



JOSÉ DE MELLO · SAÚDE

FINANCIAL | **2016**
STATEMENTS REPORT

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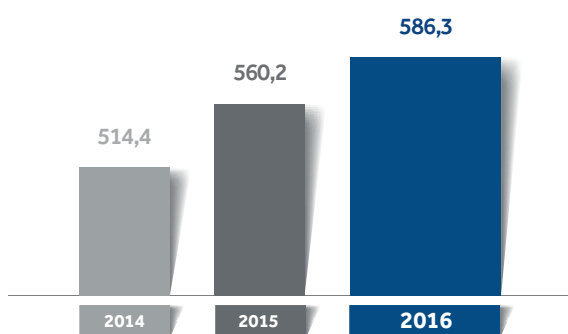


MANAGEMENT REPORT

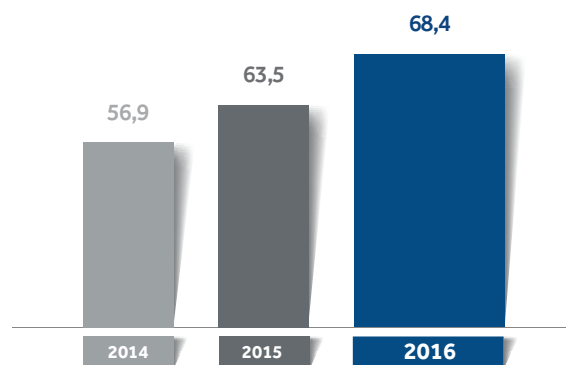
This document is an integral part of the 2016 Integrated Report of José de Mello Saúde.

Financial indicators (million euros):

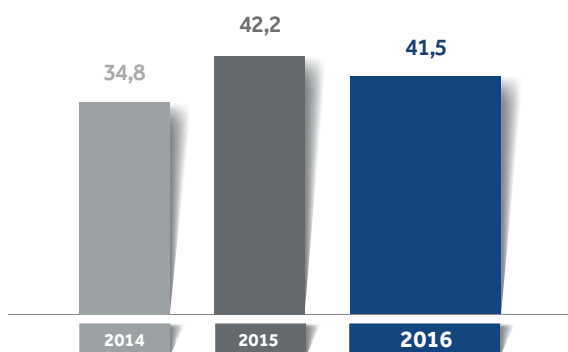
Operating Income



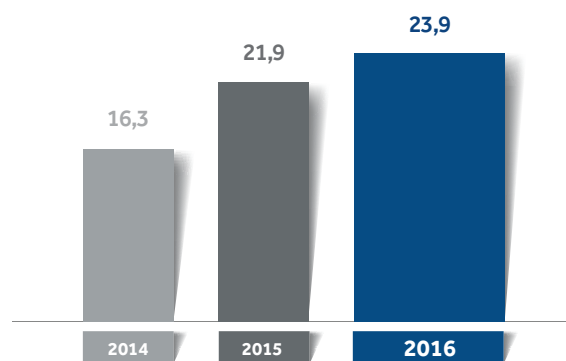
EBITDA



EBIT

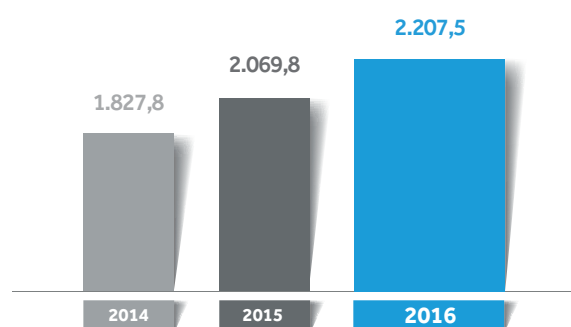


Net Profit

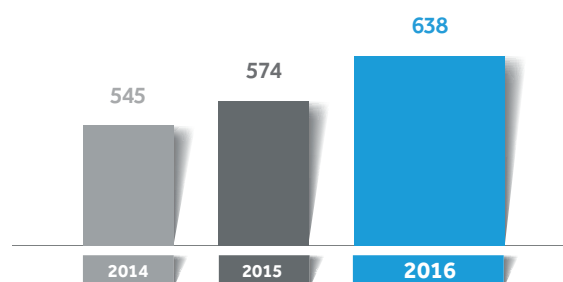


Healthcare service provision indicators (thousands):

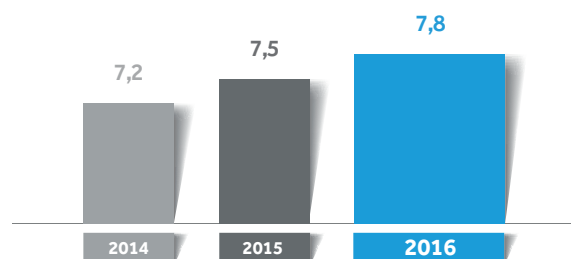
Consultations



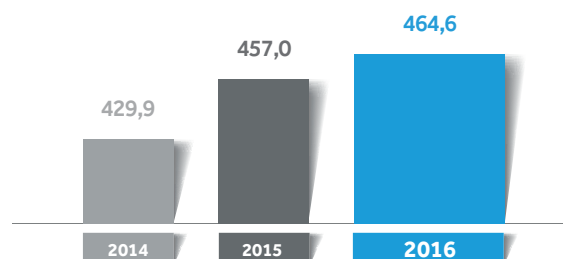
Emergencies



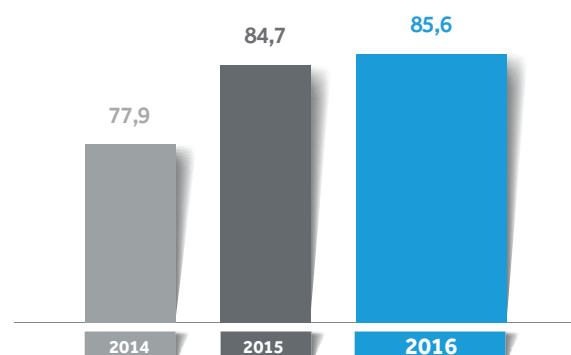
Births



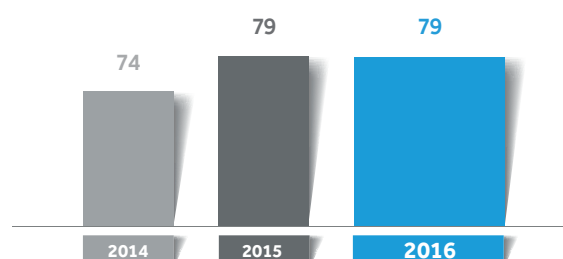
Days of hospitalisation



Surgical Patients



Discharged Patients



Executive summary

In 2016, José de Mello Saúde operating and financial performance was very strong, with an emphasis on the following facts:

- Operating income amounted to 586.3 million euros, an increase of 4.7% vis-à-vis 2015;
- EBITDA was 68.4 million euros, an increase of 7.7% from 2015, resulting from the growth in the healthcare activity and from the operational efficiency improvement that allowed increasing the EBITDA margin to 11.7%;
- EBITDA of the private activity grew to 57 million euros, with an EBITDA margin of 15.2%, following a significant effort of cost control in all healthcare areas;
- In the PPPs, in spite of the growth in operating income, EBITDA decreased by 5 million, to a value of 10 million euros. EBITDA margin was 4.3%, a decrease of 2.9p.p.;
- The consolidated net profit was of 23.9 million euros, an increase of 9.2% in comparison with 2015;

- José de Mello Saúde consolidated investment was of 42.1 million euros;
- On 31 December 2016, net financial debt¹ stood at 154.9 million euros, resulting in a net debt to EBITDA ratio of 2.27.

Operational performance

In 2016, José de Mello Saúde maintained a sustained increase in healthcare activities in different fields of action. Over 2.2 million appointments were recorded (6.7% increase vis-à-vis 2015) and 86,000 patients underwent surgery (+1.0% year-over-year), with approximately 638,000 emergencies (11.2% more than in the previous year). Births in José de Mello Saúde units continue to increase, in this case by 3.3% vis-à-vis the previous year.

Healthcare service provision indicators of José de Mello Saúde

(thousands)	2015	2016	Variation %
Consultations	2.069,8	2.207,5	6,7%
Emergencies	573,5	637,8	11,2%
Patients operated on	84,7	85,6	1,0%
Discharged patients	78,7	79,0	0,4%
Days of hospitalisation	457,0	464,6	1,7%
Births	7,5	7,8	3,3%

Does not include patients discharged from UCIPs (Intensive Care Units)

¹ Considers gross financial debt less cash and cash equivalents and other financial instruments

Consolidated results

In 2016, operating income of José de Mello Saúde reached 586.3 million euros, 4.7% more than in the same period in 2015, following the good performance in all areas of healthcare activity. Operating costs amounted to 517.9 million euros, 4.3% more than in the previous year, following the increase of 2.7% in the cost of goods sold and materials consumed and 7.1% in the cost of supplies and services.

As a result of this growth in operating income and of improvements in operational efficiency,

especially in the private sector, EBITDA grew, in comparison with 2015, by 7.7% to 68.4 million euros. However, EBIT decreased vis-à-vis 2015 by 640,000 euros to 41.5 million euros, due to the increase in the value of depreciation and provisions.

Profit & Loss Statement

(Million Euros)	2015	2016	Var.	Var. %
Operating Income	560,2	586,3	26,1	4,7%
Operating Costs	(496,7)	(517,9)	(21,2)	-4,3%
EBITDAR	74,6	79,4	4,8	6,5%
EBITDAR Margin	13,3%	13,5%	0,2%	1,8%
EBITDA	63,5	68,4	4,9	7,7%
EBITDA Margin	11,3%	11,7%	0,3%	2,9%
Amortization and Provisions	(21,3)	(26,8)	(5,5)	-25,9%
EBIT	42,2	41,5	-0,6	-1,5%
EBIT Margin	7,5%	7,1%	-0,4%	-5,9%
Financial Results	(10,4)	(8,9)	1,6	14,9%
EBT	31,7	32,6	0,9	2,9%
Taxes	(9,5)	(8,4)	1,1	11,2%
Net Profit	22,2	24,2	2,0	8,9%
Net profit attributable to non-controlling interests	0,3	0,3	(0,0)	-14,0%
Net profit attributable to José de Mello Saúde shareholders	21,9	23,9	2,0	9,2%

Financial Results

(Million Euros)	2015	2016	Var. %
Consolidated financial results	(10,4)	(8,9)	14,9%
Financial income	1,0	0,5	-48,3%
Income/costs for Financial Assets	0,2	0,7	190,9%
Financial Costs	(11,7)	(10,1)	13,7%

In 2016, the financial results were negative by 8.9 million euros (an improvement of 1.5 million in comparison with 2015), due to the significant savings obtained during the year in bank charges and interest paid, reflecting the reduction of the average spread of José de Mello Saúde debt.

Thus, the net profit of José de Mello Saúde reached 23.9 million euros, an annual increase of 2.0 million euros (+9.2%).

Investment

The consolidated investment amounted to 42.1 million euros, broken down between recurring investment of 12 million euros (compared to 11.2 million euros in 2015) and expansion investment of 30.1 million euros (vis-à-vis 27.5 million euros in 2015). The later includes the acquisition of real estate and construction works in two new clinics (Almada and São João da Madeira), as well as work on the expansion of **CUF** Descobertas Hospital and of the new **CUF** Tejo Hospital.

Recurring Investment

	2015	2016
Descobertas CLUSTER	4,7	4,9
Tejo CLUSTER	2,1	3,3
Norte CLUSTER	1,9	1,5
PPP	2,6	2,2
	11,3	12,0

Expansion Investment

	2015	2016
Descobertas CLUSTER	6,0	4,8
Tejo CLUSTER	19,1	18,0
Norte CLUSTER	0,5	7,3
PPP	2,0	0,0
	27,5	30,1

Financial situation

Fixed and Current Assets

(Million Euros)	2015	2016	Var. %
Fixed Assets	226,5	252,5	26,0
Goodwill	32,8	33,4	0,6
Intangible	11,4	12,9	1,4
Tangible	167,0	189,8	22,8
Investment Properties	0,1	0,0	-0,1
Investments in Subsidiaries	3,3	0,2	-3,1
Other investments	0,3	0,5	0,2
Other MLP Assets	8,3	8,3	0,0
Deferred Tax Assets	3,2	4,3	1,1
Assets Held for Sale	0,1	3,2	3,1
Current Assets	252,3	250,4	-1,9
Stocks	8,9	11,3	2,3
Clients	87,7	95,4	7,7
Other Debtors and Creditors	10,6	5,1	-5,5
State	7,3	13,5	6,2
Cash and Cash Equivalents	83,5	16,1	-67,4
Other Financial Instruments	0,0	48,7	48,7
Other Current and Non-current Assets	54,3	60,4	6,2
Total Assets	478,8	502,9	24,1

Financial capital

Million euros	2015	2016	Var.
Equity	81,3	81,7	0,4
Capital + additional payments	67,4	53,0	-14,4
Retained earnings + reserves	-11,7	12,2	23,9
Net profit	21,9	23,9	2,0
Interim dividends	0,0	-11,4	-11,4
Minority interests	3,7	4,0	0,3
Financial liabilities	212,1	219,6	7,5
Loans	142,7	150,0	7,3
Leasings	69,4	69,6	0,2
Non-financial liabilities	185,4	201,6	16,2
Pension fund	1,8	1,5	-0,3
Provisions	13,0	14,0	1,0
Suppliers	86,2	87,5	1,4
Other debtors and creditors	7,3	8,5	1,3
State	18,6	19,3	0,6
Deferred liabilities	0,0	2,9	2,9
Accruals and deferrals (liabilities)	58,6	67,9	9,3
Total liabilities	397,5	421,2	23,7
Liabilities + Equity	478,8	502,9	24,1

Total assets increased 24.1 million euros in comparison with the end of 2015, reaching 502.9 million euros at 31 December 2016, which was largely due to the increase in tangible fixed assets, as a result of the various expansion works and of the acquisition of the properties of the new clinics of Almada and São João da Madeira.

After distribution of interim dividends of 11.4 million euros, José de Mello Saúde closed the year with an equity increase of around 0.4 million euros. On 31 December 2016, net financial debt² stood at 154.9 million euros, 26.3 million more than at the end of the previous year, reflecting the investment in new units carried out in 2016.

² Considers gross financial debt less cash and cash equivalents and other financial instruments

Financial Sustainability

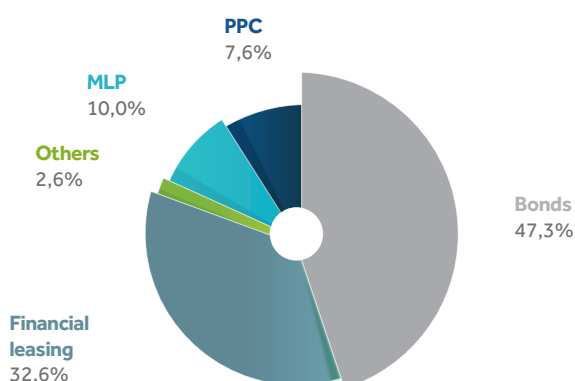
José de Mello Saúde defined development of a financial sustainability policy and a solid capital structure in line with its growth strategy as one of its strategic goals. This policy has undergone active management of its debt profile in recent years in terms of diversification of its sources of finance and extension of maturity periods of same.

As a result of this policy and of its sound financial position, José de Mello Saúde has been able to access varied funding, having finished 2016 with a diversified financial debt profile, with only about 10% of the debt in tradition bank financing.

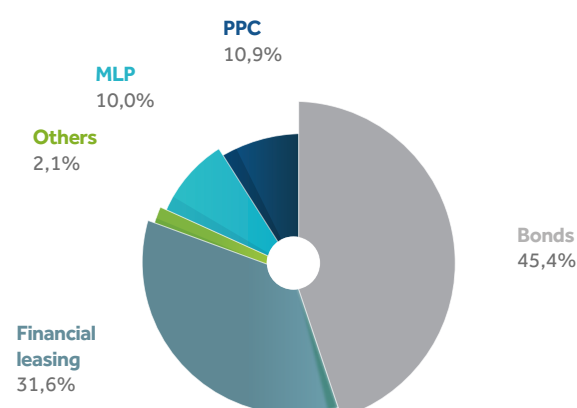
In spite of the relative volatility in the domestic financial market, the evolution of José de Mello Saúde debt allowed for the reduction of the average spread by 0.3 p.p. to 3.18%, enabling relevant savings in terms of financial costs.

Financial Debt Profile of José de Mello Saúde

2015



2016



Key debt indicators of José de Mello Saúde

(Million Euros)	2015	2016
Gross financial debt	212,1	219,6
Net financial debt ¹	128,6	154,9
Average maturity of debt (years) ²	3,8	3,0
Average spread	3,46%	3,18%

¹Considers gross financial debt less cash and cash equivalents and other financial instruments

²Excluding leasing

Main financial ratios

In spite of a very robust accounting period in financial terms, the evolution of the ratios translates the effort of investment in new units carried out during the year. For the same reason, and even considering the increase of EBITDA, there is a growth of the net debt/EBITDA ratio to 2.27.

On the other hand, the coverage ratio of financial charges shows an improvement vis-à-vis 2015, due to the reduction in financial costs, reaching a value of 4.1x.

Ratios

	2015	2016	Var. %
Financial autonomy	17,0%	16,2%	-4,3%
Solvency	20,4%	19,4%	-5,2%
Net financial debt¹/EBITDA	2,0	2,3	11,8%
EBIT/Financial charges	3,6	4,1	14,1%

Additional Information

Additional and detailed information about José de Mello Saúde can be consulted in the 2016 Integrated Report document and in the GRI Annex, in the following chapters:

- Risk management, main risks and uncertainties, chapter 8.
- Social and environmental issues, chapter 10 and in indicators EN1 and LA13 in the GRI Annex.
- Market conditions and research and development activities, chapters "1.2. External Environment" and "6. Innovation".
- Foreseeable evolution of José de Mello Saúde, see Chapter "5. Strategy, resources and goals" for 2017.
- Financial analysis in chapter 11.

¹Considers gross financial debt less cash and cash equivalents and other financial instruments



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02

PROPOSAL FOR THE APPROPRIATION OF RESULTS

The Board of Directors proposes that the net profit of the individual accounts of José de Mello Saúde SA for 2016 in the amount of 29,103,683.29 euros be appropriated as follows:

- Legal reserve: 1,455,184.16 euros
- Interim dividends: 11,408,000.00 euros
- Dividends: 6,500,000.00 euros
- Retained earnings: 9,740,499.13 euros

The Board of Directors
Lisbon, 24 March 2017

The Board of Directors



Salvador de Mello

Chairman of the Board of Directors and CEO

Chairman of the Board of Directors and CEO of José de Mello Saúde since 2001, he is responsible for the strong growth momentum and expansion of the network to its current 18 healthcare units. Salvador de Mello holds a degree in Economics and Business Administration from the University of Neuchâtel, Switzerland.



Pedro de Mello

Deputy Chairman of the Board of Directors

Pedro de Mello holds a degree in Textile Engineering and he is also Deputy Chairman of José de Mello, SGPS, member of the Board of Directors of **CUF** and Chairman of the managing boards of the companies Sociedade Agrícola D. Diniz and M Dados.



João Gonçalves da Silveira

Deputy Chairman of the Board of Directors

Deputy Chairman of the Board of Directors of José de Mello Saúde since 2001, João Gonçalves da Silveira holds a degree in Pharmacy from Universidade de Lisboa, Chairman of the Board of MONAF (Montepio Nacional da Farmácia).



Rui Diniz

Deputy Chairman of the Executive Committee

Deputy Chairman of the Executive Committee of José de Mello Saúde, Rui Diniz holds a degree in Economics from Universidade Católica de Lisboa. He is also an Executive Director of José de Mello, SGPS.



Rui Assoreira Raposo

Executive Director

Rui Assoreira Raposo holds a degree in Pharmacy from Universidade do Porto; he is a Specialist in Pharmacy Industry by the Portuguese Pharmacists' Association and a Postgraduate degree from IMD-Lausanne/Switzerland and from the AESE Business School – Lisbon/Portugal.



Vasco Luís de Mello

Executive Director

Vasco Luís de Mello holds a degree in Mechanical Engineering from the Catholic University of Leuven – Belgium, later obtaining a Master's Degree in Business Administration from the same University.



Inácio Brito

Executive Director

Inácio Brito holds a degree in Economics from Universidade Católica de Lisboa, with postgraduate studies in Actuarial Sciences.



Guilherme Magalhães

Executive Director

Holds a degree in Mechanical Engineering from Instituto Superior Técnico and an MBA from Universidade Nova de Lisboa; is also the Chairman of the Board of Trustees of Fundação do Gil.



Paulo Cleto Duarte

Non-Executive Director

Paulo Cleto Duarte holds a degree in Pharmaceutical Sciences from the University of Lisbon and an MBA in Information Management from Universidade Católica Portuguesa. He is Chairman of the Portuguese Association of Pharmacies and CEO of Farminveste, SGPS.



Luís Brito de Goes

Non-Executive Director

With a degree in Law by Universidade Católica Portuguesa, Luís Brito de Goes is also an Executive Director of José de Mello, SGPS, member of the boards of directors of Brisa and **CUF** and Chairman of the Board of Directors of MGI Capita, SGPS.



Vera Pires Coelho

Non-Executive Director

Vera Pires Coelho holds a degree and a master's degree in Economics with an MBA from Universidade Nova de Lisboa and a postgraduate degree in Actuarial Sciences from Catholic University of Lisbon; she is currently the Managing Director of the subsidiaries of Grupo Vendap in Angola, Mozambique and Brazil, Director of the Serralves Foundation and Deputy Chairman of the General Council of Universidade Nova.



Celine Abecassis-Moedas

Non-Executive Director

Céline Abecassis-Moedas holds a PhD in Business Strategy, from École Polytechnique, Paris, a Master's degree in Management, from École Normale Supérieure and Université Paris Dauphine and a degree in Economics and Management from the Sorbonne. She is an Associate Professor in the areas of Strategy and Innovation at the Universidade Católica Portuguesa. Additionally, she is a member of the Board of Directors of CTT and Europac.



Raúl Galamba de Oliveira

Non-Executive Director

Raúl Galamba de Oliveira holds a degree in Mechanical Engineering from Instituto Superior Técnico, an MSc in Systems and an MBA from Nova School of Business and Economics, is currently a senior partner at McKinsey in Portugal and Spain, and leads McKinsey's Risk Management area.



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03

INDIVIDUAL FINANCIAL STATEMENTS

3.1. Individual Financial Statements on 31 December 2016

STATEMENT OF FINANCIAL POSITION

Financial year ended on 31 December 2016

Amounts in euros	Notes	31-12-2016	31-12-2015
Assets			
Non-current assets			
Tangible fixed assets	6	4.825.114	5.132.624
Tangible fixed assets	5	-	0
Investments in subsidiaries and affiliates	7	64.129.913	64.813.320
Other financial assets	8	100.847.068	58.790.000
Deferred tax assets	14	1.053.852	898.229
Total non-current assets		170.855.946	129.634.173
Current Assets			
Clients	8	1.753.134	2.098.159
Government and other public entities	11	20.024.203	6.644.265
Other financial assets	8	15.085.127	30.049.707
Other accounts receivable	8	2.292.714	4.244.443
Other financial instruments	8	10.000.000	10.273.137
Cash and bank deposits	3	1.288.616	17.556.311
Total current assets		50.443.794	70.866.023
Non-current assets held for sale	7,9	-	-
Total Assets		221.299.740	200.500.196

**STATEMENT OF FINANCIAL POSITION**

Financial year ended on 31 December 2016

Amounts in euros	Notes	31-12-2016	31-12-2015
Equity and Liabilities			
Equity			
Equity	10	53.000.000	53.000.000
Other equity instruments	10	-	14.350.000
Legal reserves	10	4.356.460	3.430.501
Other reserves	10	(2.288.872)	(1.475.560)
Retained earnings	10	30.271.560	12.678.352
Financial assets adjustment	10	(37.434.593)	(37.434.593)
Net profit for the period		29.103.683	18.519.167
Interim dividends	10	(11.408.000)	-
Total Equity		65.600.238	63.067.867
Liabilities			
Non-current liabilities			
Provisions	13	15.846.938	22.113.016
Loans obtained	8	105.303.388	102.495.227
Financial derivative instruments	8	2.301.120	1.487.808
Total non-current liabilities		123.451.447	126.096.051
Current liabilities			
Suppliers	8	843.016	2.157.142
Government and other public entities	11	26.392	29.835
Other financial liabilities	8	6.454.253	-
Loans obtained	8	23.701.092	5.545.272
Other accounts payable	8	1.223.302	3.604.029
Total non-current liabilities		32.248.055	11.336.277
Total Liabilities		155.699.502	137.432.329
Total Equity and Liabilities		221.299.740	200.500.196

The Certified Accountant,

The Board

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME

Financial year ended on 31 December 2016

Amounts in euros	Notes	31-12-2016	31-12-2015
Income and Expenses			
Sales and services provided	15	1.400.283	1.096.221
Gains / losses allocated to subsidiaries	19	371.117	(130.925)
External supplies and services	18	(3.181.056)	(4.180.585)
Personnel expenditure	17	(1.137.733)	(1.424.370)
Provisions (increases/reductions)	13	6.266.078	(55.820)
Impairment of investments not depreciable/amortisable (Losses/Reversals)	7	(66.100)	-
Other income	16	1.216.255	1.020.635
Other expenses and losses	19	(291.765)	(875.450)
Results before depreciation, financing expenses and taxes		4.577.079	(4.550.294)
Expenses/reversal of depreciation and amortisation	20	(1.093.922)	(691.596)
Operating profit (before financing expenses and taxes)		3.483.158	(5.241.890)
Interest and similar income obtained	21	27.941.863	25.790.756
Interest and similar expenses obtained	22	(4.809.044)	(4.316.299)
Profit before tax		26.615.976	16.232.566
Income tax for the period	14	2.487.707	2.286.601
Net profit for the period		29.103.683	18.519.167
Other recognised income and expenses in equity		-	-
That might be subsequently reclassified to profit: Hedging financial instruments	8	(2.301.121)	(1.487.808)
Comprehensive Income		26.802.562	17.031.359
Earnings per share		2,53	1,61

The Certified Accountant,

The Board



STATEMENT OF CHANGES IN EQUITY

Financial year ended on 31 December 2016

Amounts in euros	Notes	Paid-Up Capital (Note 10.1)	Other equity instruments (Nota 10.3)
Position at the beginning of the 2015 period	1	53.000.000	14.350.000
Appropriation of results			
Effects of restatement			
Constitution of the legal reserve	10.3		
Transfer of the financial year results to retained earnings	10.3		
	2	-	-
Changes during the period			
Hedging financial instruments	10.3		
	3	-	-
Net profit for the period	5=3+4		
Operations with capital holders in the period			
Other operations			
	6	-	-
Position at the end of the 2015 period	7=1+2+3+4+6	53.000.000	14.350.000
Position at the beginning of the 2016 period	7	53.000.000	14.350.000
Appropriation of results			
Constitution of the legal reserve	10.2		
Transfer of the financial year results to retained earnings	10.2		
	8	-	-
Changes during the period			
Hedging financial instruments	10.3		
	9	-	-
Net profit for the period	10		
Comprehensive income	11=9+10		
Operations with capital holders in the period			
Interim dividends distributions	10.4		
Return of supplementary payments	10.3		(14.350.000)
	12	-	(14.350.000)
Position at the end of the 2016 period	13=7+8+9+10+12	53.000.000	-

Legal Reserves (Note 10.3)	Other Reserves (Note 10.3)	Retained earnings (Note 10.3)	Financial assets and liabilities adjustments	Interim dividends (Note 10.4)	Net profit for the period	Total Equity
2.495.813	12.248	(4.960.599)	(37.434.593)		18.573.639	46.036.508
		(120.129)			120.129	
934.688					(934.688)	-
		17.759.079			(17.759.079)	
934.688	-	17.638.950	-	-	(18.573.639)	-
-	(1.487.808)					(1.487.808)
-	(1.487.808)	-	-	-	0	(1.487.808)
					18.519.167	18.519.167
				-		-
-		-	-	-	0	-
3.430.501	(1.475.560)	12.678.352	(37.434.593)	-	18.519.167	63.067.867
3.430.501	(1.475.560)	12.678.352	(37.434.593)	-	18.519.167	63.067.867
925.958					(925.958)	-
		17.593.209			(17.593.209)	-
925.958	-	17.593.209	-	-	(18.519.167)	-
	(813.312)					(813.312)
-	(813.312)	-	-	-	-	(813.312)
					29.103.683	29.103.683
					29.103.683	28.290.371
				(11.408.000)		(11.408.000)
						(14.350.000)
-		-	-	(11.408.000)	-	(25.758.000)
4.356.460	(2.288.872)	30.271.560	(37.434.593)	(11.408.000)	29.103.683	65.600.238

The Certified Accountant,

The Board

CASH FLOW STATEMENT

Financial year ended on 31 December 2016

Amounts in euros	Notes	31-12-2016	31-12-2015
Cash flow from operating activities – direct method			
Cash receipts from clients		7.573.904	5.632.218
Cash paid to suppliers		(7.890.730)	(5.616.905)
Cash paid to employees		(1.159.056)	(897.463)
Cash generated by operations		(1.475.882)	(882.150)
Income tax received/paid		(10.853.360)	2.574.555
Other cash receipts/payments		(62.169)	(1.291.868)
Cash flow from operating activities (1)		(12.391.412)	400.537
Cash flow from investment activities			
Payments relating to:			
Tangible fixed assets		(38.618)	(94.110)
Financial Investments		(45.000)	(12.573.081)
		(83.618)	(12.667.191)
Cash receipts relating to:			
Financial investments		1.116.494	738.061
Interest and similar income		1.594.749	120.619
Dividends		24.066.269	23.103.730
		26.777.512	23.962.409
Cash flow from investment activities (2)		26.693.894	11.295.218

**CASH FLOW STATEMENT**

Financial year ended on 31 December 2016

Amounts in euros	Notes	31-12-2016	31-12-2015
Cash flow from investment activities			
Cash receipts relating to:			
Bank loans		78.800.000	97.700.000
Paid-in equity and other equity instruments		1.358.563	(1.487.808)
Other financing operations (loans)		62.979.176	12.526.710
		143.137.739	108.738.902
Payments relating to:			
Bank loans		(65.783.489)	(60.758.400)
Amortisation of finance lease contracts		(947.689)	(887.851)
Interest and similar expenses		(4.491.145)	(4.126.947)
Reductions in capital and other equity instruments		(2.171.875)	-
Return of supplementary payments		(14.350.000)	
Other financing operations (loans)		(83.621.665)	(80.752.423)
Dividends		(11.408.000)	-
		(182.773.863)	(146.525.621)
Cash flow from financial activities(3)		(39.636.125)	(37.786.719)
Changes in cash and cash equivalents (1+2+3)			
		(25.333.643)	(26.090.964)
Effect of exchange differences			
Cash and cash equivalents at the start of the period	3	27.829.448	52.432.604
Changes in cash and cash equivalents		(9.186.688)	1.487.808
Cash and cash equivalents at the end of the period	3	(6.690.883)	27.829.448

The Certified Accountant,

The Board

3.2. Notes to the financial statements on 31 December 2016

1. GENERAL INFORMATION ON THE ENTITY'S ACTIVITY

José de Mello Saúde, S.A. ("Company" or "JMS") has its registered office in Lisbon at AV. do Forte, n.º3, Edifício Suécia III, Piso 2, 2790-073 Carnaxide. It was incorporated in December 1992.

José de Mello Saúde S.A. ("Company") is a private healthcare entity with several units in Portugal.

Its share capital is owned by José de Mello S.G.P.S., S.A. (65.85%), Amélia da Silva de Mello Foundation (4.15%) and Farminveste – Investimentos, Participações e Gestão, S.A. (30%).

2. SUMMARY OF THE MAIN ACCOUNTING POLICIES

2.1. Bases of preparation

The Financial Statements of José de Mello Saúde S.A. were prepared under the assumption of continuity of operations and in accordance with the "International Financial Reporting Standards" (IFRS), as adopted by the European Union, in force for the financial years beginning on or after 1 January 2016. The IFRS issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC) and respective interpretations – IFRIC and SIC, issued by the International Financial Reporting Interpretation Committee (IFRIC) and Standing Interpretation Committee (SIC), respectively, are deemed to form part of those standards. Hereinafter, this set of standards and interpretations shall be generally referred to as "IFRS".

2.1.1. New standards and interpretations applying in the 2016 financial year

As a result of endorsement by the European Union (EU), the following issues, revisions, amendments, and improvements of standards and interpretations took effect from 1 January 2016 with no significant impact on the Company's financial statements.

■ Annual improvements for the 2012-2014 cycle

These improvements involve clarification of aspects relating to standards IFRS 5 – Non-current assets held for sale and Discontinued operations, IFRS 7 – Financial instruments: Disclosures issued, IAS 19 – Employee benefits and IAS 34 – Interim financial reporting.

■ Standards and interpretations

■ IFRS 10, IFRS 12 and IAS 28 – Investment entities: applying the consolidation exception

The amendments to IFRS 10 clarify that an investment entity does not need to prepare consolidated financial statements if, and only if, its parent company prepares financial statements in which its subsidiaries are measured at fair value.

