



ASSOCIAÇÃO OPERAÇÃO SORRISO DO BRASIL
FINANCIAL STATEMENTS
DECEMBER 31, 2016
With independent auditor's report

ASSOCIAÇÃO OPERAÇÃO SORRISO DO BRASIL

FINANCIAL STATEMENTS

DECEMBER 31, 2016

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Independent auditor's report

**To the Management and Associates
Associação Operação Sorriso do Brasil
São Paulo - SP**

Opinion

We have audited the financial statements of Associação Operação Sorriso do Brasil ("Association"), which comprise the statement of financial position as at December 31, 2016, the statement of surplus or deficit, statement of changes in net worth and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Associação Operação Sorriso do Brasil as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Association in accordance with the relevant ethical principles set out in the Code of Ethics for Professional Accountants and professional standards issued by the Federal Accounting Board ("CFC"), and we have fulfilled our other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other matters – Audit of the prior year financial statements

The financial statements for the year ended December 31, 2015, presented for comparative purposes, were audited by other independent auditors who issued an unqualified audit opinion thereon, dated July 26, 2016.

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

The management of the Association is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices adopted in Brazil applicable to non-profit entities, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibility 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 Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the 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 audit 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 Association'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 Association'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 Association 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.

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

São Paulo, May 17, 2017

Crowe Horwath Macro Auditores Independentes
CRC 2SP033508/O-1



Fábio Debiaze Pino
Accountant - CRC1SP251154/O-9



Sérgio Ricardo de Oliveira
Accountant - CRC1SP186.070/O-8

Associação Operação Sorriso do Brasil

Statements of financial position at December 31

In reais (R\$)

Assets	Note	2016	2015	Liabilities and net worth	Note	2016	2015
Current assets				Current liabilities			
Cash and cash equivalents	4	267,812	363,843	Accounts payable	9	12,043	35,893
Accounts receivable	5	333,699	47,758	Labor and social security obligations	10	48,626	87,432
Inventories	6	115,231	343,740	Tax obligations	11	2,548	10,996
Other receivables		15,193	6,417			63,217	134,321
		731,935	761,758	Noncurrent liabilities			
				Provision for contingent liabilities	12	139,151	139,151
						139,151	139,151
Noncurrent assets				Net worth			
Property and equipment	7	195,397	217,596	Net worth	13	615,418	651,188
Intangible assets	8	8,349	12,417	Donations reserve		102,881	102,881
		203,746	230,013	Surplus (deficit) for the period		15,014	(35,770)
						733,313	718,299
Total assets		935,681	991,771	Total liabilities and net worth		935,681	991,771

The accompanying notes are an integral part of these financial statements.

Associação Operação Sorriso do Brasil

Statements of surplus or deficit at December 31

In reais (R\$)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Operating revenues			
With restriction			
Voluntary work	15.1	348,869	223,184
Without restriction			
Individual donations	15.2	64,191	159,359
Corporate donations	15.2	1,197,658	892,963
Anonymous donations		45,814	112,681
Donations from abroad	15.2	941,245	374,903
Donations from United Way/ White Martins		151,204	186,084
Donations of products and services	15.2	280,527	666,595
Revenues from events		114,652	-
Total revenues without restriction		2,795,291	2,392,585
Total operating revenues		3,144,160	2,615,769
Costs of programs			
Cost of assistance programs	16	(1,360,702)	(1,197,354)
Voluntary work		(348,869)	(223,184)
Total costs of programs		(1,709,571)	(1,420,538)
Operating expenses			
Personnel expenses	17	(676,707)	(643,949)
Administrative expenses	18	(655,350)	(574,837)
Other expenses, net		(89,740)	(63,497)
Total operating expenses		(1,421,797)	(1,282,283)
Surplus (deficit) before finance income (costs)		12,792	(87,052)
Finance income (costs), net	19	2,222	51,282
Surplus (deficit) for the year		15,014	(35,770)

The accompanying notes are an integral part of these financial statements.

Associação Operação Sorriso do Brasil

Statements of changes in net worth

In reais (R\$)

<u>Description</u>	<u>Net worth</u>	<u>Donations reserve</u>	<u>Surplus (deficit) for the period</u>	<u>Total</u>
Balances at December 31, 2014	582,663	102,881	68,525	754,069
Transfer of surplus for the year	68,525	-	(68,525)	-
Deficit for the year	-	-	(35,770)	(35,770)
Balances at December 31, 2015	651,188	102,881	(35,770)	718,299
Transfer of deficit for the year	(35,770)	-	35,770	-
Surplus for the year	-	-	15,014	15,014
Balances at December 31, 2016	615,418	102,881	15,014	733,313

The accompanying notes are an integral part of these financial statements.

