110	21,333	(9,730)	11,603
Foreign exchange variation	-	25,129	25,129	76,781	-	101,910	7,706	109,616
Provision for losses	16,528	(16,528)	-	-	-	-	-	-
Deferred gain on property sale	30,976	(3,735)	27,241	(1,333)	-	25,908	(1,333)	24,575
Lease amortization (IFRS 16)	-	-	-	-	-	-	53,583	53,583
PVA allocation (IFRS 16)	-	-	-	-	-	-	91,911	91,911
Taxes - Judicial deposits	6,380	(1,410)	4,970	2,406	-	7,376	2,673	10,049
Swap variation	54,211	(27,146)	27,065	(27,065)	-	-	-	-
Other provisions	3,856	(2,237)	1,619	(2,751)	148	(984)	331	(653)
Total deferred tax assets	352,229	14,476	366,705	84,354	13,880	464,939	202,584	667,523
Liabilities								
Differences between book balance and tax base of goodwill	(425,688)	(70,393)	(496,081)	(58,229)	-	(554,310)	(62,289)	(616,599)
Gain on acquisition in steps	(48,873)	-	(48,873)	-	-	(48,873)	-	(48,873)
Swap difference	-	-	-	(52,180)	-	(52,180)	(3,570)	(55,750)
Lease (IFRS 16)	-	-	-	-	-	-	(113,031)	(113,031)
Total deferred tax liabilities	(474,561)	(70,393)	(544,954)	(110,409)	-	(655,363)	(178,890)	(834,253)
Net effect – asset (liability)	(122,332)	(55,917)	(178,249)	(26,055)	13,880	(190,424)	23,694	(166,730)

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

19. Income tax and social contribution (Continued)

	Consolidated									
	2016	Additional benefits (expenses) recorded	Additions from business combinations	2017	Additional benefits (expenses) recorded	Additions from business combinations	2018	Additional benefits (expenses) recorded	Additions from business combinations	2019
Assets										
Tax losses	3,731	1,020	9,962	14,713	11,263	-	25,976	5,536	2,737	34,249
Social contribution losses	1,341	368	3,586	5,295	4,055	-	9,350	1,990	985	12,325
Allowance for doubtful accounts and provision for disallowances	272,731	57,061	5,455	335,247	67,635	-	402,882	96,926	5,251	505,059
Contingencies	79,830	(7,174)	3,081	75,737	(2,188)	6,088	79,637	4,041	2,061	85,739
Provision for inventories	1,159	(1,159)	-	-	(1,385)	1,385	-	-	-	-
Provision for bonus	15,941	4,710	-	20,651	2,286	-	22,937	(8,722)	-	14,215
Foreign exchange difference	-	25,129	-	25,129	76,781	-	101,910	7,706	-	109,616
Provision for losses	15,287	(15,287)	-	-	-	-	-	-	-	-
Deferred gain on property sale	30,976	(3,735)	-	27,241	(1,333)	-	25,908	(1,333)	-	24,575
Swap variation	54,211	(27,146)	-	27,065	(27,065)	-	-	-	-	-
Other provisions	13,711	(8,655)	-	5,056	(1,255)	709	4,510	6,006	-	10,516
Lease amortization (IFRS 16)	-	-	-	-	-	-	-	71,813	-	71,813
PVA allocation (IFRS 16)	-	-	-	-	-	-	-	121,452	-	121,452
Total deferred tax assets	488,918	25,132	22,084	536,134	128,794	8,182	673,110	305,415	11,034	989,559
Liabilities										
Differences between book balance and tax base of goodwill	(475,843)	(74,496)	-	(550,339)	(58,229)	-	(608,568)	(85,129)	-	(693,697)
Gain on acquisition in steps	(69,499)	-	-	(69,499)	-	-	(69,499)	-	-	(69,499)
Swap difference	-	-	-	-	(52,180)	-	(52,180)	(3,570)	-	(55,750)
Lease (IFRS 16)	-	-	-	-	-	-	-	(148,571)	-	(148,571)
Deferred revenue	(23,423)	2,074	-	(21,349)	10,880	-	(10,469)	5,534	-	(4,935)
Total deferred tax liabilities	(568,765)	(72,422)	-	(641,187)	(99,529)	-	(740,716)	(231,736)	-	(972,452)
Net effect – asset (liability)	(79,847)	(47,290)	22,084	(105,053)	29,265	8,182	(67,606)	73,679	11,034	17,107
Assets as per balance sheet	70,668	-	-	113,043	-	-	195,597	-	-	318,655
Liabilities as per balance sheet	(150,515)	-	-	(218,096)	-	-	(263,203)	-	-	(301,548)

The reconciliation of income tax and social contribution to the amount determined at the statutory rate for 2019, 2018 and 2017 is as follows:

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Income before income tax and social contribution	1,465,216	1,491,088	1,226,293	1,698,956	1,645,384	1,424,934
Income tax and social contribution expense at the statutory rate of 34%	498,173	506,970	416,940	577,645	559,431	484,478
Adjustments to determine the effective rate						
Equity pickup	(109,354)	(89,393)	(90,648)	(1,505)	(8,014)	(6,405)
Stock option expenses	13,823	13,825	11,084	13,823	13,825	11,084
Interest on equity	(91,340)	(98,548)	(103,733)	(91,340)	(98,548)	(103,733)
Unrecognized tax credit	-	-	32,475	-	-	36,883
Effects of companies under the regime whereby tax is computed as a percentage of gross revenue	-	-	-	23,429	20,411	15,648
Other	(13,157)	(11,730)	6,151	(14,613)	(21,339)	8,382
Expense in the income statement	298,145	321,124	272,269	507,439	465,766	446,337
Effective rate	20%	22%	22%	30%	28%	31%