In addition, only a subsidiary of an investment entity which is not itself an investment entity and provides support services to the investment entity, is consolidated – all other subsidiaries are measured at fair value.

The amendments to IAS 28 clarify that an entity that is not an investment entity and that applies the equity method on the valuation of associates or joint ventures that are investment entities can keep the valuation of these entities at fair value in its subsidiaries.



■ IAS 27 – The equity method in separate financial statements

The amendments reinstate the equity method as an accounting option for measuring investments in subsidiaries and associates in separate financial statements. The measurement options of IAS 27 to recognise investments in subsidiaries, joint ventures and associates are now: (i) cost, (ii) in accordance with IFRS 9 (or IAS 39) or (iii) equity method, whereby the same accounting should be applied for each category of investments.

As a result, IFRS 1 – First-time adoption of International Financial Reporting Standards to enable an entity adopting IFRS for the first time to use the equity method as the basis for preparing its separate financial statements and also enjoy the exemption applied to business combinations on initial measurement of investment

■ IAS 1 – Disclosure initiative — IAS 1 Amendments

These amendments clarify, rather than significantly change, the current requirements of the IAS 1. These amendments introduce a set of indications and guidelines on materiality, information to be included in financial statements, note structure and disclosure with a view to improving and simplifying disclosure in the context of current IFRS report requirements.

■ IAS 16 and 38 – Clarification of acceptable methods of depreciation and amortisation

The amendments clarify that the principle in the standards states that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part of) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

■ IFRS 11 – Joint arrangements

Amendments require an entity to enter into joint business arrangements, apply, according to its quota part, all business combination principles contained in IFRS 3 – Business Combinations and other IFRS that do not interfere with IFRS 11 and disclose the corresponding information on business combinations required by such standards.

Amendments are also applicable if the entity has contributed with a business deal when establishing a joint arrangement.

If an additional share in a joint business arrangement is acquired, the share previously owned must not be remeasured if the operator maintains joint control.

■ IAS 16 and 41 – Plants generating agricultural produce

Amendments to IAS 16 – Tangible fixed assets and IAS 41 – Agriculture amend the former, which henceforth includes biological assets defined as plants generating agricultural products (e.g. fruit trees). As a result of the amendments, plants producing agricultural products become subject to all recognition requirements and measures of IAS 16, including the choice between the cost and revaluation model. Government subsidies for these plants are henceforth accounted

for under IAS 20 instead of IAS 41. Agriculture exemplified in plants generating agricultural produce (e.g. fruit that grows on a tree) will remain a part of IAS 41.

2.1.2. New standards and interpretations already issued but not yet mandatory

New standards, amendments and interpretations now exist that have already been published but whose application is only mandatory for annual periods starting after 1 January 2017 and which the Company decided not to adopt ahead of time:

a) Already endorsed by the European Union:

■ IFRS 9 – Financial instruments

This amendment introduces a set of instructions and guidelines, namely on the classification and measurement of financial assets and liabilities, impairment and hedge accounting, which aim to improve and simplify the disclosures in the context of the IFRS's current reporting requirements.

■ IFRS 15 – Revenue from contracts with customers

This standard applies to all income from contracts with clients, replacing the following existing standards and interpretations: IAS 11 Construction contracts, IAS 18 – Revenue, IFRIC 13 – Customer loyalty programmes, IFRIC 15 – Agreements for the construction of real estate, IFRIC 18 – Transfers of assets from customers and SIC 31 – Revenue – Barter transactions involving advertising services. The standard applies to all revenue from contracts with customers except if the contract is within the scope of the IAS 17 (or IFRS 16 – Leases, when applied).

b) Not yet endorsed by the European Union:

■ Annual improvements for the 2014-2016 cycle

These improvements involve the clarification of a few aspects related to the IFRS 1 – First-time adoption of the IFRS, IAS 28 – Clarification regarding the fact that valuating the subsidiaries at fair value via results is a choice made per investment, and IFRS 12 – Disclosure of interest in other entities.

These improvements have not yet been endorsed by the European Union, becoming

effective from 1 January 2018, and in the case of IFRS 12, from 1 January 2017.

■ Standards and interpretations

The following standards, interpretations, amendments and revisions have not been approved (endorsed), by the European Union, at the date of approval of these financial statements:

Standard	Effective date
IFRS 14 – Regulatory deferral accounts	1 January 2016
IFRS 16 – Leases	1 January 2019
IFRS 10 and IAS 28 – Sales or contributions of assets between an investor and its associate or joint venture	1 January 2016
IAS 12 – Recognition of deferred tax assets for unrealised losses (amendments)	1 January 2017
IAS 7 – Disclosure initiative	1 January 2017
IFRS 15 – Revenue from contracts with customers (clarifications)	1 January 2018
IFRS 2 – Shared-based payment (addendum)	1 January 2018
IFRS 9 and IFRS 4 – Amendments to IFRS 4	1 January 2018
IFRIC 22 – Foreign currency transactions and advance consideration	1 January 2018
IAS 40 – Investment property (amendments)	1 January 2018

Regarding the standards mentioned above that have not yet been enforced, the Company has still to determine all impacts arising from their application, whereby it chose not to adopt them ahead of time. However, it is not expected that these will produce materially relevant effects on its assets and results, with the exception of the application of IFRS 16. The application of this standard will have significant impacts on the Company's balance sheet. The registration of the right of use of the buildings that are in operation by the Company shall involve an increase not yet quantified in the tangible assets and liabilities to third parties.

2.2. Main Accounting Policies

▪ Tangible fixed assets

Tangible fixed assets are those used in the provision of services or administrative procedures.

Tangible fixed assets are valued according to their respective acquisition cost, including all related costs, less accrued depreciation and impairment losses.

Depreciation is calculated on a duodecimal base, from the time the good is available for use, according to the straight-line method, so the value of the assets is depreciated by the end of their estimated service lives, with the following rates being applied:

	2016	2015
Buildings and other constructions	5% - 10%	5% - 10%
Basic equipment	14,28% - 33,33%	14,28% - 33,33%
Office equipment	12,50% - 25%	12,50% - 25%

Impairment of these assets is determined according to the criteria set forth in "Asset impairment".

The gains or losses resulting from the sale or disposal of tangible fixed assets are determined as the difference between the sale price and net book value on the date of sale/disposal and are included in the net profit of the period in the year in which the asset is derecognised.

Assets acquired through finance lease are depreciated using the same rates as other tangible fixed assets, that is, based on their respective useful lives.

The residual value is considered null and void, whereby the depreciable value on which the depreciations incur coincides with the cost.

Current maintenance and repair costs are recognised as expenses in the period in which they occur.

Tangible fixed assets in progress represent tangible assets still under construction, installation or development and are recorded at cost of acquisition, and only amortised when available for use.

▪ Intangible assets

Intangible assets acquired separately are measured at their cost price on the date of initial recognition.

The cost of intangible assets acquired in a group of activities is their fair value on said date.

Intangible assets generated internally, excluding capitalised development costs, are not capitalised, and expenses are reflected in the Statement of Income and Other Comprehensive Income in the year in which the expenses occurred.

After initial recognition, intangible assets are recorded at cost price less accrued amortisations and losses due to subsequent impairment. Useful lives of intangible assets may be finite or indefinite.

Intangible assets with indefinite useful lives are not amortised but undergo annual impairment tests irrespective of whether there are indicators that may be impaired.

Intangible assets with finite useful lives are amortised during their estimated economic life and evaluated with regard to their impairment whenever there are signs that the asset may be impaired.

Impairment of these assets is determined according to the criteria set forth in "Asset impairment".

Reversals of impairment are recognised in results and only performed up to the limit verified if the impairment had never been recorded.

For an intangible asset with a finite useful life, amortisation methods, estimated useful life and residual value are revised at the end of each year and the effects of changes made are treated as changes to estimates, or rather, prospectively. Amortisations are calculated on a duodecimal basis using the straight-line method.

The residual value is considered null and void, whereby the depreciable value on which the depreciations incur coincides with the cost.

Amortisation rates are defined with a view to the full amortisation of assets until the end of their expected useful life and are as follows:

	2016	2015
Software	25%	25%

Expenditure incurred from amortisation of intangible assets with finite useful lives is recognised in the Statement of Income and Other Comprehensive Income under the caption "Depreciation and amortisation expenditure/reversals".

The gains or losses resulting from the sale or disposal of tangible fixed assets are determined as the difference between the sale price and net book value on the date of sale/disposal and are included in the net profit of the period in the year in which the asset is derecognised.

▪ Investments in Subsidiaries and Affiliates

Financial investments of capital shares in subsidiaries and affiliates are valued according to their respective cost on the IFRS transition date, or rather 1 January 2012.

Capital share dividends are only recognised as income when their respective receipt is guaranteed and interest from bonds are accounted for in the period to which they are related. Goodwill is included in the value of the carrying amount of the investment and is not amortised nor subject to individual impairment testing. However, if signs of impairment are detected in the financial investments, they are subject to impairment testing. Impairment of these assets is determined according to the criteria set forth in "Asset impairment".

■ **Financial assets (in addition to financial investments)**

Financial assets are classified as follows, depending on whether or not the Board intends to acquire them:

■ **Loans and receivables**

These include non-derivative financial assets, with fixed or determinable payments. Client, other receivables and shareholders' balances are recorded at fair value and, subsequently, at their amortised cost, which will be adjusted as a result of impairment tests, when required by regulations, or when there are signs that these tests must be carried out.

At the end of the year, the company evaluates the impairment of these assets. When there is objective evidence of impairment, the company recognises an impairment loss on the income statement.

The following aspects were considered in the objective evidence showing that a financial asset is impaired:

- Debtor's significant financial difficulty
- Breach of contract, such as failure to pay or non-compliance with interest payments or debt amortisation
- Probability that the debtor will become bankrupt.

■ **Income tax**

Income tax for the period includes current and deferred costs from the financial year.

Current income tax is calculated based on the taxable income in accordance with the tax rules in force to which the company is subjected.

The Company is taxed according to the Special Corporate Group Tax Regime (RETGS – Regime Especial de Tributação de Grupo de Sociedades). According to current legislation, tax returns are liable for review and correction by the Tax

Authorities for a period of four years.

Accordingly, the tax returns of the Company for the years 2012 to 2015 may still be reviewed, although the Company believes that any adjustments resulting from tax revisions to those tax documents will have no significant impact on the Financial Statements referring to 31 December 2016.

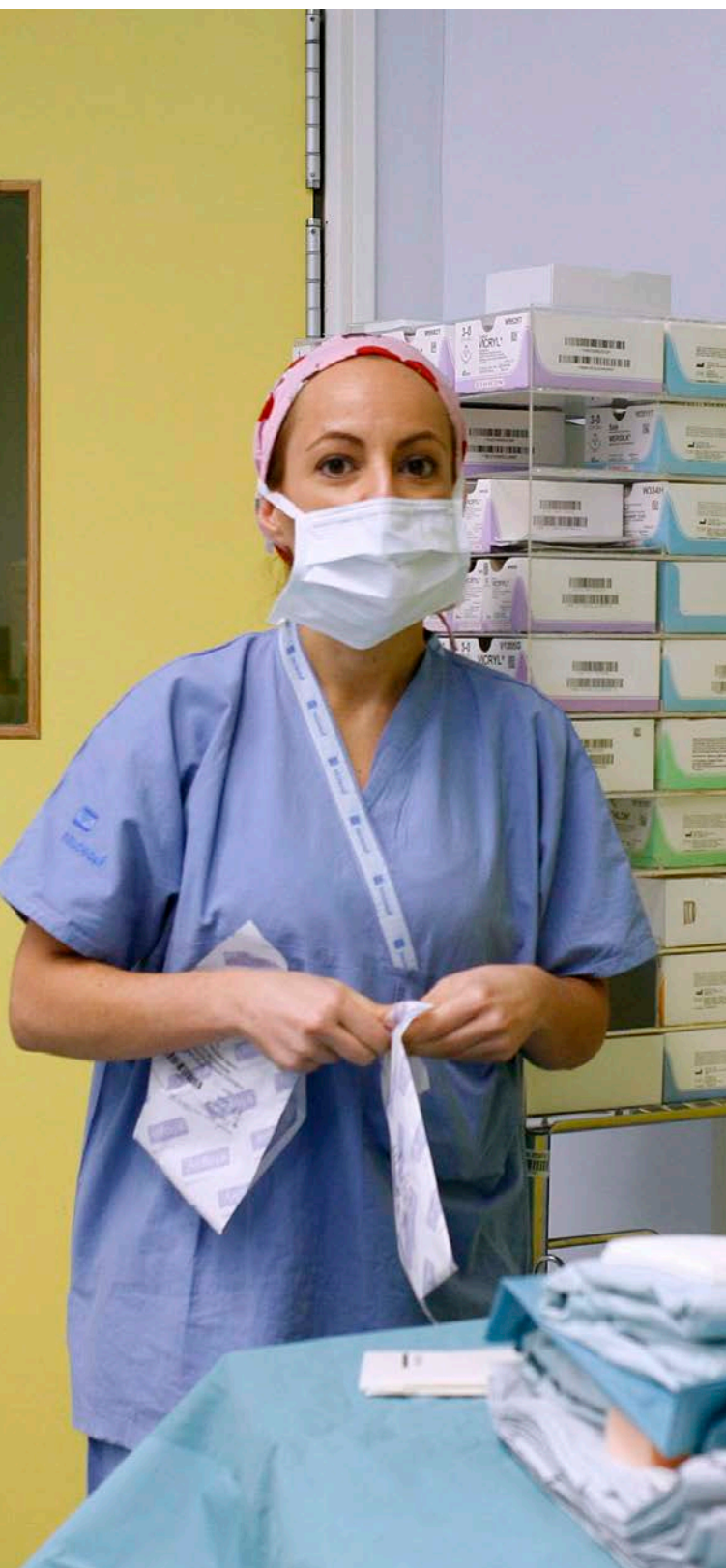
■ **Deferred tax assets and liabilities**

The Company recognises deferred taxes, as established in IAS 12 – Income Tax, as a way of adequately accruing the tax effects of its operations, and to exclude distortions related to the criteria of a fiscal nature that impact on the economic results of certain transactions.

Deferred tax assets are recognised when there is reasonable assurance that future taxable profit may be achieved against which those assets can be deducted. Deferred tax assets are reviewed annually and reduced when it is no longer probable that they may be used.

The value of deferred tax is determined by applying the tax rates (and laws) enacted or substantively enacted at the reporting date and which are expected to apply in the period of realisation of the deferred tax asset or of the deferred tax liability settlement. According to the legislation in force, the corporate income tax rate of 21% was considered and, in the situations not connected to tax losses, a municipal surtax of 1.5% on the temporary differences that led to deferred tax assets and liabilities.

The movement occurring during the financial year, the reconciliation between the nominal tax and effective current tax rate as well as the decomposition of deferred tax balances are presented in Note 14.



▪ Cash and cash equivalents

For the purpose of the Cash Flow Statement, the caption "Cash and cash equivalents" includes the values of "Cash" and "Bank deposits", included in the Statement of Financial Position, with a maturity of three months or less, and bank overdrafts included in "Loans obtained".

▪ Non-current assets held for sale

This caption includes non-current assets (or disposal groups) whose carrying amount will be recovered mostly through a sale transaction, rather than through continued use, and which meet the following conditions:

- They are available for immediate sale in their present condition, subject only to terms that are usual and customary for the sale of this type of assets and
- Their sale is highly probable. That is:
 - The appropriate management hierarchy is involved in a plan to sell the assets (or disposal groups);
 - A programme was started to locate a buyer and complete the plan;
 - The asset was widely advertised for sale at a price that is reasonable in relation to its current fair value;
 - The sale will be completed within one year from the date of classification.

The events or circumstances that may extend the period to complete the sale for more than a year do not exclude that an asset is classified as held for sale if the delay is caused by events or circumstances beyond the control of the entity and if there is sufficient evidence that the entity remains committed to its plan to sell the asset.

Immediately before the initial classification of the non-current assets (or disposal groups) as held for sale, the carrying amounts of the assets (or of the group's assets and liabilities) are measured in accordance with the applicable IFRSs.

On the date of initial recognition, non-current assets (or disposal groups) held for sale are measured at the lower value between their carrying amount and fair value less selling costs or, if purchased as part of a combination of business activities, at fair value less selling costs. When the sale is expected to occur more than a year later, the selling costs are measured at their present value. Any increase in the present value of the selling costs resulting from the passage of time is recognised in the results as cost of funding.

Any initial or subsequent reduction of the asset (or disposal group) to the fair value less selling costs is recognised as an impairment loss. Any gain resulting from a subsequent increase in the fair value less costs of selling an asset is recognised, but not beyond the previously recognised cumulative impairment loss.

Non-current assets, while classified as held for sale or while they are part of a disposal group classified as held for sale are not depreciated (or amortised).

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.



▪ Financial liabilities

Financial liabilities are classified according to the substance of the contract, regardless of their legal form, as shown below:

▪ Bank loans

Loans are valued at their amortised cost and the amount received is net of issuing costs. Financial charges are calculated in accordance with the effective interest rate method and accounted for in the Statement of Income and Other Comprehensive Income, based on the financial year specialisation principle.

▪ Suppliers and other accounts payable

Os saldos de Fornecedores e Outras Contas a Pagar são inicialmente registados pelo seu valor nominal, que se entende corresponder ao seu justo valor e, subsequentemente, sempre que aplicável, são registados ao custo amortizado, de acordo com o método da taxa de juro efetiva.

▪ Derivative financial instruments and hedge accounting

The Company's policy is to contract derivative financial instruments for hedging of financial risks to which it is exposed, which are mainly due to interest rate variations.

▪ Hedging Instruments

The possibility of calling a derivative financial instrument a hedging instrument complies with the provisions of IAS 39, namely, with regard to its respective documentation and effectiveness evaluation.

Derivative financial instruments are recognised for their fair value on the date they are negotiated. Fair value is evaluated on a regular basis, and gains or losses resulting from that evaluation are recorded in the income statement, except cash flow hedging derivatives in which the variation is recognised in Equity ("Other financial instrument reserves").

Accounting is discontinued when the hedging instrument reaches maturity or is sold, or when the hedging relationship ceases to comply with the requirements of IAS 39.

▪ Provisions

Provisions are established when the Company has a present obligation (legal or constructive) as a result of past actions, or when economic resources may probably be used to meet this obligation and this may be measured reliably.

Provisions are measured according to the best estimate of expenditure required for settling the present obligation on the balance sheet date.

▪ Equity captions

Equity captions are as follows:

▪ Paid-up capital

In compliance with art. 272 of the Portuguese Commercial Companies Code, the company contract indicates the deadline for realising subscribed and not realised capital on the date the deed is signed.

▪ Other equity instruments

Equity instruments are classified in accordance with contract substance, irrespective of their legal form. Equity instruments issued by the Entity are recorded at their received value, net of issuing costs.

▪ Legal reserves

In accordance with art. 295 of the CSC, at least 5% of the result must be used for establishing or strengthening the legal reserve until it represents under 20% of the company's equity. The legal reserve can only be distributed in situations of liquidation and may only be used to cover losses, after all other reserves have been used, or for incorporation in equity (art. 296 of the CSC).

■ Hedging operation reserve

This account includes fair value adjustments in financial assets such as changes made to the fair value of hedging derivatives of interest rate, exchange rate, merchandise price risks under a commitment or high probability of future transactions. In accordance with point 2, art. 32 of the CSC, they will only be available for distribution when the elements or rights giving rise to them are disposed of, exercised, eliminated or settled.

■ Retained earnings

This caption includes the realised results available for distribution to shareholders and may include gains from increases in fair value of financial investments and investment properties that, in accordance with point 2, art. 32 of the CSC, will only be available for distribution when the elements or rights giving rise to them are disposed of, exercised, eliminated or settled.

■ Net profit for the financial year

This caption includes gains from increases in fair value in financial investments and investment properties that, in accordance with point 2, art. 32 of the CSC, will only be available for distribution when the elements or rights giving rise to them are disposed of, exercised, eliminated or settled.

■ Adjustments in financial assets

This account reflects adjustments to the fair value in financial instruments such as, for example, changes in the fair value of risk-hedging derivatives from variability in the interest rate, currency risk, risk of price of goods within the framework of a commitment or high probability of future transaction, that have not yet been recognised in the results and that in accordance with paragraph 2 of article 32 of the CSC, will only be available for distribution when the elements or rights that gave rise to them are disposed, executed, extinguished or settled. Also includes adjustments connected to the application of the equity method, namely appropriation of changes in equity of subsidiaries and unallocated profits.

■ Interim dividends

This account reflects the advance on profits made in the course of financial year under the provisions of article 297 of the CSC, in the following terms:

Carried out in the second half of the year

Does not exceed half of the amount that would be distributed on the date the mid-term review concerns

■ Recognition of income

Income is recognised as such when it is likely that the Company will receive economic benefits that can be evaluated reliably.

For income to be recognised, the following criteria must also be complied with in full:

■ Service supply

Service supply is measured for the fair value of the amount received or receivable less the sums relating to discounts granted.

Income from services supplied is recognised when the outcome of the transaction may be estimated reliably, which occurs when the following conditions are met:

- The amount of income can be measured reliably;
- Economic benefits from the transaction are probably received by the company;
- Costs incurred from the transaction and from its completion can be measured reliably.

■ Interest

Income from interest receivable is specialised, so that it is recognised in the period to which it is related, regardless of whether or not the respective support document is issued;

- **Dividends**

This income is recognised when, in substance, the obligation to declare dividends is established at the declaring Entity.

- **Asset impairment**

The Company evaluates, on each reporting date, whether or not there are signs of impairment of its assets. If there are, or when IFRS require the performance of impairment tests, the Company estimates the recoverable value of the asset in question, which corresponds to the highest realisable amount, after deducting eventual selling costs, or to its usage value. If impairment is detected, the value of the asset is reduced to reflect its recoverable value.

- **Interests and similar supported expenses**

The financial costs of loans obtained related to the acquisition, construction or production of assets that necessarily take considerable time before being ready for use or sale, are capitalised and part of the cost of the asset. All other financial costs are spent in the period in which they occur. Financial costs consist of interest and other costs stemming from obtained financing.

- **Contingent assets and liabilities**

Contingent liabilities are not recognised in Financial Statements but are disclosed in these Notes, unless the possibility of an outflow of resources is remote, in which case they are not subject to disclosure.

Contingent assets are not recognised and only disclosed in circumstances embodying future economic benefits.

- **Subsequent events**

Events occurring after the reporting date that provide additional information on conditions existing on the date of issue of the Statement of Financial Position are shown in financial statements.

Events occurring after the reporting date that provide additional information on conditions existing on the date of issue of the Statement of Financial Position are disclosed in the Notes to Financial Statements, if material.

2.3. Management Judgements

When preparing financial statements according to IFRS, the Board of Directors uses estimates and assumptions that affect the application of accounting policies and reported amounts. Estimates and judgements are continuously evaluated and are based on experience from past events and other factors, including expectations for future events considered probable in view of the circumstances on which the estimates are based, or on results from information or experience acquired. The most significant accounting estimates shown in financial statements are as follows:

- **Valuation and useful life of tangible and intangible assets**

The Company used different assumptions when estimating future cash flow from tangible and intangible assets acquired as part of Entity purchase processes, including the estimate for future income, discount rates and useful life of the aforementioned assets.

- **Recognition of provisions and adjustments**

The Company takes part in different legal procedures in progress for which it judges whether or not a provision should be recorded for these contingencies based on the opinion of its attorneys. Provisions are recognised for additional responsibilities in associated companies and subsidiaries which present a loss-making situation, whenever there is a legal or constructive obligation and the outflow of liquidity is favourable. Adjustments to accounts receivable are mainly calculated based on the seniority of accounts receivable entries, the entity's risk profile and respective financial situation.

- **Determining the market value of financial instruments**

The Company chooses the evaluation method it considers appropriate for determining the market value of financial instruments not quoted on an active market, based on its best knowledge

of the market and assets, implementing customary market evaluation techniques and using assumptions based on market rates.

- **Adjustments to financial investments**

The company assesses the existence of evidence of impairment in the investments in subsidiaries and associated companies, which may be, but are not limited to, systematically negative results or negative equity, carrying out impairment tests according to IAS 36. The impairment tests mention the exercise of judgment concerning assumptions such as the discount rate or the perpetuity growth rate.

2.4. Resubmission of Comparatives

The provision was reclassified for financial investments in the Valir – Sociedade Gestora de Participações Sociais, SGPS S.A. and Manuel Guimarães, Lda, subsidiaries, which were registered in non-current liabilities and in the provisions account. As a consequence, the comparatives were reintroduced, as follows:

	31-12-2015 Restated	31-12-2015	01-01-2015 Restated	01-01-2015
Investments in subsidiaries and affiliates	64.813.320	86.342.762	52.853.673	74.300.139
Total non-current assets	129.634.173	151.163.615	141.538.337	88.379.726
Provisions	22.113.016	43.642.458	22.057.196	43.586.638
Total non-current liability	126.096.051	147.625.493	81.404.529	102.850.995



3. CASH FLOWS

The balance of "**Cash and cash equivalents**" contained in the Cash Flow Statement is broken down as follows:

	2016	2015
Cash	418	418
Current accounts	1.097.931	17.555.693
Other bank deposits	200	200
Other cash investments	190.067	-
	1.288.616	17.556.311
Other financial instruments (Note 8.1.5)	-	10.273.137
	1.288.616	27.829.448
Bank overdrafts	(7.979.498)	-
	(6.690.883)	27.829.448

"Other cash investments" include an amount of approximately 190,000 euros, corresponding to fund shares in Montepio Geral.

4. RELATED PARTIES

4.1. Type of Relationship with Related Parties

The Group to which the Company belongs and the type of relationship with related parties are shown in the table below:

Subsidiary companies	Location	Services the company provides / Transactions the company makes	Services the company receives / Transactions the company receives
Academia CUF, Lda	Portugal	Shared sLoanss	
Infra Health - Gestão de Infraestruturas, Lda	Portugal	Loans	
Clinica CUF Alvalade, S.A.	Portugal	Rental of equipment	
Clinica CUF Belém, S.A.	Portugal	Rental of equipment	
Hospital CUF Cascais, S.A.	Portugal	Rental of equipment	
Hospital CUF Torres Vedras, S.A.	Portugal	Rental of equipment	
Escala Vila Franca - Sociedade Gestora do Estabelecimento, S.A.	Portugal	Consulting	
Hospital CUF Descobertas, S.A.	Portugal	Rental of equipment	
Hospital CUF Infante Santo, S.A.	Portugal	Rental of equipment	
Hospital CUF Porto, S.A.	Portugal	Rental of equipment	
Instituto CUF - Diagnóstico e Tratamento, S.A.	Portugal	Rental of equipment	
Jms - Prestação de Serviços Administrativos e Operacionais Ace	Portugal	Shared services	
Loja Saude CUF - Produtos e Serviços de Saude e Bem Estar, S.A.	Portugal	Shared services	
Ppps - Gestão e Consultoria, S.A.	Portugal	Loans	
Imo Health - Investimentos Imobiliários Unipessoal, Lda	Portugal	Shared services	
Sagies - Segurança, Higiene e Saude no Trabalho, S.A.	Portugal	Loans	Occupational health
Nova Imagem - Centro Radiodiagnóstico, SA	Portugal	Loans	
Hospital CUF Viseu, S.A.	Portugal	Loans	
Hospital CUF Santarém, S.A.	Portugal	Loans	
Jms - Prestação de Serviços Saude, Ace	Portugal	Shared services	
Escala Braga - Sociedade Gestora do Estabelecimento, S.A.	Portugal	Consulting	
Valir - Sociedade Gestora de Participações Sociais, Sgps S.A.	Portugal	Loans	
Vramondi International Bv	Portugal		Loans
Farminveste - Investimentos, Participações e Gestão, S.A.	Portugal	Other financial instruments	

4.2. Transactions and Pending Balances

The amount of transactions and pending balances are indicated in the table below:

Company	Year
Academia CUF, Lda	2016 2015
Infra Health - Gestão de Infraestruturas, Lda	2016 2015
Clinica CUF Alvalade, S.A.	2016 2015
Clinica CUF Belém, S.A.	2016 2015
Hospital CUF Cascais, S.A.	2016 2015
Hospital CUF Torres Vedras, S.A.	2016 2015
Escala Vila Franca - Sociedade Gestora do Estabelecimento, S.A.	2016 2015
Hospital CUF Descobertas, S.A.	2016 2015
Hospital CUF Infante Santo, S.A.	2016 2015
Hospital CUF Porto, S.A.	2016 2015
Instituto CUF - Diagnóstico e Tratamento, S.A.	2016 2015
Jms - Prestação de Serviços Administrativos e Operacionais Ace	2016 2015
Loja Saude CUF - Produtos e Serviços de Saude e Bem Estar, S.A.	2016 2015
Ppps - Gestão e Consultoria, S.A.	2016 2015
Imo Health - Investimentos Imobiliários Unipessoal, Lda	2016 2015
Sagies - Segurança, Higiene e Saude no Trabalho, S.A.	2016 2015
Nova Imagem - Centro Radiodiagnóstico, SA	2016 2015
Hospital CUF Viseu, S.A.	2016 2015
Hospital CUF Santarém, S.A.	2016 2015
Jms - Prestação de Serviços Saude, Ace	2016 2015
Escala Braga - Sociedade Gestora do Estabelecimento, S.A.	2016 2015
Valir - Sociedade Gestora de Participações Sociais, Sgps S.A.	2016 2015
Vramondi International Bv	2016 2015
Farminveste - Investimentos, Participações e Gestão, S.A.	2016 2015



Debit balances			Credit balances		Transactions	
Accounts receivable	Shareholders and subsidiaries	Other financial instruments	Accounts payable	Shareholders and Subsidiaries	Income	Expenses
1.927					18.804	
1.264					12.336	
4.313	3.000.000				4.313	
28.234					139.703	
71.784					110.333	
742					10.101	
4.019					19.606	
59.424	3.200.000				159.435	
10.696	3.200.000				99.939	
3.540					28.032	
3.297					16.000	
182.463						
13.852					11.262	
339.037	16.700.000				1.041.121	
65.795	16.700.000				491.264	
302.002	16.500.000				791.679	
82.458	16.500.000				390.442	
401.529	21.600.000				1.206.665	
187.125	15.700.000				989.988	
					99.997	
44.671					92.166	
(126.040)					401.400	
705.302					501.022	
1.635					15.948	
2.124					20.724	
43.496	2.000.000				96.482	
	2.000.000					
560.983	36.973.036				1.135.048	
	26.063.903				917.607	
48.481			40.026		81.421	33.014
22.466			53		55.752	450
	17.388					
1.181	4.024.190				1.599	
332	19.566				511	
54.978	3.170.000				119.912	
	2.690.000				43.543	
513.188					401.400	
350.043						
131.765	6.788.732				131.765	
252.150				6.454.253		
		10.000.000				

4.3. Wages of Key Management Personnel

Wages of the Company's key management personnel are discriminated in the table below:

	2016	2015
Total remuneration paid	464.676	469.074
	464.676	469.074

Remunerations concern wages received by the governing bodies.

5. INTANGIBLE ASSETS

The gross carried amount, accrued depreciation and impairment losses at the beginning and end of the period are as follows:

	Software	Total intangible assets
Cost:		
At 1 January 2015	71.262	71.262
Acquisitions	-	-
At 31 December 2015	71.262	71.262
At 31 December 2016	71.262	71.262
Depreciation and impairment losses:		
At 1 January 2015	71.262	71.262
Depreciations for the period	-	-
At 31 December 2015	71.262	71.262
Depreciations for the period	-	-
At 31 December 2016	71.262	71.262
Net book value:		
At 31 December 2016	-	-
At 31 December 2015	-	-
At 1 January 2015	-	-

6. TANGIBLE FIXED ASSETS

The gross carried amount, accrued depreciation and impairment losses at the beginning and end of the period are as follows:

	Buildings and other constructions	Basic equipment	Office equipment	Tangible fixed assets in progress	Total tangible assets
Cost:					
At 1 January 2015	513.098	2.514.103	249.983	703.760	3.980.944
Increases		2.347.139	4.747		2.351.886
Transfers		703.760		(703.760)	-
Disposals		(255.750)			(255.750)
At 31 December 2015	642.319	5.309.252	254.730	-	6.206.301
Increases	76.273	713.610			789.883
Settlements			(3.472)		(3.472)
At 31 December 2016	718.593	6.022.861	251.258	0	6.992.712
Depreciation and impairment losses:					
At 1 January 2015	149.692	175.202	151.066		475.960
Depreciation	54.787	616.835	19.974		691.596
Transfers		(93.879)			(93.879)
At 31 December 2015	204.480	698.158	171.039	-	1.073.677
Depreciation	171.151	904.415	18.356		1.093.922
At 31 December 2016	375.631	1.602.573	189.395	-	2.167.599
Net book value:					
At 31 December 2016	342.962	4.420.289	61.863	-	4.825.114
At 31 December 2015	437.840	4.611.094	83.691	-	5.132.624
At 1 January 2015	363.406	2.338.901	98.917	703.760	3.504.983

As seen from the table above, the main increases registered in the year came from basic equipment acquired for lease to companies from the group.