Associação Operação Sorriso do Brasil

Statements of cash flows for the years ended December 31

In reais (R\$)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Surplus (deficit) for the year	15,014	(35,770)
Adjustments to reconcile surplus (deficit) to funds from operating activities		
Depreciation and amortization	33,210	17,678
Residual value of property and equipment written off	178,445	3,736
Exchange rate changes	-	(4,846)
	226,669	(19,202)
Changes in assets and liabilities		
Accounts receivable	(285,941)	(21,687)
Inventories	228,509	(266,974)
Other receivables	(8,776)	(4,601)
Accounts payable	(23,850)	17,706
Labor and social security obligations	(38,806)	26,616
Tax obligations	(8,448)	86,969
Net cash generated by (used in) operating activities	89,357	(181,173)
Cash flows from investing activities		
Purchase of property and equipment	(185,388)	(166,112)
Net cash used in investing activities	(185,388)	(166,112)
Decrease in cash and cash equivalents	(96,031)	(347,285)
Cash and cash equivalents at the beginning of the period	363,843	711,128
Cash and cash equivalents at the end of the period	267,812	363,843
Decrease in cash and cash equivalents	(96,031)	(347,285)

The accompanying notes are an integral part of these financial statements.

Associação Operação Sorriso do Brasil

Notes to the financial statements at December 31, 2016 and 2015
In reais (R\$)

1. General information

Associação Operação Sorriso do Brasil (“Association”) is a non-profit philanthropic entity that started its activities on December 8, 2006. The Association is located at Avenida Brigadeiro Faria Lima, nº 2.413, São Paulo, SP, and its activities are governed by its statutes, the provisions of Law 9,790 of March 23, 199 and Decree 3,100 of June 30, 1999, and other applicable legal provisions. The Association’s duration is for an indeterminate period.

The purpose of the Association is to provide support and assistance in scientific, medical and educational work for the areas of reconstructive plastic surgery and aesthetic surgery for children, teenagers, young adults and eventual needy adults, in conformity with the provisions of sole paragraph, article 4 of Law 9,790 of 3/23/1999.

2. Presentation of financial statements

2.1 Statement of compliance in respect of accounting practices

The financial statements have been prepared in accordance with accounting practices adopted in Brazil, including the provisions of the Federal Accounting Board (CFC) Resolution 2015/ITG2002(R1), which approved the Technical Interpretation ITG 2002 (R1) “Non-profit Entities”.

The financial statements were approved by the Association’s management on April 20, 2017.

2.1 Basis of measurement

The financial statements have been prepared on a historical cost basis except for non-derivative financial instruments that are measured at fair value through profit or loss.

2.2 Functional currency

These financial statements are presented in Brazilian reais (R\$), which is the Association’s functional currency. All financial information presented in reais has been rounded to the nearest thousand, unless otherwise indicated.

Use of estimates and judgments

The preparation of financial statements in accordance with accounting practices adopted in Brazil requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Associação Operação Sorriso do Brasil

Notes to the financial statements at December 31, 2016 and 2015
In reais (R\$)

Statement of comprehensive income

There were no transactions in net worth, in all material respects, that could result in adjustments to the components of the statement of comprehensive income and, therefore, this statement is not being presented.

3. Summary of significant accounting policies

(a) Determination of surplus or deficit for the year

The surplus or deficit from the activities is determined under the accrual basis of accounting.

(b) Adjustment to present value

Long-term monetary assets and liabilities and short-term ones, when the effect is considered material in relation to the financial statements taken as a whole, are adjusted to their present value.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks readily convertible into a known amount of cash and subject to an insignificant risk of change in value. They are stated at cost, plus yield accrued which does not exceed their fair value.

(d) Property and equipment

Property and equipment are stated at acquisition cost less accumulated depreciation calculated under the straight-line method at annual rates that take into consideration the estimated useful life and residual value of the assets (see note 7).

(e) Intangible assets

Software licenses are capitalized based on the costs incurred to purchase and use the specific software. These costs are amortized over their estimated useful lives using the straight-line method.

(f) Impairment of assets

Management reviews annually the net carrying amount of the assets to assess events or changes in economic, operating or technological circumstances that may indicate evidences of impairment. Whenever these evidences are identified, and the net carrying amount exceeds the recoverable amount, a provision for impairment is recognized adjusting the net carrying amount to the recoverable amount.

(g) Net worth

This balance comprises donations received from third parties, plus or less the surplus or deficit for each year.

The transfer of surplus/deficit to net worth occurs upon approval of the associates' meeting.

Associação Operação Sorriso do Brasil

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(h) Other noncurrent assets and liabilities

Current and noncurrent assets and liabilities are stated at known or estimated amounts, plus, when applicable, the related charges, inflation adjustment and/or exchange rate changes through the end of the reporting period.

4. Cash and cash equivalents

<u>Description</u>	<u>2016</u>	<u>2015</u>
Cash	33	1,736
Banks	10	10
Financial investments	267,769	362,097
Total	267,812	363,843

The Association has investment policies that determine investments in low-risk securities with yield based on percentages of the CDI (interbank deposit certificate rate) variation. This balance refers basically to investments in low-risk investment funds at traditional institutions.

5. Accounts receivable

<u>Description</u>	<u>2016</u>	<u>2015</u>
Accounts receivable from donations	328,239	42,912
Other amounts	5,460	4,846
Total	333,699	47,758

Accounts receivable refer to donations from domestic or foreign companies that undertook to make donations in a subsequent period, the amounts from these donations will be used by the Association in treatments and surgery missions for the year and 2017.

