(Convenience Translation into English from the Original Previously Issued in Portuguese)

GSFRP Participações S.A. and Subsidiaries

Restated Individual and Consolidated Financial Statements for the Year Ended December 31, 2018 and Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

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INDEPENDENT AUDITOR'S REPORT ON THE RESTATED
INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and Management of
GSFRP Participações S.A.

Opinion

We have audited the accompanying individual and consolidated financial statements of GSFRP Participações S.A. ("Company"), identified as Parent and Consolidated, respectively, which comprise the balance sheet as at December 31, 2018, and the related statements of profit and loss, 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 financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of GSFRP Participações S.A. as at December 31, 2018, and its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended in accordance with accounting practices adopted in Brazil, applicable to entities supervised by the National Supplementary Healthcare Agency (ANS).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements in the Code of Ethics for Professional Accountants and the professional standards issued by the Brazilian Federal Accounting Council ("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 audit opinion.

Emphases of matter

Restatement of the individual and consolidated financial statements

On May 13, 2019, we issued an unmodified audit report on the Company's individual and consolidated financial statements, which are being restated. As mentioned in note 2.1.2, the individual and consolidated financial statements for the year ended December 31, 2018 were changed and are being restated to reflect the recognition of the obligations arising from the long-term incentive plan established by its subsidiaries and their respective executive officers, in the amount of R$21,500 thousand. Our opinion is not qualified in respect of this matter.

Solvency margin required by the ANS

As mentioned in note 28, some of the Company's subsidiaries are required to meet a minimum solvency margin, as determined by ANS. As at December 31, 2018, as a result of the recognition of the long-term incentive plan, which is the purpose of the restatement of these individual and consolidated financial statements, such insufficiency minimum solvency margin was increased by subsidiary São Francisco Sistemas de Saúde S/E Ltda., to R$12,972 thousand. The Company's and its subsidiary's Management has adopted measures to comply with ANS requirements, as described in the referred note. Our opinion is not qualified in respect of this matter.

Management's responsibilities for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil, applicable to entities supervised by the ANS, 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.

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

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. 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 Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the 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 Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other matter

The accompanying individual and consolidated financial statements have been translated into English for the convenience of readers outside Brazil.

Campinas, July 15, 2019

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Fabiano Ricardo Tessitore
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)

GSFRP PARTICIPAÇÕES S.A.

BALANCE SHEET AT DECEMBER 31, 2018 AND 2017
(In thousands of reais - R$)

ASSETS	Note	Parent company 12/31/2018 (Restated)	Parent company 12/31/2017	Consolidated 12/31/2018 (Restated)	Consolidated 12/31/2017
CURRENT ASSETS		43,776	23,279	402,002	330,484
Available		2	17	4,637	988
Realizable		43,774	23,262	397,365	329,496
Short-term investments	3	39,877	22,865	263,744	233,907
Investments related to technical provisions		-	-	129,997	63,962
Investments non related to technical provisions		39,877	22,865	133,747	169,945
Credit from operations with healthcare		-	-	58,699	58,987
Trade receivables	4	-	-	58,385	58,595
Related parties - trade receivables	20	-	-	314	392
Credits receivable from rendering of services	5	-	-	23,747	18,632
Credits receivable from rendering of services - related parties	21	4	-	97	146
Tax and social security credits	6	2,754	-	20,186	1,700
Assets and securities receivable	7	22	-	30,893	16,124
Assets and securities receivable - related parties	20	1,117	397	-	-
NON-CURRENT ASSETS		415,646	306,590	429,356	250,086
Long-term assets		38,870	38,870	70,938	59,278
Investments related to technical provisions	3	-	-	2,278	-
Deferred tax assets	27	38,870	38,870	57,971	49,762
Escrow deposits	8	-	-	10,689	9,516
Investments in subsidiaries	9	376,776	267,720	-	-
		-	-	-	-
Property, plant and equipment	10	-	-	222,478	111,438
Fixed assets for use - hospital		-	-	61,354	33,985
Fixed assets for use - non-hospital		-	-	90,532	58,124
Construction in progress		-	-	47,055	5,455
Other property, plant and equipment - Hospital		-	-	23,537	13,874
Intangible assets	11	-	-	135,940	79,370
TOTAL ASSETS		459,422	329,869	831,358	580,570

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Parent company 12/31/2018	Parent company 12/31/2017	Consolidated 12/31/2018	Consolidated 12/31/2017
CURRENT LIABILITIES		35,530	8,670	335,688	218,195
Technical reserves for healthcare operations		-	-	144,143	116,629
Unearned consideration reserve (PCNG)	12	-	-	7,903	5,112
Provision for events incurred and not reported - PEONA	12	-	-	50,153	39,284
Provision for remission	12	-	-	936	884
Provision for unsettled events to other care service providers	13	-	-	36,182	48,986
Provision for unsettled events to SUS	14	-	-	23,157	20,020
Outstanding event/claim reserve to other care service providers – related parties	20	-	-	4,313	2,343
Executives' incentive plan	19	-	-	21,500	-
Debits from healthcare operations		-	-	9,472	2,342
Commercialization on operations		-	-	889	112
Other debits from healthcare operations		-	-	8,583	2,230
Taxes and contributions payable	15	520	50	23,993	15,529
Loans and financing payable	16	-	-	11,794	4,519
Sundry debits	17	2	-	111,176	64,589
Related parties - sundry debits	20	35,007	8,619	35,110	14,586
NON-CURRENT LIABILITIES		-	-	66,757	39,287
Provision for remission	12	-	-	1,504	1,496
Provision for unsettled events to SUS	14	-	-	10,223	4,451
Provisions for risks	18	-	-	23,821	13,609
Deferred tax liabilities	27	-	-	539	-
Loans and financing payable	16	-	-	13,359	1,727
Other debits	17	-	-	13,832	18,004
Taxes and contributions payable	15	-	-	3,479	-
SHAREHOLDERS' EQUITY	21	423,892	321,199	428,913	323,088
Capital		59,936	50,206	59,936	50,206
Legal reserve		9,291	4,069	9,291	4,069
Capital reserves		274,141	209,710	274,141	209,710
Profit reserves		110,094	57,214	110,094	57,214
Goodwill in capital transaction		(29,570)	-	(29,570)	-
Non-controlling interest		-	-	5,021	1,889
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		459,422	329,869	831,358	580,570

See the accompanying notes to the individual and consolidated financial statements.

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GSFRP PARTICIPAÇÕES S.A.

STATEMENT OF INCOME FOR THE
YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of reais - R$)

	Note	Parent company		Consolidated	
		2018 (Restated)	2017	2018 (Restated)	2017
Net considerations	22	-	-	1,332,127	1,043,003
Effective considerations of healthcare plan		-	-	1,353,330	1,084,280
Direct taxes from operations with healthcare plans for the healthcare company		-	-	(21,204)	(41,277)
Net indemnifiable events		-	-	(898,565)	(757,908)
Known or reported events	23	-	-	(889,286)	(748,801)
Changes in provision for events incurred and not reported		-	-	(9,280)	(9,107)
Income (loss) from operations with healthcare plans		-	-	433,561	285,095
Other operating revenues from healthcare plans		-	-	6,918	2,836
Other operating revenues	24	-	-	172,188	154,024
Direct taxes from operations not related to healthcare.		-	-	(8,586)	(441)
Other expenses with healthcare plan operations		-	-	(5,322)	(3,645)
Provision for credit losses		-	-	(16,040)	(22,262)
Other healthcare operations services not related to the healthcare plan	24	-	-	(146,646)	(118,499)
Equity in net income of subsidiaries	9	93,850	72,057	-	-
Other operating (expenses) revenues, net		(202)	-	5,544	8,276
Gross income (loss)		93,648	72,057	441,617	305,384
Sales expenses	25			(22,890)	(14,922)
Administrative expenses	25	(4,666)	(3,597)	(296,895)	(198,157)
Financial income (loss)		1,418	3,217	8,000	14,987
Financial revenues	26	1,486	3,231	20,786	22,785
Financial expenses	26	(68)	(14)	(12,786)	(7,798)
Income (loss) before taxes		90,400	71,677	129,832	107,292
Income tax and social contribution - current	27	(3)	(1,330)	(44,512)	(40,538)
Income tax and social contribution - deferred		-	-	8,209	4,354
NET INCOME (LOSS) FOR THE YEAR		90,396	70,347	93,528	71,107
ATTRIBUTED TO					
Shareholders’ interest in parent company				90,396	70,347
Non-controlling interest				3,132	760
				93,528	71,107
NET INCOME FOR THE YEAR PER THOUSAND SHARES BASIC AND DILUTED, CALCULATED WITH A BASIS ON THE NUMBER WEIGHTED AVERAGE IN THE YEAR (IN REAIS)		2.0103	1.4011		

See the accompanying notes to the individual and consolidated financial statements.

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GSFRP PARTICIPAÇÖES S.A.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of reais - R$)

	Parent company		Consolidated	
	2018 (Restated)	2017	2018 (Restated)	2017
NET INCOME FOR THE YEAR	90,396	70,347	93,528	71,107
OTHER COMPREHENSIVE INCOME	-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	90,396	70,347	93,528	71,107
ATTRIBUTED TO				
Shareholders' interest in parent company			90,396	70,347
Non-controlling interest			3,132	760
			93,528	71,107

See the accompanying notes to the individual and consolidated financial statements.

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GSFRP PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR
YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of reais - R$)

		Capital			Capital reserve			Profit reserve						
	Note	subscribed	to be paid-up	total	subscribed	to be paid-up	total	Legal reserve	Investment reserve and working capital	Goodwill in capital transaction	Retained earnings	Shareholders' equity attributable to controlling shareholders	Non-controlling interest	Total consolidated
BALANCES AT JUNE 15, 2016		-	-	-	-	-	-	-	-		-			-
Capital formed on June 16, 2016	20. (a.i)	1	-	1	-	-	-	-	-		-	1	-	1
Paid-up capital by merger of the spun-off net assets of the related party	20. (a.ii) and (a.iii)	38,069	-	38,069	-	-	-	-	-		-	38,069	897	38,966
Paid-up capital in cash	20. (a.iv)	12,139	(3)	12,136	178,861	(57,500)	121,361	-	-		-	133,497		133,497
Capital reserve formed by merger of the spun-off net assets of the related party	9	-	-	-	88,029	-	88,029	-			-	88,029		88,029
Net revenue for the period		-	-	-	-	-	-	-	-		11,027	11,027	232	11,259
Formation of legal reserve	20. (b)	-	-	-	-	-	-	551	-		(551)	-		-
Minimum mandatory dividends	20. (d)	-	-	-	-	-	-	-	-		(2,744)	(2,744)		(2,744)
Transfer to investment reserve and working capital	20. (c)	-	-	-	-	-	-	-	7,732		(7,732)	-		-
BALANCES AT DECEMBER 31, 2016		50,209	(3)	50,206	267,210	(57,500)	209,710	551	7,412	-	-	267,879	1,129	269,008
Net income for the year		-	-	-	-	-	-	-	-	-	70,347	70,347	760	71,107
Formation of legal reserve		-	-	-	-	-	-	3,518	-	-	(3,518)	-	-	-
Minimum mandatory dividends		-	-	-	-	-	-	-	-	-	(17,027)	(17,027)	-	(17,027)
Transfer to investment reserve and working capital		-	-	-	-	-	-	-	49,802	-	(49,802)	-	-	-
BALANCES AT DECEMBER 31, 2017		50,209	(3)	50,206	267,210	(57,500)	209,710	4,069	57,214	-	-	321,199	1,889	323,088
Increase in capital reserve to be paid-up	21. (b)	-	-	-	6,931	(6,931)	-	-	-	-	-	-	-	-
Paid-up capital reserve	21. (b)	-	-	-	-	64,431	64,431	-	-	-	-	64,431	-	64,431
Increase in capital by merger of the spun-off net assets of the related party	21. (a)	9,730	-	9,730	-	-	-	-	-	-	-	9,730	-	9,730
Capital increase	21. (a)	3,772	(3,772)	-	14,060	(14,060)	-	-	-	-	-	-	-	-
Goodwill in capital transaction	21. (e)	-	-	-	-	-	-	-	-	(29,570)	-	(29,570)	-	(29,570)
Net income for the year														
Originally submitted		-	-	-	-	-	-	-	-	-	104,442	104,442	3,276	107,718
(-) Restatement adjustments (Note 2.1.1)		-	-	-	-	-	-	-	-	-	(14,046)	(14,046)	(144)	(14,190)
(=) Adjusted net income for the year		-	-	-	-	-	-	-	-	-	90,396	90,396	3,132	93,528
Formation of legal reserve		-	-	-	-	-	-	5,222	-	-	(5,222)	-	-	-
Interest on own capital	21. (f) and (g)	-	-	-	-	-	-	-	-	-	(14,669)	(14,669)	-	(14,669)
Minimum mandatory dividends	21. (g)	-	-	-	-	-	-	-	-	-	(11,269)	(11,269)	-	(11,269)
Additional dividends distributed		-	-	-	-	-	-	-	-	-	(6,356)	(6,356)	-	(6,356)
Transfer to investment reserve and working capital		-	-	-	-	-	-	-	52,880	-	(52,880)	-	-	-
		-	-	-	-	-	-	-	-					
BALANCES AT DECEMBER 31, 2018 (restated)		63,711	(3,775)	59,936	288,201	(14,060)	274,141	9,291	110,094	(29,570)	-	423,892	5,021	428,913

See the accompanying notes to the individual and consolidated financial statements.

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GSFRP PARTICIPAÇOES S.A.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of reais - R$)

	Parent company		Consolidated	
	2018 (Restated)	2017	2018 (Restated)	2017
CASH FLOW FROM OPERATING ACTIVITIES				
Income from healthcare plans	-	-	1,448,224	1,136,068
Other operating income	-	-	280,279	267,212
Payments to suppliers/healthcare service providers	-	-	(941,941)	(751,344)
Payment of commissions	-	-	(16,600)	(10,680)
Payment of personnel	-	-	(167,952)	(149,610)
Payments of Directors' fees	-	-	(140)	(371)
Payments of outsourced services	-	-	(131,093)	(71,505)
Payment of taxes	-	(972)	(180,462)	(137,629)
Payment of rent	-	-	(13,948)	(11,063)
Payment of promotion/advertising	-	-	(979)	(929)
Interest earning bank deposits	(11,139)	(9,264)	(76,649)	(24,686)
Other operating payments	-	-	(143,121)	(107,000)
Net cash generated by operating activities	(11,139)	(10,236)	55,618	138,462
CASH FLOW FROM INVESTMENT ACTIVITIES				
Payments for acquisition of fixed and intangible assets	-	-	(30,075)	(63,114)
Subsidiaries' paid-up capital	(39,343)	(38,000)	-	-
Acquisition of investment	(5,463)	-	(48,758)	-
Dividends received	39,609	11,287	-	-
Acquisition of client portfolio	-	-	(36,673)	(11,327)
Net cash used in investment activities	(5,197)	(26,713)	(115,506)	(74,441)
CASH FLOW FROM FINANCING ACTITIVIES				
Payment of interest on own capital	(13,473)	-	(13,473)	-
Funding of financing	-	-	5,645	1
Payment of amortization - financing	-	-	(11,639)	(10,875)
Dividend distribution	(17,625)	-	(17,625)	-
Paid-up capital	64,431	-	64,431	-
Net cash generated (consumed) in financing activities	33,333	-	27,339	(10,875)
INCREASE (DECREASE) IN CASH AND BANKS AND UNTIED INVESTMENTS	16,997	(36,949)	(32,549)	53,146
NET CHANGE IN CASH AND BANKS AND UNTIED INVESTMENTS				
Available and unrestricted investment at the end of the year	39,879	22,882	138,384	170,933
Available and unrestricted investment at the beginning of the year	22,882	59,831	170,933	117,787
INCREASE (DECREASE) IN CASH AND BANKS AND UNTIED INVESTMENTS	16,997	(36,949)	(32,549)	53,146
RECONCILIATION BETWEEN NET INCOME FOR THE YEAR AND NET CASH FROM OPERATING ACTIVITIES				
NET INCOME FOR THE YEAR	90,396	70,347	90,252	70,347
Depreciation and amortization	3,099	2,245	26,483	16,997
Equity in net income of subsidiaries	(93,850)	(72,057)	-	-
OPERATING ACTIVITIES				
Changes in investments related to technical reserves	-	-	(60,103)	(7,003)
Changes in credits from operations with healthcare plan operations	-	-	3,599	(28,845)
Changes in assets and securities receivable	(3,299)	(8,903)	(22,371)	(21,475)
Changes in investments in subsidiaries	25,193	(8,155)	-	(8,155)
Changes in judicial and tax deposits	-	-	(619)	(1,054)
Changes in free investments	-	-	1,605	-
Changes in technical reserves for healthcare operations	-	-	(6,228)	65,638
Changes in taxes and charges payable	2	-	6,083	6,621
Changes in sundry debits	(32,680)	6,287	2,726	45,390
Change in executives' incentive plan	-	-	14,190	-
Net cash generated by operating activities	(11,139)	(10,236)	55,618	138,462

See the accompanying notes to the individual and consolidated financial statements.