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

19. Income tax and social contribution (Continued)

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

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

20. Net revenue

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Gross revenue	9,246,514	8,343,863	7,167,548	14,989,059	12,314,972	10,472,482
Deductions from revenue						
Cancellations and rebates	(446,334)	(380,950)	(288,852)	(833,852)	(661,682)	(476,077)
Taxes on revenues	(484,782)	(481,052)	(378,566)	(835,372)	(738,398)	(578,998)
	8,315,398	7,481,861	6,500,130	13,319,835	10,914,892	9,417,407

The Company has no revenues arising from customers outside Brazil.

21. Costs of services provided

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Personnel	(2,498,641)	(2,070,306)	(1,946,255)	(4,152,454)	(3,132,808)	(2,799,092)
Materials and medicines	(1,569,612)	(1,385,522)	(1,148,334)	(2,797,838)	(2,196,994)	(1,779,388)
Third-party services	(1,087,188)	(1,088,001)	(798,500)	(1,999,054)	(1,866,410)	(1,506,311)
Utilities and services	(149,987)	(132,880)	(113,190)	(242,249)	(193,023)	(161,134)
Rentals	(2,525)	(312,594)	(286,867)	(10,618)	(372,109)	(352,483)
Depreciation and amortization	(425,605)	(248,524)	(211,372)	(636,749)	(348,184)	(282,544)
	(5,733,558)	(5,237,827)	(4,504,518)	(9,838,962)	(8,109,528)	(6,880,952)

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

22. General and administrative expenses

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Personnel	(290,654)	(290,164)	(222,085)	(290,654)	(290,164)	(222,085)
Third-party services	(56,994)	(52,856)	(50,475)	(56,994)	(52,856)	(50,475)
Trips and lodging	(23,899)	(18,839)	(17,174)	(36,012)	(25,593)	(22,871)
Depreciation and amortization	(72,048)	(45,085)	(25,432)	(72,048)	(45,085)	(25,432)
Provision for contingencies	(18,000)	-	(2,522)	(18,394)	1,676	(2,789)
	(461,595)	(406,944)	(317,688)	(474,102)	(412,022)	(323,652)

23. Selling expenses

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Allowance for doubtful accounts	-	-	(37,058)	-	-	(37,300)
Marketing	(14,663)	(17,542)	(16,190)	(24,033)	(24,216)	(20,871)
	(14,663)	(17,542)	(53,248)	(24,033)	(24,216)	(58,171)

24. Other operating expenses, net

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Taxes, charges and fines	(45,326)	(37,945)	(29,220)	(82,405)	(54,577)	(39,118)
Gain on property sale	3,920	3,920	3,920	3,920	3,920	3,920
Impairment of goodwill	-	-	(1,974)	-	-	(1,974)
Lease of machinery and equipment	(11,241)	(14,394)	(12,321)	(18,364)	(21,876)	(17,624)
Rentals of property and equipment	-	-	(2,000)	-	-	(2,086)
Freight expenses	(14,649)	(18,764)	(16,990)	(24,478)	(22,338)	(19,007)
Notary and court fees	(16,713)	(14,598)	(6,537)	(22,545)	(17,477)	(9,764)
Advisory expenses	(4,943)	(6,465)	-	(17,246)	(7,465)	-
Other (*)	(36,998)	13,477	(23,976)	(50,195)	4,097	(80,077)
	(125,950)	(74,769)	(89,098)	(211,313)	(115,716)	(165,730)

(*) In 2018, the balance is positively impacted by the gain with sale-leaseback; in 2017 and 2019 are pulverized expenses of various natures.

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

25. Financial income (expenses), net

Financial income (expenses) for the years ended December 31, 2019, 2018 and 2017 are as follows:

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Short-term investment yield	155,813	162,477	87,794	211,350	258,049	162,013
Foreign exchange differences, net	(45,499)	(277,855)	(76,136)	(119,826)	(660,219)	(76,180)
Fair value of debt	(283,264)	(39,461)	(22,448)	(165,916)	(39,461)	(22,448)
Derivatives' fair value (swaps)	374,856	313,880	(16,205)	240,416	517,158	(16,205)
Interest and monetary variation on financing and debentures	(704,500)	(603,479)	(455,850)	(771,581)	(593,155)	(520,087)
Taxes on financial income (expenses)	(13,034)	(13,310)	(12,184)	(18,520)	(19,404)	(17,436)
Interest on lease liability	(270,326)	-	-	(380,967)	-	-
Other	(50,090)	(58,864)	(80,867)	(71,852)	(94,566)	(92,463)
	(836,044)	(516,612)	(575,896)	(1,076,896)	(631,598)	(582,806)
Total finance income	773,502	635,067	105,576	1,567,286	943,503	181,070
Total finance expenses	(1,609,546)	(1,151,679)	(681,472)	(2,644,182)	(1,575,101)	(763,876)

26. Earnings per share

a) Basic earnings per share

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

	2019	2018	2017
Profit attributable to Company shareholders	1,167,071	1,169,964	954,024
Weighted average number of issued common and preferred shares issued (in thousands)*	1,762,974	1,762,936	1,771,076
Basic earnings per share in reais (R\$)	0.6620	0.6636	0.5387

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

26. Earnings per share (Continued)

a) Diluted earnings per share

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Income attributable to the Company's controlling interests	1,167,071	1,169,964	954,024
Weighted average number of common and preferred shares issued (in thousands)*	1,762,974	1,762,936	1,771,076
Dilution instruments - weighted average number of shares (in thousands):			
Stock options	6,856	8,804	11,888
Total dilution instruments	<u>6,856</u>	<u>8,804</u>	<u>11,888</u>
Diluted earnings per share – in reais (R\$)	<u>0.6594</u>	0.6603	0.5351

* On April 1, 2019 and September 24, 2020, the Company split its common shares at the proportion of two shares for each existing share. The adjustment was reflected retrospectively in the years ended December 31, 2019, 2018 and 2017, as required by CPC 41.