7. COMBINATIONS OF BUSINESS ACTIVITIES AND INVESTMENTS IN SUBSIDIARIES AND AFFILIATES

The changes that took place in the current financial year, under the caption of investments in subsidiaries and associated companies, is the one shown in the following table:

Company	Activity
Academia CUF, Lda	Training
Clinica CUF Alvalade, S.A.	Healthcare service provision
Escala Vila Franca - Sociedade Gestora do Estabelecimento, S.A.	Healthcare service provision
Digihealth, S.A.	Provision of management services and consulting in healthcare
Hospital CUF Descobertas, S.A.	Healthcare service provision
Hospital CUF Infante Santo, S.A.	Healthcare service provision
Loja Saude CUF - Produtos e Serviços de Saude e Bem Estar, S.A.	Parapharmaceutical
S.P.S.D. - Sociedade Portuguesa de Serviços Domiciliários, S.A.	Domiciliary services
Vramondi International Bv	Shareholdings management
Escala Braga - Sociedade Gestora do Edifício, SA	Management of healthcare infrastructures and car parks
Escala Parque - Gestão de Estacionamento SA	Management of healthcare infrastructures and car parks
Valir - Sociedade Gestora de Participações Sociais, Sgps S.A.	Shareholdings management
IBET	Research
Imo Health - Investimentos Imobiliários, S.A.	Real estate
Hospital CUF Viseu, S.A.	Healthcare service provision
Hospital CUF Santarém, S.A.	Healthcare service provision
Manuel Guimarães, Lda	Healthcare service provision

The reduction of investments vis-à-vis the previous year is justified essentially by the following:

- Return of the supplementary payments Escala Braga – Sociedade Gestora do Edifício, S.A. and Escala Parque – Gestão de Estacionamento, S.A., amounting to 399,572 euros and 140,984 euros, respectively;
- Capital increase of Imo Health – Investimentos Imobiliários, S.A. in the amount of 45,000 euros.
- Impairment concerning S.P.S.D. – Sociedade Portuguesa de Serviços Domiciliários, S.A., according to the results of the impairment tests carried out.

Impairment tests were carried out using the following methods:

- The recoverable amounts of cash generating units were determined based on the value-in-use calculation. The use of this method requires the estimate of future cash flows arising from the operations of each cash-generating unit and choice of an appropriate discount rate;
- The valuations are supported by past results and future prospects of development of the markets in which the Group operates. Five-year projections of future cash flows for each of the businesses have been prepared in accordance with the plans defined by the Board of Directors.

31-12-2015	% Held 2015	Return of supplementary payments	Impairment	Capital increase	31-12-2016	% Held 2016
5.000	100,00%				5.000	100,00%
1.164.124	100,00%				1.164.124	100,00%
3.327.449	60,00%	(403.719)			2.923.730	60,00%
50.000	88,00%				50.000	88,00%
6.357.407	100,00%				6.357.407	100,00%
20.776.355	100,00%				20.776.355	100,00%
117.188	100,00%				117.188	100,00%
1.015.891	-		(66.100)		949.791	-
18.928.713	99,00%				18.928.713	99,00%
399.572	20,00%	(712.775)	313.203		-	20,00%
(140.984)	20,00%	140.984			-	20,00%
0	95,99%				-	95,995%
5.000	5,00%				5.000	5,00%
367.500	100,00%			45.000	412.500	100,00%
50.000	100,00%				50.000	100,00%
12.390.104	100,00%				12.390.104	100,00%
0	100,00%				-	100,00%
64.813.320		(975.510)	247.103	45.000	64.129.913	

- Each healthcare unit is a cash-generating unit. Valir – Sociedade Gestora de Participações Sociais, Sgps S.A. includes the Instituto **CUF** – Diagnóstico e Tratamento, S.A. unit, which is analysed together with Hospital **CUF** Porto, S.A., given the complementarity of provided services and the geographical proximity.

The following assumptions were used:

Period	Risk-free interest rate	WACC rate	Perpetuity growth rate
Explicit	2,20%	6,73%	-
Perpetuity	2,20%	6,73%	1,80%

Sensitivity analyses were performed on the main variables: (i) discount rate (+/- 0.5%) and (ii) perpetuity growth rate (+/- 0.5%). The results of the sensitivity analyses performed do not indicate the existence of impairment.

In the 2016 financial year, evaluations were carried out in the most relevant subsidiaries, finding the absence of any impairment concerning the value of the recognised financial investment,

with the exception of the impairment recorded for S.P.S.D. - Sociedade Portuguesa de Serviços Domiciliários, S.A., amounting to 66,000 euros.

The movement that took place in the previous financial year under the caption of investments in subsidiaries and affiliates companies is the one shown in the following table:

Company	Activity
Academia CUF, Lda	Training
Clinica CUF Alvalade, S.A.	Healthcare service provision
Escala Vila Franca - Sociedade Gestora do Estabelecimento, S.A.	Healthcare service provision
Digihealth, S.A.	Provision of management services and consulting in healthcare
Hospital CUF Descobertas, S.A.	Healthcare service provision
Hospital CUF Infante Santo, S.A.	Healthcare service provision
Loja Saude CUF - Produtos e Serviços de Saude e Bem Estar, S.A.	Parapharmaceutical
S.P.S.D. - Sociedade Portuguesa de Serviços Domiciliários, S.A.	Domiciliary services
Vramondi International Bv	Shareholdings management
Escala Braga - Sociedade Gestora do Edifício, SA	Management of healthcare infrastructures and car parks
Escala Parque - Gestão de Estacionamento SA	Management of healthcare infrastructures and car parks
Valir - Sociedade Gestora de Participações Sociais, Sgps S.A.	Shareholdings management
IBET	Research
Imo Health - Investimentos Imobiliários, S.A.	Real estate
Hospital CUF Viseu, S.A.	Healthcare service provision
Hospital CUF Santarém, S.A.	Healthcare service provision
Manuel Guimarães, Lda	Healthcare service provision



31-12-2014	% Held	Acquisition	Return of supplementary payments	Supplementary payments	Reclassifications	31-12-2015	% Held 2015
5.000	100,00%					5.000	100,00%
1.164.124	100,00%					1.164.124	100,00%
3.361.905	60,00%		(34.456)			3.327.449	60,00%
0	88,00%			50.000		50.000	88,00%
6.357.407	100,00%					6.357.407	100,00%
20.776.355	100,00%					20.776.355	100,00%
117.188	100,00%					117.188	100,00%
1.015.891	-					1.015.891	-
18.928.713	99,00%					18.928.713	99,00%
895.573	20,00%		(496.001)			399.572	20,00%
(140.984)	20,00%					(140.984)	20,00%
0	96,00%				-	0	95,995%
5.000	5,00%					5.000	5,00%
367.500	100,00%					367.500	100,00%
	100,00%	50.000				50.000	100,00%
	100,00%	12.390.104				12.390.104	100,00%
	100,00%	82.976			(82.976)	0	100,00%
52.853.673		12.523.080	(530.458)	50.000		64.813.320	

8. FINANCIAL INSTRUMENTS

8.1. Financial Assets

The breakdown of financial assets according to the different categories is indicated in the following tables:

	2016	2015
Non-current		
Other financial assets (note 8.1.1)	100.847.068	58.790.000
	100.847.068	58.790.000
Current		
Clients (note 8.1.3)	1.753.134	2.098.159
Other financial assets (note 8.1.1)	13.199.329	24.173.909
Shareholders (note 8.1.2)	1.885.798	5.875.798
	15.085.127	30.049.707
Other accounts receivable (note 8.1.4)	2.292.714	4.244.443
Other financial instruments (Note 8.1.5)	10.190.067	10.273.137
Cash and bank deposits (note 3)	1.098.549	17.556.311
	30.419.591	64.221.757

8.1.1. Other Financial Assets

On 31 December 2015 and 2016, the caption of "Other financial assets" was broken down as follows:

	2016	2015
Non-current assets		
Loans to subsidiaries		
Hospital CUF Porto, S.A.	21.600.000	15.700.000
Imohealth - Investimentos Imobiliários, S.A.	24.364.977	2.000.000
PPPS-Parcerias Público Privadas na Saúde SGPS, S.A.	2.000.000	2.000.000
Hospital CUF Descobertas, S.A.	16.700.000	16.700.000
Hospital CUF Infante Santo, S.A.	16.500.000	16.500.000
Hospital CUF Cascais, S.A.	3.200.000	3.200.000
Hospital CUF Viseu, S.A.	4.003.359	-
Hospital CUF Santarém, S.A.	2.690.000	2.690.000
Valir, SGPS, S.A.	6.788.732	-
INFRAHEALTH - Gestão de Infraestruturas, Lda	3.000.000	-
	100.847.068	58.790.000
Current assets		
Loans to subsidiaries		
Hospital CUF Santarém, S.A.	480.000	-
Imohealth - Investimentos Imobiliários, S.A.	12.608.059	24.063.903
Hospital CUF Viseu, S.A.	20.831	19.566
Manuel Guimarães, Lda	90.440	90.440
	13.199.329	24.173.909

8.1.2. Shareholders

On 31 December 2015 and 2016, the "Shareholders" caption was broken down as follows:

	2016	2015
Non-current assets		
Current assets		
José de Mello SGPS, S.A.	122.780	4.112.780
Farminveste - Investimentos, Participações e Gestão, S.A.	1.763.018	1.763.018
	1.885.798	5.875.798

8.1.3. Trade Receivables

On 31 December 2015 and 2016, the "Trade receivables" caption was broken down as follows:

	2016	2015
Clients		
Cost	1.753.134	2.098.159
Under verification	-	-
Impairment	-	-
	1.753.134	2.098.159

▪ Client Seniority

The seniority of clients is broken down as indicated in the table below:

Year	Total	Unexpired debt	Expired debt				
			≤ 180 Days	181-365 Days	366-545 Days	546-730 Days	>730
2016	1.753.134	562.335	520.444	244.628	252.150	-	173.577
2015	2.098.159	916.464	433.940	121.017	20.771	310.964	295.004

8.1.4. Other Accounts Receivable

Other accounts receivable are discriminated as follows:

	2016	2015
Personnel	753	663
Debtors from income increase		
Interest receivable	1.963.238	2.359.317
Other debtors	195.200	188.823
Recognising expenses		
Rents	59.857	59.857
Insurances	35.945	2.477
IT	31.171	1.633.305
Interest	5.199	-
Others	1.350	-
	2.292.714	4.244.443

The caption "Debtors through increases in income" mainly refers to interest from supplies debited to the group units with which the company operates. The reduction in comparison with the previous year is justified by the fact that in the previous year they had not yet been billed, having been accrued.

The variation in the caption of "Recognising expenses" is justified by the fact that in the previous year invoices were received from Microsoft concerning maintenance of software licenses for 2016.

8.1.5. Other Financial Instruments

The caption "Other financial instruments" is broken down as follows:

	2016	2015
Bonds	10.000.000	10.000.000
Shares	0	273.137
	10.000.000	10.273.137

The amount of 10 million euros concerns bonds issued by Farminveste – Investimentos, Participações e Gestão, S.A., for a period of 6 years:

Issuer	Year of issue	Amount
Farminveste - Investimentos, Participações e Gestão, S.A.	2014	10.000.000
		10.000.000

These bonds have a put option that gives the Company the right to redeem the amount in question at any time, which is why the Company considers these values as cash equivalents.

8.2. Financial Liabilities

The breakdown of financial liabilities according to the different categories is indicated in the following tables:

	2016	2015
NON-CURRENT		
Loans obtained through leases (note 8.2.1)	2.970.211	3.286.163
Loans obtained (note 8.2.1)	103.110.987	99.209.064
	106.081.198	102.495.227
Other financial liabilities		
Financial derivative instruments (note 8.2.4)	2.301.121	1.487.808
	108.382.319	103.983.035
CURRENT		
Suppliers		
Suppliers, current account	843.016	2.157.142
Suppliers, invoices in reception and under verification	-	-
	843.016	2.157.142
Other financial liabilities (note 8.2.2)	6.454.253	-
Loans obtained through leases (note 8.2.1)	1.043.783	1.045.272
Loans obtained (note 8.2.1)	21.879.498	4.500.000
Other accounts payable (note 8.2.3)	1.223.302	3.604.029
	31.443.853	11.306.443

The balance of "Suppliers" recorded a significant decrease over the previous year, which is justified by the fact that in 2015 invoices from vendor Microsoft concerning the maintenance of software licenses for 2016 were received (and recorded). ("Other accounts receivable – recognising expenses" note).

8.2.1. Loans Obtained

Non-Current and Current "Loans obtained" are discriminated as follows:

	2016	2015
Loans obtained		
Non-current		
Loans obtained		
Bank loans		
Banco Popular	2.838.701	
Finance leases	2.970.211	3.286.163
Bond loans	99.494.476	99.209.064
	105.303.388	102.495.227
Current		
Loans obtained		
Bank loans		
Banco Popular	777.810	-
Finance leases	1.043.783	1.045.272
Bank overdrafts	7.979.498	-
Commercial paper	13.900.000	4.500.000
	23.701.092	5.545.272

The company has hired three commercial paper programmes with the limit of 26,000 euros. On 31 December 2016 and 2015, these liabilities had the following detail, respectively:

2016					
Nominal amount hired	Outstanding amount 2016		Amortisation		Interest rate:
	Current	Non-current	Maturity	Periodicity	
6.000.000	6.000.000	-	Nov. 2016	Annual	Maximum Euribor + 1.75%
10.000.000	3.000.000	-	Nov. 2019	Annual	Maximum Euribor + 2%
10.000.000	4.900.000	-	March 2020	Once	Euribor 1M + 1.1%
26.000.000	13.900.000	-			

2015					
Nominal amount hired	Outstanding amount 2015		Amortização		Interest rate:
	Current	Non-current	Maturity	Periodicity	
10.000.000	4.500.000	-	Dec. 2018	Once	Euribor 1M + 1.1%
10.000.000	4.500.000	-			

Bond loans concern the following issues:

"JOSÉ DE MELLO SAÚDE 2014/2019"

- Total loan amount: 50,000,000 eurosValor
- Nominal value: 10,000 euros per bond
- Maturity 9 June 2019
- Interest rate: Interest rate: 6-month Euribor plus 3.875%

"JOSÉ DE MELLO SAÚDE 2015/2021"

- Total loan amount: 50,000,000 eurosValor
- Nominal value: 10,000 euros per bond
- Maturity 17 May 2021
- Interest rate: Interest rate: 6-month Euribor plus 2.95%

Leases are described in detail in Note 12 – Leases.

8.2.2. Other Financial Liabilities

The caption "Other financial liabilities" is broken down as follows:

	2016	2015
Current liabilities		
Loans of subsidiaries		
Vramondi International BV	6.454.253	-
	6.454.253	-

8.2.3. Other Accounts Payable

Other accounts payable are discriminated as follows:

	2016	2015
Other accounts payable		
Personnel	8.391	8.387
Investment suppliers	300	-
Creditors from income increase		
Remunerations payable	562.913	498.071
Others	611.530	3.085.538
Other creditors	40.169	12.033
	1.223.302	3.604.029

The variation in the "Other" caption is justified by the fact that in 2015 the amount of 2,504 euros concerning retirement benefits paid in January 2016 was included.

8.2.4. Financial Derivative Instruments

In 2014, José de Mello Saúde, S.A. had almost all its financing indexed at variable rates. Plain vanilla swaps were contracted in May, June and July 2015 to reduce the risk of exposure to interest rate variations, which cover 100% of the debenture loans emitted in June 2014 and May 2015 (100 million euros in total). Swaps contracted respect the characteristics of the aforementioned loans emitted so that they may be considered hedging products (same indexer, same interest period and payment deadlines). On the interest payment date, the Company receives interest indexed to six-month Euribor for 100% of the debenture capital and pays interest at a fixed rate on the same amount.

On 31 December 2015 and 2016, the company had contracted the following financial derivative instruments:

	Liabilities 2016		Liabilities 2015	
	Current	Non-current	Current	Non-current
Cash flow hedging derivatives				
Interest rate swap	-	2.301.121	-	1.487.808
Total liabilities derivatives	0	2.301.121	0	1.487.808

The figure recognised in this caption refers to six swap interest rate contracts signed by the company to cover the risk of interest fluctuation.

▪ Fair Value of Financial Instruments

Characteristics of financial derivative instruments contracted in relation to financing operations on 31 December 2015 and 2016 were as follows:

Cash flow hedging derivatives	Notional	Currency	Economic goal	Maturity	Fair value	
					31-12-2016	31-12-2015
<i>Interest rate swaps</i>						
Swap 13121-001	25.000.000	Eur	Cash-flow coverage of bond issuance	Jun/19	(403.663)	(346.194)
Swap 13136-001	12.500.000	Eur	Cash-flow coverage of bond issuance	Jun/19	(191.345)	(158.448)
Swap 13121-002	25.000.000	Eur	Cash-flow coverage of bond issuance	Mai/21	(788.611)	(454.049)
Swap 13137-001	12.500.000	Eur	Cash-flow coverage of bond issuance	Mai/21	(432.585)	(273.507)
Swap 13152-001	12.500.000	Eur	Cash-flow coverage of bond issuance	Mai/21	(334.886)	(154.873)
Swap 13153-001	12.500.000	Eur	Cash-flow coverage of bond issuance	Jun/19	(150.030)	(100.737)
					(2.301.121)	(1.487.808)

Cash flows are paid and received from hedging derivative instruments every six months:

SWAP's						
Ref	13121-001	13121-002	13136-001	13137-001	13152-001	13153-001
Trade Date	5/19/15	5/19/15	6/23/15	6/23/15	7/30/15	7/30/15
Effective Date	5/21/15	5/21/15	6/25/15	6/25/15	7/31/15	7/31/15
Termination Date	6/9/19	5/17/21	6/9/19	5/17/21	5/17/21	6/9/19
Notional Amount	25.000.000	25.000.000	12.500.000	12.500.000	12.500.000	12.500.000

▪ Cash Flow Hedging

The Company hedges an instalment of future interest payments on bond issues, through the allocation of interest rate Swaps in which a fixed rate is paid and a variable rate is received, with a notional of 100 million euros. This is an interest rate risk hedge related to payments of interest at a variable rate arising from recognised financial liabilities. The hedged risk is the variable rate indexer to which interest on loans is associated. The aim of this hedge is to transform variable interest rate loans into a fixed interest rate. The fair value of interest rate Swaps on 31 December 2016 is -2,301,121 euros.

9. ASSETS HELD FOR SALE

	2016	2015
FINANCIAL ASSETS AVAILABLE FOR SALE		
Escala Braga - Soc. Gestora do Edifício, S.A.	-	-
Escala Parque - Gestão de Estacionamento, S.A.	-	-
Manuel Guimarães, Lda	-	-
	-	-

It is José de Mello Saúde, S.A.'s intention to transfer its participation in the share capital, along with all its associated rights and obligations, for the following entities:

- Escala Braga - Sociedade Gestora do Edifício, S.A. (20%)
- Escala Parque – Gestão de Estacionamento, S.A. (20%)
- Manuel Guimarães, Lda (100%)

To this end, in the case of Escala Braga – Sociedade Gestora do Edifício, S.A. and Escala Parque – Gestão de Estacionamento, S.A., a contract was signed for the purchase and sale of shares and supplementary payments with an investor, with the completion of the transaction dependent on the following conditions:

Escala Braga – Sociedade Gestora do Edifício, S.A.

The transaction depends on the authorisations of the following entities:

- Public awarding entity (Regional Health Authority – ARS)
- Financing banks
- Competition authority or European Commission
- Escala Braga – Sociedade Gestora do Edifício, S.A.

Escala Parque – Gestão de Estacionamento, S.A.

The transaction depends on the authorisations that the transfer of Escala Braga Sociedade Gestora do Edifício, S.A. is subject to (identified above).

In the case of Manuel Guimarães, Lda., the sale has already materialised in early March 2017.

10. EQUITY

10.1. Share Capital

Equity is fully subscribed and paid-up. It is divided into 10,6000,000 shares valued at five euros each, which are divided up as follows:

	2016		2015	
	Amount	Quantity	Amount	Quantity
Capital				
José de Mello SGPS, S.A.	34.900.500	6.980.100	34.900.500	6.980.100
Farminveste-Investimentos, Participações e Gestão, S.A.	15.900.000	3.180.000	15.900.000	3.180.000
Fundação Amélia da Silva de Mello	2.199.500	439.900	2.199.500	439.900
	53.000.000	10.600.000	53.000.000	10.600.000

10.2. Changes in Equity

The main changes occurring in equity, as seen in the Statement of Changes in Equity, are related to:

- Application of the positive net result from the previous year in the amount of 18,519,167 euros, pursuant to minute no. 51:
- Transfer to retained earnings in the amount of 17,593,209 euros
- Establishment of legal reserves in the amount of 925,958 euros to legal reserves

10.3. Reserves and Other Equity Captions

Reserves and other equity captions registered the following transactions during the financial years ending on 31 December 2016 and 2015:

	Legal reserves	Hedging operation reserve	Other reserves	Other equity instruments	Retained earnings
1 January 2015	2.495.813	-	12.248	14.350.000	(4.960.599)
Effect of restatement					(120.129)
Additions	934.688				
Changes to MTM regarding hedging financial instruments		(1.487.808)			
Adjustments for results					17.759.079
31 December 2015	3.430.501	(1.487.808)	12.248	14.350.000	12.678.352
1 January 2016	3.430.501	(1.487.808)	12.248	14.350.000	12.678.352
Additions	925.958				17.593.209
Changes to MTM regarding hedging financial instruments		(813.312)			
Dividends					
Return of supplementary payments				(14.350.000)	
31 December 2016	4.356.460	(2.301.120)	12.248	-	30.271.560

The legal reserve is not fully established under the law (20% of share capital), whereby the minimum amount stipulated was donated (5% of the net profit).

Changes in "Other reserves" concerns the recognition of losses through hedging operation in the amount of 813,312 euros (note "Other financial liabilities").

The reduction in the "Other equity instruments" caption is justified by the return of supplementary payments amounting to 14.3 million euros.

10.4. Dividends

According to resolution of the Board of Directors held on 20 September 2016, in the financial year ending on 31 December 2016 interim dividends of 1.08 euros per share were paid, amounting to 11.4 million euros, on the result of the mid-term review prepared on 31 August 2016. In the financial year ending on 31 December 2015, no dividends were paid.

11. GOVERNMENT AND OTHER PUBLIC ENTITIES

Accounts concerning the Government and other public entities show the following breakdown:

	2016	2015
Government and other public entities		
Balance receivable		
Income tax	19.606.734	6.208.396
VAT	417.469	435.869
	20.024.203	6.644.265
Balance payable		
Income tax withholdings	15.355	17.212
Social security contributions	11.037	12.623
	26.392	29.835

12. LEASES

12.1. Finance Leases

The Company has finance lease contracts for various items of its tangible fixed assets included in the Statement of Financial Position. On 31 December 2016 and 2015, the Company maintains the following assets in a finance lease regime for each category:

	2016	2015
TANGIBLE		
Buildings and other constructions	56.194	84.392
Basic equipment	4.339.872	4.530.646
	4.396.067	4.615.038

Total future minimum finance lease payments on the Statement of Financial Position date, broken down by maturity periods, are detailed in the following table:

	2016	2015
Non-current liabilities		
Loans obtained through leases	2.970.211	3.286.163
Current liabilities		
Loans obtained through leases	1.043.783	1.045.272
	4.013.994	4.331.435

Rents of 965,602 euros and 917,686 euros were paid for the financial years ended on 31 December 2016 and 2015, respectively, in relation to finance lease contracts.

12.2. Operating Leases

The operating lease contracts in force in the Company essentially relate to vehicles and office equipment.

Costs of 31,669 euros and 19,287 euros were recognised for the financial years ended on 31 December 2016 and 2015, respectively, relative to operating leasing contracts instalments.

13. PROVISIONS

Transactions occurring in provisions, under each caption, is shown in the table below:

	Other provisions	TOTAL
At 1 January 2015	22.057.196	22.057.196
Year's increases	97.000	97.000
Year's reversions	(41.180)	(41.180)
At 31 December 2015	22.113.016	22.113.016
At 1 January 2016	22.113.016	22.113.016
Year's reversions	(6.266.078)	(6.266.078)
At 31 December 2016	15.846.938	15.846.938

In 2016, there was a reversal in provisions for a total of 6.2 million euros, predominantly concerning José de Mello Saúde stakes in **CUF** Porto Hospital and Vramondi International Bv. The recorded value concerns additional responsibilities in the subsidiary Escala Braga - Sociedade Gestora do Estabelecimento, S.A.

14. INCOME TAX FOR THE PERIOD

Tax expenditure is indicated in the table below:

	2016	2015
Current tax		
Corporate income tax for the year	(2.332.084)	(1.962.976)
Deferred tax		
Hedging financial instruments (Swaps)	(182.995)	(323.625)
Others	27.373	-
	(155.623)	(323.625)
	(2.487.707)	(2.286.601)

The amounts of deferred tax assets and liabilities recognised in the balance sheet for each period are indicated in the table below:

	Accounts balance		Accounts Income Statement	
	2016	2015	2016	2015
Deferred tax assets				
Hedging financial instruments (Swaps)	517.752	334.757	182.995	323.625
Retirement benefits	536.100	563.472	(27.373)	-
	1.053.852	898.229	155.623	323.625

Numerical reconciliation between the average effective income tax and applicable tax rate is indicated in the table below:

	Tax base	
	2016	2015
Profit before tax	26.615.976	16.232.566
Nominal tax rate	21,00%	21,00%
TAX ON PROFIT AT THE NOMINAL RATE	5.589.355	3.408.839
Non-taxable income		
Taxable amount/tax loss attributed by ACE		
Accounting gains		
Elimination of double taxation	23.913.683	23.103.730
Cancellation of the equity method	454.187	
Tax refund	212.893	199.929
Reversal of taxed provisions	6.266.078	41.180
Tax benefits	13.797	3.380
Others	223.706	
	31.084.343	23.348.219
Non-deductible costs for tax purposes		
Taxable amount/tax loss attributed by ACE		
Donations	93.996	35.102
Fines, penalties and interest compensation	250	1.409
Expenses incurred from renting a car without a driver	12.212	
Depreciations and amortisations not accounted as expenses	103.132	
Non-deductible social contributions	23.309	8.698
Provisions that are non-deductible or beyond the legal limits		97.000
Corporate income tax and other taxes on profits		74.263
Corrections relating to previous periods	129.744	485.163
Others		2.504.268
	362.644	3.205.903
Tax loss/taxable income	(4.105.724)	(3.909.751)
Income tax in Portugal	21,00%	21,00%
Calculated tax	-	-
Separate taxation	74.861	69.350
Tax saving	(2.406.946)	(2.032.326)
	(2.332.084)	(1.962.976)
INCOME TAX	(2.332.084)	(1.962.976)
EFFECTIVE TAX RATE	-8,76%	-12,09%

15. SERVICES SUPPLIED

Income is discriminated as follows:

	2016	2015
Service provision		
Services	1.400.283	1.096.221
	1.400.283	1.096.221

Services Supplied in 2016 refer to lease of equipment and registered an increase of 304,000 euros (+28%) in comparison with the previous year.

16. OTHER INCOME

This caption is broken down as indicated in the table below:

	2016	2015
Supplementary income		
Disposals	-	6.593
MEP		-
Others		
Corrections relating to previous periods	82.394	38.220
Excess of the estimate for taxes	212.893	199.929
Tax refund	102.050	-
Others not specified	818.918	775.893
	1.216.255	1.020.635

The "**Others not specified**" caption mainly includes the office rent debited to JMS – Prestação de Serviços Administrativos e Operacionais ACE. The increase compared to the previous year is justified by the increase in leased space.

17. PERSONNEL EXPENDITURE

Details of personnel expenditure are indicated in the table below:

	2016	2015
Remunerations		
Wages of governing bodies members	464.676	469.074
Personnel wages	33.633	41.663
Retirement benefits	-	158.947
Charges on remunerations	117.868	128.723
Occupational accidents and diseases insurances	37.000	33.807
Social welfare expenditure	2.922	4.336
Other personnel expenditure	481.634	587.821
	1.137.733	1.424.370

The number of people working for the Company on 31 December 2016 was 14 (2015: 11). The reduction vis-à-vis the previous year is justified predominantly by the "Retirement benefits" caption. In the previous year, 158,000 euros were recorded for an insurance providing annuities that was settled in 2016.

18. EXTERNAL SUPPLY AND SERVICES

This caption is broken down as indicated in the table below:

	2016	2015
Subcontracts	11.884	39.649
Specialised services		
Specialised work	793.178	1.550.453
Advertising	896.425	1.320.959
Fees	236.471	307.802
Maintenance and repairs	922	-
Materials		
Tools and utensils	-	4.041
Books and technical documentation	2.228	2.260
Office material	-	3.052
Articles for free distribution	146.930	400
Energy and fluids		
Electricity	55.915	45.002
Fuel	4.048	2.898
Travel, accommodation and transport		
Travel and accommodation	51.949	53.700
Other services		
Rents and leases	897.249	696.434
Communications	31.268	69.502
Insurances	34.794	24.867
Litigation and notary public fees	7.395	51.890
Representation expenses	-	727
Cleaning, hygiene and comfort	6.737	4.290
Others	3.663	2.659
	3.181.056	4.180.585

The reduction in external supplies and services is mainly justified by "Advertising and Propaganda" and "Specialised work" (consultants) captions.

19. OTHER EXPENSES AND LOSSES

This caption is broken down as indicated in the table below:

	2016	2015
Expenses and losses in the group's companies and associates		
Financial assets adjustment	371.117	(130.925)
	371.117	(130.925)
Taxes	19.823	73.741
Others		
Corrections relating to previous periods	129.744	485.163
Donations	115.000	35.102
Contributions	21.890	8.450
Insufficient tax estimate	-	74.263
Fines and penalties		
Non-tax fines	240	1.409
Other expenses and losses	5.069	197.322
	291.765	875.450

This variation, compared to the previous year, is mainly justified by the "Corrections relating to previous periods" account: in 2015 the debt pardoned for the Recovery Plan of Digihealth, S.A. was recorded.

20. DEPRECIATION AND AMORTISATION EXPENSES/REVERSALS

According to the chart below, depreciations and amortisations total 1,093,922 euros (691,596 euros in 2015):

	2016	2015
Expenses of depreciation and amortisation		
Tangible fixed assets	1.093.922	691.596
	1.093.922	691.596



21. INTEREST AND SIMILAR INCOME OBTAINED

This caption is broken down as indicated in the table below:

	2016	2015
Interest received		
From deposits	42.586	120.606
From other net financial investments	93.838	93.582
From loans granted to associates and joint ventures	-	-
From financing granted to subsidiaries	3.739.170	2.265.222
From other loans granted	24.066.269	23.311.332
Interest and similar income	-	13
	27.941.863	25.790.756

The "**Other loans granted**" caption mostly includes interest for loans granted.

22. INTEREST AND SIMILAR EXPENSES SUPPORTED

This caption is broken down as indicated in the table below:

	2016	2015
Interest paid		
From loans obtained	3.545.764	3.318.688
From finance leases	130.678	113.629
Others	685.545	353.780
Other expenses and losses on loans		
From loans obtained	-	4.629
Others	447.057	525.573
	4.809.044	4.316.299

The "**Interest supported from loans obtained**" caption mainly includes interest from the debenture loan.

23. FINANCIAL RISK MANAGEMENT

23.1 Risks Relating to Financial Instruments

Financial risk is the risk of the fair value or future cash flows of a financial instrument varying and obtaining different results to those expected, be they positive or negative, thereby altering the Company's asset value.

When developing its current activities, the Company is exposed to a variety of financial risks likely to alter its asset value, which may be grouped together into the following categories according to type:

- Market risk
- Interest rate risk
- Exchange rate risk
- Other price risks
- Credit risk
- Liquidity risk

Management of the aforementioned risks – risks occurring mainly due to the unpredictability of financial markets – requires careful application of a set of rules and methods approved by the Board, whose ultimate objective is to minimise their potential negative impact on the Company's asset value and performance.

All management is therefore focused on two main concerns:

- To reduce fluctuations in results and cash flow subject to risk situations, whenever possible;
- Limit deviations in view of projected results through strict financial planning based on multi-annual budgets.

As a rule, the Company does not assume speculative positions, whereby transactions performed in relation to financial risk management are aimed at controlling already-existing risks to which the Company is exposed.

The Board defined risk management principles as a whole and policies covering specific areas such as foreign exchange, interest rate, liquidity and credit risks as well as those posed by the use of derivative financial instruments and investment of surplus liquidity.

Financial risk management – including their identification and evaluation – is conducted by the Finance Department in accordance with policies approved by the Board.

23.2 Interest Rate Risk

Interest rate risk is the risk of the fair value or future cash flows of a financial instrument varying due to changes in market interest rates, thereby altering the Company's asset value.

The Company's exposure to the interest rate risk stems from the existence in its Statement of Financial Position, of financial assets and liabilities contracted at the fixed or variable rate.

In the first case, the Company faces a risk of variation of the "fair value" of these assets or liabilities when any change to market rates involves an opportunity cost (positive or negative). In the second case, such change has a direct impact on the amount of interest received/paid, thus causing cash variations.

The Company's aim is to maintain a varied portfolio of loans granted and obtained from fixed and variable interest rates in order to manage the interest rate risk.