1. GENERAL INFORMATION

GSFRP Participações S.A. ("Company"), headquartered in Ribeirão Preto - SP and established on June 16, 2016, is mainly engaged in ownership interest and income from other national or foreign companies as a shareholder, partner or quotaholder, debentureholder or beneficiary parties, on a permanent or temporary basis, as parent company or minority shareholder.

The Company is the parent company of the following companies:

i) São Francisco Sistemas de Saúde S/E Ltda.

São Francisco Sistemas de Saúde S/E Ltda. ("Healthcare company" or "São Francisco Saúde"), headquartered in Ribeirão Preto, São Paulo, is engaged in the administration, advisory, implementation and commercialization of individual, family and group health care systems and plans, by its own operations or accreditation of legally eligible third parties and reimbursement for medical, dental, hospital, and outpatient expenses to its beneficiaries; the outpatient medical service; and the organization of courses, lectures, seminars, and other events in its area of operations. The Health Care company is a major player in the sugar and alcohol industry.

The Health Care company meets the requirements of Law 9656/98 and has definite registration with the National Supplementary Health Agency - ANS under the number 30.209-1.

Aimed at achieving operating agility, service quality and tax efficiency, and, consequently, reducing service costs, regulation efforts, medical audit, and hospital billing in 2016, there was a restructuring of the economic group and company Hospital São Francisco S/E Ltda. ("Hospital" or "HSF") was merged into the Healthcare company. The merger proposal is fruit of the study made by the HSF jointly with the Health Care company, aimed at analyzing the economic context of the companies involved in the operation and which were the alternatives to optimize its results, potentialize the existing synergy between both, and consolidate its positions in the hospital and healthcare plan operations markets.

The corporate purpose of the Health Care company, after the incorporation, is defined as follows: (a) administration, advisory, implementation and commercialization of private individual, family and group healthcare plan systems, by its own operations or accreditation of legally eligible third parties and reimbursement for medical, dental, hospital, and outpatient expenses to its beneficiaries; (b) provision of medical-hospital services, by means of hospital units, clinics, emergency hospitals, and other organizations of the same kind; (c) medical and outpatient care; (d) organization of courses, lectures, seminars, and other events in its area of operations; (e) laboratory: comprising clinical analyses, pathological anatomy, and cytology; (f) hemotherapy: comprising blood collection, fractionation, serology, storage, blood distribution and transfusion; (g) oncology: comprising the manipulation and infusion, under outpatient and hospital regime, of chemotherapeutic drugs; (h) physiotherapy: under hospital and outpatient regime; (i) Emergency service; (j) outpatient service; and (k) provision of services of administrative nature.

Considering that the Health Care company is subject to the terms of the Normative Resolution 270/11 and Normative Instruction of the Health Care company Standard and Eligibility Board (DIOPE) 49/12, issued by the ANS, such merger was approved by this Agency.

On October 1, 2018, São Francisco Saúde, through the contract for purchase and sale, acquired 100% of the shares in Assistencia Médico Hospitalar São Lucas S.A. ("São Lucas Lins"), joint-stock company with registered office in the city of Lins, state of São Paulo, at rua Pedro de Toledo número 265, registered with EIN no. 51.502.821/0001-67. It is engaged in the operationalization of healthcare plans, under the terms of Law 9656/98, preventive medicine, as well as the provision of medical, dental, hospital, laboratory, medical rescue services; with own and third party resources, being able to make use of the cooperation of similar entities, network agreements with hospitals, clinics, and other health area professionals, among other means required for meeting the proposed purposes; holding of interest in other companies and administration on own assets. On December 31, 2018, Assistencia Médico São Lucas S.A. has 69,859 users.

In November 2018, São Francisco Saúde also acquired, through contract for purchase and sale, 100% of quotas in Hospital São Francisco Ltda. ("Quirinópolis"), limited liability company with registered office in the city of Quirinópolis, state of Goiás, at Avenida Lazáro Xavier, 21, Centro, registered with EIN no. 02.046.142/0001-15. The company is engaged in the rendering of medical, surgical clinical, hospital, clinical analysis laboratory and x-ray services.

ii) São Francisco Odontologia Ltda.

São Francisco Odontologia Ltda. ("São Francisco Odontologia") was established in 1998 in the city of Ribeirão Preto, state of São Paulo, from the idealization of a group of professionals from the dental area who were concerned with creating corporate solutions to oral health treatment. São Francisco Odontologia is engaged in the rendering of dental, administration, advisory and implementation services of exclusive private healthcare plan operation systems in the dental segment, and organization of courses, lectures, seminars, and other events in its area of operations. To serve users, services are rendered in own units and by in-network professionals and clinics. Over the years, São Francisco Odontologia has reported a significant growth, which in 2018 is reflected in the service of over 6,000 network professionals, located in 1,029 municipalities and in 26 states of Brazil.

São Francisco Odontologia fulfills the requirements of Law 9656/98 and has definite registration with the Brazilian Healthcare Plan Agency (ANS) under the number 36.531-9.

iii) São Francisco Resgate Ltda.

São Francisco Resgate Ltda. ("São Francisco Resgate"), headquartered in Ribeirão Preto, state of São Paulo, started-up its activities in March 1998, and it is engaged in rendering patient transport services, home care and treatment, first-aid service, and organization of courses, lectures, seminars, and other events in its area of operations. At present, São Francisco Resgate provides coverage to over 400 thousand beneficiaries of healthcare plan companies, distributed beyond a 200-km range.

At present, São Francisco Resgate has 144 support bases in highways, 174 ambulances, and over 1,900 employees. São Francisco Resgate provides emergency rescue services in over 6 thousand kilometers of highways of 6 states, besides rendering services to healthcare plan companies.

iv) Hemac Medicina Laboratorial e Hemoterapia

Hemac Medicina Laboratorial e Hemoterapia ("HEMAC") is headquartered in Ribeirão Preto, state of São Paulo. The company is engaged in the performance of diagnostic and therapeutic complementation services, including hemotherapy services, clinical analysis laboratories, and collection stations. HEMAC currently does not have any operations, and only has fixed assets and administrative expenses.

v) Centro Avançado Oncológico Ltda. ("CAON")

CAON is headquartered in Ribeirão Preto, state of São Paulo. The Company is engaged in the performance of diagnostic and therapeutic complementation services, including chemotherapy services. CAON currently does not have any operations, and only has fixed assets and administrative expenses.

vi) SF Health Up Desenvolvimento e Consultoria em Tecnologia da Informação Ltda. ("SF Health")

SF Health is headquartered in Ribeirão Preto, state of São Paulo, and was created in February 2, 2018, and has no operating activities since then. SF Health is engaged in the performance of computer program development and information technology consulting services.

vii) Documenta Clínica Radiológica Ltda. ("Documenta")

Documenta, headquartered in Ribeirão Preto, state of São Paulo, started-up its activities in 1997 and engaged in rendering medical-hospital services in the imageology area (radiology and diagnoses by image), nuclear medicine, training in professional development and advisory and consulting in the same segment, being also able to hold interests in other limited liability companies or corporations. See additional information on this acquired entity in Note 10.

At present, Documenta serves about 40 provider networks in Ribeirão Preto and region, and 4 provider networks in Campo Grande, having 14 business units in the states of São Paulo and Mato Grosso do Sul.

As mentioned in Note 28, the subsidiary São Francisco Saúde did not reach the solvency margin required by regulations of the National Agency of Supplementary Health Insurance (ANS). The solvency insufficiency, in the amount of R$ 12,972, was suppressed with capital increases effected by the current partners, through own resources, operating results occurred in the first quarter of 2019.

2. PRESENTATION OF INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

2.1. Preparation basis

In view of the fact that a significant portion of its subsidiaries are regulated and required to prepare and present their respective financial statements in compliance with the accounting practices adopted in Brazil, applicable to the entities supervised by ANS, the Company also prepares and presents its individual and consolidated financial statements according to the accounting practices adopted in Brazil, applicable to the entities supervised by the ANS.

The Normative Resolution 290/12 determined that the bookkeeping of health market operations shall follow, except as otherwise stated in this Resolution, the standards established by Resolution 2016/NBCTSPEC of the Federal Accounting Council (CFC) and the Accounting Pronouncement Committee (CPC).

2.1.1. Reclassification

With regard to the year ended December 31, 2017, only reclassifications were made to the individual and consolidated financial statements, as shown below: i) in the parent company, the amount of R$ 38,870 was transferred from Investments to Deferred Tax Assets; ii) in consolidated, the amount of R$ 38,870 was transferred from Intangible Assets to Deferred Tax Assets; and iii) in consolidated, the amount of R$ 25,532 corresponding to the investment property was transferred from Property for Lease to Fixed Assets for own use (non-hospital).

2.1.2. Restatement of individual and consolidated financial statements

The individual and consolidated financial statements as of December 31, 2018 were originally approved by Management and issued on May 13, 2019, and are being restated and reissued to reflect the obligations arising from the long-term incentive program established between its subsidiaries and their respective executives (Note 19). These long-term incentive program contracts were signed on March 7, 2018; therefore, there was no impact on the amounts corresponding to previous fiscal years.

The effects determined in the individual and consolidated financial statements for the year ended December 31, 2018 are as follows:

Individual and consolidated balance sheet (Assets)

	December 31, 2018					
	Parent company			Consolidated		
ASSETS	Balances originally presented	Adjustments	Restated balances	Balances originally presented	Adjustments	Restated balances
CURRENT ASSETS	43,776	-	43,776	402,002	-	402,002
Available	2	-	2	4,637	-	4,637
Realizable	43,774	-	43,774	397,365	-	397,365
Short-term investments	39,877	-	39,877	263,744	-	263,744
Investments related to technical provisions	-	-	-	129,997	-	129,997
Investments non related to technical provisions	39,877	-	39,877	133,747	-	133,747
Credit from operations with healthcare	-	-	-	58,699	-	58,699
Trade receivables	-	-	-	58,385	-	58,385
Related parties – trade receivables	-	-	-	314	-	314
Credits receivable from rendering of services	-	-	-	23,747	-	23,747
Credits receivable from rendering of services - related parties	4	-	4	97	-	97
Tax and social security credits	2,754	-	2,754	20,186	-	20,186
Assets and securities receivable	22	-	22	30,893	-	30,893
Assets and securities receivable - related parties	1,117	-	1,117	-	-	-
NON-CURRENT ASSETS	429,692	(14,046)	415,646	422,046	7,310	429,356
Long-term assets	38,870	-	38,870	63,628	7,310	70,938
Investments non related to technical provisions	-	-	-	2,278	-	2,278
Deferred tax assets	38,870	-	38,870	50,661	7,310	57,971
Escrow deposits	-	-	-	10,689	-	10,689
Investments in subsidiaries	390,822	(14,046)	376,776	-	-	-
Property, plant and equipment	-	-	-	222,478	-	222,478
Fixed assets for use - hospital	-	-	-	61,354	-	61,354
Fixed assets for use - non-hospital	-	-	-	90,532	-	90,532
Construction in progress	-	-	-	47,055	-	47,055
Other property, plant and equipment - Hospital	-	-	-	23,537	-	23,537
Intangible assets	-	-	-	135,940	-	135,940
TOTAL ASSETS	473,468	(14,046)	459,422	824,048	7,310	831,358

	December 31, 2017					
	Parent company			Consolidated		
ASSETS	Balances originally presented	Adjustments	Restated balances	Balances originally presented	Adjustments	Restated balances
CURRENT ASSETS	23,279	-	23,279	330,484	-	330,484
Available	17	-	17	988	-	988
Realizable	23,262	-	23,262	329,496	-	329,496
Short-term investments	22,865	-	22,865	233,907	-	233,907
Investments related to technical provisions	-	-	-	63,962	-	63,962
Investments non related to technical provisions	22,865	-	22,865	169,945	-	169,945
Credit from operations with healthcare	-	-	-	58,987	-	58,987
Trade receivables	-	-	-	58,595	-	58,595
Related parties – trade receivables	-	-	-	392	-	392
Credits receivable from rendering of services	-	-	-	18,632	-	18,632
Credits receivable from rendering of services - related parties	-	-	-	146	-	146
Tax and social security credits	-	-	-	1,700	-	1,700
Assets and securities receivable	-	-	-	16,124	-	16,124
Assets and securities receivable - related parties	397	-	397	-	-	-
NON-CURRENT ASSETS	306,590	-	306,590	250,086	-	250,086
Long-term assets	38,870	-	38,870	84,810	-	59,278
Investments non related to technical provisions	-	-	-	-	-	-
Deferred tax assets	-	38,870	38,870	10,892	38,870	49,762
Escrow deposits	-	-	-	9,516	-	9,516
Real estate for rent	-	-	-	25,532	(25,532)	-
Investments in subsidiaries	306,590	(38,870)	267,720	-	-	-
Property, plant and equipment	-	-	-	85,906	-	111,438
Fixed assets for use - hospital	-	-	-	33,985	-	33,985
Fixed assets for use - non-hospital	-	-	-	32,592	25,532	58,124
Construction in progress	-	-	-	5,455	-	5,455
Other property, plant and equipment - Hospital	-	-	-	13,874	-	13,874
Intangible assets	-	-	-	118,240	(38,870)	79,370
TOTAL ASSETS	329,869	-	329,869	580,570	-	580,570

Individual and consolidated balance sheet (Liabilities and shareholders' equity)

	December 31, 2018					
	Parent company			Consolidated		
LIABILITIES AND SHAREHOLDERS' EQUITY	Balances originally presented	Adjustments	Restated balances	Balances originally presented	Adjustments	Restated balances
CURRENT LIABILITIES	35,530	-	35,530	314,188	21,500	335,688
Technical reserves for healthcare operations	-	-	-	122,643	21,500	144,143
Unearned consideration reserve (PCNG)	-	-	-	7,903	-	7,903
Provision for events incurred and not reported - PEONA	-	-	-	50,153	-	50,153
Provision for remission	-	-	-	936	-	936
Provision events to be settled to other Care serv. provided	-	-	-	36,182	-	36,182
Provision for unsettled events to SUS	-	-	-	23,157	-	23,157
Outstanding event/claim reserve to other care service providers – related parties	-	-	-	4,313	-	4,313
Executives' incentive plan	-	-	-	-	21,500	21,500
Debits from healthcare operations	-	-	-	9,472	-	9,472
Commercialization on operations	-	-	-	889	-	889
Other debits from healthcare operations	-	-	-	8,583	-	8,583
Taxes and contributions payable	520	-	520	23,993	-	23,993
Loans and financing payable	-	-	-	11,794	-	11,794
Sundry debits	2	-	2	111,176	-	111,176
Related parties - sundry debits	35,007	-	35,007	35,110	-	35,110
NON-CURRENT LIABILITIES	-	-	-	66,757	-	66,757
Provision for remission	-	-	-	1,504	-	1,504
Provision for unsettled events to SUS	-	-	-	10,223	-	10,223
Provisions for risks	-	-	-	23,821	-	23,821
Deferred tax liabilities	-	-	-	539	-	539
Loans and financing payable	-	-	-	13,359	-	13,359
Other debits	-	-	-	13,832	-	13,832
Taxes and contributions payable	-	-	-	3,479	-	3,479
SHAREHOLDERS' EQUITY	437,938	(14,046)	423,892	443,103	(14,190)	428,913
Capital	59,936	-	59,936	59,936	-	59,936
Legal reserve	9,291	-	9,291	9,291	-	9,291
Capital reserves	274,141	-	274,141	274,141	-	274,141
Profit reserves	124,140	(14,046)	110,094	124,140	(14,046)	110,094
Goodwill in capital transaction	(29,570)	-	(29,570)	(29,570)	-	(29,570)
Non-controlling interest	-	-	-	5,165	(144)	5,021
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	473,468	(14,046)	459,422	824,048	7,310	831,358