27. Financial instruments and financial risk management

27.1. Classification of financial instruments by category

Fair value hierarchy

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

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

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

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

27. Financial instruments and financial risk management (Continued)

27.1. Classification of financial instruments by category (Continued)

The following tables below present breakdown of financial assets and liabilities at December 31, 2019, 2018 and 2017:

Parent Company					
Financial assets	Classification by category	Fair value hierarchy	Book balance		
			2019	2018	2017
Cash and cash equivalents	Fair value through P&L	Level 2	33,580	47,782	32,559
Marketable securities	Fair value through P&L	Level 2	3,782,360	2,768,894	1,006,117
Trade accounts receivable	Amortized cost		2,503,118	2,139,001	1,886,908
Dividends receivable	Amortized cost		69,657	53,195	41,195
Judicial deposits	Amortized cost		137,189	113,168	92,807
Derivatives	Fair value through profit or loss	Level 2	558,651	267,633	99,968
			7,054,555	5,389,673	3,159,554
Financial liabilities	Classification by category	Fair value hierarchy	Book balance		
			2019	2018	2017
Trade accounts payable	Amortized cost		216,267	248,051	278,647
Loans, financing and debentures	Amortized cost (a)	Level 2	13,236,225	9,631,831	5,503,556
Salaries, provisions and social charges	Amortized cost		343,994	310,234	281,994
Accounts payable for acquisitions	Amortized cost		64,638	80,232	91,796
Derivatives	Fair value through P&L	Level 2	5,591	8,339	113,342
			13,866,715	10,278,687	6,269,335

(a) The portion of the debt recorded as hedge accounting is measured at fair value through profit or loss, totaling R\$3,094,838 at December 31, 2019 (R\$3,057,580 at December 31, 2018 and R\$1,924,658 at December 31, 2017).

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

27. Financial instruments and financial risk management (Continued)

27.1. Classification of financial instruments by category (Continued)

Consolidated					
Financial assets	Classification by category	Fair value hierarchy	Book balance		
			2019	2018	2017
Cash and cash equivalents	Fair value through P&L	Level 2	68,684	192,008	140,383
Marketable securities	Fair value through P&L	Level 2	4,701,418	3,864,700	3,120,454
Trade accounts receivable	Amortized cost		4,117,916	3,259,349	2,836,744
Judicial deposits	Amortized cost		185,618	147,810	119,472
Derivatives	Fair value through P&L	Level 2	811,042	560,959	99,968
			9,884,678	8,024,826	6,317,021
Financial liabilities	Classification by category	Fair value hierarchy	Book balance		
			2019	2018	2017
Trade accounts payable	Amortized cost		498,066	528,975	475,546
Loans, financing and debentures	Amortized cost (a)	Level 2	15,406,926	11,846,585	7,724,551
Salaries, provisions and social charges	Amortized cost		510,293	436,641	370,030
Accounts payable for acquisitions	Fair value through P&L		463,056	363,382	138,504
Derivatives	Amortized cost	Level 2	92,905	98,387	113,342
			16,971,246	13,273,970	8,821,973

(b) The portion of the debt recorded as hedge accounting is measured at fair value through profit or loss, totaling R\$3,259,993 at December 31, 2019 (R\$3,260,902 at December 31, 2018 and R\$1,924,658 at December 2017).

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

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 may be summarized as follows:

a) Capital management

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

27. Financial instruments and financial risk management (Continued)

27.2. Risk management (Continued)

a) Capital management (Continued)

The Company uses own and third-party capital to finance its activities, also use of third-party capital intended to optimize its capital structure. The Company manages its capital structure and makes adjustments considering changes in economic conditions. At December 31, the Company has the following capital structure:

	Parent Company			Consolidated		
	2019	2018	2017	2019	2018	2017
Cash and cash equivalents	33,580	47,782	32,559	68,684	192,008	140,383
Marketable securities	3,782,360	2,768,894	1,006,117	4,701,418	3,864,700	3,120,454
	3,815,940	2,816,676	1,038,676	4,770,102	4,056,708	3,260,837
Loans, financing and debentures (*)	(13,236,225)	(9,631,831)	(5,503,556)	(15,406,377)	(11,846,585)	(7,724,551)
Net debt	(9,420,285)	(6,815,155)	(4,464,880)	(10,636,824)	(7,789,877)	(4,463,714)
Total equity	5,210,130	4,335,519	4,315,842	5,436,510	4,527,727	4,481,144
Total net debt and equity	(4,210,155)	(2,479,636)	(149,038)	(5,200,314)	(3,262,150)	17,430
Financial leverage ratio	1.81	1.57	1.03	1.96	1.72	1.00