23.3 Credit Risk

The credit risk is the risk of a counterparty failing to comply with its obligations under the cover of a financial instrument, thus resulting in a loss. The Company is subject to a credit risk regarding the following activities:

- Operating activity – trade receivables, trade payables and other accounts receivable and payable;
- Financing activities – loans obtained.

Credit risk management for clients and other accounts receivable is carried out as follows:

- Following policies, procedures and controls established by the Company;
- Credit limits are established for all clients based on internal evaluation criteria;
- Each client's credit quality is evaluated based on credit ratings supplied by external specialised entities;
- The amounts owed are regularly monitored and supplies to major clients are normally covered by guarantees.

■ Financial Commitments with Guarantees

On 31 December 2016, the entity has the following guarantees provided in its portfolio:

Guarantee	Bank	Beginning date	Amount	Beneficiary	Beneficiary
488019767	SANTANDER TOTTA	5/24/16	303.195	Câmara Municipal de Lisboa	"Resetting of the original land conditions" for "Cuf Descobertas Hospital Expansion"
N00367208	NOVO BANCO	5/19/11	2.400.000	Escala Vila Franca - Sociedade Gestora do Estabelecimento, S.A.	Subscription agreement and capital subscriptions

24. EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

These separate financial statements were authorised for issue in March 2016 by the Board of Directors.

As disclosed in Note 9, in March 2017 the sale of Manuel Guimarães, Lda. for the amount of 18,000 euros took place.

Since 31 December 2016 until now, no relevant facts occurred other than those already adjusted and/or disclosed in these consolidated financial statements.

The Certified Accountant

25. DISCLOSURE REQUIRED DUE TO LEGAL INSTRUMENTS

As required by paragraph 5, article 66 of the Portuguese Commercial Companies Code, no operations are excluded from the Statement of Financial Position, whereby the respective nature, commercial objective, financial impact or risks and benefits have to be disclosed.

The Board

(Free Translation from the original in Portuguese)

Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of José de Mello Saúde, S.A. (the Entity), which comprise the Statement of Financial Position as at December 31, 2016 (which show a total of 221.299.740 euros and a total equity of 65.600.238 euros, including a net profit for the year of 29.103.683 euros), and the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of José de Mello Saúde, S.A. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and with other standards and technical directives of the Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Entity in accordance with the law and we comply with the ethical requirements of the Code of Ethics of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We describe below the key audit matters of the current period:

1. Impairment tests of Investments in Subsidiaries and Affiliates and measurement of provisions

Description of the risks of material misstatement	Summary of our approach to the risks of material misstatement
The amount presented in Investments in subsidiaries and affiliates as at December 31, 2016, is 64.130 thousand Euros, representing approximately 30% of the total assets of the Company.	We have tested the assumptions used on the valuation models prepared by management, namely the cash flows projections, the discount rate, the inflation rate, the perpetual growth rate and the sensitivity analysis, supported by internal specialists in business valuations.
The possible impairment of Investments in subsidiaries and affiliates measured at cost and the recognition of provisions for possible additional responsibilities in subsidiaries and affiliates with negative equity has been considered a key matter because the carrying amount of those assets is significant and the impairment testing process is complex, including the use of estimations and assumptions, namely	We have tested the consistency of the assumptions used in the business plans with prior years, with historical data and with external data. We have tested the arithmetical calculation of the model used.
	We have assessed the need to book and / or to maintain provisions for possible additional liabilities deriving from affiliates with negative equity that may not be able to solve their commitments.
	We have focused specifically on the sensitivity analysis prepared for the various affiliates, to ensure the disclosures included in Note 7 to the

Description of the risks of material misstatement	Summary of our approach to the risks of material misstatement
future market and economic conditions.	financial statements reflect the results of the impairment tests performed. We have confirmed the applicable disclosure requirements (IAS 36 and IAS 27).

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for

- ▶ the preparation and fair presentation of the financial statements in accordance with the international Financial Reporting Standards as endorsed by the European Union;
- ▶ the preparation of the Management Report, including the Corporate Governance Report in accordance with the laws and regulations;
- ▶ such internal control as management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- ▶ adoption of accounting policies and principles appropriate for the circumstances;
- ▶ assessment of the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 ISAs 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 ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ identify and assess the risks of material misstatement of the 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 Entity's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's 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 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 Entity 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- ▶ communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- ▶ from the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- ▶ provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the Management Report with the financial statements, and the verifications under numbers 4 and 5 of article 451º of the Commercial Companies Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

About the Management Report

Pursuant of article 451º, nº 3, al. e) of the Commercial Companies Code, it is our opinion that the Management Report, that discloses essentially consolidated financial information which includes the company, was prepared in accordance with laws and regulations in force, the information contained therein is in agreement with the audited financial statements and, taking into consideration our assessment and understanding of the Entity, we have not identified any material misstatement.

About the Corporate Governance Report

Pursuant of article 451º, nº 4, of the Commercial Companies Code, it is our opinion that the Corporate Governance Report (Information of the Shareholders structure, organization and Corporate Governance) includes the items required to the Entity in accordance with article 245º-A of Securities Market Code, no material misstatements were identified in the information contained therein, complying with the provisions of paragraph c), d), f), h), i) and m) of the referred article.

About additional items set out in article 10º of Regulation (EU) nº 537/2014

Pursuant of article 10º of Regulation (EU) nº 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we report the following:

- ▶ We have been appointed as auditors of José de Mello Saúde, S.A. for the first time in the shareholders' general meeting held on October 11, 2007 for the period between 2007 and 2009. We were reappointed in the shareholders' general meeting held on April 29, 2016 for a forth mandate for the period between 2016 and 2018.
- ▶ The Management has confirmed that they are not aware of any fraud or fraud suspicion with a material impact in financial statements. In planning and executing our audit in accordance with ISA we maintained our professional scepticism and we designed audit procedures to address the possibility of a material misstatement in financial statements due to fraud. Based on the work performed, we have not identified any material misstatement in the financial statements due to fraud.

- ▶ We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the audit committee as of March 31, 2017.
- ▶ We declare that we have not provided any prohibited non-audit services referred to in article 77º nº 8 of the Statute of the Institute of Statutory Auditors and we remained independent of the audited Entity in conducting the audit.

Lisbon, April 10, 2017

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

Luís Miguel Gonçalves Rosado - ROC nº 1607
Registered with the Portuguese Securities Market Commission under licence nr.º 20161217

3.4. Report and Opinion of the Supervisory Board Concerning the Individual Accounts

Dear Shareholders,

In accordance with legal and statutory terms, the Supervisory Board of **José de Mello Saúde S.A.**, with headquarters at Av. do Forte, 3 – Edifício Suécia III, Piso 2, 2790-073 Carnaxide, presents its supervisory report and provides an opinion on the report, accounts and proposals submitted by the Board concerning the financial year ended on 31 December 2016.

1. In accordance with legal and statutory terms, we have:

- approved the plan of activities for 2016;
- supervised the actions of the Board, through meetings with the internal audit department, financial department, strategic planning, management and innovation control department, information systems department and organisational development and quality department, obtaining the clarifications and comfort deemed necessary;
- verified compliance with the law and fulfilment of the company's articles of association;
- evaluated whether the accounting policies and valuation/measuring criteria adopted by the company are in agreement with the generally accepted accounting principles and lead to a proper evaluation of the assets and results;
- evaluated the effectiveness of the internal control system implemented by the Board;
- supervised the process of preparation and disclosure of the financial information;
- verified the accuracy of the Statement of Financial Position, the Statement of Income and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Annex of the financial year of 2016;
- evaluated the Management Report issued by the Board and the proposal for the appropriation of profits it introduced;
- evaluated the work carried out by the Statutory Auditor leading to the legal review and additional services;
- verified the terms of the Legal Accounts Certificate, the Audit Report and the Additional Report to the Supervisory Body issued by Ernst & Young Audit & Associados – SROC, S.A., and concluded that its content merits our agreement.

2. The conducted supervisory action allows us to conclude that:

- the actions of the Board that we have knowledge of safeguard compliance with the law and with the company's articles of association;
- we are not aware of any situations that can call into question the suitability and effectiveness of the internal control system implemented by the Board in controlling the risk to which the company is exposed;
- the accounting and the accounts comply with the applicable legal, statutory and regulatory provisions, reflect the activity carried out and lead to a correct evaluation of the company's assets and results;
- the Management Report is in agreement with the accounts presented and faithfully shows the evolution of the activity and of the business during the financial year;
- the published report includes the elements listed in article 245-A of the Securities Code on the structure and practices of corporate governance;
- the Statement of Financial Position, the Statement of Income and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Annex of the financial year of 2016 meet the applicable legal and accounting requirements;

- the audit of the financial statements performed by the Statutory Auditor was suitable to the circumstances, and the additional services did not compromise its independence;
- the proposal for the appropriation of profits is appropriate and is properly grounded.

3. We can thus state:

- our agreement with the content of the Legal Accounts Certificate issued by the Statutory Auditor;
- our agreement with the Management Report and accounts for the 2016 financial year presented by the Board of Directors;
- that to the best of our knowledge, the disclosed financial information has been drafted in accordance with current accounting standards and give a true and fair view of the assets and liabilities, financial situation and results of the company, and that the Management Report faithfully describe the development, financial performance and position of the company, containing a description of the main risks and uncertainties it faces.

4. Accordingly, taking into account the actions carried out, we consider that:

- the Management Report and accounts of the 2016 financial year presented by the Board of Directors should be approved;
- the proposal for the appropriation of profits contained in the Management Report should be approved.

Finally, we would like to thank the Board and all Employees in the service of the Company who we contacted, for all the cooperation we received when performing our duties.

Lisbon, 6 April 2017

The Supervisory Board

José Manuel Gonçalves de Moraes Cabral
(Chairman)

João Filipe de Moura-Braz Corrêa da Silva
(Member)

José Luís Bonifácio Lopes
(Member)





DECLARATION OF COMPLIANCE OF THE SUPERVISORY BOARD

In accordance with provisions in Article 245(c)(1) of the Securities Code, José de Mello Saúde, S.A. ("JMS") Supervisory Board members declare that, to the best of their knowledge, the management report, the individual annual accounts, the legal accounts certificate and the other accounting documents, i) were prepared in accordance with current accounting standards and give a true and fair view of the assets and liabilities, financial situation and results of José de Mello Saúde; ii) they faithfully describe the development, performance and position of JMS; and iii) they contain a description of the main risks José de Mello Saúde faces in its activity.

Lisbon, 6 April 2017

The Supervisory Board

José Manuel Gonçalves de Moraes Cabral
(Chairman)

João Filipe de Moura-Braz Corrêa da Silva
(Member)

José Luís Bonifácio Lopes
(Member)



JOSÉ DE MELLO · SAÚDE



04

**CONSOLIDATED
FINANCIAL
STATEMENTS**

4.1. Consolidated Comprehensive Income Statement on 31 December 2016

INCOME AND OTHER CONSOLIDATED COMPREHENSIVE INCOME STATEMENT Of the Financial Year Ended on 31 December 2016

Amounts in Euros	Notes	31-12-2016	31-12-2015
Ongoing operations:			
Operating income:			
Sales and services rendered	5, 6	578.041.322	551.659.291
Other operating income	5, 6	8.229.524	8.516.064
Total operating income		586.270.846	560.175.355
Operating costs:			
Cost of sales	7	(107.414.581)	(104.571.627)
External supplies and services	8	(222.850.139)	(214.079.381)
Personnel expenditure	9	(184.618.966)	(172.859.576)
Depreciations and amortisations	17	(25.092.368)	(22.793.301)
Provisions and impairment losses	34	(1.754.594)	1.471.945
Other operating costs	10	(3.005.581)	(5.168.692)
Total operating costs		(544.736.229)	(518.000.632)
Operating profit	5	41.534.616	42.174.723
Financial expenses and losses	11	(10.086.554)	(11.683.759)
Financial income and gains	11	522.121	1.010.733
Profit and loss of associated companies	11	760.181	363.658
Profit and loss of investment activities	11	(83.070)	(130.926)
Financial results	5	(8.887.323)	(10.440.293)
Profit before taxes	5	32.647.294	31.734.429
Income tax	12	(8.444.376)	(9.510.192)
Consolidated net profit for the year		24.202.918	22.224.237
Net profit for the year attributable to non-controlling interests	30	283.937	330.297
Net profit for the year attributable to equity holders	5	23.918.981	21.893.940

INCOME AND OTHER CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

Of the Financial Year Ended on 31 December 2016

Amounts in Euros	Notes	31-12-2016	31-12-2015
Other items of comprehensive income:			
Other income and expenses directly recognised in equity that will not be reclassified to profit:			
Revaluation of tangible fixed assets	17	5.127.649	5.341.597
Other income and expenses directly recognised in equity that might be reclassified to profit:			
Changes in fair value of hedging instruments	38	(813.312)	(1.487.808)
		4.314.337	3.853.789
Consolidated comprehensive income		28.517.255	26.078.026
Comprehensive income for the year attributable to non-controlling interests	30	283.937	330.297
Comprehensive income for the year attributable to equity holders		28.233.318	25.747.729
Earnings per share:			
Basic	14	2,26	2,07
Diluted	14	2,26	2,07

The Certified Accountant,

The Board of Directors

The accompanying notes form an integral part of the Income and Other Consolidated Comprehensive Income Statement for the financial year ended 31 December 2016.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

Amounts in Euros	Notes	31-12-2016	31-12-2015
Non-current assets:			
Goodwill	15	33.366.429	32.808.529
Intangible assets	16	12.877.217	11.448.091
Tangible fixed assets	17	189.789.608	167.033.259
Investment properties		-	69.825
Investments in associated companies	18	168.111	3.268.747
Other investments	19	509.672	311.628
Deferred tax assets	20	4.291.945	3.178.936
Other non-current assets	21	8.296.945	8.296.945
Total non-current assets		249.299.926	226.415.959
Current assets:			
Inventories	7, 22	11.262.856	8.930.011
Trade receivables and advances to suppliers	23	95.377.577	87.689.081
Other current debtors	24	5.088.234	10.595.019
Government and other public entities	25	13.540.692	7.342.073
Other current assets	21	60.410.979	54.251.333
Other financial instruments	26	48.650.000	-
Cash and bank deposits	26	16.067.394	83.476.796
Total current assets		250.397.732	252.284.312
Non-current assets held for sale	5, 27	3.168.613	76.416
TOTAL ASSETS		502.866.271	478.776.687

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

Amounts in Euros	Notes	31-12-2016	31-12-2015
Equity:			
Share equity	28	53.000.000	53.000.000
Supplementary payments		-	14.350.000
Legal reserve	29	4.356.460	3.430.501
Other reserves and retained earnings		7.839.302	(15.113.286)
Consolidated net profit		23.918.981	21.893.940
Interim dividends	13	(11.408.000)	-
Equity attributable to shareholders		77.706.743	77.561.156
Non-controlling interests	30	3.960.796	3.708.111
Total equity		81.667.539	81.269.266
Non-current liabilities:			
Loans	31	117.984.922	115.027.134
Finance lease creditors	32	59.964.427	58.919.624
Employee benefits	33, 34	1.461.775	1.762.373
Provisions	34	14.021.234	12.974.908
Deferred tax liabilities	20	2.857.449	-
Other non-current liabilities	38	2.301.121	1.487.808
Total non-current liabilities		198.590.928	190.171.848
Current liabilities:			
Loans	31	32.025.005	27.695.473
Finance lease creditors	32	9.650.238	10.460.085
Trade payables and advances from clients	35	87.534.852	86.184.115
Government and other public entities	25	19.252.327	18.616.687
Other current creditors	36	8.547.200	7.250.907
Other current liabilities	37	65.598.181	57.128.305
Total non-current liabilities		222.607.805	207.335.573
TOTAL LIABILITIES		421.198.732	397.507.421
TOTAL EQUITY AND LIABILITIES		502.866.271	478.776.687

The Certified Accountant,

The Board of Directors

The accompanying notes form an integral part of the Statement of Financial Position for the financial year ended 31 December 2016.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE FINANCIAL YEARS

Ended 31 December 2016 and 2015

Amounts in Euros	Notes	Share equity	Supplementary payments
Balance at 1 January 2015		53.000.000	14.350.000
Appropriation of consolidated profit for 2014:			
Transfer to retained earnings		-	-
Transfer to legal reserve		-	-
Distributed dividends		-	-
Changes resulting from change of equity in associated companies		-	-
Changes in non-controlling interests resulting from changes in consolidation scope		-	-
Acquisition of non-controlling interests		-	-
Consolidated net profit for the year		-	-
Other income and gains recognised in equity:			
Revaluation of tangible fixed assets		-	-
Changes in fair value of hedging instruments		-	-
Total comprehensive income for the year		-	-
Balance at 31 December 2015		53.000.000	14.350.000
Appropriation of consolidated profit for 2015:			
Transfer to retained earnings		-	-
Transfer to legal reserve		-	-
Distributed dividends	13	-	-
Changes resulting from change of equity in associated companies and subsidiaries		-	-
Return of supplementary payments		-	(14.350.000)
Reductions in capital holdings		-	-
Outros		-	-
Consolidated net profit for the year		-	-
Other income and gains recognised in equity:			
Revaluation of tangible fixed assets		-	-
Changes in fair value of hedging instruments		-	-
Total comprehensive income for the year		-	-
Balance at 31 December 2016		53.000.000	-

The accompanying notes form an integral part of the consolidated statement of changes in equity for the financial year ended 31 December 2016.

Legal reserve	Other reserves and retained earnings	Net profit	Interim dividends	Non-controlling interests	Total
2.495.813	(32.978.803)	16.282.941	-	3.577.537	56.727.488
-	15.348.252	(15.348.252)	-	-	-
934.688	-	(934.688)	-	-	-
-	(1.207.903)	-	-	(181.257)	(1.389.160)
-	(147.158)	-	-	71	(147.087)
-	-	-	-	-	-
-	18.536	-	-	(18.536)	-
-	-	21.893.940	-	330.297	22.224.237
-	5.341.597	-	-	-	5.341.597
-	(1.487.808)	-	-	-	(1.487.808)
-	3.853.789	21.893.940	-	330.297	26.078.026
3.430.501	(15.113.286)	21.893.940	-	3.708.111	81.269.266
-	20.967.982	(20.967.982)	-	-	-
925.958	-	(925.958)	-	-	-
-	(1.495.329)	-	(11.408.000)	(206.278)	(13.109.607)
-	657.218	-	-	175.027	832.245
-	-	-	-	-	(14.350.000)
-	-	-	-	-	-
-	(1.491.620)	-	-	-	(1.491.620)
-	-	23.918.981	-	283.937	24.202.918
-	5.127.649	-	-	-	5.127.649
-	(813.312)	-	-	-	(813.312)
-	4.314.337	23.918.981	-	283.937	28.517.255
4.356.460	7.839.302	23.918.981	(11.408.000)	3.960.796	81.667.539

The Certified Accountant,

The Board of Directors

CONSOLIDATED CASH FLOW STATEMENTS OF THE FINANCIAL YEARS

Ended 31 December 2016 and 2015

Amounts in Euros	Notes	31-12-2016	31-12-2015
OPERATING ACTIVITIES:			
Cash receipts from clients		576.418.011	530.081.393
Cash paid to suppliers		(350.671.062)	(318.307.881)
Cash paid to employees		(181.584.069)	(172.130.342)
Income tax received/paid		(14.820.101)	(8.974.402)
Other cash receipts/payments relating to operating activities		1.306.138	2.151.585
Cash flow from operating activities (1)		30.648.917	32.820.354
INVESTMENT ACTIVITIES:			
Cash receipts from:			
Financial assets and other investments	26	1.279.718	8.184.204
Tangible fixed assets		82.358	88.087
Interest and similar income		417.605	622.610
Dividends		259.396	507.058
		2.039.077	9.401.960
Payments from:			
Financial assets and other investments	26	(327.600)	(15.213.081)
Tangible fixed assets		(13.901.628)	(33.277.481)
Intangible assets		(2.674.065)	(641.429)
		(16.903.293)	(49.131.991)
Cash flow from investment activities (2)		(14.864.216)	(39.730.031)

**CONSOLIDATED CASH FLOW STATEMENTS OF THE FINANCIAL YEARS**

Ended 31 December 2016 and 2015

Amounts in Euros	Notes	31-12-2016	31-12-2015
FINANCING ACTIVITIES:			
Cash receipts from:			
Borrowings		244.800.000	203.233.120
Borrowings to Group companies		3.990.000	5.875.798
Other financial instruments		13.500.000	-
Financial derivative instruments		1.358.563	1.284.755
		263.648.563	210.393.674
Payments from:			
Borrowings		(236.191.351)	(197.899.354)
Borrowings to Group companies		-	(5.979.258)
Amortisation of finance lease contracts		(9.773.480)	(20.957.655)
Interest and similar costs		(8.850.873)	(12.044.196)
Dividends paid and profit distributed		(12.597.191)	(1.389.086)
Reductions in capital and supplementary payments		(14.350.000)	-
Financial derivative instruments		(2.171.875)	(2.047.202)
		(283.934.771)	(240.316.750)
Cash flow from financial activities (3)		(20.286.208)	(29.923.077)
Changes in cash and cash equivalents (4)=(1)+(2)+(3)			
		(4.501.507)	(36.832.754)
Effect of exchange differences		-	-
Effect of change in consolidation scope		34.739	92.925
Cash and cash equivalents at the start of the period	26	82.431.428	119.171.257
Changes in cash equivalents	26	(62.150.000)	-
Cash and cash equivalents at the end of the period	26	15.814.660	82.431.428

The Certified Accountant,

The Board of Directors

The accompanying notes form an integral part of the Consolidated Cash Flow Statements for the financial year ended 31 December 2016.

4.2. Annex to the Consolidated Financial Statements on 31 December 2016

1. INTRODUCTION

José de Mello Saúde, S.A. ("Company" or "JMS") has its registered office in Lisbon at AV. do Forte, n.º3, Edifício Suécia III, Piso 2, 2790-073 Carnaxide. It was incorporated in December 1992. The corporate universe of José de Mello Saúde ("Group" or "JMS Group") is formed of the subsidiaries, associates and jointly controlled entities described in Note 3. Its core business is the provision of healthcare, particularly in the area of private healthcare, public-private partnerships, the provision of services in the area of medicine, occupational health and hygiene, and also providing home-based healthcare.

The Company's share capital, as stated in Note 28, is majority-owned by José de Mello, SGPS, S.A. its parent company that publishes consolidated financial statements complying with International Financial Reporting Standards ("IFRS") and, consequently, the operations and transactions of José de Mello Saúde Group (Note 41) are influenced by the decisions of the José de Mello Group.

2. ACCOUNTING POLICIES

2.1. Basis of preparation

The consolidated financial statements have been prepared on a going concern basis from the accounting books and records of the companies included in the consolidation (Note 3), adjusted in the consolidation process, when necessary, in order to agree with the provisions of the International Financial Reporting Standards ("IFRS") adopted by the European Union and effective for years beginning on 1 January 2016. The International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), the International Accounting Standards ("IAS") issued by the

International Accounting Standards Committee ("IASC") and respective interpretations – IFRIC and SIC, issued by the International Financial Reporting Interpretation Committee ("IFRIC") and Standing Interpretation Committee ("SIC"), respectively, are deemed to form part of those standards. Hereinafter, this set of standards and interpretations shall be generally referred to as "IFRS".

2.1.1. New standards and interpretations applying in the 2016 financial year

As a result of endorsement by the European Union (EU), the following issues, revisions, amendments, and improvements of standards and interpretations with effect from 1 January 2016 had with no significant impact on the Group's financial statements.

- **Annual improvements for the 2012-2014 cycle**

These improvements involve clarification of aspects relating to standards IFRS 5 – Non-current assets held for sale and Discontinued operations, IFRS 7 – Financial instruments: Disclosures issued, IAS 19 – Employee benefits and IAS 34 – Interim financial reporting.

- **IFRS 10, IFRS 12 and IAS 28 – Investment entities: applying the consolidation exception**

The amendments to IFRS 10 clarify that an investment entity does not need to prepare consolidated financial statements if, and only if, its parent company prepares financial statements in which its subsidiaries are measured at fair value.

In addition, only a subsidiary of an investment entity which is not itself an investment entity and provides support services to the investment entity, is consolidated – all other subsidiaries are measured at fair value.

The amendments to IAS 28 clarify that an entity that is not an investment entity and that applies the equity method on the valuation of associates or joint ventures that are investment entities can keep the valuation of these entities at fair value in its subsidiaries.



■ **IAS 27 – Consolidated and separate financial statements**

The amendments reinstate the equity method as an accounting option for measuring investments in subsidiaries and associates in separate financial statements. The measurement options of IAS 27 to recognise investments in subsidiaries, joint ventures and associates are now: (i) cost, (ii) in accordance with IFRS 9 (or IAS 39) or (iii) equity method, whereby the same accounting should be applied for each category of investments.

As a result, IFRS 1 – First-time adoption of International Financial Reporting Standards to enable an entity adopting IFRS for the first time to use the equity method as the basis for preparing its separate financial statements and also enjoy the exemption applied to business combinations on initial measurement of investment.

■ **IAS 1 – Disclosure initiative — IAS 1 amendments**

These amendments clarify, rather than significantly change, the current requirements of the IAS 1. These amendments introduce a set of indications and guidelines on materiality, information to be included in financial statements, note structure and disclosure with a view to improving and simplifying disclosure in the context of current IFRS report requirements.

■ **IAS 16 and IAS 38 – Clarification of methods used to calculate permitted depreciation and amortisation**

The amendments clarify that the principle in the standards states that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part of) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

■ IFRS 11 – Joint arrangements

Amendments require an entity to enter into joint business arrangements, apply, according to its quota part, all business combination principles contained in IFRS 3 – Business Combinations and other IFRS that do not interfere with IFRS 11 and disclose the corresponding information on business combinations required by such standards.

Amendments are also applicable if the entity has contributed with a business deal when establishing a joint arrangement.

If an additional share in a joint business arrangement is acquired, the share previously owned must not be remeasured if the operator maintains joint control.

■ IAS 16 and IAS 41 – Plants producing agricultural products

Amendments to IAS 16 – Tangible fixed assets and IAS 41 – Agriculture amend the former, which henceforth includes biological assets defined as plants generating agricultural products (e.g. fruit trees). As a result of the amendments, plants producing agricultural products become subject to all recognition requirements and measures of IAS 16, including the choice between the cost and revaluation model. Government subsidies for these plants are henceforth accounted for under IAS 20 instead of IAS 41. Agriculture exemplified in plants generating agricultural produce (e.g. fruit that grows on a tree) will remain a part of IAS 41.

2.1.2. New standards and interpretations already issued but not yet mandatory

New standards, amendments and interpretations now exist that have already been published but whose application is only mandatory for annual periods starting after 1 January 2017 and which the Group decided not to adopt ahead of time:

a) Already endorsed by the European Union:

■ IFRS 9 – Financial instruments

This amendment introduces a set of instructions and guidelines, namely on the classification and measurement of financial assets and liabilities, impairment and hedge accounting, which aim to improve and simplify the disclosures in the context of the IFRS's current reporting requirements.

■ IFRS 15 – Revenue from contracts with customers

This standard applies to all income from contracts with clients, replacing the following existing standards and interpretations: IAS 11 Construction contracts, IAS 18 – Revenue, IFRIC 13 – Customer loyalty programmes, IFRIC 15 – Agreements for the construction of real estate, IFRIC 18 – Transfers of assets from customers and SIC 31 – Revenue – Barter transactions involving advertising services. The standard applies to all revenue from contracts with customers except if the contract is within the scope of the IAS 17 (or IFRS 16 – Leases, when applied).

Despite being approved (endorsed) by the European Union, they were not adopted by the Group in the period ending on 31 December 2016 because their application was not yet mandatory. No significant impacts are expected in the financial statements resulting from the adoption of same.

There are no standards already endorsed that only become effective after 2016 and whose early application is not permitted.

b) Not yet endorsed by the European Union:

■ Annual improvements for the 2014-2016 cycle

These improvements involve the clarification of a few aspects related to the IFRS 1 – First-time adoption of the IFRS, IAS 28 – Clarification regarding the fact that valuating the subsidiaries at fair value via results is a choice made per investment, and IFRS 12 – Disclosure of interest in other entities.

These improvements have not yet been

endorsed by the European Union, becoming effective from 1 January 2018, and in the case of IFRS 12, from 1 January 2017.

The following standards, interpretations, amendments and revisions have not been approved (endorsed), by the European Union, at the date of approval of these financial statements:

Standard	Effective date
IFRS 14 – Regulatory deferral accounts 1 January 2016	1 January 2016
IFRS 16 – Leases	1 January 2019
IFRS 10 and IAS 28 – Sales or contributions of assets between an investor and its associate or joint venture	1 January 2016
IAS 12 – Recognition of deferred tax assets for unrealised losses (amendments)	1 January 2017
IAS 7 – Disclosure initiative	1 January 2017
IFRS 15 – Revenue from contracts with customers (clarifications)	1 January 2018
IFRS 2 – Shared-based payment (addendum)	1 January 2018
IFRS 9 and IFRS 4 – Amendments to IFRS 4	1 January 2018
IFRIC 22 – Foreign currency transactions and advance consideration	1 January 2018
IAS 40 – Investment property (amendments)	1 January 2018

Regarding the standards mentioned above that have not yet been enforced, the Group has still to determine all impacts arising from their application, whereby it chose not to adopt them ahead of time. However, it does not expect that these will produce materially relevant effects on its assets and results, with the exception of the application of IFRS 16.

2.2.Changes in accounting policies

During the year ending on 31 December 2016, no voluntary changes occurred to accounting policies, in relation to those considered when preparing financial information for 2015.

2.3. Critical judgments / estimates

The preparation of financial statements in accordance with the principles of recognition and measurement of IFRS requires that the Board of Directors make judgments, estimates and assumptions that may affect the value of assets and liabilities presented, in particular amortisation and depreciation, adjustments, impairment losses and provisions, disclosures of contingent assets and liabilities at the date of the financial statements, as well as the income and expenses.

Those estimates are based on the best knowledge available at any time and on the actions that are planned, and they are constantly revised based on the available information. Changes in facts and circumstances may lead to the revision of estimates, so the actual results in the future may differ from those estimates.

The most significant accounting experiences shown in financial statements are as follows:

▪ Goodwill impairment analysis

The Goodwill value is tested annually and whenever there is evidence of impairment. The recoverable amounts of cash generating units were determined based on the value-in-use calculation. The use of this method requires the

estimate of future cash flows arising from the operations of each cash-generating unit and choice of an appropriate discount rate;

▪ Valuation and useful life of Tangible and Intangible Assets

The Company used different assumptions when estimating future cash flow from tangible and intangible assets acquired as part of other entity purchase processes, including the estimate for future income, discount rates and useful life of the aforementioned assets.

▪ Recognition of Provisions

The Company takes part in different legal procedures in progress for which it judges whether or not a provision should be recorded for these contingencies based on the opinion of its attorneys.

▪ Determining the market value of Financial Instruments

The Group chooses the evaluation method it considers appropriate for determining the market value of financial instruments not quoted on an active market, based on its best knowledge of the market and assets, implementing customary market evaluation techniques and using assumptions based on market rates.

▪ Adjustments to accounts receivable

Adjustments to accounts receivable are mainly calculated based on the seniority of accounts receivable entries, the clients' risk profile and respective financial situation.

▪ Assessment of the activity and revenue of the Public-Private Partnerships

The assessment of the activity and remuneration of the Managing Body of the establishment is carried out in accordance with the provisions of the Management Contract (MC), in particular of annex VII. The activity for the month in question and of the previous months of the ongoing year is reported monthly, with the cumulative activity through December (annual activity)



being reported by the end of January of the following year. There is then a reconciliation payment determined by the end of the first half of the following year, based on the actual value of the share under the Portuguese National Health Service (as provided for by subparagraph 1(b) of Clause 47 of the MC). The actual value of the share under the Portuguese National Health Service is calculated in accordance with paragraph 22 of annex VII to the Management Contract.

▪ Contractual provisions

The Group carries out a detailed assessment of the potential risks associated with the valuation of the share under the Portuguese National Health Service, in particular regarding the eligibility of clinical acts reported to the public awarding entity, and also regarding the risks associated with the contractual performance parameters.

▪ Continuity of operations

The Group considered the results achieved and understand that the existing measures and those that are being taken regarding freeing operational resources (by reducing consumption and increasing productivity), are sufficient to ensure the normal operation of the activity and, therefore, no doubt being cast on the continuity of operations. In particular, in the case of the Braga Hospital, the Group is reassessing its Business Plan to ensure the balance of capital until the end of the concession, estimating that on that date, based on the best available information, the net position will be negative at the time of the concession's termination

▪ **Escala Braga – Sociedade Gestora do Estabelecimento, S.A. (“Escala Braga”)**

Checking procedures are currently taking place with Regional Health Authority Administração Regional de Saúde do Norte, I.P. (“ARS Norte”), regarding adjustments made to Braga Hospital accounts in 2014, 2015 and 2016.

Regarding the settlements for the accounts of 2014 and 2015, the assessment of the actual production, which should have been completed in June 2015 and June 2016, respectively, is presently being completed.

According to the provisions of the management contract, the agreement concerning 2016 shall take place by the end of June 2017.