Statement of changes in quotaholders' equity

	Balances originally presented								
	Capital	Capital reserve	Legal reserve	Profit reserve	Goodwill in capital transaction	Retained earnings	Shareholders' equity attributable to controlling shareholders	Non-controlling interest	Total consolidated
BALANCES AT DECEMBER 31, 2016	50,206	209,710	551	7,412	-	-	267,879	1,129	269,008
Net income for the year	-	-	-	-	-	70,347	70,347	760	71,107
Formation of legal reserve	-	-	3,518	-	-	(3,518)	-	-	-
Minimum mandatory dividends	-	-	-	-	-	(17,027)	(17,027)	-	(17,027)
Transfer to investment reserve and working capital	-	-	-	49,802	-	(49,802)	-	-	-
BALANCES AT DECEMBER 31, 2017	50,206	209,710	4,069	57,214	-	-	321,199	1,889	323,088
Paid-up capital reserve	-	64,431	-	-	-	-	64,431	-	64,431
Increase in capital by merger of the spun-off net assets	9,730	-	-	-	-	-	9,730	-	9,730
Goodwill in capital transaction	-	-	-	-	(29,570)	-	(29,570)	-	(29,570)
Net income for the year	-	-	-	-	-	104,442	104,442	3,276	107,718
Formation of legal reserve	-	-	5,222	-	-	(5,222)	-	-	-
Interest on own capital	-	-	-	-	-	(14,669)	(14,669)	-	(14,669)
Minimum mandatory dividends	-	-	-	-	-	(11,269)	(11,269)	-	(11,269)
Additional dividends distributed	-	-	-	-	-	(6,356)	(6,356)	-	(6,356)
Transfer to investment reserve and working capital	-	-	-	66,926	-	(66,926)	-	-	-
BALANCES AT DECEMBER 31, 2018	59,936	274,141	9,291	124,140	(29,570)	-	437,938	5,165	443,103

	Restated balances								
	Capital	Capital reserve	Legal reserve	Profit reserve	Goodwill in capital transaction	Retained earnings	Shareholders' equity attributable to controlling shareholders	Non-controlling interest	Total consolidated
BALANCES AT DECEMBER 31, 2016	50,206	209,710	551	7,412	-	-	267,879	1,129	269,008
Net income for the year	-	-	-	-	-	70,347	70,347	760	71,107
Formation of legal reserve	-	-	3,518	-	-	(3,518)	-	-	-
Minimum mandatory dividends	-	-	-	-	-	(17,027)	(17,027)	-	(17,027)
Transfer to investment reserve and working capital	-	-	-	49,802	-	(49,802)	-	-	-
BALANCES AT DECEMBER 31, 2017	50,206	209,710	4,069	57,214	-	-	321,199	1,889	323,088
Paid-up capital reserve	-	64,431	-	-	-	-	64,431	-	64,431
Increase in capital by merger of the spun-off net assets	9,730	-	-	-	-	-	9,730	-	9,730
Goodwill in capital transaction	-	-	-	-	(29,570)	-	(29,570)	-	(29,570)
Adjusted net income for the year	-	-	-	-	-	90,396	90,396	3,132	93,528
Formation of legal reserve	-	-	5,222	-	-	(5,222)	-	-	-
Interest on own capital	-	-	-	-	-	(14,669)	(14,669)	-	(14,669)
Minimum mandatory dividends	-	-	-	-	-	(11,269)	(11,269)	-	(11,269)
Additional dividends distributed	-	-	-	-	-	(6,356)	(6,356)	-	(6,356)
Transfer to investment reserve and working capital	-	-	-	52,880	-	(52,880)	-	-	-
BALANCES AT DECEMBER 31, 2018	59,936	274,141	9,291	110,094	(29,570)	-	423,892	5,021	428,913

Statement of individual and consolidated income

	December 31, 2018					
	Parent company			Consolidated		
	Balances originally presented	Adjustments	Restated balances	Balances originally presented	Adjustments	Restated balances
Net considerations	-	-	-	1,332,127	-	1,332,127
Effective considerations of healthcare plan	-	-	-	1,353,330	-	1,353,330
Direct taxes from operations with healthcare plans for the healthcare company	-	-	-	(21,204)	-	(21,204)
Net indemnifiable events	-	-	-	(898,565)	-	(898,565)
Known or reported events	-	-	-	(889,286)	-	(889,286)
Changes in provision for events incurred and not reported	-	-	-	(9,280)	-	(9,280)
Income (loss) from operations with healthcare plans	-	-	-	433,561	-	433,561
Other operating revenues from healthcare plans	-	-	-	6,918	-	6,918
Other operating revenues	-	-	-	172,188	-	172,188
Direct taxes from operations not related to healthcare.	-	-	-	(8,586)	-	(8,586)
Other expenses with healthcare plan operations	-	-	-	(5,322)	-	(5,322)
Provision for credit losses	-	-	-	(16,040)	-	(16,040)
Other health care oper. exp. unrelated to health plans	-	-	-	(146,646)	-	(146,646)
Equity in net income of subsidiaries	107,896	(14,046)	93,850	-	-	-
Other revenues and expenses	(202)	-	(202)	5,544	-	(15,956)
Gross income (loss)	107,694	(14,046)	93,648	441,617	-	441,617
Sales expenses	-	-	-	(22,890)	-	(22,890)
Administrative expenses	(4,666)		(4,666)	(275,395)	(21,500)	(296,895)
Financial income (loss)	1,418	-	1,418	8,000	-	8,000
Financial revenues	1,486	-	1,486	20,786	-	20,786
Financial expenses	(68)	-	(68)	(12,786)	-	(12,786)
Income (loss) before taxes	104,446	(14,046)	90,400	151,332	(21,500)	129,832
Income tax and social contribution - current	(3)	-	(3)	(44,512)	-	(44,512)
Income tax and social contribution - deferred	-	-	-	899	7,310	8,209
NET INCOME (LOSS) FOR THE YEAR	104,443	(14,046)	90,397	107,719	(14,190)	93,529
ATTRIBUTED TO						
Shareholders' interest in parent company				104,443	(14,046)	90,397
Non-controlling interest				3,276	(144)	3,132
				107,719	(14,190)	93,529

Statement of individual and consolidated comprehensive income

	December 31, 2018					
	Parent company			Consolidated		
	Balances originally presented	Adjustments	Restated balances	Balances originally presented	Adjustments	Restated balances
NET INCOME FOR THE YEAR	104,442	(14,046)	90,396	107,718	(14,190)	93,528
OTHER COMPREHENSIVE INCOME	-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	104,442	(14,046)	90,396	107,718	(14,190)	93,528
ATTRIBUTED TO						
Shareholders' interest in parent company				104,442	(14,046)	90,396
Non-controlling interest				3,276	(144)	3,132
				107,718	(14,190)	93,528

Statement of individual and consolidated cash flow

	December 31, 2018					
	Parent company			Consolidated		
	Originally submitted	Adjustments	Restated balance	Originally submitted	Adjustments	Restated balance
RECONCILIATION BETWEEN NET INCOME FOR THE YEAR AND NET CASH FROM OPERATING ACTIVITIES						
NET INCOME FOR THE YEAR	104,442	(14,046)	90,396	104,442	(14,190)	90,252
Depreciation and amortization	3,099	-	3,099	26,483	-	26,483
Equity in net income of subsidiaries	(107,896)	14,046	(93,850)	-		-
OPERATING ACTIVITIES						
Changes in investments related to technical reserves	-	-	-	(60,103)	-	(60,103)
Change in credits from operations with healthcare plans	-	-	-	3,599	-	3,599
Changes in assets and securities receivable	(3,299)	-	(3,299)	(22,371)	-	(22,371)
Changes in investments in subsidiaries	25,193	-	25,193	-	-	-
Changes in judicial and tax deposits	-	-	-	(619)	-	(619)
Changes in free investments	-	-	-	1,605	-	1,605
Changes in technical reserves for healthcare operations	-	-	-	(6,228)	-	(6,228)
Changes in taxes and charges payable	2	-	2	6,083	-	6,083
Changes in sundry debits	(32,680)	-	(32,680)	2,726	-	2,726
Change in executives' incentive plan	-	-	-	-	14,190	14,190
Net cash generated by operating activities	(11,139)	-	(11,139)	55,618	-	55,618

2.2. Functional and presentation currency

The individual and consolidated financial statements are prepared and presented in Brazilian Real, which is the functional and presentation currency of the Company and its subsidiaries and they were prepared based on historical cost, unless otherwise indicated.

2.3. Basis for preparation, consolidation and investments in subsidiaries

The following accounting policies are used in the preparation of the consolidated financial statements.

a) Subsidiaries

Subsidiaries are all entities that the Company controls directly or indirectly. The Company controls an entity when it is exposed to, or has a right over the variable return arising from its involvement with the entity and has the ability to interfere in those returns due to its power over the entity. The subsidiaries are fully consolidated as of the date control is transferred to the Parent Company. The consolidation is interrupted beginning on the date on which the Company no longer has control.

Transactions among the Company and its subsidiaries, unrealized balances and gains in transactions among companies are eliminated. Unrealized losses are also eliminated, unless the transaction shall provide evidence of an impairment loss of the asset transferred. The accounting policies of the subsidiaries are changed when required in order to assure the consistency with the policies adopted by the Company.

The gains and losses on dilution, arising from interest in subsidiaries, are recognized in the statement of income.

The consolidated financial statements include the financial statements of the Company and its subsidiaries complying with the effective interest percentages.

b) Transactions and non-controlling interest

The Company and its subsidiaries regard transactions with non-controlling shareholders as transactions with the owners of assets. For purchases of non-controlling interest, the difference between any considerations paid and the acquired portion of the book value of the subsidiary is recorded in shareholders' equity. Gains or losses on disposals of non-controlling interest are also recorded in shareholders’ equity.

c) Loss of control in subsidiaries

When the Company ceases to hold the control, any interest held is measured to its fair value, and the change in the book value is recognized in the result. The fair value is book value for subsequent accounting for the interest held and associated company, a joint venture or a financial asset. Moreover, any amounts previously recognized in other comprehensive income relating to that entity are accounted for as if the Company had directly disposed the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive results are reclassified in the statement of income.

The subsidiaries that were consolidated are as follows:

	Interest	
	12/31/2018	12/31/2017
São Francisco Saúde	99.85%	99.82%
São Francisco Odontologia	90.00%	90.00%
São Francisco Resgate	100.00%	100.00%
Documenta	89.70%	-
SF Health	100.00%	-
HEMAC	100.00%	100.00%
CAON	100.00%	100.00%

The details of Company’s subsidiaries at the end of the year are as follows:

	12/31/2018						
	São Francisco Saúde	São Francisco Odontologia	São Francisco Resgate	Documenta	SF Health	HEMAC Note 1 – “iv”	CAON Note 1 - “v”
Current assets	291,827	33,225	28,530	13,331	150	-	-
Non-current assets	292,714	14,506	19,540	21,009	196	573	345
Total assets	584,541	47,731	46,782	34,340	346	573	345
Current liabilities	249,680	16,816	11,897	9,102	-	-	-
Non-current liabilities	69,504	5,548	8,827	4,379	-	-	-
Shareholders' equity	265,357	25,367	26,056	20,860	346	573	345
Total liabilities and shareholders' equity	584,541	47,731	46,782	34,340	346	573	345

	12/31/2017				
	São Francisco Saúde	São Francisco Odontologia	São Francisco Resgate	HEMAC Note 1 – “iv”	CAON Note 1 - “v”
Current assets	270,737	20,712	18,914	-	-
Non-current assets	143,855	4,741	15,575	658	393
Total assets	414,592	25,453	34,489	658	393
Current liabilities	194,492	7,278	10,909	-	-
Non-current liabilities	35,951	2,678	3,215	-	-
Shareholders' equity	184,149	15,497	20,365	658	393
Total liabilities and shareholders' equity	414,592	25,453	34,489	658	393

2.4. Business combination

Business acquisitions are accounted for under the acquisition method in the consolidated financial statements which is the sum of fair values of transferred assets and liabilities assumed on the date that acquiree's control was transferred (acquisition date). The costs related to the acquisition are recognized in income (loss), when incurred.

The goodwill arising from acquisitions is stated at the cost of business combination which exceeds the ownership interest of the acquirer in the shareholders' equity of the acquiree.

The goodwill recorded due to an acquisition will be adjusted during the measurement period (period of 12 months or less after the acquisition date), in case contingent assets or liabilities attributable to the acquisition date are identified. After the measurement period, the contingent contra-entry attributable to the asset or liability is measured again as of the reporting dates of the subsequent financial statements according to the technical pronouncement CPC 38 – Financial Instruments: Recognition and Measurement and CPC 25 – Provisions, Contingent Liabilities and Assets, as applicable, the corresponding gain or loss recognized in income (loss) for the period in progress.

2.5. Goodwill generated in business combination

Goodwill arising on an acquisition of a business combination is carried at cost on the combination business date (see note 2.4) less accumulated impairment loss, if any.

Goodwill and other intangible assets of undefined useful lives are not amortized, yet the likelihood of asset impairment is tested at least annually. Any identified permanent loss is immediately recognized in income (loss) for the period and is not reversed in subsequent periods.

In the disposal of a subsidiary, the corresponding goodwill is included in the determination of the disposal proceeds.

2.6. New technical pronouncements, reviews, changes and interpretations already issued, but not yet adopted by the Company and its subsidiaries:

As part of the CPC's commitment to adopt in Brazil all amendments introduced by "International Accounting Standards Board – IASB" in IFRSs, amendments to certain accounting pronouncements were disclosed by IASB, which are not effective and/or approved by ANS:

- CPC 48 - Financial Instruments

  It establishes requirements to recognize and measure financial assets, financial liabilities and some contracts for the purchase or sale of non-financial items. This standard replaces CPC 38 - "Financial Instruments": Recognition and measurement". CPC 48 contains three main classification categories for financial assets: measured at amortized cost, at fair value through other comprehensive income (FVTOCI) and at fair value through profit or loss (FVTPL). The classification of financial assets pursuant to CPC 48 is usually based on the business model in which a financial asset is managed and on its characteristics of contractual cash flows. CPC 48 eliminates the old categories in CPC 38 of securities held-to-maturity, loans and receivables, and available for sale.

- CPC 47 - Revenue from contracts with customer

  The new standard replaces the CPC 17 - "Construction Contracts", CPC 30 - Revenues and corresponding interpretations and provides the principles that an entity will apply to determine the measurement of revenue and when it is recognized. Changes established criteria for measurement and record of sales, in the way they were effectively carried out with proper presentation - as well as for recognition at amounts the Entity is entitled to in transaction.

- CPC 06 (R2) - Lease operations:

  The new standard changes the CPC 06 - Lease Operations and corresponding interpretations and determines that lessees start recognizing liabilities of future payments and the right-of-use of leased assets to practically all lease contracts, including operating ones, taking into account that short-term or small amount contracts can be left out of the scope of this new standard. The lease recognition and measurement criteria in financial statements of lessees substantially remain the same. This standard will come into effect on January 1, 2019.

- IFRS 17 - Insurance Contracts (not regulated by CPC)

  The change in this new standard determines the aggregation of contracts in groups, to limit the offset of profitable contracts against onerous contracts. The portfolio segregation shall be at least between: i) group of contracts that are onerous at initial recognition; ii) group of contracts that, at initial recognition, do not have any significant possibility of becoming onerous; and iii) group of any contract remaining in the portfolio. This standard will become effective on January 1, 2020.

There are no other standards issued by CPC or interpretations that could have a significant impact on individual and consolidated financial statements of the Company and its subsidiaries.