(*) The Company contracts derivatives recorded separately in the balance sheet, which also directly impact on liquid debt (see item f).

b) Interest rate risk

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

The sensitivity analysis of interest on loans, financing and debentures considered as probable scenario (Scenario I) the referential rates obtained with BM&FBOVESPA at December 31, 2019, and Scenarios II and III take into consideration rate increase by 25% and 50%, respectively. The results, in nominal values, are as follows:

Scenarios	Scenario I current	Scenario II +25%	Scenario III +50%
CDI rate (p.a.)	4.40%	5.50%	6.60%
IPCA rate (p.a.)	4.31%	5.39%	6.47%
Projected interest expenses - (in millions)	4,052	5,065	6,078

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

27. Financial instruments and financial risk management (Continued)

27.2. Risk management (Continued)

c) Credit risk

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

d) Liquidity risk

Liquidity risk represents the risk of cash shortage and difficulty of the Company in paying its debts. The Company seeks to align the maturity of its debts with the cash generation period to avoid any mismatch and generate the need for greater leverage.

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

	Parent Company					
	2019					
	Within 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	216,267	-	-	-	-	216,267
Loans, financing and debentures	469,878	137,312	144,170	6,914,473	7,556,975	15,222,808
Salaries, provisions and social charges	343,994	-	-	-	-	343,994
Accounts payable for acquisitions	9,411	11,384	9,431	39,546	237	70,009
Derivatives	3,579	2,012	-	-	-	5,591
	1,043,129	150,708	153,601	6,954,019	7,557,212	15,858,669
	Consolidated					
	2019					
	Within 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	498,066	-	-	-	-	498,066
Loans, financing and debentures	451,484	138,706	406,191	8,589,989	8,094,865	17,681,235
Salaries, provisions and social charges	510,293	-	-	-	-	510,293
Accounts payable for acquisitions	149,539	13,997	17,718	216,597	108,145	505,996
Derivatives	59,467	33,438	-	-	-	92,905
	1,668,849	186,141	423,909	8,806,586	8,203,010	19,288,495

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

27. Financial instruments and financial risk management (Continued)

27.2. Risk management (Continued)

d) Liquidity risk (Continued)

	Parent Company					
	2018					
	Within 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, provisions and social charges	310,234	-	-	-	-	310,234
Accounts payable for acquisitions	4,405	18,714	17,633	47,768	-	88,520
Derivatives	4,138	4,201	-	-	-	8,339
	934,464	287,426	1,377,222	4,439,152	4,843,769	11,882,033
	Consolidated					
	2018					
	Within 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, provisions 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
	Parent Company					
	2017					
	Within 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	278,647	-	-	-	-	278,647
Loans, financing and debentures	261,512	229,420	1,270,635	3,619,058	1,505,556	6,886,181
Salaries, provisions and social charges	281,994	-	-	-	-	281,994
Accounts payable for acquisitions	15,891	3,234	20,577	58,091	12,807	110,600
Derivatives	(38,283)	(35,342)	(79,788)	4,952	175,313	26,852
	799,761	197,312	1,211,424	3,682,101	1,693,676	7,584,274
	Consolidated					
	2017					
	Within 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	475,546	-	-	-	-	475,546
Loans, financing and debentures	333,712	272,856	1,321,108	4,669,681	3,273,152	9,870,509
Salaries, provisions and social charges	370,030	-	-	-	-	370,030
Accounts payable for acquisitions	16,599	10,355	20,577	108,481	12,805	168,817
Derivatives	(38,283)	(35,342)	(79,788)	4,952	175,313	26,852
	1,157,604	247,869	1,261,897	4,783,114	3,461,270	10,911,754

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

27. Financial instruments and financial risk management (Continued)

27.2. Risk management (Continued)

e) Foreign currency

The Company has loans and financing and trade accounts payable in foreign currency (mainly the US dollar). The risk related to those assets and liabilities arise from the possibility of the Company's incurring losses due to fluctuations in exchange rates. Liabilities in foreign currency account for 18.2% of total consolidated liabilities at December 31, 2019 (17.7% at December 31, 2018 and 13.9% at December 31, 2017). The Company has derivative financial instruments to hedge loans and financing against foreign exchange rate fluctuation (see the following topic). Management understands that the risk of exposure to foreign currency is not significant in relation to its financial position.

f) Derivatives

At December 31, 2019, the Company has swaps accounted for as fair value hedge entered to hedge the Company against in foreign currency fluctuations. The swaps exchange the flow of interest and principal in foreign currency for Brazilian reais plus a percentage of CDI. In addition, the Company has other swaps to cover its exposure in US Dollars which not designated as hedge under the hedge accounting strategy.

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

27. Financial instruments and financial risk management (Continued)

27.2. Risk management (Continued)

f) Derivatives (Continued)