The Escala Braga Board of Directors believes that it is duly justified to make its wishes known, without resulting in any negative financial impact that has a significant negative effect on the accounts.

No errors or omissions from previous periods were detected in the current year.

▪ **Escala Vila Franca – Sociedade Gestora do Estabelecimento, S.A. (“Escala Vila Franca”)**

Checking procedures are currently taking place with Administração Regional de Saúde de Lisboa e Vale do Tejo, I.P. (“ARSLVT”), regarding adjustments made to Vila Franca de Xira Hospital accounts in 2013, 2014, 2015 and 2016.

Regarding the settlements for the accounts of 2013, 2014 and 2015, the assessment of the actual production, which should have been completed in June 2014, June 2015 and June 2016, respectively, is presently being completed.

According to the provisions of the management contract, the agreement concerning 2016 shall take place by the end of June 2017.

The Escala Vila Franca Board of Directors believes that it is duly justified to make its wishes known, without resulting in any negative financial impact that has a significant negative effect on the accounts.

2.4. Consolidation principles

a) Controlled companies

The consolidation of controlled companies (Note 3.1) in each accounting period was done by the full consolidation method. Control is considered to exist when the Group is exposed, or has rights, to variable returns as a result of its involvement with the subsidiary company and it has the capacity to affect those returns through its power over the subsidiary company (i.e., rights that currently give it the capacity to manage the relevant activities of the subsidiary company).

Third party participation in equity and net profit of such companies is reported separately on the Consolidated Statement of Financial Position and Consolidated Comprehensive Income Statement, respectively, under the "Non-controlling interests" caption.

When the losses attributable to non-controlling interests exceed the non-controlling interest in the subsidiary's equity, the Group absorbs that excess and any further losses, except when the non-controlling interests have an obligation to and are capable of covering such losses. If the subsidiary subsequently reports profits, the Group appropriates all the profits until the minority share of losses previously absorbed by the Group has been recovered.

The results of subsidiaries acquired or disposed of during the period are included in the income statements from the date of acquisition to the date of their disposal.

Significant transactions and balances between controlled companies were eliminated in the consolidation process. Capital gains arising from the disposal of subsidiaries within the Group are

also eliminated.

Whenever necessary, adjustments are made to the financial statements of subsidiary companies in order to standardise the respective accounting policies with those of the Group.

In situations where the Group has, in substance, control over other entities created for a special purpose, even if it has no direct shareholdings in these entities, these are consolidated by the full consolidation method.

b) Business combinations and goodwill

Business combinations, in particular the acquisition of subsidiaries, are recorded using the purchase method. The acquisition cost corresponds to the sum of fair values, at the transaction date, of the assets obtained, the liabilities incurred or taken on, and equity instruments issued in exchange for control of the acquiree.

Identifiable assets, liabilities and contingent liabilities of a subsidiary that meet the recognition criteria of IFRS 3 are measured at fair value on the acquisition date, except for non-current assets (or asset groups) that are classified as held for sale.

Any excess of the cost of acquisition over the fair value of the identifiable net assets is recorded as goodwill. Goodwill is recorded as an asset and is not amortised. It is reported separately on the Statement of Financial Position. The goodwill values are annually subject to impairment tests, or whenever there are indications of loss of value. Any impairment loss is immediately registered as an expense on the income statement of the period and it cannot be subsequently reversed.

Where the cost of acquisition may be less than the fair value of the identifiable net assets, the difference is recorded as a gain in the income statement of the period in which the acquisition occurs.

On disposal of a subsidiary, the related goodwill is included in determining the capital gain or loss.

The interests of shareholders who are not controlled are presented according to their proportion of the fair value of the identified assets and liabilities.

c) Investments in associates

An associate is an entity over which the Group exercises significant influence. Significant influence is the power to join in decisions on operational and financial policies but it is not control or joint control, as defined in the point a) above.

These investments in associates (Notes 3.2 and 18) are accounted for using the equity method, except when they are classified as held for sale, which is when they are initially recorded at the acquisition cost, plus or minus the difference between that cost and the value of the equity of those companies proportionally held, as at the acquisition date or the date of first application of the equity method. Goodwill in relation to the associate is included in the value of the financial investment and is not individually tested.

According to the equity method, financial stakes are adjusted periodically for the value corresponding to the Group's participation in the net profits of the associated companies, against the "Profit related to associated companies" caption (Note 11), and for other changes that have occurred in their equity against the "Other reserves" caption, as well as by the recognition of impairment losses.

Losses in associates in excess of the investment in these entities are not recognised, unless the Group has made commitments to that associate.

Moreover, dividends received from these companies are recorded as a reduction in the value of the investment.

Unrealised gains on transactions with associates are eliminated in proportion to the Group's interest in the associate, reported against the investment in that associate. Unrealised losses are similarly eliminated but only to the extent that the loss does not show that the transferred asset is in a situation of impairment.

2.5. Revenue and accruals

Revenue from sales is recognised on the income statement when the following conditions are met:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the assets;
- The Group does not retain continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be reliably measured;
It is probable that the economic benefits associated with the transaction flow to the Group; and,
- The costs incurred or to be incurred in respect of the transaction may be reliably measured.

The revenue from sales is recognised net of taxes, discounts and other costs incurred to realize the fair value of the amount received or receivable.

The income arising from services rendered is recognised in the income statement in the period in which they are provided.

Interest and financial income are recognised in accordance with the principle of accruals and according to the effective interest rate applying.

Costs and income are accounted for in the period to which they relate, regardless of the date of payment or receipt. Costs and income for which the actual amounts are not known are estimated.

Costs and income imputable to the current period and which have expenses and revenues that will only occur in future periods, as well as expenses and revenues that have already occurred, but which relate to future periods and which will be attributed to the profit/loss of each of those periods in the corresponding value, are recorded under the "Other current assets" and "Other current liabilities" captions.

2.6. Operating profit

The results of operations include all costs and income from operations, whether recurring or not, including those related to restructuring and tangible and intangible assets. They also include gains or losses obtained in the sale of companies consolidated using the full consolidation method. Hence, net financing costs, profits obtained from associates and other financial investments, and income taxes are excluded from the operating profit.

2.7. Financing costs

Borrowing costs are recognised on the income statement of the period in which they occur.

The financial charges on financing directly related to the acquisition, construction or production of tangible fixed assets that take a substantial period of time to be prepared for the intended use are capitalized, forming part of the cost of the asset. The capitalisation of these expenses begins after the start of preparation of the construction activities or development of the asset and is interrupted after the start of the use or end of production or construction of the asset or over periods in which development of the asset is interrupted. Any income generated by loans obtained in advance and which may be allocated to a specific investment is deducted from the financial costs eligible for capitalisation.

2.8. Income tax

Income tax for the period is calculated based on the taxable results of the companies included in the consolidation and it considers deferred taxation.

The current income tax is calculated based on the taxable income (which differs from accounting income) of the companies included in the consolidation, in accordance with the tax rules in force at the registered office of each Group company.

According to current legislation, tax returns are liable for review and correction by the tax authorities for a period of four years (five years for Social Security). Accordingly, the tax returns of the Group companies for the years 2012 to 2015 may still be reviewed, although the Company believes that any adjustments resulting from tax revisions to those tax documents will have no significant impact on the referred financial statements as at 31 December 2016.

The Group recognises deferred taxes in accordance with the requirements of IAS 12 – Income taxes, as a way of adequately accruing the tax effects of its operations, and to exclude distortions related to the criteria of a fiscal nature that impact on the economic results of certain transactions.

Deferred tax assets are recognised when there is reasonable assurance that future taxable profit may be achieved against which those assets can be deducted. Deferred tax assets are reviewed annually and reduced when it is no longer probable that they may be used. The value of deferred tax is determined by applying the tax rates (and laws) enacted or substantively enacted at the reporting date and which are expected to apply in the period of realisation of the deferred tax asset. According to legislation in force, the corporate income tax rate of 21% was considered in Portugal, and a 1.5% municipal surtax, in situations not related to tax losses, on the temporary differences that gave rise to deferred tax assets.

2.9. Revenue per share

Basic revenue per share is calculated by dividing the profit attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares in circulation during the period.

The diluted income per share is equal to the basic income as there is no interest on convertible preference shares nor options on shares.

2.10. Intangible assets, excluding goodwill

Intangible assets (excluding goodwill) basically comprise the expenses incurred in specific projects with future economic value and are recorded at acquisition cost, less accrued amortisations and impairment losses. Intangible assets are only recognised if it is probable that they will result in future economic benefits for the Group, are controlled by the Group, are identifiable and their value can be reliably measured.

Amortisation is calculated after the start of use of the goods, by the straight-line method in accordance with the period of estimated useful life for the group.

Intangible assets for which the existence of a limited period of future economic benefits cannot be envisaged are called intangible assets with indefinite useful lives. These assets are not amortised but undergo annual impairment tests.

Even concession rights are reflected under this caption, corresponding to the right of management and operation of hospitals under the Public-Private Partnership arrangement. The amortisation is performed for the period stipulated in the contracts (10 years).

As specified in IAS 37 – Provisions, contingent liabilities and contingent assets and in accordance with the principles described in IFRIC 12 – Service concession arrangements,

an intangible is also recorded under this caption corresponding to the stipulated total estimated value for investments expected until the end of the management and operation contract for Vila Franca de Xira Hospital, arising from the obligations laid down in Annex V of that contract. This asset is to be amortised for the remainder of the contract.

2.11. Tangible fixed assets

Tangible fixed assets used in production, in the provision of services or for administrative purposes are recorded at the cost of acquisition or production, including expenses imputable to the acquisition, less accumulated depreciation and impairment losses, where applicable.

The premises assigned to healthcare services are carried at the revalued amount, which is their fair value at the date of revaluation. Evaluation of these properties on 31 December 2016 was carried out by an independent specialised company – Ktesios Appraisal – Consultoria e Avaliação Imobiliária, Lda.

Tangible fixed assets are depreciated by the straight-line method from the date on which they are available for use as the intended use, according to the following estimated useful lives:

	Useful life (years)
Buildings and other constructions	20 - 50
Basic equipment	3 - 14
Transport equipment	4
Office equipment	4 - 8
Other tangible fixed assets	4 - 8

The depreciable amount of tangible fixed assets does not include the residual value estimated at the end of their useful lives, except in cases where it is estimated to be immaterial or uncertainty exists as to its realisation. Moreover, the depreciation ceases when the assets are classified as held for sale.

Improvements are only recognised as assets when it is demonstrated that these increase their useful life or increase their normal efficiency, resulting in increased future economic benefits.

Tangible fixed assets in progress represent tangible assets still under construction/development and are registered at cost of acquisition or production, less any impairment losses. These assets are depreciated from the time they are able to be used for their intended purpose.

The gains or losses resulting from the sale or disposal of tangible fixed assets are determined as the difference between the sale price and net book value on the date of sale/disposal. They are recorded at net value on the income statement under "Other operating income" or "Other operating costs".

2.12. Non-current assets held for sale

Non-current assets (or discontinued operations) are classified as held for sale if their value is realisable through a sale transaction rather than through their continued use. This situation is considered to occur only when:

- (i) the sale is highly probable and the asset is available for immediate sale in its present condition;
- (ii) the management is committed to a sales plan; and
- (iii) it is expected that the sale will take place within a period of twelve months.

Non-current assets (or discontinued operations) classified as held for sale are measured at the lower of book value and fair value, less costs to bear in future sales.

2.13. Impairment of non-current assets, excluding goodwill

An assessment of impairment is performed whenever an event or changes in circumstances are identified that indicate the carrying amount at which an asset is recorded may not be recoverable. If such indications exist, the Group determines the recoverable amount of the asset in order to ascertain any possible extension of the impairment loss. In situations where the asset does not individually generate cash flows in a manner independent from other assets, the estimated recoverable amount is made for the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives are subject to annual impairment tests or whenever it appears that there is evidence that such exists.

Whenever the amount at which the asset is recorded is higher than its recoverable amount an impairment loss is recognised, recorded under the "Provisions and impairment losses" caption.

The recoverable amount is the higher of the net sale price (sale price less selling costs) and the value in use. The net sale price is the amount that would be obtained from the sale of the asset in a transaction between knowledgeable and independent entities, less the costs directly attributable to the disposal. Value in use is the present value of estimated future cash flows arising from the continued use of the asset and from its disposal at the end of its useful life. The recoverable amount is estimated individually for each asset or, if this is not possible, for the generating unit of cash flows to which the asset belongs.

The reversal of impairment losses recognised in prior years is recorded when there are indications that the impairment losses no longer exist or have decreased. The reversal of impairment losses is recognised under "Reversal of amortisation and adjustments" caption. However, the reversal of

the impairment loss is done up to the amount that would be recognized (net of amortisation or depreciation) if the impairment loss had not been recognised in prior years.

2.14. Inventories

Goods and raw materials and consumables are valued at cost which is lower than their market value, using average cost as the costing method.

Whenever their net realisable value (sale price estimated in the ordinary course of business, less respective sales costs) is less than the cost of acquisition, the value of inventories is reduced, which is restored when the reasons that led to such cease to exist.

2.15. Leasing

Lease contracts are classified as:

- (i) finance leases if all the risks and rewards of ownership of the leased asset are substantially transferred through these; and
- (ii) operating leases if all the risks and rewards of their ownership are not substantially transferred.

The classification of leases as finance or operating is based on the substance and not the form of the contract.

Tangible fixed assets acquired under finance leases and the corresponding liabilities are recorded in accounts by the financial method. According to this method, the cost of the asset is recorded as a tangible fixed asset and the corresponding liability is recorded as a liability and the interest included in the value of the rental payments and depreciation of assets, calculated as described above, are recognised as financial expenses on the income statement of the period to which they relate.

In operating leases, the rental payments are recognised as a cost in the "External supplies and services" caption, on a straight line basis

over the period of the lease.

2.16. Retirement pension benefits

Liability for the payment of retirement, disability and survivors' pensions is recorded in accordance with the criteria established in IAS 19 – Employee benefits.

The costs of awarding these benefits under defined benefit plans are recognised as the services are rendered by the beneficiary employees.

At the end of each accounting period actuarial studies by independent entities are produced in order to determine the value of the liabilities at that date and the cost of pensions to be recorded in the period, according to the projected credit unit method. These liabilities estimated in this manner are recognised on the Statement of Financial Position under the "Employee benefits" caption.

Pension costs are recorded under the "Personnel expenditure" caption as provided for in the referred standard, based on the values determined by actuarial studies and include current service costs (accrued liability), which corresponds to the additional benefits earned by employees during the period and interest costs, which result from the update of past liabilities.

Costs with past services are recognised immediately to the extent that the associated benefits have already been recognised or, otherwise, recognised linearly in the period in which it is estimated that they are obtained.

2.17. Provisions

Provisions are recognised when:

- (i) the Group has a present obligation (legal or implicit) resulting from past events;
- (ii) settlement is expected to result in an outflow of resources; and

- (iii) the amount can be estimated reliably. Provisions are reviewed on the date of each Statement of Financial Position and adjusted in order to reflect the best estimate at that date.

In particular, provisions are set up to meet contractual obligations in order to maintain or replace the equipment operated under the management and operation contract of Vila Franca Hospital, based on the investment plan arising from the obligations envisaged in Annex V to that contract, as specified in IAS 37 – Provisions, contingent liabilities and contingent assets and in accordance with the principles described in IFRIC 12 – Service concession arrangements.

2.18. Contingent assets and liabilities

A contingent liability arises when there is:

- a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- a present obligation that arises from past events but is not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed in the Notes to the Financial Statements, unless the possibility of an outflow of resources embodying future economic benefits is remote, in which case they are not subject to disclosure.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the control of the Group. Contingent assets are not recognised in the Consolidated Financial Statements but disclosed in the notes thereto when a future economic benefit is probable.

2.19. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual relationship.

a) Cash and cash equivalents

The amounts included in Cash and cash equivalents correspond to cash, bank deposits, term deposits and other cash investments maturing in under three months, and which may be immediately redeemed at insignificant risk of changes in value.

For the purposes of the Consolidated Statement of Cash Flows, the caption "Cash and cash equivalents" also includes bank overdrafts included in the "Loans" caption, in the Consolidated Statement of Financial Position.

b) Accounts receivable

Accounts receivable have no implicit interest and are initially recorded in the accounts at nominal value and subsequently measured at amortised cost, net of estimated realisation losses. Impairment losses are recorded based on the evaluation of the estimated losses associated with doubtful debts at the date of the Statement of Financial Position. The identified impairment losses are recognised against profit and loss in the "Provisions and impairment losses" caption. They are subsequently reversed through profit and loss under the "Reversal of provisions and impairment losses" caption if a reduction of the estimated loss in a subsequent period is verified.

c) Investments

Investments are recognised (and derecognised) on the date all the risks and rewards of ownership are substantially transferred, regardless of the date of settlement.

They are initially measured at their acquisition cost, which is the fair value of the price paid, including transaction costs.

Investments other than those in subsidiaries, associates and joint ventures are classified as follows:

- Held-to-maturity investments;
- Assets measured at fair value through profit or loss;
- Financial assets available for sale;
- Other investments.

Investments held to maturity are investments with predetermined financial flows and defined maturity, which the Group has the intention and capacity to hold up to that date. They are classified as non-current investments, unless the maturity is less than twelve months from the date of the statement of financial position. These investments are recorded at amortised cost using the effective interest rate, less repayments of principal and interest earned. Impairment losses are recognised in profit/loss when the recorded value of the investment is less than the estimated cash flows discounted at the effective interest rate determined at the time of initial recognition. The reversal of impairment losses in subsequent periods may only occur when an increase in the recoverable amount of the investment is related to events occurring after the date on which the impairment loss was recognised. In any event, the recognised value of the investment resulting from the reversal of the impairment loss cannot exceed the value corresponding to the respective amortised cost if the impairment loss had not been recognised.

Assets measured at fair value through profit or loss are financial instruments held for trading acquired for sale in the short term, and are classified as current investments. Financial instruments that on initial recognition are designated by the Company at fair value through

profit or loss are also included in this category, provided they have a price listed on an active market or the fair value may be reliably measured.

After initial recognition, the assets measured at fair value through profit or loss and financial assets available for sale are re-evaluated at their fair values by reference to their market value at the date of the statement of financial position, without any deduction for transaction costs that may occur up to their actual sale. In the situations where the investments are equity instruments not admitted to trading on regulated markets, and for which the fair value cannot be reliably estimated, they are kept at their acquisition cost less any impairment losses.

Financial assets available for sale are financial investments that are available for sale or which do not fit under any of the previous classifications and are classified as non-current assets.

The gains or losses arising from changes in fair value of financial assets available for sale are recognised in equity under the "Other reserves" caption until the investment is sold or otherwise disposed of, or in situations where an impairment loss is believed to exist, then the cumulative gain or loss is recognised on the income statement

d) Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contract, regardless of their legal form. Equity instruments are contracts that demonstrate a residual interest in the Group's assets after deduction of the liabilities.

The equity instruments issued are recorded at the amount received, net of costs incurred with their issuance.

e) Bank loans

Loans are initially recorded under liabilities at their nominal value, net of issuing costs,

corresponding to their fair value at that date. Loans are subsequently measured by the amortised cost method, calculated according to the effective interest method. The corresponding financial charges are calculated according to the effective interest rate.

f) Accounts payable

Accounts payable are initially recorded at nominal value and subsequently measured at amortised cost.

g) Derivative financial instruments and hedge accounting

The José de Mello Saúde Group's policy is to contract derivative financial instruments for hedging of financial risks to which it is exposed, which are mainly due to interest rate variations.

▪ Hedging Instruments

The possibility of calling a derivative financial instrument a hedging instrument complies with the provisions of IAS 39, namely, with regard to its respective documentation and effectiveness evaluation.

Derivative financial instruments are recognised for their fair value on the date they are negotiated. Fair value is evaluated on a regular basis, and gains or losses resulting from that evaluation are recorded in the income statement, except cash flow hedging derivatives in which the variation is recognised in consolidated equity.

Accounting is discontinued when the hedging instrument reaches maturity or is sold, or when the hedging relationship ceases to comply with the requirements of IAS 39.

2.20. Subsequent events

Events occurring after the date of the Statement of Financial Position and which provide additional information about situations existing on the date of the Statement of Financial Position are reflected in the Consolidated Financial Statements.

Events occurring after the date of the Statement of Financial Position and which provide information about situations occurring after that date, are disclosed, if material, in the notes to the Consolidated Financial Statements.

3. COMPANIES INCLUDED IN THE CONSOLIDATION

3.1. Companies consolidated by the full consolidation method

The consolidation included, through the full consolidation method, the parent company and the following subsidiaries in which control is held:

Company	Head office	Effective percentage	Business activity
Private healthcare services:			
Hospital CUF Descobertas, S.A.	Oeiras	99,9293%	Management and operation of a hospital
Hospital CUF Infante Santo, S.A. (d)	Oeiras	100%	Management and operation of clinics and hospitals
Hospital CUF Porto, S.A.	Oeiras	100%	Management and operation of clinics and hospitals
Hospital CUF Torres Vedras, S.A. (e)	Oeiras	100%	Management and operation of clinics and hospitals
Hospital CUF Cascais, S.A. (f)	Oeiras	100%	Management and operation of clinics and hospitals
Hospital CUF Viseu, S.A.	Viseu	100%	Management and operation of a hospital
Hospital CUF Santarém, S.A.	Oeiras	100%	Management and operation of a hospital
Clínica CUF Alvalade, S.A.	Oeiras	100%	Provision of medical and nursing services
Clínica CUF Belém, S.A.	Oeiras	62,8069%	Provision of medical and nursing services
Clínica de Serviços Médicos Computorizados de Belém, S.A.	Oeiras	33,6490%	Provision of medical and nursing services
Instituto CUF - Diagnóstico e Tratamento, S.A.	Matosinhos	95,9955%	Operation of healthcare unit
HD Medicina Nuclear, S.A.	Oeiras	69,9465%	Provision of diagnosis services and therapy in the nuclear medicine field
Ecografia de Cascais, Lda.	Cascais	99,9996%	Operation of a diagnosis and radiology medical centre
Nova Imagem - Centro Radiodiagnóstico, S.A.	Oeiras	99,9996%	Operation of a diagnosis and radiology medical centre
SIM-X - Serviço de Imagem Médica, Lda.	Viseu	100,0000%	Operation of a diagnosis and radiology medical centre
Public healthcare services:			
Escala Braga - Sociedade Gestora do Estabelecimento, S.A.	Braga	99,9857%	Management and operation of a public hospital
Escala Vila Franca - Sociedade Gestora do Estabelecimento, S.A.	V.F. de Xira	99,9809%	Management and operation of a public hospital

Company	Head office	Effective percentage	Business activity
Infrastructures:			
Infrahealth – Gestão de Infraestruturas, Lda. (b)	Oeiras	100%	Operation, management and marketing of healthcare infrastructure, commercial areas and car parks
Imo health - Investimentos Imobiliários, S.A. (c)	Oeiras	100%	Buying and selling real estate, exchange and renting property
Others:			
José de Mello Saúde, S.A.	Oeiras	Parent company	Purchase and sale of equipment and provision of management and consultancy services
VALIR - Sociedade Gestora de Participações Sociais, S.A.	Porto	95,9955%	Management of shareholdings
Vramondi International BV	Roterdão	99,9996%	Management of shareholdings
JMS - Prestação de Serviços Administrativos e Operacionais, ACE	Oeiras	99,1004%	Provision of IT, operational, administrative and negotiation services
JMS - Prestação de Serviços de Saúde, ACE	Oeiras	99,2473%	Provision of operational, administrative and healthcare services
José de Mello Saúde - Serviços de Logística, ACE	Oeiras	99,1781%	Provision of operating services (catering, cleaning and maintenance)
Academia CUF, Sociedade Unipessoal, Lda.	Oeiras	100%	Provision of training services in the nursing and clinical services field
Sagies - Segurança, Higiene e Saúde no Trabalho, S.A.	Oeiras	70,4998%	Provision of external services of occupational safety, hygiene and health
Loja Saúde CUF - Produtos e Serviços de Saúde e Bem Estar, S.A.	Oeiras	100%	Sale of parapharmaceutical products
PPPS - Gestão e Consultoria, S.A. (a)	Oeiras	100%	Provision of management, consultancy, operating and administrative services in the healthcare sector

(a) During the financial year of 2016, the corporate name of PPPS – Parcerias Públicas Privadas na Saúde, SGPS, S.A. was changed to PPPS – Gestão e Consultoria, S.A..

(b) During the second half of 2016, the corporate name of BESO – Serviços de Comodidade e Conveniência, Lda. was changed to Infrahealth – Gestão de Infraestruturas, Lda.

(c) At the end of the financial year of 2016, the corporate name of Imo Health – Investimentos Imobiliários, Unipessoal, Lda. was changed to Imo Health – Investimentos Imobiliários, S.A.

(d) The activity of this company includes domiciliary services (resulting from a division-merger operation of SPSD – Sociedade Portuguesa de Serviços Domiciliários, S.A.), as well as the management of CUF Miraflores Clinic and CUF Almada Clinic (which began its operation in the last quarter of 2016), which are clinically and administratively accountable to Hospital CUF Infante Santo, S.A.

(e) The activity of this company also includes the management of CUF Mafra Clinic, which is clinically and administratively accountable to Hospital CUF Torres Vedras, S.A..

(f) The activity of this company also includes the management of CUF São Domingos de Rana Clinic and CUF Sintra Clinic, which are clinically and administratively accountable to Hospital CUF Cascais, S.A..

3.2. Associates

The associates registered through the equity method as of 31 December 2016 (Note 18) are the following:

Company	Head office	Effective percentage	Business activity
Centro Gamma Knife-Radiocirurgia, S.A.	Lisbon	34,000%	Operation of radiosurgery treatment units
Escala Braga - Sociedade Gestora do Edifício, S.A.	Braga	33,995%	Management and operation of Braga hospital
Escala Parque – Gestão de Estacionamento, S.A.	Sintra	33,995%	Management, operation and maintenance of car parks

It is the intention of the José de Mello Saúde Group to transfer its shares in the equity of Escala Braga – Sociedade Gestora do Edifício, S.A. and of Escala Parque – Gestão de Estacionamento, S.A., along with all corresponding rights and obligations.



4. CHANGES IN THE CONSOLIDATION SCOPE

The main changes occurred in the consolidation scope in the financial year ended on 31 December 2016 were essentially the following:

4.1. Newly consolidated companies

Company	Registered office	Percentage of equity held	
		Control	Effective
SIM-X - Serviço de Imagem Médica, Lda.	Viseu	100,00%	100,00%

SIM-X – Serviço de Imagem Médica, Lda. was acquired by the José de Mello Saúde Group on 3 June 2016. It is a unit dedicated to the provision of medical services in the areas of radiodiagnosis, ultrasound and computed tomography; during the second half of 2016, its activity was moved to the facilities of Hospital **CUF** Viseu, S.A.. On that date, the entry of this company into the consolidation scope had the following impact on Consolidated Financial Statements:

	SIM-X
Net assets acquired:	
Intangible assets	-
Tangible fixed assets	835.571
Other investments	265
Trade receivables and advances to suppliers	649.773
Government and other public entities	9.366
Other debtors	126.131
Other assets	13
Cash and cash equivalents	34.739
Borrowings	(430.457)
Trade payables and advances from clients	(843.903)
Government and other public entities	(13.084)
Other liabilities	(456.531)
Other creditors	(36.266)
	(124.382)
Goodwill (Note 15)	624.000
Adjustments to goodwill	(124.382)
Acquisition price	624.000

The values indicated are the fair values of the assets and liabilities of the subsidiary; the purchase price will be paid by monetary means (Note 36).

4.2. Other operations that affected the scope in previous periods

- **VALIR – Sociedade Gestora de Participações Sociais, S.A.**

During the financial year of 2015, a 3.0623% stake in VALIR – Sociedade Gestora de Participações Sociais, S.A., was acquired by JMS, increasing the shareholding from 92.93% to 95.99%. The value that results from the difference between the amount paid for the non-controlling interests and their fair value was, in accordance with IFRS 10, directly reflected in Consolidated Equity and not in goodwill.

- **S.P.S.D. – Sociedade Portuguesa de Serviços Domiciliários, S.A.**

In January 2015, a demerger-merger operation took place through the dissolution of the S.P.S.D. – Sociedade Portuguesa de Serviços Domiciliários, S.A. (SPSD). This operation divided SPSPD assets into two parts, comprising the economic units of Lisbon and Porto. The Lisbon unit was merged with Hospital **CUF** Infante Santo, S.A. ("HCIS") and the Porto unit with Hospital **CUF** Porto, S.A. ("HCP"), as mentioned in paragraph c), point 1, article 118 of the Portuguese Commercial Companies Code. This demerger-merger operation had no impact whatsoever on current Consolidated Financial Statements.

- **Digihealth and Haspac**

The Ministry of Health terminated the concession contract with the Hospital Amadora Sintra – Sociedade Gestora, S.A. ("HAS"), currently named Digihealth, S.A., on 6 November 2007. This company had managed the Prof. Dr Fernando Fonseca EPE Hospital. The transfer of management took effect from 1 January 2009. For this reason this activity was discontinued. Consequently, the activity of another group company, HASPAC – Patologia Clínica, S.A. ("Haspac"), which operated the Clinical Pathology Department on an exclusive basis of Digihealth was also discontinued.

On 12 December 2012, the arbitration tribunal, in the current arbitration process, issued a ruling ordering the Administração Regional de Saúde de Lisboa e Vale do Tejo, I.P. ("ARSLVT") to pay Digihealth the sum of 18,123,526 euros. Although ordered to and given notice pay, ARSLVT never paid the ordered amount. ARSLVT filed an action to annul the arbitration ruling in the South Administrative Central Court and the decision is still pending.

At the end of the first quarter of 2014, Digihealth noted that the effort put into collecting from the ARSLVT was not producing the desired outcome. Therefore, and with the aim of paying off, even if partially, the liabilities contracted with its creditors, Digihealth sounded out the market and managed to find an entity, Finanfarma – Sociedade de Factoring, S.A., willing to sign a factoring contract and to pay a very large sum for the acquisition of Digihealth's credit over ARSLVT, expressly envisaging the possibility of appealing to the Special Revitalisation Process ("PER"). The strategy advocated by Digihealth merited the agreement of a large majority of creditors (74.46%), representatives of its liability. On 1 August 2014, Digihealth filed the PER process following approval from 84% of creditors, and subsequently ratified by the Commercial Court of Lisbon on 5 March 2015.

Even though it had obtained support from different creditors (47.98%), representatives of the HASPAC liability, the truth is that it was not possible to achieve the qualified majority of 67%, thereby enabling an arrangement with creditors to be made. In this context, HASPAC Management was forced to proceed with a voluntary submission request to insolvency at the Tribunal da Comarca de Lisboa Oeste. It had been declared insolvent on 19 February 2015, and the respective insolvency administrator was appointed.



As in previous years, the Board of Directors of Digihealth carried out its activity according to the framework and to the commitments made with the creditors, including the Special Revitalisation Process. Therefore, the JMS Group considers there not to be actual control of these subsidiaries and, as such, they were excluded from the consolidation scope.

5. BUSINESS SEGMENTS

The main activities undertaken by the Group are classified into the following business segments:

- Private healthcare services;
- Public healthcare services;
- Infrastructures; and
- Others.

The private healthcare business area includes the following units:

- Seven hospitals providing a total of 558 inpatient beds; 385 consultation rooms; 32 operating theatres, 6 delivery rooms, and a wide offer of specialty consultations, exams, dental care, check-ups, physical and rehabilitation medicine;
- Seven outpatient units, with 169 consultation rooms, and offering specialty consultations, exams, dental care, check-ups, physical and rehabilitation medicine and also the possibility of carrying out minor surgery;
- One high technology diagnosis and treatment unit including 56 specially consultation rooms; and,
- Five clinical imaging units with a wide range of exams (bone densitometry, ultrasound scan, mammography, radiology, magnetic resonance imaging and computed tomography).

The public healthcare business area results from two partnership contracts with the Portuguese State, in which the Group manages two hospitals:

- Braga Hospital – resulting from a public-private partnership established in December 2008; the new Braga Hospital opened in 9 May 2011 and has a total hospital floor area of 102,000 m², 705 inpatient beds and 109 consultation rooms, 12 operating theatres and one delivery block, serving a population of 1.2 million inhabitants in the Braga and Viana do Castelo districts; and

- Vila Franca de Xira Hospital – the Escala Vila Franca de Xira Consortium – took over the management of Reynaldo dos Santos Hospital on 1 June 2011, being responsible for the entire operations of this hospital which belongs to the Portuguese National Health Service. The management of the previous hospital infrastructure was assured for a two-year period. In April 2013, the new Vila Franca de Xira Hospital opened, with a gross construction area of 49,000 m², 233 inpatient beds and 33 consultation rooms, 9 operating theatre and 5 delivery rooms, serving about 235,000 inhabitants of the Alenquer, Arruda dos Vinhos, Azambuja, Benavente and Vila Franca de Xira municipalities.

The "Infrastructure" segment includes two entities whose corporate object is the management and marketing of health infrastructure, commercial spaces and car parks; this way, with this separation, it was possible to separate the clinical business units from the ancillary activities. In its entirety, this segment includes the management and operation of four buildings and two car parks.