2.7. Significant accounting practices

a) Available

They include bank deposits, recorded in cash and cash equivalents and other high-liquidity short-term investments, stated at cost, plus yield, with maturing originally after three months and less an insignificant risk of change in value.

b) Interest earning bank deposits

The Company and its direct and indirect subsidiaries have interest earning bank deposits valued at fair value through profit or loss. The financial investments are indexed to fixed interest rate payment, as shown in Note 3.

c) Credits from operations with healthcare plans

Represented by amounts receivable due to the recognition on accrual basis of accounting of revenues from the services put at the disposal of healthcare service users.

d) Provision for credit losses

Recognized by the totality of the credits from contracts more than 60 days past due, in case of individual plan operations, and more than 90 days past due for other plans. The provision is recognized including all installments falling due of such contracts, when considered not realizable by the Management of the Company and its subsidiaries.

e) Credits receivable from rendering of services

Recorded and maintained in the balance sheet at the nominal value of securities representing such credits, adjusted to present value where applicable and significant. When considered necessary by Management, an allowance for doubtful accounts is recorded, formed based on analysis of accounts receivable and in an amount considered sufficient by Management to cover possible losses on the realization.

f) Financial instruments

Classification and measurement

Management of the Company and its direct and indirect subsidiaries establishes the classification of financial assets upon initial recognition. The classification depends on the purpose for which the financial assets were acquired or formed, which are classified into the following categories:

i) Financial assets measured at fair value through profit or loss

This category includes two subcategories: financial assets held for trading and financial assets designated at fair value through profit or loss on opening date of acquisition.

The Company and its direct and indirect subsidiaries classify in this category the financial assets which investment purpose and strategy are to maintain actively and frequently trading. Gains or losses from changes in fair value are immediately recorded and presented in the statement of income under "Financial income (loss)" caption in the period they occur. Assets of this category are usually classified as current assets.

In 2018 and 2017, the Company and its direct and indirect subsidiaries did not hold derivative financial instruments and did not identify any derivative embedded in its insurance contracts.

ii) Loans and receivables

They are non-derivative financial assets with fixed or determinable payments, but not quoted on any active market. The receivables of the Company and its direct and indirect subsidiaries comprise credits from healthcare plan operations, accounts receivable from services, accounts receivable from related parties, and other accounts receivable. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment loss.

iii) Other financial liabilities

Represented by loans and financing, suppliers and accounts payable to related parties and other liabilities, being classified as financial liabilities at amortized cost. They are measured at amortized cost value, using the effective interest method.

This method is used to calculate the amortized cost of a financial liability and allocate the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows over the estimated life of financial liability or, when appropriate, over a shorter period, for the initial recognition of net book value.

g) Investment in subsidiaries

Investments in direct and indirect subsidiaries are valued under the equity method, based on the balance sheet determined by the subsidiary on the same base date of Company's financial information.

h) Property, plant and equipment

Stated at cost value of acquisition or construction, less depreciation and accumulated impairment loss when applicable. In the case of qualifying assets, loan costs are capitalized as part of the costs of construction in progress. This property, plant and equipment is classified in proper categories of property, plant and equipment when concluded and ready for intended use. Depreciation of these assets starts when they are ready for intended use. Land is not depreciated.

Depreciation is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method (except for land). The estimated useful life, residual values and depreciation methods are reviewed at the end of the year, with the effect of any changes in estimate accounted for on a prospective basis in income (loss). Depreciations are calculated considering the years such as the estimated economic useful lives of assets, as shown in Note 10.

Residual values and the useful life of assets are reviewed and adjusted, if adequate, every ear.

A fixed asset item is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the book value of the asset and is recognized in income (loss) for the year.

i) Intangible assets

Correspond to software and client portfolio of healthcare and dental plan beneficiaries. Software is measured upon the initial recognition at cost and, subsequently, deducted from accumulated amortization and impairment losses, when applicable.

Client portfolios are measured at initial recognition at cost of acquisition, deducted for the corresponding amortization. The economic life of client portfolios in ten years based on the expectation on obtaining cash inflows and economic benefits of assets.

Intangible assets acquired separately by business combination are measured at fair value upon initial recognition. After the initial recognition, the fixed assets are stated at cost, less accumulated amortization and impairment losses.

j) Leases

Classified as financial leases whenever lease terms substantially transfer all ownership risks and benefits of the leased asset to the Company and its direct and indirect subsidiaries. All other leases are classified as operating leases. The expenses related to operating leases are recorded in income (loss), under the straight-line method, over the contract term.

Rights on assets held in financial leases are recognized as assets, of the Company and its direct and indirect subsidiaries at fair value of leased asset (or, if lower, at present value of minimum lease payments), at the onset of lease. Liability due to the lessor is included in the balance sheet as a financial lease obligation. Lease payments are recognized under financial charges and decrease of lease obligation, so as to reach a constant interest rate on the liability remaining balance. Financial charges are deducted in profit and loss measurement. Assets held as financial leases are included in property, plant and equipment and are depreciated and evaluated regarding impairment losses, similarly to own assets.

k) Technical reserves for healthcare operations

Technical reserves are recognized according to the determinations and criteria established by the Normative Resolution 206/09, of the ANS, and further amendments, except for the outstanding event reserve, calculated based on the invoices of healthcare service providers effectively received by the healthcare companies and identification of the medical expense event by service provider reporting, regardless of the existence of any transmission intermediation mechanism, process or system, directly or indirectly through third parties, or the preliminary analysis of medical expenses, as established by the ANS NORMATIVE RESOLUTION 209/09 and NORMATIVE RESOLUTION 290/2012. Provision for events incurred and not reported (PEONA), determined by Normative Resolution 393/15: is calculated according to the methodology established in Actuarial Technical Note (NTA).

The recognized technical reserves are as follows:

- Provision for remission: Normative Resolution 75 dated May 10, 2004 requires the formation of provision for remission. Through the methodology defined in Actuarial Technical Note (NTA), approved by ANS, the guarantee to healthcare service provided in contract is used to assure the dependents of deceased policyholder.

- Provision for events incurred and not reported (PEONA): determined by Normative Resolution 393/15, shall be actuarily estimated to meet the payments of events which have already occurred and not reported to the healthcare plan company.

- Outstanding event reserve for SUS: refer to the amounts charged to the companies of private healthcare plans by the ANS, related to the services established in contracts with the operator beneficiaries and that have been provided by the public network of the Unified Health System (SUS).

- Provision for unsettled events to other providers

  The Normative Resolution 209/09 determined the recognition of this reserve from 2010, which book record is made at the time the charge is submitted to the healthcare companies and identification of the medical expense event by service provider reporting, regardless of the existence of any transmission intermediation mechanism, process or system, directly or indirectly through third parties, or the preliminary analysis of medical expenses.

  Are recognized at fair value, in practice, and correspond to the invoice amount based on the services provided indicated in the medical production records of cooperated and accredited members, as well as invoices of healthcare service providers effectively received by the Cooperative, as established by Normative Instruction IN 32/2009.

- Unearned premium reserve (PPCNG): according to the Normative Resolution 314, of November 23, 2012, this reserve shall be recognized to cover the events/claims to be incurred. The calculation of the PPCNG shall determine the portion of unearned premiums or contributions, related to the risk coverage period, in prepayment contracts, through individual calculations of contracts in effect as of the reporting date of its recognition.

  The PPCNG shall be daily recognized, from the commencement of the effective period, and monthly reversed, on the last day of the month, in relation to the elapsed risk, to record the premium revenue or earned consideration, on accrual basis of accounting.

l) Loans and financing

Loans and financing are initially recognized at fair value, net of costs incurred in the transaction and are subsequently stated at amortized cost. Any difference between the amounts raised (net of transaction costs) and the settlement amount is recognized in the income statement during the period while the loans are outstanding, under the effective interest rate method. The interest rates paid are classified in the statement of cash flows as operating activities.

Financing is classified as current liabilities, if the payment falls due in one year or less. Otherwise, loans and financing are presented as non-current liability.

m) Reserves for risks

Recognized for present (legal or presumed) obligations resulting from past events, for which it is possible to reliably estimate amounts and whose settlement is probable. Recognized provision amount is the best estimate of the consideration required to settle the obligation in the end of each period, considering risks and uncertainties related to the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its book value is the present value of those cash flows (where the effect of the time value of money is material). When the Management of the Company and its direct and indirect subsidiaries expects that the amount of a provision is fully or partially reimbursed, such asset is recognized only when its realization is considered unquestionable, without recognizing assets under uncertainty scenarios.

If required, the provision for risks is recorded in accordance with risk evaluation (possible losses) made by the Management of the Company and its direct and indirect subsidiaries and their legal advisors, including in relation to its classification in the long term.

Legal obligations (tax and social security) arise from lawsuits, related to tax obligations, where the subject being contested is their legality or constitutionality which, regardless of the assessment of the likelihood of success, have their amounts recognized in full in the individual and consolidated financial statements and are monetarily restated at Selic rate. Judicial and tax deposits are presented in non-current assets and monetarily restated.

n) Other assets and liabilities

Stated at cost values, less provisions for adjustment at realizable value (assets) and at known or estimated amounts (liabilities). The rights and obligations subject to inflation adjustments are restated up to the end of each period, and the assets and the liabilities contracted in foreign currency, if any, are translated into Reais at the exchange rates in force on that date. The counter entries of these restatements are directly included in income (loss) for the year. When necessary, a provision is recognized in an amount sufficient to cover possible losses in the realization of such assets.

o) Income tax and social contribution

The Company and its subsidiaries São Francisco Odontologia, São Francisco Sistemas de Saúde and São Francisco Resgate determine such taxes based on taxable income. Thus, the income (loss) from income tax and social contribution represents the sum of current and deferred taxes.

Current

Provision for income tax is calculated and recorded based on taxable income for each period, adjusted in the legal manner, calculated at the rate of 15%, plus a surcharge of 10% that exceeds R$ 240. The social contribution is calculated based on the rate of 9% of calculation basis.

Deferred assets

Recognized on tax losses, social contribution loss carryforwards and non-deductible temporary differences, when applicable, and recorded in non-current assets, based on the prospects of generating future taxable profit.

The subsidiaries Documenta Clínica Radiológica, Hemac Medicina Laboratorial, Centro Avançado Ocontológico and SF Health determine such taxes based on presumed profit. Accordingly, the provision for income tax is calculated based on the rate of 8% on total gross revenue, plus income and net gain on financial investments and other financial revenues. The rate of 15% plus a 10% surtax on taxable income exceeding R$240 is applied on this basis. The provision for social contribution is calculated at the rate of 9% on presumed income, calculated as equivalent to 12% of gross revenue in domestic market.

p) Recognition of operating revenues

i) São Francisco Saúde and São Francisco Odontologia

According to the ANS Normative Resolution 314, of November 23, 2012, the revenue from operations is recognized over the coverage period of the incurred risk ("pro rata die"). In the cases in which the invoice is issued in advance in relation to the coverage period, its amount is recorded in the heading "Unearned premium reserve", in current liabilities. Revenues from healthcare care services rendered are calculated on accrual basis.

ii) São Francisco Resgate e Documenta

The Company's revenue from rendering of patient transport services is recognized according to the conditions established in the contract, a fixed amount and service date being set. Accounting recognition of revenue from rendering of services is based on services rendered up to the balance sheet date.

q) Recognition of costs from services rendered

i) São Francisco Saúde and São Francisco Odontologia

Costs with operation of own healthcare network are recognized in income (loss) for the period as they are incurred. The costs of services rendered by network professionals and clinics are recognized based on the reports submitted to the healthcare companies according to the incurrence of the events covered by the plans.

r) Statement of income

Income (loss) from direct and indirect subsidiaries is determined on accrual basis for the period.

s) Use of estimates and judgments

The accounting estimates were based on objective and subjective factors, with a basis on management judgment for determination of the adequate amount to be recorded in the individual and consolidated financial statements. The Company and its direct and indirect subsidiaries make use of assumptions to establish estimates for the future. By definition, resulting accounting estimates are seldom equal to the respective actual incomes. The settlement of transactions involving these estimates may result in significantly different amounts due to the lack of precision inherent to the process of their determination. The Company and its direct and indirect subsidiaries review estimates and assumptions at least on an annual basis.

Information regarding critical judgments and estimates referring to the accounting policies adopted which impact the amounts recognized in the individual and consolidated financial statements are described below:

<u>Allowance for doubtful accounts</u>

The Company and its direct and indirect subsidiaries recognize the allowance for doubtful accounts according to item 10.2.3 of Chapter I, Attachment of Normative Resolution 418/2016 of National Supplementary Health Agency, as provided below: a) in individual plan with fixed price, if at least an installment is over 60 days past due, all the credit of such contract was provisioned; b) for all other plans, if at least one contract installment is over 90 days past due, all the credit from such contract was provisioned; c) for credits from operations not related with the Healthcare company's own healthcare plans, if at least one installment is over 90 days past due, all the credit was provisioned.

Useful life of fixed assets, amortization of intangible assets and impairment valuation

The Company and its direct and indirect subsidiaries recognize the depreciation of its fixed assets based on the estimate remaining useful life of each group of assets, as well as the amortization period of intangible asset items. However, the useful lives and other actual factors change based on the circumstances and use of the respective assets.

Provision for risks

Provisions for risks, related to lawsuits (labor, tax and civil), are recognized when the Company and its direct and indirect subsidiaries have a legal or presumed obligation resulting from past events, for which it is possible to reliably estimate amounts and whose settlement is probable.

The provisions are measured at the present value of the expenditures that shall be necessary to settle the obligation, using a pre-tax rate which reflects the current market evaluations as to the value of the cash over time and the specific risks of the liability.

Provision for events incurred and not reported

The Company and its direct and indirect subsidiaries use their own actuarial methodology, duly supported by an Actuarial Technical Note (NTA), approved by the ANS, for the PEONA calculation. The adopted calculation criterion is based on the weighted average percentage obtained through the building of a "Run-off Triangle", related to amounts not reported, second month of event incurrence and recorded according to the ANS' standards.

The methodology used for calculating the PEONA has two important variables: days past due for recognition of events and 12-month average of the care cost in prepayment.

Executives´incentive plan

The executive incentive program (Note 20), established in 2018, is considered a debt instrument that requires judgment and estimates for its quantification, including: i) projection of future results of the operations of the Company and its subsidiaries; ii) expectation that the executives will remain at the Company and its subsidiaries; iii) estimate of the date of occurrence of the liquidity event (sale of shareholdings); and iv) discount rate. These estimates and judgments were made considering the information and data available on the base-date of these individual and consolidated financial statements. Future information and data may significantly influence the quantification and timing of this estimate.

t) Basic earnings and diluted per share

Basic: calculated based on the weighted average number of common shares held by shareholders and outstanding during the period.

Diluted: calculated based on the weighted average number of common shares and potentially diluting common shares outstanding during the period.

3. SHORT-TERM INVESTMENTS

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Related to technical reserves: (i):				
Investment fund dedicated to the private healthcare industry - ANS RF	-	-	129,997	63,962
Not related to technical reserves: (ii):				
Bank Deposit Certificate - CDB	39,877	22,865	59,671	-
Repurchase and resale agreements	-	-	37,148	-
Investment Fund Quotas (iii)	-	-	39,206	169,945
Total	39,877	22,865	266,022	233,907
Current	39,877	22,865	263,744	233,907
Non-current - Unrestricted interest earning bank deposits	-	-	2,278	-

(i) Interest earning bank deposits related to technical reserves are under the terms of ANS Normative Instruction 392/15. The binding was established in investment fund dedicated to private healthcare, through agreements between ANS and the financial institutions remunerated at the weighted average rate of 98.5% as of December 31, 2018 (94.12% in 2017) of the change in the Interbank Deposit Certificate (CDI). The change corresponds to the transfer of the balance of unrestricted investments for purposes of fulfilling the ANS requirements (backing and tie).

(ii) The investments not tied to technical reserves are represented by financial investments in Repurchase agreements, CDBs and Investment Funds, held with average adjustment between 65% and 103.3% of the change in Interbank Deposit Certificates (CDI) as of 12/31/2018 and between 68% and 103% of CDI as of 12/31/2017, held in banking institutions that the Management believes to be top notch, according to the rating released by risk-rating agencies, show ready liquidity and insignificant risk of value.

(iii) In 2018, investments were required to be readjusted for meeting the technical reserves of the ANS. In April 2018, R$52,000 was withdrawn from untied investment of the subsidiary São Francisco Saúde and invested in a tied investment fund.