Description	Range of maturity month/year	Reference value (notional)	Parent Company		
			2019	2018	2017
			Fair value		
Swap (CDI vs TJLP)	12/10/2018				
Long position	CDI + 2.30%				
Short position	TJLP + 7.46%	R\$ 18,750	-	-	(422)
Swap (Currency)	04/15/2020				
Long position	Libor + 3.30%	US\$ 14,850			
Short position	CDI + 1.00%	R\$ 49,124	-	-	22,587
Swap (Currency)	11/18/2024				
Long position	USD/BRL + 3.00%	US\$ 26,274			
Short position	CDI + 1.47%	R\$ 86,915	-	-	(9,817)
Swap (Currency)	11/18/2024				
Long position	USD/BRL + 3.00%	US\$ 30,262			
Short position	CDI + 1.62%	R\$ 100,108	-	-	(14,124)
Swap (Currency)	11/18/2024				
Long position	USD/BRL + 3.00%	US\$ 75,069			
Short position	CDI + 1.47%	R\$ 248,330	-	-	(28,216)
Swap (Currency)	11/16/2022				
Long position	USD/BRL + 2.70%	US\$ 9,277			
Short position	CDI + 1.00%	R\$ 30,689	-	-	(3,909)
Swap (Currency)	11/16/2022				
Long position	USD/BRL + 2.70%	US\$ 2,319			
Short position	CDI + 1.23%	R\$ 7,672	-	-	(1,205)
Swap (Currency)	11/16/2027				
Long position	USD/BRL + 6.00%	US\$ 15,133			
Short position	CDI - 1.71%	R\$ 50,061	-	-	2,157
Swap (Currency)	11/18/2024				
Long position	USD/BRL + 3.00%	US\$ 19,706			
Short position	CDI + 1.47%	R\$ 65,186	-	-	(7,406)
Swap (Currency)	11/18/2024				
Long position	EUR/BRL + 3.00%	EUR 37,452			
Short position	CDI + 2.30%	R\$ 148,658	-	-	(3,888)

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

27. Financial instruments and financial risk management (Continued)

27.2. Risk management (Continued)

f) Derivatives (Continued)

Description	Range of maturity month/year	Reference value (notional)	Parent Company		
			2019	2018	2017
			Fair value		
Swap (Currency)	11/18/2024				
Long position	EUR/BRL + 3.00%	US\$ 9,363			
Short position	CDI + 2.46%	R\$ 37,165	-	-	(911)
Swap (Currency)	04/20/2020				
Long position	USD/BRL + 3.35%	US\$ 34,224			
Short position	115% CDI	R\$ 137,946	16,719	27,491	(15,872)
Swap (Currency)	08/09/2022				
Long position	USD/BRL + 0.99%	US\$ 65,212			
Short position	CDI + 1.00%	R\$ 215,720	-	-	15,673
Swap (Currency)	04/15/2025				
Long position	USD/BRL + 3.30%	US\$ 42,785			
Short position	CDI + 2.084%	R\$ 172,454	42,968	39,932	8,944
Swap (Currency)	04/15/2024				
Long position	USD/BRL + 3.00%	US\$ 66,151			
Short position	CDI + 1.68%	R\$ 266,636	64,240	62,434	13,905
Swap (Currency)	04/15/2026				
Long position	USD/BRL + 5.50%	US\$ 30,480			
Short position	CDI + 0.25%	R\$ 122,855	7,750	8,512	9,130
Swap (Currency)	11/21/2023				
Long position	USD/Libor + 0.46%	US\$ 80,209			
Short position	109% CDI	R\$ 323,300	20,031	7,121	-
Swap (Currency)	01/18/2028				
Long position	BRL Fixed rate (11.82%)	R\$ 1,681,837			
Short position	CDI + 2.01%	R\$ 1,681,837	401,352	113,804	-
Current assets position			116,530	82,357	9,350
Noncurrent assets position			442,121	185,276	90,618
Current liabilities position			(5,591)	(8,339)	(68,512)
Noncurrent liabilities position			-	-	(44,830)
Effect on profit or loss for the year (fair value of derivatives - swaps)			374,856	313,880	(16,205)

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

27. Financial instruments and financial risk management (Continued)

27.2. Risk management (Continued)

f) Derivatives (Continued)

Description	Range of maturity month/year	Reference value (notional)	Consolidated		
			2019	2018	2017
			Fair value		
Swap (CDI vs TJLP)	12/10/2018				
Long position	CDI + 2.30%				
Short position	TJLP + 7.46%	R\$ 18,750	-	-	(422)
Swap (Currency)	04/15/2020				
Long position	Libor + 3.30%	US\$ 14,850			
Short position	CDI + 1.00%	R\$ 49,124	-	-	22,587
Swap (Currency)	11/18/2024				
Long position	USD/BRL + 3.00%	US\$ 26,274			
Short position	CDI + 1.47%	R\$ 86,915	-	-	(9,817)
Swap (Currency)	11/18/2024				
Long position	USD/BRL + 3.00%	US\$ 30,262			
Short position	CDI + 1.62%	R\$ 100,108	-	-	(14,124)
Swap (Currency)	11/18/2024				
Long position	USD/BRL + 3.00%	US\$ 75,069			
Short position	CDI + 1.47%	R\$ 248,330	-	-	(28,216)
Swap (Currency)	11/16/2022				
Long position	USD/BRL + 2.70%	US\$ 9,277			
Short position	CDI + 1.00%	R\$ 30,689	-	-	(3,909)
Swap (Currency)	11/16/2022				
Long position	USD/BRL + 2.70%	US\$ 2,319			
Short position	CDI + 1.23%	R\$ 7,672	-	-	(1,205)
Swap (Currency)	11/16/2027				
Long position	USD/BRL + 6.00%	US\$ 15,133			
Short position	CDI - 1.71%	R\$ 50,061	-	-	2,157
Swap (Currency)	11/18/2024				
Long position	USD/BRL + 3.00%	US\$ 19,706			
Short position	CDI + 1.47%	R\$ 65,186	-	-	(7,406)
Swap (Currency)	11/18/2024				
Long position	EUR/BRL + 3.00%	EUR 37,452			
Short position	CDI + 2.30%	R\$ 148,658	-	-	(3,888)