The "Other" segment integrates, in addition to the management of holdings, seven entities providing management, training, accounting, consulting, cleaning and maintenance services, and also IT, operational, administrative, leasing of medical equipment, negotiation and procurement services. The Group also has units that (i) provide occupational safety and health services essential for the monitoring of the health of workers and of environmental working conditions, (ii) provide custom home healthcare, namely in the areas of gerontology, maternal and child care, follow-up in convalescence and palliative care, (iii) trade practice of parapharmacy products, which include dermocosmetics, personal hygiene, child care and orthopaedic products, and food and food supplements, dietary food, natural products and

non-prescription pharmaceuticals and (iv) purchase, sale, lease and management of hospital real estate.

The main information concerning the contribution from each segment (after the elimination of balances and transactions internal to the segments) for the financial years ending on 31 December 2016 and 2015 is as follows:

2016

	Private healthcare services	Public healthcare services	Infrastructures	Others	Disposals	Consolidated
Service provision						
External clients	360.378.674	214.605.554	-	3.057.094	-	578.041.322
Intersegmental	1.272.399	-	4.366.010	40.000.413	(45.638.822)	-
Total sales and services rendered	361.651.073	214.605.554	4.366.010	43.057.507	(45.638.822)	578.041.322
Other operating income	4.783.252	3.197.257	68.503	32.604.006	(32.423.495)	8.229.524
Operating costs	(320.703.324)	(220.627.433)	(2.730.745)	(78.737.045)	78.062.317	(544.736.229)
Segment operating profit	45.731.002	(2.824.623)	1.703.769	(3.075.532)	-	41.534.616
Financial expenses and losses	(4.331.383)	(853.048)	(3.419.282)	(5.349.344)	3.866.502	(10.086.554)
Financial income and gains	382.517	533	-	4.005.573	(3.866.502)	522.121
Profit and loss of associated companies	313.015	-	-	447.166	-	760.181
Profit and loss of investment activities	-	-	-	(83.070)	-	(83.070)
Financial results	(3.635.851)	(852.515)	(3.419.282)	(979.675)	-	(8.887.323)
Profit before tax	42.095.151	(3.677.137)	(1.715.513)	(4.055.207)	-	32.647.294
Income tax	(11.533.047)	663.761	(133.641)	2.558.552	-	(8.444.376)
Profit attributable to non-controlling interests	(286.016)	380	-	1.700	-	(283.937)
Net profit for the year attributable to shareholders	30.276.088	(3.012.997)	(1.849.155)	(1.494.955)	-	23.918.981

Intersegment transactions are carried out at market prices, on a similar base to third-party transactions.

Other information:

	Private healthcare services	Public healthcare services	Infrastructures	Others	Disposals	Consolidated
Fixed capital expenditure (Note 17)	15.107.985	2.850.538	17.894.248	3.136.739	-	38.989.509
Depreciation and amortisation in profit/loss	(10.946.727)	(10.098.729)	(2.289.564)	(1.757.347)	-	(25.092.368)
Provisions and impairment losses, net	163.057	(2.038.453)	-	120.802	-	(1.754.594)

Assets and liabilities per business segment and corresponding reconciliation with the consolidated total at 31 December 2016 are as follows:

	Private healthcare services	Public healthcare services	Infrastructures	Others	Disposals	Consolidated
Assets related to segments						
Tangible fixed assets	55.849.826	17.125.267	110.925.844	5.888.671	-	189.789.608
Goodwill	33.331.272	15.896	13.261	6.000	-	33.366.429
Trade receivables and advances to suppliers	81.681.345	16.736.643	64.359	19.148.552	(22.253.322)	95.377.577
Investments in associated companies	168.111	-	-	-	-	168.111
Other assets related to segments	73.784.529	76.858.534	3.978.412	292.697.687	(263.154.615)	184.164.546
Total consolidated assets	244.815.082	110.736.339	114.981.876	317.740.910	(285.407.936)	502.866.271
Liabilities						
Borrowings	22.971.455	10.000.000	125.734	116.912.739	-	150.009.928
Trade payables and advances from clients	35.581.520	68.170.882	1.383.902	4.659.104	(22.260.555)	87.534.852
Other liabilities related to segments	135.322.901	50.104.498	94.939.793	32.369.490	(129.082.729)	183.653.952
Total consolidated liabilities	193.875.876	128.275.379	96.449.429	153.941.333	(151.343.285)	421.198.732

2015

	Private healthcare services	Public healthcare services	Infrastructures	Others	Disposals	Consolidated
Service provision						
External clients	335.690.356	212.861.983	3.805	3.103.146	-	551.659.291
Intersegmental	9.795.815	28	4.313.226	39.415.285	(53.524.354)	-
Total sales and services rendered	345.486.171	212.862.011	4.317.031	42.518.432	(53.524.354)	551.659.291
Other operating income	6.828.595	2.739.843	63.297	28.769.519	(29.885.191)	8.516.064
Operating costs	(312.651.642)	(210.747.286)	(2.126.864)	(75.869.669)	83.394.829	(518.000.632)
Segment operating profit	39.663.125	4.854.569	2.253.464	(4.581.718)	(14.717)	42.174.723
Financial expenses and losses	(4.838.981)	(1.020.772)	(3.414.485)	(4.675.381)	2.265.861	(11.683.759)
Financial income and gains	718.890	8.103	65.968	2.483.632	(2.265.861)	1.010.733
Profit and loss of associated companies	100.169	-	-	143.099	120.390	363.658
Profit and loss of investment activities	-	-	-	(130.926)	-	(130.926)
Financial results	(4.019.921)	(1.012.670)	(3.348.517)	(2.179.575)	120.390	(10.440.293)
Profit before tax	35.643.204	3.841.899	(1.095.053)	(6.761.294)	105.673	31.734.429
Income tax	(10.276.211)	(1.193.770)	(7.663)	1.967.452	-	(9.510.192)
Profit attributable to non-controlling interests	(307.257)	(390)	-	(22.650)	-	(330.297)
Net profit for the year attributable to shareholders	25.059.736	2.647.740	(1.102.716)	(4.816.492)	105.673	21.893.940

Intersegment transactions are carried out at market prices, on a similar base to third-party transactions.

Other information:

	Private healthcare services	Public healthcare services	Infrastructures	Others	Disposals	Consolidated
Fixed capital expenditure (Note 17)	8.923.042	3.924.093	3.884.104	23.696.439	-	40.427.678
Depreciation and amortisation in profit/loss	(9.646.137)	(10.172.733)	(1.664.358)	(1.310.073)	-	(22.793.301)
Provisions and impairment losses, net	1.816.910	(464.923)	(21.523)	141.482	-	1.471.945

Assets and liabilities per business segment and corresponding reconciliation with the consolidated total at 31 December 2015 are as follows:

	Private healthcare services	Public healthcare services	Infrastructures	Others	Disposals	Consolidated
Assets related to segments						
Tangible fixed assets	44.407.031	21.945.931	94.159.029	6.521.267	-	167.033.259
Goodwill	32.773.372	15.896	13.261	6.000	-	32.808.529
Trade receivables and advances to suppliers	82.244.457	11.206.900	49.210	22.851.716	(28.663.202)	87.689.081
Investments in associated companies	2.152.978	-	-	1.115.769	-	3.268.747
Other assets related to segments	57.030.382	73.929.109	2.946.191	281.267.113	(227.195.723)	187.977.072
Total consolidated assets	218.608.220	107.097.836	97.167.691	311.761.865	(255.858.925)	478.776.687
Liabilities						
Borrowings	32.569.325	5.500.000	944.075	103.709.207	-	142.722.607
Trade payables and advances from clients	42.501.275	65.150.410	776.415	6.151.825	(28.395.809)	86.184.115
Other liabilities related to segments	109.175.377	50.300.225	73.949.266	22.889.093	(87.713.263)	168.600.698
Total consolidated liabilities	184.245.977	120.950.635	75.669.755	132.750.125	(116.109.072)	397.507.421

6. OPERATING INCOME

Operating income in the financial years ended 31 December 2016 and 2015 is broken down as follows:

	2016	2015
Sales and services rendered:		
Sales	629.474	463.918
Service provision:		
Hospital and clinical activity	367.169.069	350.506.132
National Health Service	206.830.166	196.956.380
Occupational health, safety and medicine	2.523.533	2.598.839
Domiciliary services	819.328	1.112.238
Others	69.752	21.783
	578.041.322	551.659.291
Other operating income:		
Space rental	2.593.141	2.307.742
Corrections relating to previous periods	2.037.457	2.698.079
Personnel transfer	1.059.304	840.200
Hospital projects and technical consultancy	520.425	422.342
Clinical tests, exams, analyses and consumables	495.478	551.806
Training courses	358.522	1.650
Prompt payment discounts	333.174	314.883
Management contracts with Regional Health Authority (ARS)	264.699	232.424
Transport of patients	230.104	160.720
Gains obtained on the sale of assets	172.145	58.405
Internships	53.181	183.176
Operating subsidies	28.884	50.353
Provisional retirement	14.736	55.720
Reimbursement of costs	2.737	403.985
Recovery of outstanding debts	435	1.105
Rappel	-	47.019
Other operating income	65.102	186.453
	8.229.524	8.516.064
	586.270.846	560.175.355

Sales and healthcare services registered an increase of 4.8% in comparison with the previous year.

7. COST OF SALES

Cost of sales in the financial years ended 31 December 2016 and 2015 was determined as follows:

	2016	2015
Inventories at 1 January (Note 22)	8.951.535	7.268.415
Changes in consolidation scope:		
- incoming	-	739.265
- outgoing	-	-
Procurement	109.758.403	105.515.483
Cost of sales	(107.414.581)	(104.571.627)
Inventories at 31 December (Note 22)	11.295.357	8.951.535



8. EXTERNAL SUPPLIES AND SERVICES

External supplies and services in the financial years ended 31 December 2016 and 2015 are broken down as follows:

	2016	2015
Fees	110.190.913	124.256.009
Specialised work	42.573.698	23.896.860
Subcontracts	22.899.034	22.486.896
Rents and leases	16.279.333	15.652.927
Maintenance and repairs	11.606.045	8.071.153
Electricity	6.260.843	6.080.589
Advertising	2.191.508	2.602.209
Communications	2.049.940	2.420.964
Fuel	1.728.541	1.957.901
Insurance	1.400.043	1.336.253
Water	1.193.224	1.059.156
Waste collection	1.118.923	1.064.725
Tools and utensils	1.043.124	979.860
Travel and accommodation	529.599	553.925
Air conditioning	450.923	544.849
Articles for free distribution	267.843	101.410
Tolls	238.187	215.037
Office material	191.996	175.375
Litigation and notary public fees	154.538	181.328
Cleaning, hygiene and comfort	136.246	87.460
Books and technical documentation	36.055	40.190
Transport of goods	8.555	7.688
Other supplies and services	301.026	306.617
	222.850.139	214.079.381

9. PERSONNEL COSTS

The number of employees at 31 December 2016 and 2015 by business segment was as follows:

	2016	2015
Public healthcare services	3.926	3.769
Infrastructures	-	-
Private healthcare services	1.009	1.071
Others	3.331	2.989
	8.266	7.829

The personnel costs in the financial years ended on those dates were as follows:

	2016	2015
Wages of governing bodies members	2.265.336	2.287.590
Personnel wages	131.068.432	122.779.310
Charges on remunerations	31.740.081	29.413.744
Social welfare expenditure	8.391.271	7.955.782
Insurance	2.883.780	2.509.488
Indemnities	735.984	1.779.227
Training	665.334	454.936
Employee benefits (Note 33)	226.285	464.338
Other personnel costs	6.642.462	5.215.160
	184.618.966	172.859.576

Other personnel costs include expenditure on vocational training, medical care and food allowance.

10. OTHER OPERATING COSTS

Other operating costs for the financial years ended on 31 December 2016 and 2015 were as follows:

	2016	2015
Corrections relating to previous periods	1.022.222	2.375.023
Taxes	835.136	1.193.717
Bad debts	543.933	494.800
Fines and penalties	274.183	329.892
Donations	218.477	211.862
Contributions	72.207	55.897
Losses incurred in the sale of assets	5.252	-
Others	34.172	507.502
	3.005.581	5.168.692

In the year ending on 31 December 2015, the "Correction" caption relating to previous years includes: the sum of 539,426 euros relating to a credit note issued to ARS Norte IP for an adjustment made to the 2014 Multiple Sclerosis Protocol; the sum of 398,000 euros relating to a debt write-off for the Recovery Plan of Digihealth.; 197,000 euros relating to a debt write-off for the Recovery Plan of the SPSI. – Sociedade Portuguesa de Serviços de Apoio e Assistência a Idosos, S.A.

11. FINANCIAL RESULTS

The financial results in the financial years ended 31 December 2016 and 2015 is broken down as follows:

	2016	2015
Financial expenses and losses:		
Interest paid	(7.736.684)	(8.905.261)
Bank fees and services	(1.398.482)	(2.229.203)
Financial derivative instruments - Interest rate (Note 38)	(685.535)	(353.780)
Other financial expenses and losses	(265.854)	(195.515)
	(10.086.554)	(11.683.759)
Financial income and gains:		
Interest received	509.882	1.004.074
Other financial income and gains	12.239	6.659
	522.121	1.010.733
Profit and loss of associated companies:		
Losses in associated companies	-	-
Profit in associated companies	760.181	363.658
Profit/losses on the sale of associated companies	-	-
	760.181	363.658
Profit /(Losses) relating to investment activities::		
Dividends related to other investments	-	-
Profit/losses in financial instruments at fair value	(83.070)	(130.926)
	(83.070)	(130.926)

The detail of the values recognised as results concerning interests in associated companies in the years ending on 31 December 2016 and 2015 is as follows:

	2016		2015	
	Profit in associated companies	Losses in associated companies	Profit in associated companies	Losses in associated companies
Escala Parque – Gestão de Estacionamento, S.A.	302.691	-	243.268	-
Centro Gamma Knife-Radiocirurgia, S.A.	-	-	120.390	-
Escala Braga - Sociedade Gestora do Edifício, S.A.	457.490	-	-	-
	760.181	-	363.658	-

12. INCOME TAX

Income tax recognised in the financial years ended on 31 December 2016 and 2015 is as follows:

	2016	2015
Current tax:		
Concerning the financial year	9.905.474	10.426.540
Concerning the previous financial year	(590.101)	(510.741)
	9.315.374	9.915.798
Deferred tax (Nota 20):		
Temporary differences and reversals	(282.263)	64.175
Other transactions	34.793	(334.757)
Provisions not approved for tax purposes	(697.916)	(219.496)
Tax losses	74.387	84.472
	(870.998)	(405.606)
Tax for the financial year	8.444.376	9.510.192

The José de Mello Saúde Group and its domestic subsidiaries 75% or more directly or indirectly owned are liable for corporate income tax under the Special Taxation Scheme for Groups of Companies ("STSGC"). In relation to companies not covered by STSGC, current tax is calculated based on their respective taxable income, according to the rules and tax regimes applying in the territory of the registered office of each company.

The Company and most of the companies it holds investments in are liable for corporate income tax at the nominal rate of 21% (23% in 2014), which may be further increased by a municipal surtax to the maximum rate of 1.5% of taxable income. Moreover, if applicable, a

state surtax of 3% is also payable on the excess of taxable income between 1,500,000 euros and 7,500,000 euros, of 5% on the excess of taxable income between 7,500,000 euros and 35,000,000 euros and the rate of 7% for the excess of taxable income over 35,000,000 euros. Pursuant to Article 88 of the Corporate Tax Code, the Company and its subsidiaries are also liable to be separately taxed for a range of charges, at the rates set out in the referred Article.

Temporary differences between the book values of assets and liabilities and the corresponding tax base were recognised in accordance with IAS 12 – Income taxes (Note 20).

Numerical reconciliation between the average income tax and applicable tax rate is indicated in the table below:

	2016	2015
Profit before tax	32.647.294	31.734.429
Income tax in Portugal	21,0%	21,0%
Tax on profit at the nominal rate	6.855.932	6.664.230
Non-taxable income:		
Amortisation of investment properties	1.038.621	1.005.937
Excess of the estimate for taxes	590.101	510.742
Reversal of adjustments in inventories	124.262	99.550
Reversal of taxed provisions	684.471	1.804.408
Tax benefits	2.199.042	81.650
Others	265.108	71.661
	4.901.605	3.573.948
Non-deductible costs for tax purposes:		
Donations	143.649	58.102
Fines, penalties and compensatory interest	32.386	312.039
Provisions that are non-deductible or beyond the legal limits	1.668.767	1.140.428
Expenses incurred from renting a car without a driver	17.393	2.661
Depreciations and amortisations not accounted as expenses	1.402.129	68.553
Non-deductible social contributions	72.475	188.419
Cancellation of the equity method	898.640	363.658
Credits that are non-deductible or beyond the legal limits	136.107	-
Irrecoverable debt not accounted as expenses	1.249.553	504.868
Expenses unduly documented	-	180
Corporate income tax and other income taxes	107.725	89.472
Corrections relating to previous periods	794.090	1.498.420
Others	611.446	2.942.897
	7.134.360	7.169.697
Tax loss/taxable income	34.880.049	35.330.178
Tax losses carried forward	541.787	358.738
Income tax in Portugal	21,0%	21,0%
Income tax	7.211.035	7.344.002

	2016	2015
Separate taxation	729.521	691.583
Local tax	678.314	740.151
Government tax	1.410.237	1.366.911
Effect of the increase/reversal of deferred taxes	(870.998)	(405.605)
Effect of insufficiency/excess of the estimate for taxes	(590.101)	(510.742)
Others	(123.632)	283.892
	1.233.341	2.166.190
Income tax	8.444.376	9.510.192
Effective tax rate	25,9%	30,0%

13. DIVIDENDS

According to resolution of the Board of Directors held on 20 September 2016, in the financial year ending on 31 December 2016 interim dividends of 1.08 euros per share were paid, amounting to 11.4 million euros, on the result of the mid-term review prepared on 31 August 2016. No dividends were paid in the financial year ended at 31 December 2015.

14. REVENUE PER SHARE

The basic and diluted earnings per share in the financial years ended 31 December 2016 and 2015 was calculated considering the following amounts:

	2016	2015
Basic earnings per share		
Earnings considered for the calculation of the basic earnings per share (net profit for the financial year)	23.918.981	21.893.940
Weighted average number of shares considered for the calculation of the basic earnings per share	10.600.000	10.600.000
Basic earnings per share (in euros)	2,26	2,07

On 31 December 2016 and 2015 there were no dilutive effects of revenue per share, so the diluted revenue per share is equal to basic revenue per share.

15. GOODWILL

The changes in the values of goodwill during the financial years ended 31 December 2016 and 2015 were as follows:

	Private healthcare services	Public healthcare services	Others	Infrastructures	Total
Balance at 1 January 2015	31.023.347	15.896	6.000	880.757	31.926.000
Changes in scope:					
- incoming	7.035.102	-	-	-	7.035.102
- outgoing	(6.152.573)	-	-	-	(6.152.573)
Transfers	867.496	-	-	(867.496)	-
Balance at 31 December 2015	32.773.372	15.896	6.000	13.261	32.808.529
Impairment losses (Note 34)	(66.100)	-	-	-	(66.100)
Changes in scope:					
- incoming	624.000	-	-	-	624.000
- outgoing	-	-	-	-	-
Balance at 31 December 2016	33.331.272	15.896	6.000	13.261	33.366.429

Goodwill in the financial years ended on 31 December 2016 and 2015 was as follows:

Subsidiary	2016	2015
Hospital CUF Infante Santo, S.A.	12.432.819	12.485.699
Nova Imagem - Centro Radiodiagnóstico, S.A.	7.269.220	7.269.220
Hospital CUF Santarém, S.A.	7.035.102	7.035.102
VALIR - Sociedade Gestora de Participações Sociais, S.A.	5.220.465	5.220.465
SIM-X - Serviço de Imagem Médica, Lda.	624.000	-
Hospital CUF Cascais, S.A.	482.166	482.166
Hospital CUF Porto, S.A.	160.279	173.499
Hospital CUF Descobertas, S.A.	97.265	97.265
Ecografia de Cascais, Lda.	9.119	9.119
Clínica de Serviços Médicos e Computorizados de Belém, S.A.	837	837
Imo health - Investimentos Imobiliários, S.A.	13.261	13.261
Escala Vila Franca – Sociedade Gestora do Estabelecimento, S.A.	15.896	15.896
Vramondi International BV	6.000	6.000
	33.366.429	32.808.529

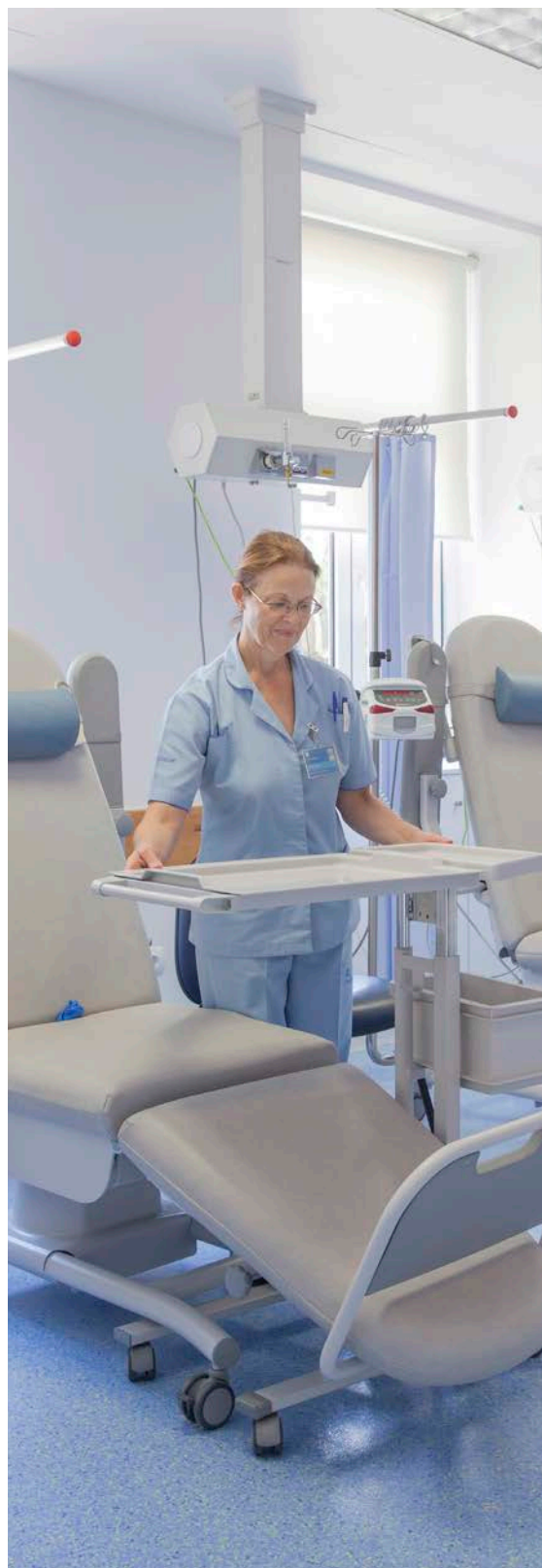
Impairment tests were made using the following methods:

- The recoverable amounts of cash generating units were determined based on the value-in-use calculation. The use of this method requires the estimate of future cash flows arising from the operations of each cash generating unit and choice of an appropriate discount rate;
- The valuations are supported by past results and future prospects of development of the markets in which the Group operates. Five-year projections of future cash flows for each of the businesses have been prepared in accordance with the plans defined by the Board of Directors.
- Each healthcare unit is a cash-generating unit. Valir – Sociedade Gestora de Participações Sociais, Sgps S.A. includes Instituto **CUF** – Diagnóstico e Tratamento, S.A. unit, which is analysed together with Hospital **CUF** Porto, S.A., Nova Imagem – Centro Radiodiagnóstico, S.A. and S.P.S.D – Sociedade Portuguesa de Serviços Domiciliários, S.A., given the complementarity of provided services and the geographical proximity.

and using the following assumptions:

Period	Risk-free interest rate	WACC rate	Perpetuity growth rate
Explicit	2,20%	6,73%	-
Perpetuity	2,20%	6,73%	1,80%

Sensitivity analyses were performed on the main variables: (i) discount rate (+/- 0.5%) and (ii) perpetuity growth rate (+/- 0.5%). The results of the sensitivity analyses performed do not indicate the existence of impairment.



16. INTANGIBLE ASSETS

The changes in the value of other intangible assets as well as the corresponding amortisations and impairment losses, during the financial years ended 31 December 2016 and 2015, were as follows:

	Industrial property and other rights (a) (b)	Software	Other intangible assets (c)	Intangible assets in progress	Total
Gross assets:					
Balance at 1 January 2015	15.450.469	13.450.764	4.021.444	198.537	33.121.215
Additions	-	431.171	100.000	198.537	729.708
Disposals	-	-	-	-	-
Write-offs	(446)	(85.824)	-	-	(86.270)
Balance at 31 December 2015	15.450.023	13.796.112	4.121.444	397.074	33.764.653
Changes in scope:					
- incoming	-	11.568	-	-	11.568
- outgoing	-	-	-	-	-
Additions	-	382.950	1.922.860	1.984.781	4.290.591
Disposals	-	-	-	-	-
Write-offs	-	(2.461.866)	-	-	(2.461.866)
Transfers	2.470.117	-	(2.470.117)	-	-
Balance at 31 December 2016	17.920.140	11.728.764	3.574.188	2.381.855	35.604.946
Depreciation and accumulated impairment losses:					
Balance at 1 January 2015	(7.146.193)	(11.326.527)	(803.415)	-	(19.276.134)
Write-offs	446	86.006	-	-	86.452
Increases	(1.541.471)	(1.071.645)	(513.765)	-	(3.126.880)
Balance at 31 December 2015	(8.687.217)	(12.312.166)	(1.317.179)	-	(22.316.562)

	Industrial property and other rights (a) (b)	Software	Other intangible assets (c)	Intangible assets in progress	Total
Changes in scope:					
- incoming	-	(11.568)	-	-	(11.568)
- outgoing	-	-	-	-	-
Write-offs	-	2.525.650	-	-	2.525.650
Increases	(1.541.471)	(865.898)	(517.881)	-	(2.925.249)
Balance at 31 December 2016	(10.228.688)	(10.663.981)	(1.835.060)	-	(22.727.729)

Net value

At 31 December 2015	6.762.806	1.483.946	2.804.265	397.074	11.448.091
At 31 December 2016	7.691.452	1.064.782	1.739.128	2.381.855	12.877.217

(a) The management contract between ARS Norte and Escala Braga – Sociedade Gestora do Estabelecimento, S.A., which establishes the management and operation of Braga Hospital as a public-private partnership, came into force on 1 September 2009. On the date of transfer, Escala Braga – Sociedade Gestora do Estabelecimento, S.A. paid the sum of 15 million euros under the hospital management contract, deducted from which was the amount corresponding to inventories and tangible fixed assets, and the remaining amount was called concession rights. This amount will be amortised in 10 years, the term of the contract.

(a) The management contract between the Ministries of Health and Finance and Escala Vila Franca - Sociedade Gestora do Estabelecimento, S.A., which establishes the management and operation of Braga Hospital as a public-private partnership, came into force on 1 June 2011. On the date of transfer, Escala Vila Franca - Sociedade Gestora do Estabelecimento, S.A. paid the sum of 7.5 million euros under the hospital management contract, deducted from which was the amount corresponding to inventories and tangible fixed assets, and the remaining amount was called concession rights. This amount will be amortised in 10 years, the term of the contract.

(c) This caption includes the amount of 3,228,817 euros corresponding to the total estimated value of investments expected until the end of the management and operation contract for the Vila Franca de Xira Hospital, arising from the obligations laid down in Annex V of that contract. As specified in IAS 37 – Provisions, contingent liabilities and contingent assets and in accordance with the principles described in IFRIC 12 – Service concession arrangements, this value began to be amortised in April 2013 following the transfer to the new facility, which was when new capacity was acquired and an investment plan was prepared envisaging the recognition of the future liability with the replacement of the referred equipment by the end of the contract. In 2016, as in the previous year, according to the review of the expected purchase amounts, there was no adjustment to the value of the goods.

17. TANGIBLE FIXED ASSETS

The changes in the value of tangible fixed assets as well as the corresponding depreciation and accumulated impairment losses, during the financial years ended 31 December 2016 and 2015, were as follows:

Gross assets:

Balance at 1 January 2016

Changes in scope:

Revaluation surplus

Additions

Settlements

Disposals and write-offs

Transfers

Balance at 31 December 2016

Depreciation and accumulated impairment losses:

Balance at 1 January 2016

Changes in scope:

Settlements

Depreciation

Disposals and write-offs

Balance at 31 December 2016

Net value

2016						
Land and natural resources	Buildings and other constructions	Basic equipment	Office equipment	Other tangible assets	Tangible assets in progress	Total
20.600.285	108.625.622	145.210.796	21.559.326	134.402	26.323.631	322.454.062
-	583.251	1.053.032	3.165	-	-	1.639.447
1.026.101	5.018.856	-	-	-	-	6.044.957
379.058	20.858.117	14.668.173	2.044.558	-	1.039.604	38.989.509
20.577.214	(20.507.389)	772.985	-	-	-	842.810
-	(1.040.987)	(1.188.686)	(2.967.921)	-	(183.160)	(5.380.754)
23.408.844	1.204.845	330.504	-	-	(24.944.193)	-
65.991.502	114.742.314	160.846.804	20.639.128	134.402	2.235.882	364.590.032
-	-	-	-	-	-	-
-	(29.039.527)	(108.031.798)	(18.271.054)	(78.424)	-	(155.420.804)
-	(374.252)	(427.712)	(1.912)	-	-	(803.876)
-	214.072	(95.303)	-	-	-	118.769
-	(7.209.039)	(13.357.259)	(1.587.555)	(13.265)	-	(22.167.118)
-	331.522	884.418	2.256.665	-	-	3.472.605
-	(36.077.226)	(121.027.654)	(17.603.856)	(91.689)	-	(174.800.425)
65.991.502	78.665.089	39.819.151	3.035.272	42.713	2.235.882	189.789.608

Gross assets:

Balance at 1 January 2015

Changes in scope:

Revaluation surplus

Additions

Settlements

Disposals and write-offs

Transfers

Balance at 31 December 2015

Depreciation and accumulated impairment losses:

Balance at 1 January 2015

Changes in scope:

Discontinued activities

Settlements

Depreciation

Disposals and write-offs

Transfers

Balance at 31 December 2015

Net value

The type of real estate assets relating to health services, included under "Land and natural resources" and "Buildings and other constructions" captions is carried over by the revalued amount. These properties were evaluated using different methods:

- **CUF Descobertas Hospital**

The Income Capitalisation Method was used to evaluate **CUF** Descobertas Hospital. The income capitalisation method is aimed at determining the value of a property according to its income-producing capacity. It relates future income (in an optimistic assumption and according to economic lifetime) to its current value in order to obtain the market value (in terms of continued use). This method is aimed at determining the current value of future income, according to the

actual value and state.

- **CUF Infante Santo Hospital**

Evaluation of **CUF** Infante Santo Hospital was based on the Market Comparison Method. With **CUF** Tejo project, a new plot of land was acquired for the construction of the new hospital with a view to the sale of the current building housing **CUF** Infante Santo Hospital starting in 2019. Evaluation of the previous year was based on different assumptions to those used in the current year, which justifies the variation in fair value in comparison with the previous year.

- **CUF Hospital and "Infante Santo 34" Building**

The Cost Method was used for evaluating **CUF** Santarém Hospital and "Infante Santo 34" Building; this method is based on a "new

2015						
Land and natural resources	Buildings and other constructions	Basic equipment	Office equipment	Other tangible assets	Tangible assets in progress	Total
20.096.929	88.842.104	131.793.308	19.550.870	27.647	1.491.848	261.802.705
579.157	11.772.531	3.958.102	502.415	106.943	-	16.919.148
1.335.399	4.006.198	-	-	-	-	5.341.597
-	3.944.079	8.565.086	1.382.802	-	26.535.711	40.427.678
-	-	(12.539)	(2.650)	(187)	(17.589)	(32.965)
(1.411.200)	(282.789)	(305.317)	(1.170)	-	(3.625)	(2.004.101)
-	343.499	1.212.156	127.059	-	(1.682.714)	-
20.600.285	108.625.622	145.210.796	21.559.326	134.402	26.323.631	322.454.062
-	(22.118.880)	(93.976.826)	(16.233.979)	(9.073)	-	(132.338.758)
-	(1.296.853)	(1.785.274)	(454.781)	(60.238)	-	(3.597.146)
-	-	-	-	-	-	-
-	-	10.429	2.502	187	-	13.118
-	(5.684.390)	(12.379.693)	(1.584.837)	(9.301)	-	(19.658.221)
-	60.596	99.566	41	-	-	160.203
-	-	-	(102.076)	102.076	-	-
-	(29.039.527)	(108.031.798)	(18.373.130)	23.652	-	(155.420.804)
20.600.285	79.586.094	37.178.999	3.186.196	158.054	26.323.631	167.033.259

building" (built with modern technology and materials), identical to that of the asset under evaluation, plus all indirect charges incurring from the investment project and from a normal market margin and investment risk considered.

other constructions when their promotion is recognised as irresistible. These assets are valued at cost price on the date of the financial statement.