4. TRADE RECEIVABLES - CONSOLIDATED

	12/31/2018				
		Overdue			
	Falling due	Up to 30 days	31–90 days	>90 days	Total
Cash consideration receivable	33,089	23,065	11,490	54,035	121,679
Provision for credit losses					(63,294)
Total net					58,385

	12/31/2017				
		Overdue			
	Falling due	Up to 30 days	31–90 days	>90 days	Total
Cash consideration receivable	51,637	13,611	10,098	33,518	108,864
Provision for credit losses					(50,269)
Total net					58,595

Refers to the accounts receivable from the beneficiaries of medical and dental plans offered by the subsidiaries São Francisco Saúde and São Francisco Odontologia and by the new health care company acquired by São Francisco Saúde in 2018: São Lucas Lins.

Changes in provision for credit losses

Balance at December 31, 2016	(34,236)
Addition (expenses for the year)	(20,696)
Reversal/write-offs	4,633
Balance at December 31, 2017	(50,269)
Addition (expenses for the year)	(15,191)
Reversal/write-offs	2,166
Balance at December 31, 2018	(63,294)

5. ACCOUNTS RECEIVABLE FROM RENDERING OF SERVICES - CONSOLIDATED

	12/31/2018	12/31/2017
Medical/hospital services (a)	17,416	11,953
Unbilled medical/hospital services (b)	1,340	1,341
Transport and emergency services (c)	11,208	10,270
Diagnoses by image services (d)	1,570	-
Losses from doubtful accounts	(7,787)	(4,932)
Total	23,747	18,632

(a) Refers to the medical-hospital services provided by São Francisco Saúde and its subsidiaries to healthcare plan beneficiaries from the merger of the Hospital, as mentioned in Note n 1.

(b) Refers to the revenue from inpatient treatment in the end of the period of 2018 and 2017 related to patients who, as they had not been discharged or completed 30 days of inpatient period, did not have their invoice issued within such period.

(c) Refers to the revenue from transport and emergency services provided by São Francisco Resgate.

(d) Refers to the revenue from diagnoses by image services provided by Documenta.

Balance of accounts receivable is distributed per maturity, as follows:

	12/31/2018	12/31/2017
Falling due	14,621	12,016
Overdue (days):		
Up to 30	3,503	3,318
31–60	2,139	708
61–90	1,107	446
91–180	1,657	1,021
>180	8,507	6,055
Total	31,534	23,564

6. TAX AND SOCIAL SECURITY CREDITS - CONSOLIDATED

	12/31/2018	12/31/2017
Tax credits:		
Withholding income tax - IRRF	3,121	66
Social security charges - INSS	1,252	193
Corporate income tax – IRPJ	2,654	177
Social contribution on net income - CSLL	876	327
PIS and COFINS (a)	11,278	568
Social security withholding	447	27
Decision	367	367
ISS	216	-
(-) Provision for credit losses	(25)	(25)
Total	20,186	1,700

(a) Refers to the PIS and COFINS credits of subsidiary São Francisco Saúde for the period from October 2016 to December 2017, aiming at deducting from the indemnities corresponding to the events incurred in own network (Hospital São Francisco), under the terms of § 9, art. 3, Law 9718/98, determined by the subsidiary São Francisco Saúde. The refund application was submitted in December 2018 with expectation of receipt in the following year.

7. ASSETS AND SECURITIES RECEIVABLE - CONSOLIDATED

	12/31/2018	12/31/2017
Inventory of medication material	10,907	5,995
Storeroom Inventories	5,070	1,759
Returned and postdated checks	2,168	1,501
Advances to employees	593	737
Advances to service providers	12,359	6,562
Prepaid expenses and other	1,408	1,109
Provision for obsolescence/credit losses	(1,612)	(1,539)
Total	30,893	16,124

8. ESCROW DEPOSITS - CONSOLIDATED

As of December 31, the subsidiaries São Francisco Saúde, São Francisco Odontologia and São Francisco Resgate and the indirect subsidiary São Lucas Lins have judicial deposits as guarantee to the lawsuits to which they are party, as shown below:

	12/31/2018	12/31/2017
Civil (a)	2,331	2,146
Labor (b)	2,151	1,364
Tax (c)	6,207	6,006
Total	10,689	9,516

(a) The civil deposits correspond to the lawsuits filed by beneficiaries who claim service continuity, supposed medical error or dissatisfaction with the provided service, extensive coverages, reimbursement of hospital expenses, and other common to healthcare companies.

(b) Basically corresponds to the subsidiary São Francisco Resgate. Labor deposits correspond to labor lawsuits which main claims are overtime and subsidiary liability of third-party companies.

(c) São Francisco Saúde and São Francisco Odontologia, together with other companies of the industry, filed a lawsuit requiring injunction on denial of the obligation related to employer's union contribution (20%) to the Brazilian Social Security Institute (INSS) on the amount of services provided by independent professionals in the network of such healthcare companies. In this context of discussion, São Francisco Saúde and São Francisco Odontologia recorded the legal obligation in the amount of R$3,108 as of December 31, 2014 and made the judicial deposit in the same amount. After this date, the balances have been adjusted for inflation.

9. INVESTMENTS IN SUBSIDIARIES

	12/31/2018	12/31/2017
Interest in subsidiaries at equity value	333,881	221,725
Surplus on interest in subsidiaries	42,895	45,995
Total investments	376,776	267,720

	São Francisco Saúde	São Francisco Odontologia	São Francisco Resgate	Documenta	SF Health	HEMAC	CAON	Total
Total interest in capital - %	99.85%	90.00%	100.00%	89.70%	100.00%	100.00%	100.00%	
Capital	159,552	16,675	15,527	11,000	347	767	452	
Number of quotas held - thousand	159,552	16,675	15,527	11,000	347	767	452	
Shareholders' equity	265,257	26,634	27,323	20,860	346	573	345	
Income (loss) for the year	78,774	10,480	8,304	8,268	-	(85)	(48)	
Balance at December 31, 2016	98,723	7,849	15,527	-	-	767	452	123,318
Subsidiary's paid-up capital	38,000	-	-	-	-	-	-	38,000
Treasury quotas in subsidiary	(364)	-	-	-	-	-	-	(364)
Gain on investee's interest	1	-	-	-	-	-	-	1
Distribution of dividends	(89)	(308)	-	-	-	-	-	(397)
Dividends received	(10,890)	-	-	-	-	-	-	(10,890)
Equity in net income of subsidiaries	60,980	6,407	4,838	-	-	(109)	(59)	72,057
Total at December 31, 2017	186,361	13,948	20,365	-	-	658	393	221,725
Subsidiary's paid-up capital	30,000	9,000	-	-	343	-	-	39,343
Treasury quotas in subsidiary	(1)	-	-	-	-	-	-	(1)
Additional acquisition of interest in subsidiary through purchase of quotas	-	-	-	9,045	-	-	-	9,043
Additional acquisition of interest in subsidiary through capital contribution	-	-	-	9,730	-	-	-	9,732
Gain (loss) in investee's interest	46	(248)	-	-	-	-	-	(202)
Distribution of dividends/interest on own capital	(30,101)	(8,162)	(1,346)	-	-	-	-	(39,609)
Equity in net income of subsidiaries	78,656	8,292	7,035	-	-	(85)	(48)	93,850
Total at December 31, 2018	264,961	22,830	26,055	18,775	343	573	345	333,881

São Francisco Saúde

On September 21, 2018 and December 17, 2018, through the Minutes of the Special Shareholders' Meeting, shareholders approved the increase in the capital of São Francisco Saúde in the amount of R$30,000, by issue of 10,000 thousand new quotas, and 20,000 thousand new quotas, respectively, at the unit price of R$1.00. The shareholders decided to keep in treasury the corresponding to 450 quotas, increasing the Company's interest in the subsidiary to 99.85%.

On March 27, 2017 and December 7, 2017, through the Minutes of the Special Shareholders' Meeting, the increase in the capital of São Francisco Saúde was approved in R$28,000 and R$10,000, respectively, by the issue of 28,000 new quotas, and 10,000 new quotas, at the unit price of R$1.00. The shareholders decided to keep in treasury the corresponding to 448 quotas. In this context, the Company's interest in São Francisco Saúde increased to 99.82%.

As mentioned in Note 1, on November 7, 2018, São Francisco Saúde, through the purchase and sale contract, acquired 100% of shares in Hospital São Francisco Ltda. ("Quirinópolis"), located in Quirinópolis, state of Goiás. The amount paid corresponds to the surplus of tangible assets (property, plant and equipment), in the amount of R$748. The subsidiary's Management is in process of determination of the fair value of the assets and liabilities of the acquiree.

As mentioned in Note 1, on October 1, 2018, São Francisco Saúde acquired 100% of the shares in São Lucas Lins. The acquisition value was R$56,295, partially being paid in cash, while the outstanding amount of R$18,130 is payable in 10 installments from November 2018. As of December 31, 2018, the balance payable, in the approximate amount of R$16,000, is recorded in the heading "Sundry debits" in current liabilities and the installments are adjusted by the CDI rate.

The amount paid corresponds to the surplus of tangible assets (property, plant and equipment) and client portfolio in the amount of R$15,692. These amounts were stated following the provisions of the related accounting pronouncement.

The Management of São Francisco Saúde engaged specialists to perform the measurement of the assets and liabilities of São Lucas Lins at fair value, determining a goodwill, based on future profitability, in the amount of R$39,377, as shown below at the acquisition date:

Fair value of identifiable acquired assets and assumed liabilities	Book values	Adjust ments	Fair value
Current assets	23,819	-	23,819
Non-current assets:			
Property, plant and equipment (i) and (iii)	18,883	3,403	22,286
Intangible assets (ii)	49	12,289	12,338
Other assets	3,685	-	3,685
Current liabilities	(33,012)	-	(33,012)
Non-current liabilities	(12,197)	-	(12,197)
Total amount of assets, net of investee	1,227	15,692	16,919
% of acquired ownership interest			100%
Fair value of net assets acquired			15,692
Net assets acquired			1,227
Paid amount			56,296
Goodwill determined in acquisition			39,377

(i) Substantially refers to the surplus determined on the land of São Lucas Lins where the Lins hospital and other service units in Lins and Bauru are located.

(ii) Refers to the surplus determined on client portfolio of São Lucas Lins.

(iii) Substantially refers to the surplus determined on other hospital assets of São Lucas Lins.

São Francisco Odontologia

On December 17, 2018, the shareholders of São Francisco Odontologia resolved to increase capital by issuing 10,000,000 new quotas. These new quotas are fully subscribed and paid-in, in cash, in the amount of R$10,000, by the shareholders Geraldo Almeida Lima (to which 1,000,000 quotas were issued) and the Company (to which 9,000,000 quotas were issued).

Documenta

On December 28, 2018, the related parties SP3 Participações Ltda. and M2P Participações Ltda., which held in aggregate 66.46% interest in the controlling stake of Documenta, partially spun-off their quotas (equivalent to 48.00% of interest) and, subsequently thereafter, paid-in to the Company at the net equity of R$9,732. Additionally, such related parties sold their remaining quotas, corresponding to 18.46% (equity value equivalent to R$4,004) to the Company for the amount of R$17,832, payable until December 31, 2019.

On the same date, the Company acquired additional 23.24% of quotas (net value equivalent to R$5,039) of minority quotaholders for the amount of R$20,781, considering that the amount of R$17,175 will be paid in 12 monthly equal and consecutive installments, from February 2019, with adjustment by the IPCA.

The amounts payable to the sellers are recorded in the heading "Related Parties – sundry debits".

As this transaction of additional acquisition of quotas in Documenta was considered a transaction in which there is common control, the difference between the amount paid and the equity value of acquired quotas, in the amount of R$29,570, was treated as capital transaction, recorded in shareholders' equity, in the heading of goodwill in capital transaction.

Surplus generated in acquisition

Aimed at achieving operating agility and tax efficiency, on the base date December 31, 2016, it was approved the merger by the Company of the full net assets of the entity GIF V Fênix Participações S.A. ("GIF Fênix"), which held then interest in the Company equivalent to 29.11% in its capital.

On the base date of merger, spun-off net assets are as follows:

Current assets	920
Non-current assets	87,110
Current liabilities	(1)
Spun-off net assets	88,029

The merged net assets was adjusted by the inflation adjustment effects on the valuation report of economic value, prepared to support the allocation of acquisition price, originally issued on February 13, 2017 and rectified on May 23, 2017. Additionally, the effects of reduction in the goodwill arising from business combination to the estimated value of the tax benefit to be generated by the asset were considered, as provided in the technical interpretation ICPC 09 (R2) – Individual Financial Statements, Separate Financial Statements and Consolidated Financial Statements and Equity Method and elimination of the balances between the Company (acquirer) and GIF Fênix (acquiree).

In view of this transaction, the net assets of GIF Fênix, as of December 31, 2016, was fully absorbed by the Company without changing its capital, the ownership interest then held by GIF Fênix being transferred to its only shareholder GIF V Fundo de Investimentos em Participações ("GIF V").

Also as a result of this transaction, the Company recognized the amount of surplus of tangible and intangible assets arising from the acquisition of interest in the Company and its subsidiaries in the amount of R$48,240. The amounts recognized as surplus of tangible and intangible assets are represented by:

	Merged amount (R$)	Annual amortization rate %
Surplus of buildings (i)	16,809	4%
Surplus of ambulances	1,680	20%
Surplus of health and dental plan portfolio (ii)	19,580	10%
Trademarks and patents	7,737	-
Surplus on other tangible assets	2,434	20%
	48,240	

(i) Substantially refers to the surplus determined on the buildings allocated to the operations of Hospital São Francisco, owned by the indirect subsidiary GSF Administração de Bens Próprios Ltda.

(ii) Refers to the surplus determined on the client portfolio held by the healthcare companies São Francisco Saúde and São Francisco Odontologia.

As of December 31, 2018, due to the effect of depreciation and amortization for the year, the balance of surplus of tangible and intangible assets corresponds to R$42,895 in the parent company (R$45,995 in 2017), as shown in the Notes 10, 11 and 12.

10. PROPERTY, PLANT AND EQUIPMENT – CONSOLIDATED

	Consolidated			
	2018			% p.a.
	Cost	Accumulated amortization	Net balance	Amortization rate
Land	10,515	-	10,515	-
Buildings	69,644	(5,142)	64,502	4%
Furniture and fixtures	10,689	(5,377)	5,312	10%
Facilities	2,566	(1,008)	1,558	10%
Machinery and equipment	62,713	(31,230)	31,483	10%
IT equipment	22,112	(11,494)	10,618	20%
Vehicles	25,387	(14,834)	10,553	20%
Leasehold improvements	60,982	(20,101)	40,881	20%
Construction in progress	47,056	-	47,056	-
Total	311,664	(89,186)	222,478	

	Consolidated			
	2017			% p.a.
	Cost	Accumulated amortization	Net balance	Amortization rate
Land	2,116	-	2,116	-
Buildings	51,899	(189)	51,710	4%
Furniture and fixtures	6,740	(3,745)	2,995	10%
Facilities	2,475	(784)	1,688	10%
Machinery and equipment	31,873	(12,917)	18,959	10%
IT equipment	12,886	(7,653)	5,233	20%
Vehicles	21,388	(11,803)	9,585	20%
Leasehold improvements	24,659	(10,785)	13,874	20%
Construction in progress	5,278	-	5,278	-
Total	159,314	(47,876)	111,438	

Changes in fixed assets

	Consolidated									
	Land	Buildings	Furniture and fixtures	Facilities	Machinery and equipment	IT equipment	Vehicles	Leasehold improvements	Construction in progress (i)	Total
Cost										
Balance at December 31, 2016	1,871	25,752	5,798	1,390	26,192	9,869	16,782	16,249	4,610	108,513
Acquisitions	557	1,043	949	1,085	5,694	3,285	5,370	106	34,165	52,254
Write-offs	(312)	-	(7)	-	(40)	(268)	(764)	-	(62)	(1,453)
Transfer	-	25,104	-	-	27	-	-	8,304	(33,435)	-
Balance at December 31, 2017	2,116	51,899	6,740	2,475	31,873	12,886	21,388	24,659	5,278	159,314
Acquisitions of investments (ii)	5,600	17,671	2,267	14	20,978	2,720	146	23,457	193	73,046
Acquisitions	3,044	74	1,690	77	9,922	6,599	4,406	707	54,181	80,700
Write-offs	(245)	-	(8)	-	(60)	(93)	(553)	(437)	-	(1,396)
Transfer	-	-	-	-	-	-	-	12,596	(12,596)	-
Balance at December 31, 2018	10,515	69,644	10,689	2,566	62,713	22,112	25,387	60,982	47,056	311,664
Depreciation										
Balance at December 31, 2016	-	(92)	(3,359)	(657)	(10,930)	(6,872)	(9,915)	(7,855)	-	(39,680)
Depreciation for the year	-	(97)	(390)	(130)	(1,994)	(1,022)	(2,371)	(2,930)	-	(8,934)
Write-offs	-	-	4	-	7	241	483	-	-	735
Balance at December 31, 2017	-	(189)	(3,745)	(784)	(12,917)	(7,653)	(11,803)	(10,785)	-	(47,876)
Acquisition of investments (ii)	-	(3,328)	(1,112)	(3)	(15,995)	(1,786)	(69)	(4,418)		(26,711)
Depreciation for the year	-	(1,973)	(525)	(218)	(2,333)	(2,132)	(3,226)	(5,360)	-	(15,382)
Write-offs	-	348	5	-	15	77	264	462	-	1,171
Balance at December 31, 2018	-	(5,142)	(5,377)	(1,008)	(31,230)	(11,494)	(14,834)	(20,101)	-	(89,186)
Net balance at December 31, 2017	2,116	51,710	2,995	1,688	18,956	5,233	9,585	13,874	5,278	111,438
Net balance at December 31, 2018	10,515	64,502	5,312	1,558	31,483	10,618	10,553	40,881	47,056	222,478
Annual average depreciation rates	-	4%	10%	10%	10%	20%	20%	20%	-	-

(i) It substantially corresponds to works of subsidiary São Francisco Sistemas de Saúde: R$27,000 corresponds to the building of hospital in the city of Araraquara/SP, which completion term is in 2019; R$17,210 corresponds to new emergency services, being the most relevant in the cities of Pitangueiras/SP, Marília/SP, Ivinhema/MS, Quata/SP, Dourados/SP and Três Lagoas/MT; and the outstanding balance corresponds to the expansion projects of the already existing units, such as, for example, the expansion of the central pharmacy and structure for fire combat project.