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

27. Financial instruments and financial risk management (Continued)

27.2. Risk management (Continued)

f) Derivatives (Continued)

Description	Range of maturity month/year	Reference value (notional)	Consolidated		
			2019	2018	2017
			Fair value		
Swap (Currency)	11/18/2024				
Long position	EUR/BRL + 3.00%	US\$ 9,363			
Short position	CDI + 2.46%	R\$ 37,165	-	-	(911)
Swap (Currency)	04/20/2020				
Long position	USD/BRL + 3.35%	US\$ 34,224			
Short position	115% CDI	R\$ 137,946	16,719	27,491	(15,872)
Swap (Currency)	08/09/2022				
Long position	USD/BRL + 0.99%	US\$ 65,212			
Short position	CDI + 1.00%	R\$ 215,720	-	-	15,673
Swap (Currency)	04/15/2025				
Long position	USD/BRL + 3.30%	US\$ 42,785			
Short position	CDI + 2.084%	R\$ 172,454	42,968	39,932	8,944
Swap (Currency)	04/15/2024				
Long position	USD/BRL + 3.00%	US\$ 66,151			
Short position	CDI + 1.68%	R\$ 266,636	64,240	62,434	13,905
Swap (Currency)	04/15/2026				
Long position	USD/BRL + 5.50%	US\$ 30,480			
Short position	CDI + 0.25%	R\$ 122,855	7,750	8,512	9,130
Swap (Currency)	11/21/2023				
Long position	USD/Libor + 0.46%	US\$ 80,209			
Short position	109% CDI	R\$ 323,300	20,031	7,121	-
Swap (Currency)	01/18/2028				
Long position	USD/fixed rate + 4.95%	US\$ 511,206			
Short position	BRL Fixed rate 11.82%	2,060,519	165,077	203,278	-
Swap (interest)	01/18/2028				
Long position	BRL Fixed rate 11.82%	1,681,837			
Short position	CDI + 2.01%	R\$ 1,681,837	401,352	113,804	-
Current assets position			116,530	82,357	9,350
Noncurrent assets position			694,512	478,602	90,618
Current liabilities position			(92,905)	(98,387)	(68,512)
Noncurrent liabilities position			-	-	(44,830)
Effect on profit or loss for the year (fair value of derivatives - swaps)			240,416	517,158	(16,205)

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

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 their maturity or early settlement of transactions.

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

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

Debt - International Finance Corporation (IFC)	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario V
Exchange rate variation	5%	-25%	-50%	+25%	+50%
Devaluation of US\$ (rate in R\$)	-	3.1742	2.1161	-	-
Appreciation of US\$ (rate in R\$)	4.2322	-	-	5.2903	6.3484
Effect on liabilities in US\$					
IFC - International Finance Corporation	6,484	(32,420)	(64,839)	32,420	64,839
Effect on derivatives					
Swap	388	(1,938)	(3,875)	1,938	3,875
Net effect	6,872	(34,358)	(68,714)	34,358	68,714
Debt - JP Morgan and Citibank	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario V
Exchange rate variation	5%	-25%	-50%	+25%	+50%
Devaluation of US\$ (rate in R\$)	-	3.1742	2.1161	-	-
Appreciation of US\$ (rate in R\$)	4.2322	-	-	5.2903	6.3484
Effect on liabilities in US\$					
Loan 4131 - JP Morgan and Citibank	23,042	(115,210)	(230,421)	115,210	230,421
Effect on derivatives					
Swap	(23,042)	115,210	230,421	(115,210)	(230,421)
Net effect	-	-	-	-	-
Debt - Senior Notes	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario V
Exchange rate variation	5%	-25%	-50%	+25%	+50%
Devaluation of US\$ (rate in R\$)	-	3.1742	2.1161	-	-
Appreciation of US\$ (rate in R\$)	4.2322	-	-	5.2903	6.3484
Effect on liabilities in US\$					
Senior Notes	110,883	(554,416)	(1,108,831)	554,416	1,108,831
Effect on derivatives					
Swap	(110,883)	554,416	1,108,831	(554,416)	(1,108,831)
Net effect	-	-	-	-	-

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

27. Financial instruments and financial risk management (Continued)

27.3. Changing in liabilities from financing activities

Parent Company										
Parent Company	2018	Loans, financing and debentures raised	Interest and monetary and foreign exchange differences, net	Payment of acquisitions and principal	Payment of interest	Fair value of debt	Allocation of dividends and interest on equity	Payment of dividends and interest on equity	Other	2019
Loans, financing and debentures	9,631,831	5,061,407	601,369	(1,884,226)	(533,708)	283,264	-	-	11,087	13,171,024
Accounts payable for acquisitions	80,232	68,374	7,450	(21,877)	(4,340)	-	-	-	-	129,839
Derivatives	8,339	-	(83,838)	81,090	-	-	-	-	-	5,591
Dividends and interest on equity payable	1,101	-	-	-	-	-	291,768	-	(28,342)	264,527
	<u>9,721,503</u>	<u>5,129,781</u>	<u>524,981</u>	<u>(1,825,013)</u>	<u>(538,048)</u>	<u>283,264</u>	<u>291,768</u>	<u>-</u>	<u>(17,255)</u>	<u>13,570,981</u>
Current	653,185									4,502,663
Noncurrent	9,068,318									9,068,318