Evaluations were also carried out on the current state of repair of the properties. The transaction value of similar properties obtained from market research was used for calculation purposes, after adjusting the characteristics of the properties under evaluation. Capitalisation rates used reflect market behaviour of offices in Portugal upon analysing the profitability of medium/long-term investment projects.

Tangible assets in progress will be recognised as land and natural resources or buildings and

During 2016 and 2015, the "Amortisations, depreciations and impairment losses" caption had the following impacts on the financial position:

	2016	2015
Depreciation, amortisation and impairment losses expenses:		
Tangible fixed assets	22.167.118	19.658.221
Intangible assets	2.925.249	3.126.880
Investment properties	-	8.199
	25.092.368	22.793.301

18. INVESTMENTS IN ASSOCIATES

Equity holdings in associates changed as follows in the financial years ended on 31 December 2016 and 2015:

	2016			2015	
	Equity holdings	Loans granted	Impairment losses	Total	Total
Balance at 1 January	458.589	3.354.099	(543.941)	3.268.747	4.033.056
Changes in scope:	-	-	-	-	-
Exchange rate effect	-	-	-	-	-
Equity method application:					
Impact on results	-	-	138.459	138.459	340.920
Impact on equity	-	-	-	-	-
Dividends received	-	-	-	-	(262.028)
Acquisitions and increases	-	-	-	-	-
Transfers	(424.589)	(3.116.098)	369.593	(3.171.095)	-
Disposals and write-offs	-	(68.000)	-	(68.000)	(843.202)
Balance at 31 December	34.000	170.000	(35.889)	168.111	3.268.747

The "Investments in associates" caption in the financial years ended on 31 December 2016 and 2015 is broken down as follows:

Associated companies	2016				2015
	Equity holdings	Loans granted	Impairment losses	Balance sheet value	Balance sheet value
Escala Braga - Sociedade Gestora do Edifício, S.A.	-	-	-	-	2.903.581
Escala Parque – Gestão de Estacionamento, S.A.	-	-	-	-	267.513
Centro Gamma Knife-Radiocirurgia, S.A.	34.000	170.000	(35.889)	168.111	97.652
	34.000	170.000	(35.889)	168.111	3.268.747

The main aggregated financial information regarding associates at 31 December 2016 is as follows:

Associated companies	Financial information at 31 December 2016					
	Assets	Liabilities	Equity	Expenses	Income	Net profit
Escala Braga - Sociedade Gestora do Edifício, S.A.	52.814.888	44.670.460	8.144.428	6.097.817	7.443.376	1.345.559
Escala Parque – Gestão de Estacionamento, S.A.	1.533.167	582.898	950.269	1.009.247	1.899.515	890.268
Centro Gamma Knife-Radiocirurgia, S.A.	1.421.568	927.129	494.439	561.516	968.746	407.230

19. OTHER INVESTMENTS

The other investments at 31 December 2016 and 2015 are as follows:

Associated companies	2016				2015
	Equity holdings	Loans granted	Impairment losses	Balance sheet value	Balance sheet value
Centro Clínico Académico de Braga	35.000	-	-	35.000	35.000
Diagnosticar - Diagnóstico Computorizado, S.A.	26.200	-	-	26.200	26.200
IBET	5.000	-	-	5.000	5.000
Fundo de Compensação do Trabalho e Fundo de Garantia de Compensação do Trabalho	393.472	-	-	393.472	195.428
Digihealth, S.A.	1.315.853	50.000	(1.315.853)	50.000	50.000
	1.775.525	50.000	(1.315.853)	509.672	311.628



Other investments include non-current financial assets, measured at acquisition cost and adjusted for estimated impairment losses. This caption recorded the following changes in the financial years ended on 31 December 2016 and 2015:

	Other investments
Gross investment:	
Balance at 1 January 2015	1.382.053
Increases	245.428
Balance at 31 December 2015	1.627.481
Increases	198.044
Balance at 31 December 2016	1.825.525
Impairment losses (Note 33):	
Balance at 1 January 2015	(1.315.853)
Disposals and write-offs	-
Increases	-
Balance at 31 December 2015	(1.315.853)
Disposals and write-offs	-
Increases	-
Balance at 31 December 2016	(1.315.853)
Net value::	
At 31 December 2015	311.628
At 31 December 2016	509.671

20. DEFERRED TAX ASSETS AND LIABILITIES

The changes occurred in deferred tax assets and liabilities in the financial years ended on 31 December 2016 and 2015 were as follows:

	Deferred tax assets						Total
	Other	Impairment losses on trade receivables	Financial derivative instruments	Reported tax losses	Employee benefits (Note 33)	Provisions not approved for tax purposes	
Balance at 1 January 2015	-	71.746		-	1.014.364	1.470.825	2.556.935
Changes in scope:	-	-	-	216.396	-	-	216.396
Composition:							
Net profit	-	-	334.757	-	-	219.496	554.253
Equity	-	-	-	-	-	-	-
Reversal:							
Net profit	-	-	-	84.472	64.175	-	148.647
Equity	-	-	-	-	-	-	-
Impact of the change in tax rate			-	-	-	-	-
Balance at 31 December 2015	-	71.746	334.757	131.924	950.188	1.690.321	3.178.936
Changes in scope (Note 4)	-	-	-	-	-	-	-
Composition:							
Net profit	-	282.303	182.995	-	-	698.410	1.163.708
Equity	126.574	-	-	-	-	-	126.574
Reversal:							
Net profit	17.162	40	-	74.387	85.190	494	177.273
Equity							
Impact of the change in tax rate			-	-	-	-	-
Balance at 31 December 2016	109.412	354.009	517.752	57.537	864.998	2.388.237	4.291.945

	Deferred tax liabilities		
	Revaluation of tangible fixed assets	Financial derivative instruments	Total
Balance at 1 January 2015	-	-	-
Composition:			
Net profit	-	-	-
Equity	-	-	-
Reversal:			
Net profit	-	-	-
Equity	-	-	-
Balance at 31 December 2015	-	-	-
Composition:			
Net profit	115.436	-	115.436
Equity	2.742.013	-	2.742.013
Reversal:			
Net profit	-	-	-
Equity	-	-	-
Balance at 31 December 2016	2.857.449	-	2.857.449

Deferred taxes to be recognised as a result of temporary differences between taxable income and accounting income were evaluated. Where these differences originated deferred tax assets, these were only recorded to the extent considered probable that taxable profits will occur in the future and which can be used to recover the tax losses or deductible tax differences. This evaluation was based on the business plans of the Group companies, which are periodically reviewed and updated, and on the available and identified opportunities for tax optimisation.

21. OTHER CURRENT AND NON-CURRENT ASSETS

On 31 December 2016 and 2015, these captions showed the following breakdown:

	2016		2015	
	Current	Non-current	Current	Non-current
Accrued income:				
Income from production not invoiced	43.999.641	-	41.752.778	-
Rappel to receive	6.753.463	-	3.207.918	-
Provision of medical services not invoiced	5.148.355	-	4.440.730	-
Interest receivable	342.081	-	316.740	-
Space rental	16.278	-	-	-
Others accrued income:	136.288	-	124.336	-
	56.396.107	-	49.842.502	-
Deferred costs:				
São Marcos Hospital responsibility	-	6.129.201	-	6.129.201
Reynaldo dos Santos Hospital responsibility	-	2.167.744	-	2.167.744
Insurance	1.197.484	-	294.306	-
Rents and leases	983.933	-	909.962	-
Sale price deferral	772.755	-	843.977	-
Bank fees and stamp duty	630.400	-	58.571	-
Software licenses	182.144	-	2.103.489	-
Clinical analyses and consumables	161.011	-	-	-
Court of Auditors (fees)	52.244	-	68.330	-
Audit	15.683	-	24.469	-
Maintenance and servicing costs	7.918	-	13.197	-
Deferred interest	5.570	-	1.265	-
Other deferred costs	5.730	-	91.265	-
	4.014.872	8.296.945	4.408.831	8.296.945
	60.410.979	8.296.945	54.251.333	8.296.945

Increases in income with ARS Norte and ARSLVT are included in the "Income from production not invoiced" caption, as a result of real production registered in 2013, 2014, 2015 and 2016 (as set forth in the management contract), as mentioned in Note 2.3. On 31 December 2016, this caption showed the following breakdown:

	Income from production not invoiced			
	2016		2015	
	ARS Norte	ARSLVT	ARS Norte	ARSLVT
Production for the financial year of 2013	-	2.642.412	-	2.762.243
Production for the financial year of 2014	204.935	2.805.192	3.234.746	2.844.541
Production for the financial year of 2015	819.640	157.408	26.512.198	6.399.050
Production for the financial year of 2016	29.677.175	7.692.880	-	-
	30.701.750	13.297.891	29.746.944	12.005.834

The "Other non-current assets" caption refers to the values calculated as liabilities for holiday pay and allowance and Christmas allowance of São Marcos Hospital and Reynaldo dos Santos Hospital, for the start year of the respective contracts.

The caption on "Computer licences" refers to invoices received during the financial year ending on 31 December 2015 from the Microsoft supplier for maintenance of 2016 computer licences.

22. INVENTORIES

On 31 December 2016 and 2015, this caption showed the following breakdown:

	2016	2015
Raw and subsidiary materials and consumables	11.152.191	8.519.200
Goods	143.166	432.335
	11.295.357	8.951.535
Accumulated impairment losses on inventories (Note 34)	(32.501)	(21.523)
	11.262.856	8.930.011

23. TRADE RECEIVABLES AND ADVANCE PAYMENTS TO SUPPLIERS

The "Trade receivables and advances to suppliers" caption was broken down as follows at 31 December 2016 and 2015:

	2016			2015		
	Gross value	Impairment losses (Note 34)	Net value	Gross value	Impairment losses (Note 34)	Net value
Trade receivables, current account	93.353.001	(976.496)	92.376.505	85.372.860	(855.479)	84.517.381
Trade receivables, bills receivable	-	-	-	-	-	-
Doubtful trade receivables	12.274.963	(9.296.745)	2.978.218	11.930.895	(8.782.049)	3.148.846
Advances to suppliers	22.855	-	22.855	22.855	-	22.855
	105.650.818	(10.273.241)	95.377.577	97.326.609	(9.637.528)	87.689.081

The balances in the Statement of Financial Position are net of impairment losses on trade payables balances, which were estimated as described in Note 2.19(b).

The Board of Directors believes that the carrying value of accounts receivable is close to its fair value.

The Group has no significant concentration of credit risk, as the risk is diluted over a vast range of clients.

The seniority of the caption on "Trade receivables and advance payments to suppliers" is broken down as indicated in the table below:

Financial year	Total	Debt not yet overdue	Overdue debt				
			< 180 days	181-365 days	366-545 days	546-730 days	> 730 days
31-12-2016	105.650.818	51.570.124	20.935.011	9.521.035	4.219.447	3.250.832	16.154.369
31-12-2015	97.326.609	55.350.693	7.373.981	10.918.701	6.086.686	4.550.301	13.046.248



24. OTHER CURRENT DEBTORS

The "Other current debtors" caption was broken down as follows at 31 December 2016 and 2015:

	2016	2015
Loans to related entities (Note 41)	1.885.798	5.875.798
Advances on financial investments	850.000	-
Personnel	732.216	717.518
Hospital projects in progress	690.891	2.722.452
Sale of financial investments	376.019	669.359
Seizures and liens	134.165	134.165
Surety bonds	126.325	166.238
Re-invoicing	47.895	42.532
Service providers	7.350	26.626
Other debtors	237.576	240.331
	5.088.234	10.595.019

In the "Other debtors" caption, several receivables from different entities for transactions not related to the core activities of the Group, are identified.

25. GOVERNMENT AND OTHER PUBLIC ENTITIES

The balances with these entities at 31 December 2016 and 2015 were as follows:

	2016	2015
Debit balances:		
Corporate income tax	12.206.210	6.633.740
Value added tax	1.328.603	708.324
Personal income tax	4.658	-
Others	1.222	8
	13.540.692	7.342.073
Credit balances:		
Corporate income tax	12.280.671	12.222.517
Personal income tax	2.244.520	2.246.662
Social security contributions	3.768.772	3.387.540
Value added tax	904.143	674.579
Others	54.222	85.390
	19.252.327	18.616.687

26. CASH AND BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

OTHER FINANCIAL INSTRUMENTS

These captions were broken down as follows at 31 December 2016 and 2015:

Other financial instruments:

The other financial instruments are made up of debenture loans, which are detailed in the table below

Subsidiary	Issuer	Year of issue	2016
José de Mello Saúde, S.A.	Farminveste - Investimentos, Participações e Gestão, S.A.	2014	10.000.000
Hospital CUF Descobertas, S.A.	José de Mello, SGPS, S.A.	2007	10.000.000
Hospital CUF Descobertas, S.A.	Farminveste - Investimentos, Participações e Gestão, S.A.	2010	4.350.000
Hospital CUF Descobertas, S.A.	José de Mello Participações II, SGPS, S.A.	2008	10.000.000
Hospital CUF Descobertas, S.A.	Farminveste - Investimentos, Participações e Gestão, S.A.	2014	4.300.000
Hospital CUF Infante Santo, S.A.	José de Mello, SGPS, S.A.	2007	10.000.000
			48.650.000

These bonds have a put option which gives the Group the right to redeem the amount in question at any time. Not having exercised the put option until 31 December 2016, we decided to reclassify these bonds from "Other cash investments" to "Other financial instruments".

The most significant payments related to financial investments occurring during the financial years ended on 31 December 2016 and 2015 are:

Cash and cash equivalents:

	2016	2015
Cash and bank deposits:		
Cash	1.743.953	1.769.206
Current accounts	14.124.477	18.883.439
Term deposits	6.307	398.424
Other cash investments	192.657	62.425.727
	16.067.394	83.476.796
Cash and cash equivalents:		
Bank overdrafts (Note 31)	(252.734)	(1.045.368)
	15.814.660	82.431.428

	2016	2015
Hospital CUF Santarém, S.A.	-	12.390.104
Hospital CUF Santarém, S.A.	-	2.690.000
SIM-X - Serviço de Imagem Médica, Lda.	327.600	-
Manuel Guimarães, Lda.	-	82.977
Digihealth, S.A.	-	50.000
	327.600	15.213.081

Additionally, "Other cash investments" also include an amount of approximately 190,000 euros, corresponding to fund shares in Montepio Geral.

Consolidated cash flow statements:

The most significant inflows related to financial investments occurring during the financial years ended on 31 December 2016 and 2015 are:

	2016	2015
Dr. Campos Costa - Consultório de Tomografia Computorizada, S.A.	-	6.841.000
Escala Braga - Sociedade Gestora do Edifício, S.A.	1.211.718	843.204
HMR - Health Market Research, Lda.	-	500.000
Centro Gamma Knife-Radiocirurgia, S.A.	68.000	-
	1.279.718	8.184.204

27. NON-CURRENT ASSETS HELD FOR SALE

On 31 December 2016, the "Non-current assets held for sale" caption was broken down as follows:

Associated companies	2016			2015	
	Equity holdings	Loans granted	Impairment losses	Balance sheet value	Balance sheet value
Escala Braga - Sociedade Gestora do Edifício, S.A.	864.726	1.904.379	-	2.769.106	-
Escala Parque - Gestão de Estacionamento, S.A.	323.091	-	-	323.091	-
Outros	9.976	163.440	(97.000)	76.416	76.416
	1.197.794	2.067.819	(97.000)	3.168.613	76.416

It is the intention of the JMS Group to transfer its shares in the equity of Escala Braga – Sociedade Gestora do Edifício, S.A. and of Escala Parque – Gestão de Estacionamento, S.A., along with all corresponding rights and obligations.

To this end, a contract was signed for the purchase and sale of shares and supplementary payments with an investor, with the completion of the transaction dependent on the following approvals:

- Public awarding entity (Regional Health Authority - ARS)
- Financing banks
- Competition authority or European Commission
- The company that is the target of the transaction

28. SHARE CAPITAL

The share capital at 31 December 2016 amounted to 53,000,000 euros, fully subscribed and paid-up, and it was represented by 10,600,000 shares each with the nominal value of five euros.

The share capital was held by the following entities at 31 December 2016:

Entity	Number of shares	Holding percentage
José de Mello, SGPS, S.A.	6.980.100	65,85%
Fundação Amélia da Silva de Mello	439.900	4,15%
Farminveste - Investimentos, Participações e Gestão, S.A.	3.180.000	30,00%
	10.600.000	100,00%

29. LEGAL RESERVE

According to legislation in force, the Company must reinforce the legal reserve by at least 5% of the annual net profit until this reserve equals at least 20% of the share capital. This reserve is not available for distribution to shareholders, however it may be used to absorb losses once the other reserves have been exhausted, or to increase the share capital.

30. NON-CONTROLLING INTERESTS

The changes occurred in this caption in the financial years ended on 31 December 2016 and 2015 were as follows:

	2016	2015
Initial balance at 1 January	3.708.111	3.577.537
Dividends	(206.278)	(181.257)
Capital holding increases	-	(18.536)
Other changes resulting from change of equity in associated companies	175.027	70
Net profit for the year attributable to non-controlling interests	283.937	330.297
Final balance at 31 December	3.960.796	3.708.111

The breakdown of the non-controlling interests caption at 31 December 2016, by company, is as follows:

Company	Percentage not owned	Non-controlling interests	
		Profit/loss	Equity
VALIR - Sociedade Gestora de Participações Sociais, S.A.	4,0045%	(603)	1.218.677
Vramondi International BV	0,0004%	(1)	(6)
Hospital CUF Descobertas, S.A.	0,0707%	10.622	18.999
Clínica CUF Belém, S.A.	37,1931%	152.419	1.330.917
Clínica de Serviços Médicos e Computorizados de Belém, S.A.	66,3510%	96.271	1.086.875
Nova Imagem - Centro Radiodiagnóstico, S.A.	0,0004%	2	3
Sagies - Segurança, Higiene e Saúde no Trabalho, S.A.	29,5002%	(1.096)	265.626
HD Medicina Nuclear, S.A.	30,0535%	66.423	475.601
Escala Vila Franca - Sociedade Gestora do Estabelecimento, S.A.	0,0191%	197	1.430
Escala Braga - Sociedade Gestora do Estabelecimento, S.A.	0,0143%	(577)	(7.765)
Instituto CUF - Diagnóstico e Tratamento, S.A.	4,0045%	(39.722)	(429.561)
		283.937	3.960.796

31. LOANS

Borrowings at 31 December 2016 and 2015 were as follows:

	2016	2015
Non-current liabilities:		
Bond loans	99.452.814	99.238.714
Other bank loans	18.532.108	15.788.420
	117.984.922	115.027.134
Current liabilities:		
Commercial paper	23.900.000	16.000.000
Other bank loans	3.237.272	5.100.105
Bonded current accounts	4.635.000	5.550.000
Bank overdrafts (Note 26)	252.734	1.045.368
	32.025.005	27.695.473
	150.009.928	142.722.607

The Group has contracted four commercial paper programmes with a limit of 36,000,000 euros. On 31 December 2016, these liabilities had the following detail:

Contracting company	Nominal amount hired	Outstanding amount		Amortisation		Interest rate
		Current	Non-current	Maturity	Periodicity	
José de Mello Saúde, S.A.	6.000.000	6.000.000	-	Nov. 2015	Once	Maximum Euribor + 1.75%
José de Mello Saúde, S.A.	10.000.000	3.000.000	-	Nov. 2019	Annual	Maximum Euribor + 2%
José de Mello Saúde, S.A.	10.000.000	4.900.000	-	Mar. 2020	Once	Euribor 1M + 1.1%
Escala Braga - Sociedade Gestora do Estabelecimento, S.A.	10.000.000	10.000.000	-	Dez. 2018	Once	Variable
	36.000.000	23.900.000	-			

Bond loans concern the following issues:

"JOSÉ DE MELLO SAÚDE 2014/2019"

- Total loan amount: 50,000,000 euros
- Nominal value: 10,000 euros per bond
- Maturity 9 June 2019
- Interest rate: Interest rate: 6-month Euribor plus 3.875%

"JOSÉ DE MELLO SAÚDE 2015/2021"

- Total loan amount: 50,000,000 euros
- Nominal value: 10,000 euros per bond
- Maturity 17 May 2021
- Interest rate: Interest rate: 6-month Euribor plus 2.95%

These issues were placed with institutional investors and admission to trading was requested on the regulated markets of Euronext Lisbon and Luxembourg Stock Exchange. An optional covenant of four times the net debt/EBITDA was considered on these bonds.

Other bank loans were broken down as follows at 31 December 2016 and 2015:

Entity	2016		2015	
	Current	Non-current	Current	Non-current
Novo Banco	-	-	10.764	-
Montepio Geral	1.265.698	1.899.523	1.230.087	3.160.156
Banif	273.176	10.368.108	3.036.847	9.250.668
Santander Totta	587.525	2.506.317	694.933	2.969.190
BIC	129.936	278.449	127.474	408.406
Popular	980.937	3.479.712	-	-
	3.237.271	18.532.108	5.100.105	15.788.420

Credit lines available but not used

On 31 December 2016 and 2015, the credit lines available and not used amounted to respectively 29,150,000 euros and 25,100,000 euros.

32. OBLIGATIONS ARISING FROM LEASE CONTRACTS

■ Finance lease

The Group has finance lease contracts for various items of its tangible fixed assets and intangible assets recorded on the balance sheet. The carrying amount of these assets for each class of asset, at 31 December 2016 and 2015, is as follows:

	2016	2015
Buildings and other constructions	55.581.261	52.430.706
Basic equipment	24.337.636	21.303.249
Office equipment	587.295	1.699.250
	80.506.192	75.433.205

Rents of 10,174,156 and 21,324,409 euros were paid for the financial years ended on 31 December 2016 and 2015, respectively, in relation to finance lease contracts.

■ Operating lease

The operating lease contracts in force within the José de Mello Saúde Group essentially relate to vehicles and office equipment.

In financial years ending on 31 December 2016 and 2015, costs of 3,160,566 and 4,227,028 euros, respectively, were recognised for operating lease contracts rents.

33. EMPLOYEE BENEFITS

The subsidiary Hospital **CUF** Infante Santo, S.A. ("HCIS") has the liability of topping-up the retirement pensions of some of its employees with whom this liability was agreed. Although it has not established any fund or insurance to cover this liability, a provision has been set up for this purpose, which is updated annually according to an actuarial study conducted by a specialised and independent entity.

The expiry of the Collective Labour Agreement with the Ministry of Labour was formally, and in accordance with legislation in force, applied for in relation to employees still working. This came into effect on 6 February 2013. The law envisages, according to a legal opinion, no change to the "remuneration, category and respective definition, duration of working hours and social protection schemes, whose benefits are substituted by those of the general social security scheme or by substitution protocol of Portuguese National Health Service." The pension top-up does not fit in with this requirement and ceases to have effect from February 2013. Accordingly, the liability remains in force for retired employees of HCIS.

According to the evaluation report presented by Watson Wyatt International Limited, Sucursal em Portugal, the current amount of liabilities with retirement pensions for past service, at the date of the Statement of Financial Position, is estimated on 1,462,000 euros (1,508,000 euros in 2015). The adjusted provision for retirement pensions is reported in Note 34.

The actuarial evaluation of pension plan liabilities was performed according to the Projected Unit Credit method, taking into consideration the following assumptions:

	2016
Discount rate (before retirement)	1,30%
Discount rate (after retirement)	1,30%
Pensions growth rate	0,00%
Life table:	
For men	TV 73/77
For women	TV 88/90
Number of pensioners	55
Average age	73

34. PROVISIONS, IMPAIRMENT LOSSES, CONTINGENT ASSETS AND LIABILITIES

▪ Provisions

The changes occurred in provisions during the financial years ended on 31 December 2016 and 2015 were as follows:

	Employee benefits (Note 33)	Provisions				Total liabilities
		Taxes	Environmental issues	Others	Total	
Balance at 1 January 2015	1.954.488	390.811	5.000	12.363.825	12.759.637	14.714.125
Increases	-	-	-	770.017	770.017	770.017
Use	-	-	-	-	-	-
Reversal	(192.115)	-	-	(532.008)	(532.008)	(724.123)
Financial reversals	-	-	-	(22.738)	(22.738)	(22.738)
Balance at 31 December 2015	1.762.373	390.811	5.000	12.579.097	12.974.908	14.737.281
Increases	-	-	-	1.306.696	1.306.696	1.306.696
Use	-	-	-	(188.821)	(188.821)	(188.821)
Reversal	(300.598)	-	-	(71.550)	(71.550)	(372.147)
Balance at 31 December 2016	1.461.775	390.811	5.000	13.625.422	14.021.234	15.483.009

The "Others" caption mainly includes provisions for risks arising from the business of hospital services provision. It also includes a provision intended to address the liability for replacing equipment as established in Annex V of the Management and Operation Contract of Vila Franca Hospital. This provision was set up in the financial year of 2013 against Intangible

assets (Note 16) following the transfer to the new facility, which was when new capacity was acquired and an investment plan was prepared, which envisages the recognition of the future liability to replace the referred equipment by the end of the contract.

▪ Impairment losses

The changes occurred in accumulated impairment losses during the financial years ended on 31 December 2016 and 2015 were as follows:

	Impairment losses on current assets			
	Inventories (Note 22)	Trade receivables and advances to suppliers (Note 23)	Other debtors (Note 24)	Total
Balance at 1 January 2015	19.657	9.355.889	1.567.900	10.943.446
Increases	21.523	486.513	-	508.036
Use	(19.657)	(2.823)	-	(22.480)
Reversal	-	(202.050)	(1.567.900)	(1.769.950)
Balance at 31 December 2015	21.523	9.637.528	-	9.659.052
Increases	10.978	1.555.898	-	1.566.876
Use	-	(615.307)	-	(615.307)
Reversal	-	(304.878)	-	(304.878)
Balance at 31 December 2016	32.501	10.273.241	-	10.305.742

	Impairment losses on non-current assets				
	Goodwill (Note 15)	Tangible fixed assets (Nota 17)	Associated companies and other investments (Notes 18 and 19)	Non-current assets held for sale	Total
Balance at 1 January 2015	3.575.232	993.405	1.859.794	-	5.884.490
Increases	-	-	-	97.000	97.000
Balance at 31 December 2015	3.575.232	993.405	1.859.794	97.000	5.981.490
Increases	66.100	-	-	-	66.100
Transfers	-	-	(369.593)	369.593	-
Reversal	-	-	(138.459)	(369.593)	(508.052)
Balance at 31 December 2016	3.641.332	993.405	1.351.742	97.000	5.539.538

During the 2016 and 2015 financial years, the changes occurred in the "Impairment losses" and "Provisions" captions were offset against income:

	31-12-2016			31-12-2015		
	Increases	Reversal	Total	Increases	Reversal	Total
Employee benefits	-	(300.598)	(300.598)	-	(192.115)	(192.115)
Provisions	1.306.696	(71.550)	1.235.147	770.017	(532.008)	238.009
Impairment losses on non-current assets	66.100	(508.052)	(441.952)	97.000	(352.924)	(255.924)
Impairment losses on current assets	1.566.876	(304.878)	1.261.998	508.036	(1.769.950)	(1.261.914)
			1.754.594			(1.471.945)

▪ Contingent assets

After two years in a row with positive net profit, in 2016 Escala Braga presented a loss of approximately 4 million euros. This situation results from the Government not renewing the vertical funding programmes for HIV (AIDS) and Multiple Sclerosis, with an approximate total value of 7.5 million euros. It is the JMS Group's strong belief that this behaviour by the state-owned partner contributed mercilessly to the current financial situation and is a very serious contractual non-compliance situation. This way, a Request for Financial Recovery was lodged as a protection at the end of 2016 for the purposes of clause 127, paragraph 9, subparagraph (b) of the Management Contract, proposing, in a spirit of loyal cooperation and good faith, that a process of arbitration be initiated as soon as possible to settle this dispute.

The José de Mello Saúde Group considers the success of this litigation likely and the best estimate of this contingent asset to amount to 7.5 million euros.

Therefore, apart from this impact, which we consider a surprise given that, in the past, these programmes were even taken into consideration by the Court of Auditors, which we hope can be reversed soon, Escala Braga, specifically, and José de Mello Saúde Group in general, maintained (and reinforced) its operating performance.

35. TRADE PAYABLES AND ADVANCES FROM CLIENTS

On 31 December 2016 and 2015, these captions showed the following breakdown:

	2016	2015
Suppliers, current account	74.547.613	76.144.434
Suppliers, invoices in reception and under verification	9.432.203	7.127.391
Advances from clients	3.555.036	2.912.290
	87.534.852	86.184.115

36. OTHER CURRENT CREDITORS

On 31 December 2016 and 2015, these captions showed the following breakdown:

	2016	2015
Hospital de São Marcos (a)	3.089.531	3.079.226
Acquisition of investments (b)	2.674.400	-
Retirement benefits	-	2.504.268
Personnel and trade unions	724.434	710.070
Available profits	525.000	-
Fees	441.311	303.777
Innovation Support Fund – Renewable energies and energy efficiency	344.460	-
Consultants, advisors and intermediaries	196.354	96.114
Fixed assets suppliers	125.117	131.254
Reynaldo dos Santos Hospital	57.859	57.884
Clinical events and conferences	26.589	118.929
Surety bonds	33.665	33.765
Other creditors	308.480	215.620
	8.547.200	7.250.907

The “Other creditors” caption contains several balances payable to different entities for transactions not related to the core activities of the Group.

(a) According to the Management Contract with ARS Norte, Escala Braga – Sociedade Gestora do Estabelecimento, S.A. shall deliver to São Marcos Hospital 90% of the revenue from the provision of medical services already performed by 1 September 2009, but for which the invoice had not yet been issued, and 90% of revenue from clients which had already been invoiced by that date but had not yet been collected.

(b) The “Acquisition of investments” caption fundamentally includes the amounts to be paid for the purchase of SIM-X – Serviço de Imagem Médica, Lda. and CUF Almada Clinic, by the amounts of 624,000 euros and 2 million euros, respectively.

37. OTHER CURRENT LIABILITIES

On 31 December 2016 and 2015, this caption showed the following breakdown:

	2016	2015
Accrued costs:		
Remunerations to be paid	26.367.628	23.965.731
Medical fees	20.387.581	19.172.594
Financial costs	72.798	92.570
Escala Braga Accrued costs	3.190.437	2.136.374
Operating costs (a)	15.039.509	11.180.642
	65.057.952	56.547.910
Deferred income:		
Financial income	525.275	565.943
Rents and leases	14.141	14.141
Other deferred income	814	311
	540.230	580.395
	65.598.181	57.128.305

(a) This caption contains the accrued expenses incurred at the closing of the year for Costs of sales, External supplies and services (Complementary Diagnostic and Treatment Means, Insurance and Clinical Specialist Works), Personnel expenditure and Other operating costs.

38. FINANCIAL DERIVATIVE INSTRUMENTS

Financial instruments for minimising risks of exposure to variations in interest rates were contracted under the risk management policy (Note 39) during the financial year ending on 31 December 2015. These were in the form of plain vanilla interest rate swaps that cover 100% of debenture loans emitted in June 2014 and May 2015 (100 million euros). Swaps contracted respect the characteristics of the aforementioned loans emitted so that they may be considered hedging products (same indexer, same interest period and payment deadlines).

On the interest payment date, the José de Mello Saúde Group receives interest indexed to six-month Euribor for 100% of the debenture capital and pays interest at a fixed rate on the same amount. On 31 December 2016 and 2015, the JMS Group had contracted the following financial derivative instruments:

	2016		2015	
	Current	Non-current	Current	Non-current
Cash flow hedging derivatives				
Interest rate swap	-	2.301.121	-	1.487.808
Total derivatives	-	2.301.121	-	1.487.808

The figure recognised in this caption refers to six swap interest rate contracts signed by the José de Mello Saúde Group to cover the risk of interest rate fluctuation.

Characteristics of financial derivative instruments contracted in relation to financing operations on 31 December 2016 and 2015 were as follows:

Cash flow hedging derivatives	Notional	Currency	Economic goal	Maturity	Fair value	
					2016	2015
Interest rate swaps						
Swap 13121-001	25.000.000	Eur	Cash-flow coverage of bond issuance	June-2019	(403.663)	(346.194)
Swap 13136-001	12.500.000	Eur	Cash-flow coverage of bond issuance	June-2019	(191.345)	(158.448)
Swap 13121-002	25.000.000	Eur	Cash-flow coverage of bond issuance	May-2021	(788.611)	(454.049)
Swap 13137-001	12.500.000	Eur	Cash-flow coverage of bond issuance	May-2021	(432.585)	(273.507)
Swap 13152-001	12.500.000	Eur	Cash-flow coverage of bond issuance	May-2021	(334.886)	(154.873)
Swap 13153-001	12.500.000	Eur	Cash-flow coverage of bond issuance	June-2019	(150.031)	(100.737)
	100.000.000				(2.301.121)	(1.487.808)

Financial derivative instruments show a notional of 100 million euros, the fair value of these instruments being 2,301,121 euros on 31 December 2016. The hedged risk is the variable rate indexer to which interest on loans is associated. The aim of this coverage is to transform variable interest rate loans into a fixed interest rate.

39. FINANCIAL RISK MANAGEMENT

The Group, like most companies, is exposed to a number of market risks related to changes in interest rates and liquidity risks arising from its financial liabilities, as well as the credit risk resulting from its operational and cash management activity.