(ii) As mentioned in Note 10, it refers to the surplus determined on the tangible assets recognized by means of the merger of GIF Fênix and the surplus of tangible assets recognized due to the acquisition of the indirect subsidiary São Lucas Lins, which are being reclassified into the heading “Property, plant and equipment” in the consolidated financial statements.

The Company and its direct and indirect subsidiaries monitor their fixed assets through internal and external indicators, aiming to identify possible impacts on their recoverable values. For the period ended December 31, 2018 and 2017, the Management of the Company and its direct and indirect subsidiaries did not identify any indication related to impairment of fixed assets.

11. INTANGIBLE – CONSOLIDATED

	Consolidated			
	2018			% p.a.
	Cost	Accumulated amortization	Net balance	Amortization rate
Trademarks and patents	7,765	-	7,765	-
Software	18,105	(5,640)	12,465	4%
Acquisition of beneficiary portfolio	69,678	(21,370)	48,308	10%
Surplus of beneficiary portfolio (i)	31,795	(3,767)	28,028	10%
Goodwill generated in business combination (ii)	39,374	-	39,374	-
Total	166,717	(30,446)	135,940	

	Consolidated			
	2017			% p.a.
	Cost	Accumulated amortization	Net balance	Amortization rate
Trademarks and patents	7,741	-	7,741	-
Software	11,556	(3,555)	8,001	4%
Acquisition of beneficiary portfolio	60,628	(14,872)	45,756	10%
Surplus of beneficiary portfolio (i)	19,672	(1,800)	17,872	10%
Total	99,597	(20,227)	79,370	

Changes in intangible assets are as follows:

	Software	Client portfolio	Trademarks and patents	Goodwill generated in business combination (ii)	Total
Cost					
Balance at December 31, 2016	6,348	50,832	7,741	-	64,921
Acquisitions of investments (i)	-	19,672	-	-	19,672
Acquisitions	5,352	9,797	-	-	15,149
Write-offs	(144)	(1)	-	-	(145)
Balance at December 31, 2017	11,556	80,300	7,741	-	99,597
Acquisition of investments (i)	144	12,123	24	39,374	51,665
Acquisitions	6,405	9,050	-	-	15,455
Balance at December 31, 2018	18,105	101,473	7,765	39,374	166,717
Depreciation					
Balance at December 31, 2016	(2,331)	(10,062)	-	-	(12,393)
Acquisition of investments (i)	-	(1,800)	-	-	(1,800)
Depreciation for the year	(1,230)	(4,842)	-	-	(6,072)
Write-offs	7	31	-	-	38
Balance at December 31, 2017	(3,554)	(16,673)	-	-	(20,227)
Acquisition of investments (i)	(55)	(3,466)	-	-	(3,521)
Depreciation for the year	(2,031)	(4,998)	-	-	(7,029)
Balance at December 31, 2018	(5,640)	(25,137)	-	-	(30,777)
Net balance at December 31, 2017	8,002	63,627	7,741	-	79,370
Net balance at December 31, 2018	12,465	76,336	7,765	39,374	135,940
Annual average depreciation rates	20%	10%	-	10%	-

(i) As mentioned in Note 10, it refers to the surplus determined on the intangible assets recognized through the merger of GIF Fênix and acquisition of indirect subsidiary São Lucas Lins, which are reclassified into the "Intangible assets" caption in the consolidated financial statements.

(ii) As mentioned in Note 10, it refers to the goodwill arising from the business combination recognized through the merger of indirect subsidiary São Lucas Lins, which are reclassified into the "Intangible assets" caption in the consolidated financial statements.

The Company and its subsidiaries monitor their intangible assets through internal and external indicators, aiming to identify possible impacts on their recoverable values. For the period ended December 31, 2018 and 2017, the Management of the Company and its direct and indirect subsidiaries did not identify any indication related to impairment of intangible assets.

12. TECHNICAL RESERVES FOR HEALTHCARE OPERATIONS - CONSOLIDATED

i. The unearned consideration reserve (PCNG), in the amount of R$7,903 as of December 31, 2018 (R$5,112 in 2017), is calculated "pro rata die", based on retained premiums, and is aimed at provisioning the portion corresponding to the risk period to be elapsed, counted from the calculation base date.

ii. The provision for events incurred and not reported (PEONA), in the amount of R$50,153 as of December 31, 2018 (R$39,284 in 2017), recorded in current liabilities, is recognized based on the ANS Normative Resolution 393/15, being calculated according to the methodology provided in Actuarial Technical Note (NTA). It is aimed to face the events that have already been incurred and which have not been recorded in the books by the subsidiaries São Francisco Saúde and São Francisco Odontologia and indirect subsidiary São Lucas Lins due to lack of reporting.

iii. The provision for waiver, in the amount of R$2,440 as of December 31, 2018 (R$2,380 as of December 31, 2017), presented in current and non-current liabilities, is the technical reserve for guaranteeing the obligations arising from contractual clauses of waiver of the cash considerations related to the costing of the healthcare coverage acquired by the dependent beneficiary. In 2014, São Francisco Saúde interrupted the commercialization of the contracts with waiver clause.

13. PROVISION FOR EVENTS TO BE SETTLED FOR OTHER CARE SERVICE PROVIDERS - CONSOLIDATED

	12/31/2018	12/31/2017
Medical and dental service providers - individual	3,576	1,494
Medical and dental service providers - legal entity	32,606	47,492
Total	36,182	48,986

Represents the amounts related to the provision of medical services by third parties on behalf of the direct subsidiaries São Francisco Saúde and São Francisco Odontologia and the indirect subsidiary São Lucas Lins in service to healthcare service users, recognized on accrual basis of accounting.

14. PROVISION FOR UNSETTLED EVENTS TO SUS - CONSOLIDATED

	12/31/2018		12/31/2017	
	Current	Non-current	Current	Non-current
Provision for reimbursement to SUS	23,157	10,223	20,020	4,451

Pursuant to the Joint Normative Instruction DIOPE and Sectoral Development Board - DIDES (DIOPE/DIDES) 05, of September 30, 2011, the Healthcare company started to monthly record the amount of reimbursement to SUS according to the information provided by ANS on its Internet page, based on the amounts of reports of Identified Beneficiary Reports (ABI), considering the historical percentage of collection plus the total amount charged in the Federal Government Payment Forms (GRU) and the installment balance approved by the ANS.

The amounts in non-current liabilities correspond to the debit installments of reimbursement to SUS with ANS, from 2014 to 2018. In 2017, the subsidiary São Francisco Saúde and the indirect subsidiary São Lucas Lins made a new installment plan of the reimbursement to SUS, through REFIS, according to the Law 13494/07, in 60 installments.

Installment payments recorded as non-current liabilities as of December 31, 2018 have the following maturity dates:

	Total
2020	4,290
2021	2,914
As of 2022	3,019
Total	10,223

15. TAXES AND CONTRIBUTIONS PAYABLE - CONSOLIDATED

	12/31/2018	12/31/2017
ISS - Service Tax	5,765	1,606
IRPJ and CSLL	1,721	1,735
INSS (Social security)	4,444	3,555
Government severance indemnity fund for employees – FGTS	1,958	1,052
PIS/COFINS	3,488	3,531
IRRF	3,454	2,305
Third-party taxes withheld (INSS/ISS/PIS/COFINS/CSLL)	3,888	1,745
Federal taxes in installments (a)	2,046	-
Municipal taxes in installments	708	-
Total	27,472	15,529
Current	23,993	15,529
Non-current	3,479	-

(a) On October 26, 2017, the indirect subsidiary São Lucas Lins joined the Special Program for Tax Regularization (PERT) - Other Debits, established by Law 13496/17. Debits included in installment payment totaled R$ 5,433. In the rendering of accounts to the Federal Revenue Service, on December 28, 2018, the outstanding balance of R$2,046, already deducted for the payments made during the year 2018, was divided into 125 installments of R$16 and was recorded as of December 31, 2018 in the amount of R$196 in current liabilities and R$1,820 in non-current liabilities.

16. LOANS AND FINANCING - CONSOLIDATED

The loans and financing recorded as of December 31 are represented by:

Type	Annual interest rate	Final maturity	12/31/2018	12/31/2017
Working capital (a)	12.28%	November 2019	13,072	1,007
Lease (b)	13.89–22.84%+ TJLP	May 2022	4,558	2,265
Finame (b)	7–9% + TJLP	December 2019	6,518	379
FINAME (c)	Basket of currencies - BNDES + 4–12%	April 2021	682	1,594
Lease (d)	TJLP + 7.8–17%	October 2018	-	292
Direct consumer credit (CDC) (d)	7.8% p.a.	November 2019	323	628
Banco Santander	Pre-fixed rate of 10.56%	May 2018	-	81
			25,153	6,246
Current liabilities			11,794	4,519
Non-current liabilities			13,359	1,727
			25,153	6,246

(a) Refer to bank loan contracts entered into with the Banks Itaú-Unibanco S.A., Safra and Santander guaranteed by endorsement of the partners and quotaholders of São Francisco Saúde.

(b) Refer to finance lease operations, contracted with several financial institutions, which purpose is the acquisition, mostly, of hospital equipment. The contracts of the Brazilian Economic and Social Development Bank (BNDES), in the FINAME modality, are aimed to finance the modernization of the facilities of the subsidiaries São Francisco Saúde and São Lucas Lins. Loan contracts are guaranteed by partners' and quotaholders' surety.

(c) The funds released through contracts of Machinery and Equipment Financing - BNDES FINAME were used by São Francisco Resgate for financing the acquisition of vehicles (ambulances) and are guaranteed by the disposal of the financed assets.

(d) Due to the obtained better rates, São Francisco Resgate is substituting its Finame contracts for Lease and CDC contracts. As the CDC contracts have expire earlier (12 months in average) as compared to Finame (60 months in average) and Lease (36 months), São Francisco Resgate's debt has migrated to short term. The respective contracts are guaranteed by the values of the assets acquired.

As of December 31, 2018 and 2017, the loan and financing contracts of the subsidiaries São Francisco Saúde and São Francisco Resgate and indirect subsidiary São Lucas Lins do not have restrictive financial covenants.

Loans and financing recorded as non-current liabilities as of December 31, 2018 have the following maturity dates:

2020	7,074
2021	5,392
2022	893
Total	13,359

17. SUNDRY AND OTHER DEBITS - CONSOLIDATED

	12/31/2018	12/31/2017
Suppliers of assets and services (a)	45,795	21,400
Private healthcare fees and fines ANS (b)	7,378	5,717
Payroll and related charges (c)	35,876	20,634
Acquisition of client portfolio (d)	19,624	22,256
Advance from clients	7,582	4,348
Other suppliers	8,753	8,238
Total	125,008	82,593
Current	111,176	64,589
Non-current	13,832	18,004

(a) Substantially refers to the acquisition of materials and medicine for provision of hospital services and renovations in some service units, especially the special care and coronary units. With the expansion of the accredited network, the liabilities balance increased.

(b) Corresponds to the fee charged by the ANS for each beneficiary of the medical-hospital healthcare and dental plan of the subsidiaries São Francisco Saúde and São Francisco Odontologia. Such fee corresponds to R$5.39 and is directly influenced by the increase in the number of lives of such subsidiaries in 2018.

(c) The increase in personnel expenses corresponds to new hires in 2018, considering the growth in direct and indirect subsidiaries and the completion of several emergency service units and administrative buildings.

(d) Subsidiary São Francisco Odontologia purchased two new client portfolios from dental care companies, recorded in the heading "Intangible assets". The approval of such purchases was duly registered with and approved by ANS. In 2018, there was a decrease because of the amortization of the installments.

18. PROVISION FOR RISKS – CONSOLIDATED

As of December 31, the Company's subsidiaries recognized a provision for lawsuits related to civil, tax and labor risks, as follows:

	12/31/2017	Additions	Restatement	Reversals	12/31/2018
Civil (a)	4,537	4,480	-	-	9,017
Labor (b)	4,294	3,453	-	(58)	7,689
Tax (c)	4,778	1,875	462	-	7,115
Total	13,609	9,808	462	(58)	23,821

	12/31/2016	Additions	Restatement	Reversals	12/31/2017
Civil (a)	3,469	1,076	-	(8)	4,537
Labor (b)	3,353	1,302	-	(361)	4,294
Tax (c)	4,481	-	297	-	4,778
Total	11,303	2,378	297	(369)	13,609

a) Civil provisions

The subsidiaries São Francisco Saúde and São Francisco Odontologia and the indirect subsidiary São Lucas Lins are disputing in court several civil lawsuits filed by beneficiaries who claim service continuity, extensive coverages, reimbursement of hospital expenses, and other common to healthcare companies, for which no guarantee deposit was required. These subsidiaries are party to civil lawsuits of the same nature, in the amount of R$28,166 as of December 31, 2018 (R$25,274 in 2017), which risk of loss was considered possible by the legal advisors of the Company and its subsidiaries. The increase in possible causes refer to lawsuits over medical error, coverage denial, and pain and suffering.

b) Labor provisions

The subsidiaries São Francisco Saúde, São Francisco Odontologia, São Francisco Resgate, Documenta Clínica Radiológica and the indirect subsidiary São Lucas Lins are disputing in court labor claims, substantially related to the request for recognition of employment relationship, overtime, vacation, 13th salary, severance pay, and interval between shifts, for which no guarantee deposit was required. The Company and its direct and indirect subsidiaries are party to labor lawsuits of the same type, in the amount of R$15,295 as of December 31, 2018 (R$16,736 in 2017), which risk of loss was considered possible by the legal advisors of the Company and its subsidiaries.

c) Tax provisions

Refers to the employer's union contribution (20%) to the INSS on the amount of services provided by independent professionals in the network of São Francisco Saúde and São Francisco Resgate, established by article 22, item III, of Law 8212/91. The subsidiaries São Francisco Saúde and São Francisco Odontologia, together with other companies of the industry, filed a lawsuit requiring injunction on denial of such obligation. In this context of the dispute, these subsidiaries recorded a legal obligation in the amount of R$3,108 as of December 31, 2014 and made the judicial deposit, in the same amount. From such date, the balances have been adjusted for inflation.