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

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

27. Financial instruments and financial risk management (Continued)

27.3. Changing in liabilities from financing activities (Continued)

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

		Consolidated								
Consolidated	2018	Loans, financing and debentures raised	Interest and monetary and foreign exchange differences, net	Payment of acquisitions and principal	Payment of interest	Fair value of debt	Allocation of dividends and interest on equity	Payment of dividends and interest on equity	Other	2019
Loans, financing and debentures	11,846,585	5,171,888	912,477	(1,903,403)	(768,753)	165,916	-	-	(17,784)	15,406,926
Accounts payable for acquisitions	363,382	119,247	22,460	(36,877)	(5,156)	-	-	-	-	463,056
Derivatives	98,387	-	9,667	-	(15,149)	-	-	-	-	92,905
Dividends and interest on equity payable	8,940	-	-	-	-	-	319,404	(12,608)	(28,342)	287,394
	<u>12,317,294</u>	<u>5,291,135</u>	<u>944,604</u>	<u>(1,940,280)</u>	<u>(789,058)</u>	<u>165,916</u>	<u>319,404</u>	<u>(12,608)</u>	<u>(46,126)</u>	<u>16,250,281</u>
Current	820,125									4,753,112
Noncurrent	11,497,169									11,497,169

Rede D'Or São Luiz S.A.

Notes to financial statements (Continued)
December 31, 2019, 2018 and 2017
(In thousands of reais, unless otherwise stated)

27. Financial instruments and financial risk management (Continued)

27.3. Changing in liabilities from financing activities (Continued)

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

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

Rede D'Or São Luiz S.A.

Notas explicativas às demonstrações financeiras--Continuação
31 de dezembro de 2019, 2018 e 2017

(Em milhares de reais, exceto quando indicado de outra forma)

28. Insurance coverage

At December 31, 2019, the Company maintains insurance coverage at amounts deemed sufficient by management to cover risks, if any, on its assets and/or liabilities.

Type of coverage	Insured amount
Property risk	3,673,978
Directors and Officers Liability (D&O)	200,000
General civil liability	10,000
Engineering risks	1,281,394

29. Subsequent events

On January 22, 2020, through its wholly-owned subsidiary Rede D'Or Finance, a privately-held corporation located in Luxembourg, Rede D'Or conducted the 2nd issue of Senior Notes, totaling US\$850 million, adjusted by interest of 4.50% per annum and maturing on January 22, 2030; interest will be paid semiannually from July 22, 2020 and the principal in a single installment on January 22, 2030. On February 13, 2020, Rede D'Or Finance reopened the 2nd issue of Senior Notes and issued an additional US\$350 million with the same characteristics as the initial issue. Concomitantly, through Rede D'Or Finance, the Company entered into a hedging transaction for currency and interest rate hedging purposes (pre-fixed to post-fixed). Additionally, the Company issued debentures (17th issue - 1st Series) acquired by the subsidiary Rede D'Or Finance maturing in a single installment on January 17, 2030 and prefixed remuneration of 8.7486% per annum. There are no guarantees.

On March 27, 2020, Rede D'Or conducted the 5th issue of commercial promissory notes, amounting to R\$250 million, in 3 series, maturing on March 27, 2021, March 27, 2022 and March 27, 2023, respectively, subject to interest equivalent to 100.0% of CDI plus 2.50% per annum, paid in a single installment on the maturity date of each series. There are no guarantees.

On April 2, 2020, Rede D'Or obtained a loan from Bank of America in the amount of US\$76 million, maturing in a single installment on April 3, 2023, at a fixed rate of 2.18% p.a. paid quarterly. Concomitantly, the Company entered into a derivative financial instrument for currency and interest rate hedging purposes, converting into Reais plus interest corresponding to 100% of the CDI plus 1.66% per annum. There are no guarantees.

On May 7, 2020, Rede D'Or obtained a loan from Bank of China in the amount of R\$85 million, maturing on May 8, 2023, bearing interest equivalent to 100.0% of the CDI plus 1.90% per annum, paid in a single installment upon maturity. There are no guarantees.

Rede D'Or São Luiz S.A.

Notas explicativas às demonstrações financeiras--Continuação
31 de dezembro de 2019, 2018 e 2017

(Em milhares de reais, exceto quando indicado de outra forma)

29. Subsequent events (Continued)

In May 2020, the Company modified the stock option plans still in progress and replaced them entirely with the Company's Restricted Shares Program. The program establishes the terms and conditions for granting of common shares issued by the Company, subject to certain restrictions, to the directors, employees and service providers of the Company, or of other companies under its control. Accordingly, the Company's Restricted Shares Granting Program replaces and cancels the previously disclosed stock option plans. These Programs will be managed by the Board of Directors, the body responsible for approving the participants to whom the restricted shares will be granted. The general terms and conditions of the plans were not changed, so there was no increase in the fair value granted for the modified plans.

On June 22, 2020, Rede D'Or conducted the 6th issue of commercial promissory notes, amounting to R\$200 million, maturing on June 22, 2022, bearing interest equivalent to 100.0% of CDI plus 2.65% per annum, paid in a single installment upon maturity. There are no guarantees.

On July 29, 2020, Rede D'Or obtained a loan from JP Morgan in the amount of US\$100 million, maturing in a single installment on July 3, 2023 at a fixed rate of 1.96% p.a., paid on a semiannual basis. Concomitantly, the Company entered into a derivative financial instrument for currency and interest rate hedging purposes, converting into Reais plus interest corresponding to 100% of the CDI plus 1.323% per annum. There are no guarantees.