All financial risk management operations, in particular those involving the use of financial derivative instruments require the prior approval of the Finance Director or the Executive Committee.

Analysed below in more detail are the main financial risks that the Group is exposed to and the main measures implemented to manage those risks.

▪ Interest rate risk

The interest rate risk management policy is aimed at minimising the debt cost by keeping the volatility of financial costs at a low level.

▪ Liquidity risk

The financing policy and management of liquidity risk is based on the following objectives:

- Ensure a schedule of debt maturity that is staggered over time;
- Reduce short-term indebtedness;
- Extend the average maturity of debt.

In order to fulfil the objectives stated above, the Group closely monitors the financing markets,

and it carefully and judiciously selects the most efficient alternatives.

▪ Credit risk

The credit risk is the risk of a counterparty failing to comply with its obligations under the cover of a financial instrument, thus resulting in a loss. The José de Mello Saúde Group is subject to credit risk in relation to the following activities:

- Operating activity – trade receivables, trade payables and other accounts receivable and payable;
- Financing activities.

Credit risk management for clients and other accounts receivable is carried out as follows:

- Following previously established policies, procedures and controls;
- Credit limits are established for all clients based on internal evaluation criteria;
- The credit quality of each client is assessed based on credit ratings provided by specialised external companies;
- The amounts owed are regularly monitored and supplies to major clients are normally covered by guarantees;
- The José de Mello Saúde Group has factoring contracts in force, through which it grants credit and transfers the collection risk to the factoring entity.

The changes in the impairment losses of accounts receivables are disclosed in Note 34.

It is the understanding of the Board of Directors that, at 31 December 2016, the estimated impairment losses on accounts receivable are adequately reported in the financial statements.

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial assets and liabilities is based on market prices, where available. If these are not available, fair value is estimated using internal models based on discounted cash flow techniques.

The nominal value less estimated credit adjustments of trade receivables and payables is assumed to be close to their fair value. The fair value of financial liabilities is estimated by updating the contracted future cash flows, at the current market interest rate available for similar financial instruments.

There are no significant differences between fair values calculated in this manner and the respective book values.

41. RELATED PARTIES

Transactions and balances between José de Mello Saúde, S.A. (the parent company) and the Group companies have been eliminated in the consolidation process and are not disclosed in this note. Balances and transactions between the Group and associate companies and other related parties are detailed below:

2016

Related party	Debit balances			Credit balances
	Clients	Other debtors	Bonds (Note 26)	Suppliers
Shareholders:				
José de Mello, SGPS, S.A.	1.248	122.780	20.000.000	7.365
Farminveste - Investimentos, Participações e Gestão, S.A.	-	1.763.018	18.650.000	-
Other related entities:				
José de Mello Participações II, SGPS, S.A.	-	-	10.000.000	-
MGI Capital Group	92.590	-	-	1.713.597
Brisa Group – Auto-estradas de Portugal	21.399	-	-	4.182
José de Mello Residências e Serviços Group	43.364	-	-	15.450
CUF Group	821	-	-	-
José de Mello Energia, S.A.	13	-	-	-
M Dados – Sistemas de Informação, S.A.	-	-	-	296.895
	159.435	1.885.798	48.650.000	2.037.489

Related party	Transactions		
	Sales and services rendered	Financial income	External supplies and services
Shareholders:			
José de Mello, SGPS, S.A.	7.783	195.360	28.383
Farminveste - Investimentos, Participações e Gestão, S.A.	-	-	-
Other related entities:			
MGI Capital Group	318.214	-	3.404.798
Brisa Group – Auto-estradas de Portugal	182.814	-	87.898
José de Mello Participações II, SGPS, S.A.	-	-	-
José de Mello Residências e Serviços Group	66.251	-	47.795
CUF Group	39.479	-	-
Grupo José de Mello Imobiliária	251	-	-
M Dados – Sistemas de Informação, S.A.	-	-	1.322.201
José de Mello Energia, S.A.	467	-	-
José de Mello Serviços, Lda.	-	-	33.722
	607.476	-	4.896.415

2015

Related party	Debit balances			Credit balances
	Clients	Other debtors	Bonds (Note 26)	Suppliers
Shareholders:				
José de Mello, SGPS, S.A.	834	4.112.780	20.000.000	3.018
Farminveste - Investimentos, Participações e Gestão, S.A.	-	1.763.018	18.650.000	-
Other related entities:				
José de Mello Participações II, SGPS, S.A.	-	-	23.500.000	-
Grupo Efacec Capital	86.800	-	-	1.946.554
Grupo Brisa - Auto-estradas de Portugal	25.496	-	-	62.699
Grupo José de Mello Residências e Serviços	59.446	-	-	49.087
Grupo CUF	121.698	-	-	-
José de Mello Serviços, Lda.	-	-	-	14.403
M Dados – Sistemas de Informação, S.A.	-	-	-	439.120
	294.274	5.875.798	62.150.000	2.514.881

Related party	Transactions		
	Sales and services rendered	Financial income	External supplies and services
Shareholders:			
José de Mello, SGPS, S.A.	6.893	181.165	29.361
Farminveste - Investimentos, Participações e Gestão, S.A.	-	75.569	-
Other related entities:			
Efacec Capital Group	351.200	-	3.214.514
Brisa Group – Auto-estradas de Portugal	210.636	-	736.939
José de Mello Participações II, SGPS, S.A.	-	212.953	-
José de Mello Residências e Serviços Group	20.678	-	94.542
CUF Group	145.004	-	-
José de Mello Imobiliária Group	217	-	-
M Dados – Sistemas de Informação, S.A.	-	-	259.804
José de Mello Energia, S.A.	717	-	-
José de Mello Serviços, Lda.	-	-	95.654
	735.345	469.687	4.430.814

The terms and conditions of transactions between the Group companies and related parties are substantially identical to those normally contracted, accepted and practiced between independent entities in comparable transactions.

Remunerations of the members of the Board of Directors

The remunerations paid to the members of the governing bodies of José de Mello Saúde, S.A. in the 2016 and 2015 financial years were 464,676 euros and 469,074 euros respectively

42. CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS

▪ Contingent liabilities

The Group is involved in various legal proceedings during the normal course of its business activities. However, given their nature, the expectation is that the respective outcome will not generate any material effects on the business undertaken, financial situation and results of the operations.

▪ Guarantees

On 31 December 2016, the companies of the Group had provided guarantees to third parties in the amount of 8,076,000 euros (6,875,000 euros in 2015), detailed as follows:

	2016	2015
Financial guarantees provided:		
Equity funding commitment letter	4.000.000	4.000.000
Contractual duties compliance	2.636.845	2.636.845
Municipal Councils	1.320.972	120.157
Services rendered to NHS	116.701	116.701
Supply of electricity, water and gas	1.082	1.082

▪ Commitments

In the normal course of its business, the Group makes commitments related mainly the acquisition of equipment, under the ongoing investment operations, and the purchase and sale of financial investments.

According to the Portuguese Commercial Companies Code, the parent company, José de Mello Saúde, S.A. is joint and severally liable for the commitments of its associated companies with which it is in a control relationship

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and the publication authorised by the Board of Directors on 24 March 2017, and this will be the object of vote for approval at the General Meeting of Shareholders scheduled for 28 April 2017.

44. SUBSEQUENT EVENTS

Since 31 December 2016 until the date accounts were approved, no relevant facts occurred other than those already adjusted and/or disclosed in these consolidated financial statements.

The Certified Accountant

The Board of Directors



4.3. Declaration of Compliance of the Board of Directors

In accordance with provisions in Article 245(c) (1) of the Securities Code, José de Mello Saúde, S.A. ("JMS") Board members declare that, to the best of their knowledge, the management report, the consolidated and individual annual accounts, the legal accounts certificate and the other accounting documents, i) were prepared in accordance with current accounting standards and give a true and fair view of the assets and liabilities, financial situation and results of JMS and of the companies included in the scope of consolidation; ii) they faithfully describe the development, performance and position of JMS business activity and of the companies included in the scope of consolidation; and iii) they contain a description of the main risks JMS faces in its activity.

Lisbon, 24 March 2017

The Board of Directors

Salvador Maria Guimarães José de Mello
 Pedro Maria Guimarães José de Mello
 João Gonçalves da Silveira
 Rui Alexandre Pires Diniz
 Rui Manuel Assoreira Raposo
 Vasco Luís José de Mello
 Inácio António da Ponte Metello de Almeida e Brito
 Guilherme Barata Pereira Dias de Magalhães
 Paulo Jorge Cleto Duarte
 Luís Eduardo Brito Freixial de Goes
 Vera Margarida Alves Pires Coelho
 Céline Dora Judith Abecassis-Moedas
 Raúl Catarino Galamba de Oliveira

4.4. Information on the Shareholding Structure, Organisation and Corporate Governance

a) Qualifying holdings in the company's share capital.

Shareholder	No. of shares	% Capital	% Voting rights
José de Mello, SGPS, S.A.	6.980.100	65,85%	65,85%
Fundação Amélia da Silva de Mello	439.900	4,15%	4,15%
Farminveste - Investimentos, Participações e Gestão, S.A.	3.180.000	30,00%	30,00%
Total	10.600.000	100,00%	100,00%

b) Identification of shareholders with special rights and description of these rights.
There are no special rights granted to any company shareholder.

c) Number of shares and bonds held by members of the administrative and supervisory boards, under the terms and for the effects of provisions in article 447(5) of the Portuguese Commercial Companies Code and article 14 of

the Portuguese Securities Market Commission (CMVM) Regulation No. 5/2008.

Members of the Company's administrative do not hold shares or bonds in José de Mello Saúde S.A., as no transaction has taken place on these bonds during the financial year of 2016.

Members of José de Mello Saúde S.A. administrative and supervisory boards do not hold non-voting preference shares representing the share capital in José de Mello Saúde S.A. Hospital CUF Descobertas, S.A., subscribed on the date and under the following terms:

	BALANCE AT 2015	DATE	Acquisitions		SALES		BALANCE AT 2016
	Quantity		Quantity	Amount €	Quantity	Amount €	Quantity
Salvador Maria Guimarães José de Mello Hospital CUF Descobertas, S.A.	236						236
Rui Manuel Assoeira Raposo Hospital CUF Descobertas, S.A.	100						100
Guilherme Barata Pereira Dias de Magalhães Hospital CUF Descobertas, S.A.	100						100
Vasco Luís José de Mello Hospital CUF Descobertas, S.A.	100						100
Inácio António da Ponte Metello de Almeida e Brito Hospital CUF Descobertas, S.A.	92						92
Rui Alexandre Pires Diniz Hospital CUF Descobertas, S.A.	200						200

d) Possible restrictions on voting rights, such as limits on voting depending on the ownership of a number or percentage of shares, time limits imposed for exercising these rights or systems for equity rights.

There are no restrictions of this nature.

e) Applicable rules on appointment and replacement of members of the administrative board and on the change of bylaws.

Under the terms of articles of association of José de Mello Saúde S.A., there are no special rules on the appointment and replacement of members of the administrative board and on change of José de Mello Saúde S.A. bylaws. With regard to these matters, the corresponding provisions of the Portuguese Commercial Companies Code apply.

f) The powers that the administrative board enjoy, in particular with regard to deliberations on capital increases.

Under the terms of articles of association of José de Mello Saúde S.A., there are no special rules on the powers of the administrative board. With regard to these matters, the corresponding provisions of the Portuguese Commercial Companies Code apply.

The Board of Directors of José de Mello Saúde S.A. delegated the following competences to an Executive Committee:

- i. Carrying out the day-to-day management of the Company, with the ability to deliberate on all matters concerning the performance of the Company's activity, following its corporate purpose, the resolutions made by the Board of Directors and by the General Assembly in matters within the latter's purview;
- ii. Prepare and submit to the Board of Directors, for approval, the company's wage, staff management and trading and price policies of the José de Mello Saúde Group;

- iii. Prepare and submit to the Board of Directors, for approval, the company's business and budget plans for the following year, in addition to proposing possible changes;

- iv. Carrying out the coordination and permanent monitoring of the day-to-day management of the direct and indirect subsidiaries of the Company ("Subsidiaries"), issuing, in the case of fully owned Subsidiaries, binding instructions;

- v. For the purpose of the previous paragraph, the Executive Committee should discuss the following matters:

- (i) Definition of the subsidiary companies' economic planning and financial strategy, namely:

- i. opening and/or expansion of establishments;
- ii. development of new activities (e.g. new medical specialities) or significant alteration/reorganisation of existing activities;
- iii. signing of commercial agreements, conventions with insurance companies and scientific and academic subsystems and protocols;
- iv. choice of holders of top management positions, namely production, clinical and nursing management;
- v. monitoring and supervision of relevant projects through a Steering Committee.

- (ii) Approval of any business plan as well as any changes and updates made to same;

- (iii) Approval of the annual budget and any updates made to same;

- (iv) Signing of contracts relating to employment or service provision, assuming responsibilities, acquisitions or sales of any assets, including shares in other companies,

whenever the estimated value exceeds, on an individual basis, (i) 1,000,000.00 euros (one million euros) if foreseen in the annual budget, or (ii) 200,000.00 euros (two hundred thousand euros) if not foreseen in the annual budget;

- (v) Loans, financing, bonds, debt securities, commercial paper and other forms of third-party financing, including the issue of warranties or standby warranties whenever their value exceeds, on an individual basis, (i) 1,000,000.00 euros (one million euros) if foreseen in the annual budget, or (ii) 200,000.00 euros (two hundred thousand euros) if not foreseen in the annual budget;
- vi. Signing all acts and contracts inherent in the company's activity, providing that their value does not exceed the amount equivalent to 15,000,000.00 euros (fifteen million euros);
- vii. Entering into bank loans or similar operations, granting shareholders' loans and other forms of providing capital to subsidiaries, as long as the corresponding amount does not exceed the equivalent to 15,000,000.00 euros (fifteen million euros);
- viii. Conducting banking transactions, such as open and operate any credit or debit bank accounts, withdraw and endorse cheques and withdraw, accept and endorse letters, promissory notes and other debt securities;
- ix. Making receipts and payments on behalf of the company, grant discharge and issue the required accounting documents;
- x. Signing employment or service contracts for company staff, to exercise or be able to discipline and promote, if necessary, the dismissal of any employee, in addition to recruiting employees or special experts, where appropriate;
- xi. Establishing new companies, in addition to acquiring or disposing of shares in other companies, as long as the respective holding does not exceed the equivalent of 15,000,000.00 euros (fifteen million euros);
- xii. Signing any types of insurance contracts inherent to the exercise of the Company's activity;
- xiii. Proposing to the Board of Directors leases whose annual amount exceeds 1,000,000.00 euros (one million euros), disposal, encumbrance or acquisition of immovable assets for the Company, whose value exceeds 15,000,000.00 euros (fifteen million euros);
- xiv. Carrying out provision of all movable property and equipment essential for the exercise of the Company's activity;
- xv. Proposing the company's organigram to the Board of Directors and keep it informed on the subsequent adjustments that prove to be necessary;
- xvi. Establishing proxies to represent the company in the execution of specific acts through issuing the appropriate instrument for that purpose;
- xvii. Establishing forensic proxies to represent the Company in any litigations in which it may be involved, granting them sufficient powers to acknowledge, desist and compromise;
- xviii. Representing the Company in court and in arbitration as well as appointing arbitrators in any litigation in which it may be involved;
- xix. Proposing the holders of the governing bodies of the subsidiaries on whose Boards of Directors shall participate the entirety or part of the members of the Company's Executive Committee.

The amounts indicated presumes prior budgeting of respective expenses and/or liabilities. As they are non-budgeted expenses and/or liabilities, these limits are reduced to 40% (forty percent) of the amount indicated.

Also, under the powers delegated to it, the Executive Committee is able to define responsibilities and areas of operation of each member, in terms of the Company's internal structure, operation, coordination and monitoring of its business areas, in general, and of subsidiary companies in particular.

g) Key elements of the internal control systems and risk management implemented in the company on the process of disclosing financial information.

Matters on internal control and risk management systems in existence in the José de Mello Saúde Group are detailed in point 4 of the Management Report.

h) Annual amount for remuneration awarded, in aggregated and individual form, for members of the administrative and supervisory boards of the Company, for the effects of Law No. 28/2009, of 19 June.

- i. Gross remuneration paid by José de Mello Saúde, S.A. to members of the Board of Directors during the financial year of 2016.

Name	Position	Wage (euros)
Salvador Maria Guimarães José de Mello	Chairman of the Board of Directors and CEO	322.671,29
Pedro Maria Guimarães José de Mello	Non-Executive Vice-Chairman	-
João Gonçalves da Silveira	Non-Executive Vice-Chairman	-
Rui Alexandre Pires Diniz	Executive Director	328.092,33
Rui Manuel Assoeira Raposo	Executive Director	265.149,45
Vasco Luís José de Mello	Executive Director	245.917,99
Inácio António da Ponte Metello de Almeida e Brito	Executive Director	241.828,29
Guilherme Barata Pereira Dias de Magalhães	Executive Director	275.870,87
Paulo Jorge Cleto Duarte	Non-Executive Director	-
Luís Eduardo Brito Freixal de Goes	Non-Executive Director	-
Vera Margarida Alves Pires Coelho	Non-Executive Director	26.666,64
Céline Dora Judith Abecassis-Moedas	Non-Executive Director	26.666,64

- ii. Gross remuneration paid by José de Mello Saúde, S.A. to members of the Supervisory Board during the financial year of 2016
Members of the Supervisory Board have a gross annual remuneration of 7,500 euros for the Chairman and 6,000 for Members.
- iii. Gross remuneration paid by José de Mello Saúde, S.A. to members of the Remuneration Committee during the financial year 2016
Members of the Supervisory Board have a gross annual remuneration of 6,000 euros for the Chairman and 4,000 for Members.

- iv. Amount of annual remuneration paid by the company and/or by legal persons in control or group relationship to the auditor and to other natural or legal persons and specification of the percentage for each type of service.

Description	Amount (euros)
Cost of statutory audit services	150.545
Cost of assurance services	11.000
Cost of tax advisory services	91.625
Cost of other non-audit services	-
Total	253.170

(Free Translation from the original in Portuguese)

Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of José de Mello Saúde, S.A. (the Group), which comprise the Consolidated Statement of Financial Position as at December 31, 2016 (which show a total of 502.866.271 euros and a total equity of 81.667.539 euros, including a net profit for the year of 23.918.981 euros), and the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of José de Mello Saúde, S.A. as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and with other standards and technical directives of the Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the entities that comprise the Group in accordance with the law and we comply with the ethical requirements of the Code of Ethic of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We describe below the key audit matters of the current period.

- 1. Recognition and measurement of revenue and compliance with contractual and regulatory requirements of public health services given the complexity of Public-Private Partnership management agreements of Braga and Vila Franca de Xira Hospitals**

Description of the risks of material misstatement	Summary of our approach to the risks of material misstatement
<p>Sales and services rendered and Other operational revenues of the group are essentially related to two business segments:</p> <ul style="list-style-type: none"> ▶ Public health services, that represent 37% of total revenue; and ▶ Private health services, that represent 62% of total revenue. <p>The group manages the services rendered by two</p>	<p>Our approach to the risks of material misstatement includes: i) a global response with impact on the way the audit has been performed; and ii) a specific response which translated in a combined approach of assessment of controls and substantive procedures, namely:</p> <ul style="list-style-type: none"> ▶ Assessment of the effectiveness of the internal control environment and execution of test of controls and tests related with i) production entitlement, and ii) computation of production based on the assumptions defined in the management agreements;

Description of the risks of material misstatement	Summary of our approach to the risks of material misstatement
<p>public hospitals: Braga Hospital and Vila Franca de Xira Hospital. The activity and the revenues of the two Hospitals are determined in accordance with the applicable clauses included in the Public-Private management agreements signed with the Regional Health Administrations, as disclosed in notes 2.3, 2.5 and 5 of the Notes to the Consolidated Financial Statements. The materiality, variety and complexity of the health services rendered, associated with the judgment inherent to the interpretation of the referred agreements represents a significant audit risk. The fact that the production related to prior years is not yet closed, as mentioned in note 2.3 of the Notes to the Consolidated Financial Statements, indicates significant uncertainty about the acceptance of revenues recognized in prior years and in current year, as detailed in note 21 of the Notes to the Consolidated Financial Statements.</p> <p>Consequently, the recoverability of the balances related to Braga Hospital (30.702 thousand euros) and Vila Franca de Xira Hospital (13.298 thousand euros) depends on the success of the ongoing negotiations with the Regional Health Administrations for each of the indicated years.</p> <p>The recognition and measurement of public health revenues involves, as per the above, significant judgement from management as disclosed in the note 2.3 of the Notes to the Consolidated Financial Statements, particularly, in what concerns the determination of eligible production and its measurement.</p>	<ul style="list-style-type: none"> ▶ Execution of analytical review procedures to all sales and services rendered accounts, including analysis of the significant variances compared to prior year, compared with expectations and with the agreed / budgeted production with the use of data analysis tools (analytics); ▶ Execution of test of details to validate contractual compliance and eligibility of services rendered related to unbilled production and accrued revenues, including the recalculation of current year revenues in accordance with the incurred production, considering the rules of the different classes, compared with the contracted production; ▶ Analysis of correspondence / communications between Braga Hospital and Vila Franca de Xira Hospital and the Regional Health Administrations related with the matters that are still under validation for the years that are still under discussion; ▶ Analysis of the quarterly reports issued by an external independent expert related to the Monitoring and Assessment of Care Assistance Results, which include the recalculation of the performance factor results and the service performance parameters. Recalculation of the penalties related to those parameters; ▶ Retrospective analysis of previous years' settlement agreements, to confirm consistency of the treatment agreed with Braga Hospital and Vila Franca de Xira Hospital and the Regional Health Administrations, for those instances of production not eligible and analysis of coherence for the years that are still under discussion. <p>Our approach also encompassed the analysis of the disclosures included in the notes 2.3, 2.5, 5 and 21 of the Notes to the Consolidated Financial Statements to ensure that those notes are in accordance with the applicable accounting standards.</p>

2. Recognition and measurement of revenues from private health services due to the high volume of transactions, and the variety and complexity of services rendered in the various health units.

Description of the risks of material misstatement	Summary of our approach to the risks of material misstatement
<p>As mentioned in the previous Key Audit Matter, consolidated revenues from rendering of private health care services comprise a significant volume of transactions, from various health units that render a variety of complex services. The specificity and complexity of some of the services rendered and the multiplicity of existing agreements with health insurance companies and health subsystems organizations increase significantly the risk of services rendered not recognized or incorrectly measured.</p>	<p>Our approach to the risk of material misstatement includes: i) a global response with impact on the way the audit has been performed; and ii) a specific response which translated in a combined approach of assessment of controls and substantive procedures, namely:</p> <ul style="list-style-type: none"> ▶ Assessment of the effectiveness of internal control environment and execution of tests of controls related to revenue recognition; ▶ Perform the reconciliation between the operational invoicing system and the recognition of revenue in the general ledger; ▶ Execution of analytical review procedures to all sales and services rendered accounts, including analysis of the significant variances compared to prior year, compared with expectations and with the

Description of the risks of material misstatement	Summary of our approach to the risks of material misstatement
	<p>agreed / budgeted production with the use of data analysis tools (analytics);</p> <ul style="list-style-type: none"> ▶ Testing of the amount booked as accrued invoices as at December 31, 2016, through the substantive analysis of the processes that originated the deferral of invoicing, as well as through the subsequent clearance, after the financial year end; ▶ Execution of data analysis procedures (analytics) to validate the correlation of transactions booked i) between the sales and services rendered accounts and the clients' accounts and ii) between the clients' accounts and cash & banks, occurred from January 1, 2016 to December 31, 2016. <p>Our approach also encompassed the analysis of the disclosures included in the notes 2.5, 5 and 21 of the Notes to the Consolidated Financial Statements to ensure that disclosures are in accordance with the applicable accounting standards.</p>

3. Impairment of Goodwill

Description of the risks of material misstatement	Summary of our approach to the risks of material misstatement
<p>The amount of Goodwill as at December 31, 2016 amounts to 33.366 thousand euros and is related to the business combinations disclosed in the note 15 of the Notes to the Consolidated Financial Statements.</p> <p>An impairment test should be performed to this asset on an annual basis, which involves a high level of subjectivity inherent (i) to the assumptions taken by management in forecasting the business plans of each Cash Generating Unit, as well as (ii) to the remaining assumptions included in the calculation of the value in use, determined in accordance with the discounted cash flows methodology, namely the discount rates and forecasted performance, including perpetual growth, as disclosed in note 15 of the Notes to the Consolidated Financial Statements.</p> <p>Consequently, the potential impairment of goodwill has been considered a relevant matter because the amount booked for this asset is material and the impairment assessment process is complex.</p>	<p>We have tested the assumptions used on the valuation models prepared by management, namely the cash flows projections, the discount rate, the inflation rate, the perpetual growth rate and the sensitivity analysis, supported by internal specialists in business valuations.</p> <p>We have tested the consistency of the assumptions used in the business plans with prior years, with historical data and with external data.</p> <p>We have tested the arithmetical calculation of the model used.</p> <p>We have reviewed the sensitivity analysis of the impairment tests performed to the Cash Generating Units, to ensure that the disclosures included in note 15 of the Notes to the Consolidated Financial Statements reflect the outcome of the impairment tests performed.</p> <p>We have reviewed the requirements of the applicable disclosures (IAS 36) in accordance with the notes 2.3, 2.4 b) and 15 of the Notes to the Consolidated Financial Statements.</p>

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

Management is responsible for:

- ▶ the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards as endorsed by the European Union;
- ▶ the preparation of the Management Report, including the Corporate Governance Report in accordance with the laws and regulations;
- ▶ 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;
- ▶ adoption of appropriate accounting policies and principles for the circumstances;
- ▶ assessment of the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the 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 ISAs 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ identify and assess the risks of material misstatement of the 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 Group's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's 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 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 Group to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the 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;
- ▶ communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- ▶ from the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and

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

Our responsibility includes the verification of the consistency of the consolidated Management Report with the consolidated financial statements, and the verifications under numbers 4 and 5 of article 451º of the Commercial Companies Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

About the Management Report

Pursuant of article 451º, nº 3, al. e) of the Commercial Companies Code, it is our opinion that the consolidated Management Report was prepared in accordance with laws and regulations in force, the information contained therein is in agreement with the audited consolidated financial statements and, taking into consideration our assessment and understanding of the Group, we have not identified any material misstatement.

About the Corporate Governance Report

Pursuant of article 451º, nº 4, of the Commercial Companies Code, it is our opinion that the Corporate Governance Report (Information of the shareholders structure, organization and Corporate governance) includes the items required to the Group in accordance with article 245º-A of Securities Market Code, no material misstatements were identified in the information contained therein, complying with the provisions of paragraph c), d), f), h), i) and m) of the referred article.

About additional items set out in article 10º of Regulation (EU) nº 537/2014

Pursuant of article 10º of Regulation (EU) nº 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we report the following:

- ▶ We have been appointed as auditors of José de Mello Saúde, S.A. for the first time in the shareholders' general meeting held on October 11, 2007 for the period between 2007 and 2009. We were reappointed in the shareholders' general meeting held on April 29, 2016 for a forth mandate for the period between 2016 and 2018.
- ▶ The Management has confirmed that they are not aware of any fraud or fraud suspicion with a material impact in consolidated financial statements. In planning and executing our audit in accordance with ISA we maintained our professional scepticism and we designed audit procedures to address the possibility of a material misstatement in consolidated financial statements due to fraud.
- ▶ We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Audit Committee as of March 31, 2017.
- ▶ We declare that we have not provided any prohibited non-audit services referred to in article 77º nº 8 of the Statute of the Institute of Statutory Auditors and we remained independent of the audited Group in conducting the audit.

Lisbon, April 10, 2017

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

Luís Miguel Gonçalves Rosado - ROC nº 1607
Registered with the Portuguese Securities Market Commission under licence nr.º 20161217

4.6. Report and Opinion of the Supervisory Board Concerning the Consolidated Accounts

Dear Shareholders,

In accordance with legal and statutory terms, the Supervisory Board of José de Mello Saúde S.A., with headquarters at Av. do Forte, 3 – Edifício Suécia III, Piso 2, 2790-073 Carnaxide, presents its supervisory report and provides an opinion on the management report and on the consolidated accounts submitted by the Board concerning the financial year ended on 31 December 2016.

1. In accordance with legal and statutory terms, we have:

- approved the plan of activities for 2016;
- supervised the actions of the Board, through meetings with the internal audit department, financial department, strategic planning, management and innovation control department, information systems department and organisational development and quality department, obtaining the clarifications and comfort deemed necessary;
- verified compliance with the law and fulfilment of the company's articles of association;
- evaluated whether the accounting policies and valuation/measuring criteria adopted by the company are in agreement with the generally accepted accounting principles and lead to a proper evaluation of the assets and results;
- evaluated the effectiveness of the internal control system implemented by the Board;
- supervised the process of preparation and disclosure of the financial information;
- verified the accuracy of the Statement of Financial Position, the Statement of Income and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Annex of the financial year of 2016;
- evaluated the Management Report issued by the Board and the proposal for the appropriation of profits it introduced;
- evaluated the work carried out by the Statutory Auditor leading to the legal review and additional services;
- verified the terms of the Legal Accounts Certificate, the Audit Report and the Additional Report to the Supervisory Body issued by Ernst & Young Audit & Associados – SROC, S.A., and concluded that its content merits our agreement.

2. From our work, we highlight the following:

- •2016 was very difficult and complex as a result of the decision by the contracting public authority for the public-private partnerships to end the HIV and Multiple Sclerosis Vertical Programmes in Braga Hospital, with a direct impact of 7.5 million euros on the results. The Management, through articulated and focused programmes, managed to increase the efficiency of the internal processes, which led to a very high reduction in costs, enabling annulling the mentioned negative effects. In addition, it managed to recover three reinstated public holidays with the estimated value of 1.5 million euros, contributing with this global effort to a Net Profit 8.9% higher than the previous year's;
- •we emphasise the growth of the company's balance sheet, which exceeded 502 million euros, largely due to its growth strategy. In comparison with 2015, gross debt increased by 7.5 million euros and net debt increased 26.3 million euros, which is fully justified by the policy of investing in new units. The financial leverage ratio, namely D/EBITDA, increased to 2.3x (2.0x in 2015). Even with an increase in equity, the financial autonomy and solvency ratios showed small reductions, as a result of the investment effort in new units carried out during the year.

3. The conducted supervisory action allows us to conclude that:

- the actions of the Board that we have knowledge of safeguard compliance with the law and with the company's articles of association;
 - we are not aware of any situations that can call into question the suitability and effectiveness of the internal control system implemented by the Board in controlling the risk to which the company is exposed;
 - the accounting and the accounts comply with the applicable legal, statutory and regulatory provisions, reflect the activity carried out and lead to a correct evaluation of the company's assets and results;
 - the Management Report is in agreement with the accounts presented and faithfully shows the evolution of the activity and of the business during the financial year;
 - the published report includes the elements listed in article 245-A of the Securities Code on the structure and practices of corporate governance;
 - the Statement of Financial Position, the Statement of Income and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Annex of the financial year of 2016 meet the applicable legal and accounting requirements;
 - the audit of the financial statements performed by the Statutory Auditor was suitable to the circumstances, and the additional services did not compromise its independence;
 - the proposal for the appropriation of profits is appropriate and is properly grounded.
- our agreement with the Management Report and accounts for the 2016 financial year presented by the Board of Directors;
 - that to the best of our knowledge, the disclosed financial information has been drafted in accordance with current accounting standards and give a true and fair view of the assets and liabilities, financial situation and results of the company, and that the Management Report faithfully describe the development, financial performance and position of the company, containing a description of the main risks and uncertainties it faces.

5. Accordingly, taking into account the actions carried out, we consider that:

- the consolidated Management Report and the consolidated accounts of the 2016 financial year presented by the Board of Directors should be approved;

Finally, we would like to thank the Board and all Employees in the service of the Company who we contacted, for all the cooperation we received when performing our duties.

Lisbon, 6 April 2017

The Supervisory Board

José Manuel Gonçalves de Morais Cabral
(Chairman)

João Filipe de Moura-Braz Corrêa da Silva
(Member)

José Luís Bonifácio Lopes
(Member)

4. We can thus state:

- our agreement with the content of the Legal Accounts Certificate issued by the Statutory Auditor;

4.7. Declaration of Compliance of the Supervisory Board

In accordance with provisions in Article 245(c) (1) of the Securities Code, José de Mello Saúde, S.A. ("JMS") Supervisory Board members declare that, to the best of their knowledge, the management report, the consolidated annual accounts, the legal accounts certificate and the other accounting documents, i) were prepared in accordance with current accounting standards and give a true and fair view of the assets and liabilities, financial situation and results of José de Mello Saúde and of the companies included in the scope of consolidation; ii) they faithfully describe the development, performance and position of JMS business activity and of the companies included in the scope of consolidation; and iii) they contain a description of the main risks José de Mello Saúde faces in its activity.

Lisbon, 6 April 2017

The Supervisory Board

José Manuel Gonçalves de Moraes Cabral
(Chairman)

João Filipe de Moura-Braz Corrêa da Silva
(Member)

José Luís Bonifácio Lopes
(Member)



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