As of December 31, 2018 and 2017, there are no tax proceedings which likelihood of loss was considered possible by the legal counsels of the Company and its subsidiaries.

19. LONG-TERM INCENTIVE PLAN (CONSOLIDATED)

The Company (as intervening and consenting party) and its subsidiaries São Francisco Saúde, São Francisco Odontologia and São Francisco Resgate, approved a long-term incentive program on March 5, 2018, by means of a meeting of the Board of Directors, offered to its top executives. The purpose of the aforementioned program is to stimulate the improvement, expansion, success and accomplishment of the activities of the Company and its subsidiaries, as well as to achieve a better alignment of the interests of directors, employees and service providers, as well as to encourage such executives to remain at the Company and its subsidiaries.

Such program provides for cash awards of its beneficiaries based on the Company's valuation of "phantom shares," corresponding only to a reference criterion. The program will not grant the beneficiaries the status of shareholder, nor will it grant the beneficiaries any rights to the acquisition of shares or any other securities of the Company or its subsidiaries. Accordingly, the obligation derived from this incentive program is being considered as a financial liability with its counterpart in income (loss) for the year.

The number of phantom shares earmarked for each beneficiary is determined based on a contract to join the long-term incentive program for each executive, dated March 7, 2018. There is a grace period, representing 20% of the total number of phantom shares granted to each beneficiary each year. However, the end of the grace period does not automatically imply the right to exercise the phantom shares, and the right to exercise them is always conditioned the date of the liquidity event (initial public offering, transfer of control or divestment). Accordingly, the obligation derived from this incentive program is fully recognized in 2018, without considering the 5-year grace period, considering the estimates and judgments necessary for its quantification. On December 31, 2018, the provision for long-term incentive amounts to R$ 21,500 (Consolidated) and is reported in current liabilities.

The main assumptions used in order to quantify the provision as of December 31, 2018 are as follows: i) projection of future results of operations of the Company and its subsidiaries; ii) expectation that the executives will remain at the Company and its subsidiaries; iii) estimate of the date of occurrence of the liquidity event (sale of shareholdings); and iv) discount rate.

20. RELATED PARTY TRANSACTIONS

The Company and its subsidiaries have transactions with related parties in significant amounts and on specific conditions established in contracts. The transactions made in the period ended December 31, as well as the outstanding balances as of such dates, are as follows:

	Parent company			
	12/31/2018			
Parent company	Accounts receivable	Dividends receivable	Accounts payable	Accounts payable (a)
São Francisco Sistemas de Saúde	4	966	-	-
São Francisco Odontologia	-	50	-	-
São Francisco Resgate	-	101	-	-
Shareholders	-	-	-	(35,007)
Total	4	1,117	-	(35,007)

	Parent company			
	12/31/2017			
Parent company	Accounts receivable	Dividends receivable	Accounts payable	Dividends payable
São Francisco Sistemas de Saúde	-	397	-	-
Shareholders	-	-	-	(8,619)
Total	-	397	-	(8,619)

(a) As mentioned in Note 10, on December 28, 2018, the Company acquired 89.7% of the controlling quotas of the subsidiary Documenta, through a purchase and sale agreement between the Company and the former shareholders of the subsidiary. As a result of this transaction, the Company will pay R$ 17,832 to the former shareholders SP3 Participações Ltda. and M2P Participações Ltda. which jointly held 66.46% of the shareholding control of the subsidiary; and R$ 17,175 to minority shareholders, who held 23.24% of the quotas in the subsidiary. These respective amounts will be fully paid up to December 31, 2019.

	São Francisco Saúde Ocupacional Ltda.	Fundação Waldemar Barnsley Pessoa	Fundação Maternidade Sinhá Junqueira	SOMMA	Shareholders and other	12/31/2018	12/31/2017
Consolidated							
Current assets:							
Cash consideration receivable (b)	-	8	291	15	-	314	392
Other amounts receivable	-	-	97	-	-	97	146
Current liabilities:							
Unsettled events of healthcare operations (c)	-	-	(3,256)	(1,057)	-	(4,313)	(2,343)
Sundry debits (d)	(29)	(74)	-	-	(35,007)	(35,110)	(14,586)

(b) Refers to the consideration for medical, hospital, dental and clinical services for diagnoses provided to the employees of the related parties.

(c) Refers to the reimbursement for the services provided to the beneficiaries of healthcare plans and materials for surgery procedures.

(d) Substantially refer to the amounts payable to the shareholders and other related parties for the acquisition of the subsidiary Documenta, as mentioned in Note 9.

As of December 31, 2018 and 2017, the remuneration to the Management of the Company and its direct and indirect subsidiaries amounted to R$3,289 and R$2,673, respectively. Additionally, the Company and its subsidiaries maintain a long-term incentive program with its top executives in an amount estimated at R$ 21,500 on December 31, 2018. This program will derive payment to its executives only in case of a liquidity event, as mentioned in Note 20.

21. SHAREHOLDERS' EQUITY

a) Capital

As of December 31, 2018, the Company's capital totals R$ 63,711 (R$ 50,209 in 2017), is comprised by 63,712,813 (50,209,057 in 2017) common and nominative shares and with no par value, partially paid-up. The portion to be paid-in corresponds to R$3,772 (R$ 3 in 2017).

At the Special Shareholders' Meeting held on December 3, 2018, the shareholders approved the increase in capital in the amount of R$9,730 upon the issue of 9,731,628 new shares, all registered and with no par value, subscribed and paid-in by the merger of the spun-off portion of the net assets of its shareholders SP3 Participações Ltda. and M2P Participações Ltda. on October 31, 2018, which assigned a portion of their ownership interest in subsidiary Documenta, valued at the historical cost under the terms of the appraisal report approved at the Shareholders' Meeting, as mentioned in Note 10.

Additionally, the shareholders approved on December 3, 2018, a new capital increase in the amount of R$17,832, of which R$3,772 were allocated to the capital account upon the issue of 3,772,128 new common shares, registered and with no par value, for the unit price of R$4.73, whereas the outstanding amount, R$14,060 was allocated to the Capital reserve account – amounts to be paid-up in 2019.

b) Capital reserve

On September 4, 2018, in the meeting of the Board of Directors, it was approved the pay-in of the outstanding portion of the capital reserve to be paid-up, in the amount of R$64,431, in cash, which corresponds to the amount of the capital reserve to paid-in adjusted through the contribution date.

As mentioned in Note 21 a), on December 3, 2018 the allocation of R$14,060 to the Capital reserve account was approved.

c) Legal reserve

Calculated at 5% of net income for the year until it reaches 20% of the capital as established by Law 6404/76. The profit reserve will be paid into the Company's capital in 2019.

d) Investment reserve and working capital

The shareholders' agreement established that the residual amounts of the profits determined in each year, after the recognition of the legal reserve and allocation of income, shall be allocated to the investment and working capital reserve, kept for purposes of financing with own funds the maintenance of the solvency margin and the guarantee assets of the subsidiaries under the supervision of the ANS, São Francisco Saúde and São Francisco Odontologia, with its allocation to be deliberated and approved at Shareholders' Meeting.

e) Goodwill in capital transaction

As mentioned in note 10, on December 28, 2018, additional quotas were acquired from the subsidiary Documenta. As this transaction was considered a transaction in which there is common control, the difference between the amount paid and the equity value of acquired quotas, in the amount of R$29,570, was treated as capital transaction, recorded in shareholders' equity, in the heading of goodwill in capital transaction.

f) Interest on own capital

In accordance with the option provided in Law 9249/95, for the year ended December 31, 2018, the Company calculated the interest on own capital based on long-term interest rate (TJLP) effective in the year, totaling R$ 14,669 (R$ 0.28 per share), which was distributed in the year.

g) Dividends

The shareholders' agreement determines as annual minimum dividend the higher between:

i. Annual fixed amount of the shareholders' agreement in the amount of R$4,700, plus the net income available for distribution of GSF Administração de Bens Próprios Ltda. ("GSF Adm."):

Option (i)	12/31/2018	12/31/2017
Net income - GSF Adm.	13,108	7,214
(-) Legal reserve – 5%	(655)	(361)
Adjusted net income - GSF Adm.	12,452	6,853
Annual fixed amount pursuant to Shareholders' Agreement	4,700	4,700
Minimum mandatory dividends to be distributed	17,152	11,553

ii. Or, the sum of the amount corresponding to 25% of the net income available for distribution determined in the São Francisco Saúde, São Francisco Odontologia and São Francisco Resgate:

	12/31/2018	12/31/2017
Net income of subsidiaries	93,984	71,693
(-) Legal reserve – 5%	(4,700)	(3,585)
Calculation basis	89,284	68,108
Minimum mandatory dividends to be distributed - 25%	22,321	17,027

As of December 31, 2018 and 2017, minimum mandatory dividends correspond to R$ 22,321 (R$ 0.44 per share) and R$ 17,027 (R$ 0.52 per share), respectively. During the year ended December 31, 2018, dividends in addition to minimum mandatory dividends were R$ 6,356.

22. NET OPERATING REVENUE - CONSOLIDATED

	12/31/2018	12/31/2017
Provision of medical-hospital and dental services – individuals (a)	381,516	308,933
Provision of medical-hospital and dental services – legal entities (a)	1,029,720	787,013
Other deductions from revenues (b)	(57,905)	(10,757)
Direct taxes from operations with healthcare for healthcare companies (c)	(21,204)	(42,186)
Total	1,332,127	1,043,003

(a) Refers to the revenue from rendering of medical and dental services by the direct subsidiaries São Francisco Saúde and São Francisco Odontologia and the indirect subsidiary São Lucas Lins. The increase is substantially derived from the increase in the lives of healthcare companies and annual adjustment of plans.

(b) The other deductions from revenues correspond to the considerations for co-responsibility transferred from medical-hospital care.

(c) The reduction mainly refers to the recording of PIS and COFINS credit for the period from October 2016 to December 2017, aiming to deduct from the indemnities corresponding to the events incurred in the own network (Hospital São Francisco), under the terms of § 9, art. 3, Law 9718/98, determined by the subsidiary São Francisco Saúde and its subsidiaries. The refund application was submitted in December 2018 with expectation of receipt in the following year. From 2018 it has been deducted from the tax base of the events in own network for PIS and COFINS calculation.

23. KNOWN OR REPORTED EVENTS - CONSOLIDATED

	12/31/2018	12/31/2017
Prepayment coverage (individual or familiar) before Law 9656/98	50,486	35,907
Prepayment coverage (individual or familiar) after Law 9656/98	184,676	146,488
Prepayment coverage (group by adherence) before Law 9656/98	36,207	33,211
Prepayment coverage (group by adherence) after Law 9656/98	93,367	79,444
Prepayment coverage (business group) before Law 9656/98	3,397	2,974
Prepayment coverage (business group) after Law 9656/98	479,052	423,584
SUS (Brazilian Unified Health System) (other)	10,317	11,836
Postpayment coverage (group by adherence) before Law 9656/98	366	513
Postpayment coverage (group by adherence) after Law 9656/98	-	1
Postpayment coverage (business group) before Law 9656/98	46	3,773
Postpayment coverage (business group) after Law 9656/98	31,372	11,070
Total	889,286	748,801

The increase substantially refers to the costs related to medical fees and in-patient treatment.

The distribution of the balances of the supporting chart of hospital and medical-hospital care events of the Periodic Information Document (DIOPS) of the fourth quarter of 2018 is according to the Circular Letter DIOPE 01, of November 1, 2013, related to the individual plans entered into after the Law 9656/98, with medical-hospital coverage and fixed price modality.

Care coverage with fixed price - portfolio of individual or family plans after the Law 9656/98 (unaudited)

	Medical appointment	Examination	Therapies	In-patient treatments	Dental procedures	Other services	Total
Own network	4,969	1,411	53	31,034	-	23,707	61,174
Contracted network	20,052	25,275	7,794	30,144	2,711	18,098	104,074
Reimbursement	347	202	195	487	-	2,041	3,272
Other remuneration methods	2,430	2,498	773	5,967	-	4,488	16,156
Total	27,798	29,386	8,815	67,632	2,711	48,334	184,676

24. OTHER OPERATING REVENUES AND EXPENSES NOT RELATED TO HEALTHCARE - CONSOLIDATED

	12/31/2018	12/31/2017
Dental services (b)	4,251	3,803
Hospital services (b)	43,887	39,257
Transport and emergency care services (a)	124,050	110,964
Other expenses with healthcare operations (b)	(146,646)	(118,499)
Total	25,542	35,525

a) Corresponds to São Francisco Resgate.

b) The subsidiaries that are healthcare companies, besides the service provision activities related to healthcare plans, have hospital accredited to provide service to the public (non-beneficiaries).

25. HEALTHCARE OPERATION EXPENSES, SELLING AND ADMINISTRATIVE EXPENSES – CONSOLIDATED

	12/31/2018	12/31/2017
Personnel (a)	125,430	91,602
Outsourced services	59,872	36,061
Localization and operation	54,379	43,266
Advertising and publicity	8,958	5,947
Depreciation and amortization	26,483	16,997
Commission	22,822	11,273
Long-term incentive plan	21,500	-
Expenses with vehicles	2,442	2,310
Other operating expenses, net	(2,101)	5,623
Total	319,785	213,079
Classified as:		
Sales expenses	22,890	14,922
Administrative expenses	296,895	198,157
Total	319,785	213,079

(a) The increase refers to the new hires performed during the year 2018, to meet the new lives and demands of São Francisco Saúde and São Francisco Odontologia, as well as the new hires for the new emergency service units and Araraquara hospital which were completed in 2018.

26. FINANCIAL INCOME (LOSS)

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Financial revenues:				
Yield on interest earning bank deposits	1,486	3,231	15,294	16,800
Revenues from outstanding payment	-	-	4,199	4,738
Other financial revenues	-	-	1,293	1,247
Total revenue	1,486	3,231	20,786	22,785
Financial expenses:				
Discounts granted	-	-	(9,312)	(5,943)
Interest on loans and financing	-	-	(2,176)	(1,020)
Late-payment expense	-	(13)	(1,247)	(830)
Other financial expenses	(68)	(1)	(47)	(5)
Total expenses	(68)	(14)	(12,786)	(7,798)

27. INCOME TAX AND SOCIAL CONTRIBUTION

a) Type and estimate of realization of deferred income tax and social contribution

On temporary differences

	Parent company	
	12/31/2018	12/31/2017
Tax credits (i)	38,870	38,870
Deferred tax assets	38,870	38,870

	12/31/2018	12/31/2017
Tax credit assets on temporary differences from:		
Provisions for risks (tax, civil and labor)	21,627	13,608
Provision for long-term incentive (Note 20)	21,500	-
Provision for credit losses	5,383	14,761
Provision for ISS	252	-
Provision for obsolescence of inventories	298	298
Private health fee	7,120	3,367
	34%	34%
Deferred tax assets - Subsidiaries	19,101	10,899
Tax credits - subsidiary (i)	38,870	38,870
Deferred tax assets - Consolidated	57,971	49,762
Tax liability debits for temporary differences arising from:		
Revaluation reserve – indirect subsidiary São Lucas Lins	1,587	-
	34%	-
Deferred tax liabilities	539	-

(i) Goodwill generated in business combination

Aimed at achieving operating agility and tax efficiency, on the base date December 31, 2016, it was approved the merger by the Company of the full net assets of the entity GIF V Fênix Participações S.A. ("GIF Fênix"), which held then interest in the Company equivalent to 29.11% in its capital.

On the base date of merger, spun-off net assets are as follows:

Current assets	920
Non-current assets	87,110
Current liabilities	(1)
Spun-off net assets	88,029

The merged net assets was adjusted by the inflation adjustment effects on the valuation report of economic value, prepared to support the allocation of acquisition price, originally issued on February 13, 2017 and rectified on May 23, 2017. Additionally, the effects of reduction in the goodwill arising from business combination to the estimated value of the tax benefit to be generated by the asset were considered, as provided in the technical interpretation ICPC 09 (R2) – Individual Financial Statements, Separate Financial Statements and Consolidated Financial Statements and Equity Method and elimination of the balances between the Company (acquirer) and GIF Fênix (acquiree) generating tax credits totaling R$ 38,870.