On August 14, 2020 the totality of the loan signed with IFC on May 31, 2017 was repaid in the advance, in addition to settlement of the respective derivative financial instrument contracted for currency and interest hedging purposes. Thus, the Company no longer has loans, financing or debentures, with provisions of clauses restricting debt levels (financial covenants).

At the Special General Meeting held on September 24, 2020, the Company's capital increase in the amount of R\$1,600,000 was approved, without issue of new shares, through capitalization of part of the capital reserve. On the same date, the split of shares occurred, in the proportion of two shares for each existing share.

Acquisitions

On February 20, 2020, through its wholly-owned subsidiary Hospital Esperança S.A., Rede D'Or acquired the shares of Hospital Aliança S.A. ("Hospital Aliança"), a corporation that operates a hospital located in the city of Salvador, in Bahia state. The total consideration transferred was R\$800,000 for acquisition of 80.0% of shares. The completion of this transaction and consequent transfer of control was approved at CADE on July 1, 2020, therefore, this investment has not been yet consolidated in the financial statements of December 31, 2019.

Rede D'Or São Luiz S.A.

Notas explicativas às demonstrações financeiras--Continuação
31 de dezembro de 2019, 2018 e 2017

(Em milhares de reais, exceto quando indicado de outra forma)

29. Subsequent events (Continued)

On October 7, 2020, the Company acquired Ygeia Medical II Participações Ltda. ("Ygeia Medical II"), a Limited company that holds 43.32% interest on Radiopharmacus S.A. ("RPH"), a company that operates in the radiopharmaceutical sector. At the same date, the Company merged Ygeia Medical II, as well as conferred its 35.20% interest (considering a fully diluted basis) of GGSH Participações S.A. ("GGSH") in payment of capital increase in Lorem Participações S.A. ("Lorem"), so that the Company became the owner of 50.01% of Lorem's shares, while Lorem became the owner of 86.65% of the shares issued by RPH and 70.40% (considering a fully diluted basis) of GGSH. From that date, this investment will be consolidated in the financial statements.

On October 16, 2020, the Company acquired the entire share capital of Clínica São Lucas, located in the municipality of Macaé, northern Rio de Janeiro State ("Clínica São Lucas"). The total consideration transferred was R\$55,987, of which R\$24,239 was paid on the closing date of the transaction and the remaining amount will be paid subject to the conditions defined in the purchase and sale contract. This investment has not yet been consolidated in the Company's financial statements as of December 31, 2019.

On November 9, 2020, the Company signed a binding memorandum of understanding and filed the respective merger before the Brazilian Antitrust Agency (CADE) for the acquisition of a 100% representative shareholding interest in the Central Hospital of Guaianases, located in the eastern part of the municipality of São Paulo, State of São Paulo. The completion of this transaction and consequent transfer of control still depends on CADE approval; therefore, this investment has not yet been consolidated in the Company's financial statements.

On November 9, 2020, through the subsidiary Hospital Esperança S.A., Rede D'Or, signed a binding memorandum of understanding and filed the respective act of concentration before CADE for the acquisition of 100% of the Córdio Pulmonar Hospital, located in the municipality of Salvador, State of Bahia. The completion of this transaction and consequent transfer of control still depends on CADE approval; therefore, this investment has not yet been consolidated in the Company's financial statements.

On November 12, 2020, through the subsidiary Integrated Hospitals of Gávea S.A. – Clínica São Vicente, signed a binding memorandum of understanding to acquire a 100% representative shareholding of Balbino Hospital, located in the city of Rio de Janeiro, State of Rio de Janeiro. The completion of this transaction and consequent transfer of control still depends on CADE approval; therefore, this investment has not yet been consolidated in the Company's financial statements.

Rede D'Or São Luiz S.A.

Notas explicativas às demonstrações financeiras--Continuação
31 de dezembro de 2019, 2018 e 2017

(Em milhares de reais, exceto quando indicado de outra forma)

29. Subsequent events (Continued)

Covid-19 pandemic

On March 11, 2020, the World Health Organization (WHO) declared Covid-19 a pandemic due to the global spread of coronavirus. The outbreak created macroeconomic uncertainties and volatility worldwide. To respond to the pandemic, many state governments in Brazil have implemented policies to prevent or delay the spread of the disease, such as restrictions on crowding, quarantine of people who have been to affected areas, cancellation or postponement of public events, suspension of commercial businesses, closing of establishments open to the public, among other more or less severe measures.

When we analyzed the behavior of the Company's main operating and financial indicators in the second quarter, when social distancing measures were fully in force in some States in Brazil, we identified a decrease in all elective procedures, especially in elective surgeries. Due to the postponement of surgeries, there was an increase in the availability of beds and in hospitalization capacity, which were used in part for hospitalizations and other procedures related to the treatment of Covid-19.

In the third quarter, it was possible to observe a strong progressive recover in all operating indicators so that the Company presented a better financial performance both in comparison with the second quarter, and in comparison with the same quarter of the previous year.

Management considers that the position of cash and cash equivalents and marketable securities as at September 30, 2020, amounting to R\$8,468,085, are sufficient to comply with the financial commitments already contracted as well as with additional requirements that may arise as a result of any decrease in revenue or increase in costs by virtue of the pandemic. Furthermore, in applying to our market projected the demand to be met, informed by the Ministry of Health, management believes that the Company is able to this demand with no higher operating risks, just as it did during the most intense period of virus spread (second quarter).