The subsidiaries São Francisco Saúde, São Francisco Odontologia e São Francisco Resgate, based on future taxable income projections, approved by their quotaholders, recognized the deferred income tax and social contribution on temporarily taxable and non-deductible differences, which have a statutory limitation period. Book value of deferred income and social contribution tax assets is periodically reviewed by the Management of the Company and its subsidiaries.

b) Expense with taxes levied on net income for the period is as follows:

	Parent company			
	2018		2017	
	IRPJ	CSLL	IRPJ	CSLL
Income (loss) for the year before taxes	90,400	90,400	71,677	71,677
Rates	25%	9%	25%	9%
Taxes at nominal rates	(22,600)	(8,136)	(17,920)	(6,451)
Equity in net income of subsidiaries	23,462	8,446	18,014	6,485
Permanent differences	(862)	(310)	(94)	(34)
Total	(22,600)	(8,136)	(17,920)	(6,451)

	Parent company			
	2018		2017	
	IRPJ	CSLL	IRPJ	CSLL
Current	(2)	(1)	(971)	(359)
Deferred	-		-	-
Total income tax expenses	(2)	(1)	(971)	(359)

	12/31/2018	12/31/2017
	Consolidated	
Income (loss) for the year before taxes	129,832	107,292
Tax at nominal rates	(44,143)	(36,479)
Other permanent differences	7,840	295
Total income tax expenses	(36,303)	(36,184)
Current	(44,512)	(40,538)
Deferred	8,209	4,354
Total income tax expenses	(36,303)	(36,184)

28. ADJUSTED MINIMUM SHAREHOLDERS' EQUITY AND SOLVENCY MARGIN

According to the Normative Resolution ANS 313, of November 23, 2012, the subsidiaries São Francisco Saúde and São Francisco Odontologia shall present Minimum Adjusted Shareholders' Equity (PMA), determined by the multiplication of minimum capital and k factor defined by the ANS. As of December 31, 2018, the PMA of the subsidiaries São Francisco Saúde and São Francisco Odontologia is R$287 and R$35, respectively, calculated according to the assumptions shown below:

i. Pursuant to article 3 of the Normative Resolution 274, of October 24, 2011, the ANS annually discloses the parameters for adjusting the minimum capital to be considered in the PMA calculation by the healthcare plan companies. For the year ended December 31, 2018, the minimum capital disclosed by ANS totaled R$ 8,503.

ii. According to article 3 of the Normative Resolution 160, of July 3, 2007, the ANS discloses the "k" factor in the Table of Attachment I of such Resolution. For the subsidiary São Francisco Saúde (classified as companies in the segment "group/philanthropy medicine - SSP and SSP/SUS", belonging to the commercialization region 5), the determined "k" factor is 3.37%. For the subsidiary São Francisco Odontologia (classified in the segment "group dental - SOT", belonging to the commercialization region 5), the determined "k" factor is 3.37%.

The subsidiaries are required to meet the ratios determined by the ANS for solvency margin. As of December 31, 2018, the solvency margin of the subsidiaries São Francisco Saúde and São Francisco Odontologia, was calculated according to the ANS requirements as follows.

	São Francisco Saúde	São Francisco Odontologia
Calculation basis (a)	246,890	15,694
Percentage of installment payment - Margin of solvency (b)	70.52%	70.52%
Total required shareholders' equity	174,107	11,067

	São Francisco Saúde	São Francisco Odontologia
Shareholders' equity of the healthcare company	186,583	16,154
Net income (loss) for the year	78,774	9,213
Additions and deductions for economic effect (c)	(104,222)	(11,491)
Margin of solvency	161,135	13,876
Surplus (loss) in margin of solvency (d)	(12,972)	2,809

a) The calculation base for solvency margin is defined through the result between the total net considerations (revenue) over the past 12 months as contra-entry to the total net events (costs) over the past 36 months. The ANS determines that it shall be considered the higher between revenue and costs, multiplied by the corresponding amounts, of which 20% for revenues and 33% for costs.

b) The subsidiaries shall present solvency margin as determined in Attachment VIII of the ANS Normative Resolution 209/09, which presents the definition on the way how the solvency margin installment setting of the healthcare company by segment shall be observed. As of December 31, 2018, the subsidiaries are included in the tertiary segment, which refers to the Healthcare companies which started-up their healthcare companies before July 19, 2001, which percentage of installment of applicable solvency margin is 70.52%.

c) According to the ANS Normative Instruction 50, of November 23, 2012, in the PMA calculation the additions and deductions for economic effects shall be considered. The additions correspond to the legal obligations classified in non-current liabilities, excluding the asset portion related to the transfer of the responsibility for the payment of legal obligations, occurred under the terms of article 4 of DIOPE Normative Instruction 20/08. The deductions correspond to intangible assets in current assets, except for the amount related to the expenditures for acquisition of healthcare plan portfolios and healthcare promotion and risk and disease prevention programs, approved under the terms of the Joint Normative Instruction DIOPE and Product Standard and Eligibility Board (DIPRO) (DIOPE/DIPRO) nº 01/08.

d) During the year ended December 31, 2018, the control of São Lucas de Lins was acquired. In this scenario, São Francisco Saúde allocated a substantial volume of its funds to the acquisition of this healthcare company, as well as the impact on the provision for long-term incentive (as mentioned below), which temporarily implied the non-compliance with the adjusted solvency margin ratio required by the ANS. In the 1Q19, the situation was adjusted through the contribution of funds from quotaholders, in the amount of R$40,000.

   <u>Effect from restatement of financial statements at December 31, 2018 on the solvency margin</u>

   As mentioned in Note 2.1.2., these individual and consolidated financial statements for the year ended December 31, 2018 were originally approved by Management and issued on May 13, 2019, and are being restated and reissued to reflect the obligations arising from the long-term incentive program established between its subsidiaries and their respective executives (Note 19). After recognition of the provision of the aforementioned long-term incentive program in the amount of R$ 21,500 (consolidated), the insufficiency of solvency margin for the subsidiary São Francisco Saúde increased to R$ 12,972, which temporarily led to non-fulfillment of the solvency margin index required by the National Agency of Supplementary Health Insurance (ANS).

The insufficiency of solvency margin was overcome by the contribution of additional funds in the amount of R$ 40,000, made in the first quarter of 2019.

29. STATEMENT OF CASH FLOWS - NON-CASH TRANSACTIONS

	Parent company	
	2018	2017
Non-cash transactions:		
Interest on own capital to be distributed	1,196	-
Increase in capital by merger of the spun-off net assets of the related party	9,730	-
Total	10,926	-

	Consolidated	
	2018	2017
Non-cash transactions:		
Acquisition of fixed assets not paid	23,818	1,678
Interest on own capital to be distributed	1,196	-
Increase in capital by merger of the spun-off net assets of the related party	9,730	-
Total	34,744	1,678

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company and its direct and indirect subsidiaries hold operations with financial instruments, the risks of which are managed by using financial position strategies and exposure limit systems. Moreover, the Company has been operating with banks that meet financial soundness and reliability requirements, according to criteria established by Management. The control policy consists of an ongoing monitoring of the contracted rates compared to those prevailing in the market. All transactions are fully accounted for and restricted to the following instruments:

a) Interest earning bank deposits: commented and presented in note 3.

b) Credits from healthcare plan operations and credits receivable from service provision: commented and presented in the Notes 4 and 5.

c) Loans and financing: commented and presented in note 17.

d) Balances receivable and payable of related parties: commented and presented in Note 21.

e) Other assets and other accounts payable recognized in current and non-current assets and liabilities.

<u>Fair value measurement</u>

Financial instruments are measured at fair value at the end of each period as determined by technical pronouncement CPC 40 – Financial Instruments: Evidencing and according to the following hierarchy:

- Level 1: evaluation based on (unadjusted) prices quoted in active markets for identical assets and liabilities on balance sheet dates. A market is considered as an active market if quoted prices are readily and regularly available in a Stock Exchange, broker, group of industries, pricing service or regulatory agency and those prices represent real market transactions carried out on a regular and purely commercial basis.

- Level 2: used for financial instruments that are not traded in active markets and whose evaluation is based on techniques that, in addition to quoted prices included in Level 1, use other information adopted by the market for the asset or liability, direct (that is, prices) or indirectly (that is, as derived from prices).
- Level 3: evaluation determined from asset or liability information that is not based on data adopted by the market (that is, non-verifiable data).

As of December 31, 2018 and 2017, cash and cash equivalents and interest earning bank deposits of the Company and its direct and indirect subsidiaries correspond to Level 2 characteristics. The financing amounts approximate to their fair values, because they are tied to a variable or fixed interest rate, according to the contractual provisions agreed with the financial institution.

a) Risk management

The Company and its direct and indirect subsidiaries operate medical and dental care plans, as well as other medical services targeted at a wide range of corporate, association and individual clients. The main risks arising from the businesses of the Company and its subsidiaries and indirect subsidiaries are the fluctuation in medical costs, credit, interest rate and liquidity. The management of such risks involves different departments and comprise a series of policies and asset allocation strategies considered appropriate by Management.

b) Market and competition risk

The Company and its direct and indirect subsidiaries work with group medicine and operate in a competitive market, competing with other companies that offer healthcare plans with similar benefits, including operators of the healthcare line, self-management and physician cooperatives.

c) Risk of fluctuation in medical-hospital costs

The contracts have indefinite term with com termination clause with prior notice of 60 days and contractual fine for terminations untimely requested. The majority of them has clauses on the annual adjustment of the amount of fees adopted through the loss ratio, which consists of the division of the amount of incurred costs over the past 12 months by the net pecuniary considerations.

d) Credit risk

The credit risk arises from the possibility that the Company and its direct and indirect subsidiaries do not receive the amounts arising from the past due considerations. The credit policy considers the peculiarities of the medical, dental and hospital care plan operations and is formulated with the purpose of maintaining the flexibility required by the market conditions and client needs. Through appropriate internal controls, the Company and its direct and indirect subsidiaries permanently monitor the level of their considerations receivable. The determination methodology of allowance for doubtful accounts is described in Note 2.8.

e) Liquidity risk

The liquidity risk management has the main objective of monitoring settlement terms for rights and obligations of the Company and its direct and indirect subsidiaries, as well as the liquidity of its financial instruments. The Company and its direct and indirect subsidiaries try to mitigate this risk by equating the flow of commitments and maintenance of net financial reserves available at the time and volume required for filling occasional mismatches. For this purpose, the Company and its direct and indirect subsidiaries prepare projected cash flow analyses and periodically review the assumed obligations and adopted financial instruments, mainly those related to the guarantee of technical reserves.

f) Interest rate risk of financial instruments

The interest rate risk arises from the possibility that the Company and its direct and indirect subsidiaries are subject to the change in interest rates which may bring impact to the present value of the portfolio of financial investments.

The Company and its direct and indirect subsidiaries adopt the policy of investing in the securities issued by financial institutions (CDB), mostly of large size, with ready liquidity, following the internal valuation criteria and the limits set based on qualitative and quantitative information, including the fund allocation requirement, pursuant to the ANS Normative Resolution 274/11 to guarantee technical reserves.

The financial portfolio of the Company and its direct and indirect subsidiaries is nearly fully exposed to interest rate fluctuation in the Brazilian market (CDI). As in its operations there is no contract indexed to other currencies/rates, the Company and its direct and indirect subsidiaries do not have transactions with derivative financial instruments. Breakdown of investments is stated in Note 3.

31. INSURANCE COVERAGE

As of December 31, 2018, the Company and its subsidiaries have insurance coverage described as follows:

- Insured assets: properties, improvements, machinery, equipment, furniture, utensils, goods and ambulance fleet.
- Covered risks: general liability, fire, lighting, explosion of any nature, gale, hail, robbery of amounts in transit out of the establishment, robbery/theft of assets and goods, hull, collision, property damages and personal injury, death, permanent disability, objects transported by vehicles.
- Validity of policies: from March 31 to May 18, 2019.
- Amount of coverage: limited to R$ 75,656.

32. SUBSEQUENT EVENTS

i) Transactions of portfolio acquisitions and shareholdings

In January 2019, the subsidiary São Francisco Saúde, through a purchase and sale agreement, acquired the portfolio of private healthcare plans of Irmandade de Misericórdia Santa Casa de São José do Rio Preto, Ltda., at an amount of R$ 15,219. On that date, Irmandade de Misericórdia Santa Casa de São José do Rio Preto Ltda. had 18,500 participants. The ANS authorized the transaction by means of Official Letter 19/2019/GGREP/DIRAD-DIPRO/DIPRO.

In March 2019, the subsidiary São Francisco Saúde, through a purchase and sale agreement, acquired 99.8% of the common shares of Hospital Regional de Franca S.A. ("HRF"), in the City of Franca/SP, with 41,420 participants, for the amount of R$ 60,000. HRF is mainly engaged in the operationalization of healthcare plans, preventive medicine, as well as the provision of medical, dental, hospital, laboratory, medical rescue services. On February 11, 2019, this operation was approved by Brazil's Administrative Council for Economic Defense (CADE) and the effectiveness on February 28, 2019.

On April 11, 2019, the ANS authorized the merger of operator São Lucas Lins, and an application for merger was filed with the São Paulo State Board of Trade. The merger was carried out on June 16, 2019

On June 28, 2019, the ANS authorized the merger of the Healthcare company of the healthcare plan HRF, and the application for merger was filed with the São Paulo State Board of Trade, where it is currently being processed.

In February 2019, the subsidiary São Francisco Odontologia, through a purchase and sale agreement, acquired the portfolios of private dental plans of APO - Assistência Odontológica Ltda, for R$ 12,500, and Dental Norte Assistência Odontológica Ltda. for R$ 4,048, which on February 1, 2019, had 77,342 lives and 39,989 lives, respectively. The ANS approved these transactions in March 2019 and April 2019, respectively.

In June 2019, the Operator, through a purchase and sale agreement, acquired – by means of a total divestiture commitment – the portfolio of dental care private plan of Odontológico Serviços de Saúde Oral Ltda. (EPP), for R$ 2,337, which on June 18, 2019 had 16,340 lives. The ANS approved the acquisition through official letter 65/2019/ASSNT-DIOPE/DIRAD-DIOPE/DIOPE.

ii) Margin of solvency

On March 8, 2019, the shareholders contributed capital, in cash, in the amount of R$ 40,000 in the subsidiary São Francisco Saúde. This amount was sufficient to cover the temporary insufficiency of solvency referred to in Note 28.

iii) Loans and financing

On March 25, 2019, the Company took out a loan from Banco Santander in the amount of USD 6,631, corresponding to R$ 25,000, with final maturity in 2022. The interest rate is 3.87% p.a. plus 100% of CDI.

On March 29, 2019, the Company took out loans from Banco Itaú, in the amount of EUR 5,708, corresponding to R$ 25,000, with final maturity in 2022. The interest rate is 0.9567% p.a. plus 140% of CDI.

iv) Disposal of Company's Control

On May 7, 2019, the Company's shareholders accepted an offer, and sold their stakes to Grupo Hapvida, through the company Ultra Som Serviços Médicos Ltda.

As consideration for the acquisition of the shares, the buyer will pay the sellers the amount of up to R$ 5,000,000 (five billion reais), observing the percentage of shareholdings of each seller, assuming a net debt and working capital to the closing date and consisting of a fixed portion and a contingent portion, discounted from the executive incentive plan.

For the purposes of price adjustment, within sixty (60) days from the closing date (closing is understood as only after authorization from CADE and ANS, whichever occurs last), the buyer will send the sellers the consolidated balance sheet on the closing date of the Company and its subsidiaries, in accordance with Brazilian Accounting Principles and Recurring Accounting Practices, audited by the auditing firm (with the fees and contracting expenses borne by the Company) ("Closing Balance"), together with price adjustment calculations made in good faith by the Buyer ("Initial Price Adjustment Report").

The transaction will only be executed after authorization from the Administrative Council of Economic Defense (CADE) and the ANS and the confirmation of the disposal of the Company´s control may derive the previous maturity of certain financial operations kept by the Company and its subsidiaries.

33. APPROVAL OF FINANCIAL STATEMENTS

Individual and consolidated financial statements (restated) have been approved and authorized for disclosure by the Company's majority shareholder on July 15, 2019. Individual and consolidated financial statements were originally presented had been approved by Company's Management on May 13, 2019.