6. Inventories

<u>Description</u>	<u>2016</u>	<u>2015</u>
Surgical materials and consumer goods	115,231	343,740
Total	115,231	343,740

The inventory amounts refer to materials to be used in future programs. The durable materials return to the storeroom at the end of each program. The inventories comprise materials or consumer goods that will be used in the provision of services.

Associação Operação Sorriso do Brasil

Notes to the financial statements at December 31, 2016 and 2015

In reais (R\$)

7. Property and equipment

Description	Rate	2015	Additions	Write-offs	Depreciation	2016
Machinery and equipment	10%	4,860	-	(3,507)	(687)	666
Furniture and fixtures	10%	50,327	-	(19,539)	(6,943)	23,845
Medical equipment	10%	154,352	180,100	(155,399)	(17,627)	161,426
Computers and peripherals	20%	8,057	5,288	-	(3,884)	9,461
		<u>217,596</u>	<u>185,388</u>	<u>(178,445)</u>	<u>(29,141)</u>	<u>195,397</u>

8. Intangible assets

Description	Rate	2015	Additions	Write-offs	Amortization	2016
Software	10%	12,417	-	-	(4,069)	8,349
		<u>12,417</u>	<u>-</u>	<u>-</u>	<u>(4,069)</u>	<u>8,349</u>

9. Accounts payable

Description	2016	2015
Professional services payable	3,386	35,893
Rentals payable	3,591	-
Sundry suppliers	5,066	-
Total	<u>12,043</u>	<u>35,893</u>

10. Labor and social security obligations

Description	2016	2015
Payroll taxes payable	31,914	31,901
Severance payable	-	29,102
Accrued vacation and charges	16,712	26,429
Total	<u>48,626</u>	<u>87,432</u>

11. Tax obligations

Description	2016	2015
IRRF (withholding income tax)	578	767
PIS and COFINS (taxes on revenue) and CSLL (social contribution on profit)	1,816	2,208
ISS (service tax) payable	154	20
Payroll taxes payable	-	8,001
Total	<u>2,548</u>	<u>10,996</u>

Associação Operação Sorriso do Brasil

Notes to the financial statements at December 31, 2016 and 2015
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12. Provision for contingent liabilities

In the normal course of its activities, the Association is subject to tax, civil and labor lawsuits. As at December 31, 2016 and 2015, the Association was not a party to any lawsuit.

Management, based on the opinion of its legal counsel and experts, when applicable, assesses the matters that may raise future challenges and determines the need to recognize a provision for contingent liabilities. The balances as at December 31, 2016 and 2015, amounting to R\$ 139,151, refer to potential labor liabilities under discussion, still without any administrative or judicial proceeding in progress.

13. Net worth

Net worth is presented in inflation adjusted amounts and comprises the opening net worth, plus the surplus less the deficit occurred since the Association's foundation date.

14. Tax aspects

(a) Corporate Income Tax (IRPJ) and Social Contribution on Profit (CSLL)

As it is a non-profit entity, the Association enjoys the benefit of exemption from payment of federal taxes levied on profit, in accordance with articles 167 to 174 of the Income Tax Regulation approved by Decree 3,000 of 3/26/99 and article 195 of the Federal Constitution.

(b) PIS and COFINS

As regards the social contribution to the Social Integration Program (PIS), the Association is subject to the payment of the contribution calculated on the payroll at the rate of 1%, as provided for in article 13 of Executive Act 2,158-35, of August 24, 2001.

Regarding the Social Contribution for Social Security Financing (COFINS), the Association enjoys the benefit of exemption from payment of the tax levied on revenues related to its activities, in conformity with Laws 9,718/98 and 10,833/03, and is subject to tax payment on its other revenues.

15. Operating revenues

15.1 Revenues with restriction

Corrective surgeries by Operação Sorriso do Brasil are made by a team of volunteer health professionals. This work is recognized as donation and recorded through "working hours" according to the professional category, the rate per professional is determined according to the table disclosed and collective agreements of the labor unions of each category. In 2016, the amount determined was R\$ 348,869 (R\$ 223,184 in 2015).

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Notes to the financial statements at December 31, 2016 and 2015
In reais (R\$)

15.2 Revenues without restriction

(a) Corporate donations

They are donations performed by companies through deposit in the current account of the entity, as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>
Aumund Ltda.	43.426	38.200
Associação Cidadesperança	50.000	50.000
Bichara, Barata & Costa Advogados	560	1.200
Bradesco Seguros	50.000	70.000
Comerc Comercializadora de Energia Elétrica	100.800	98.025
Icatu Seguros S.A.	150.000	50.000
Instituto Azzi	-	27.000
Assoc. Clube Literatura / Cooperjohnson	-	123.915
LDS Church	87.051	59.626
Milano Comércio	-	50.000
Pepsico	-	196.390
Banco Citibank	-	50.000
Voltaia Usina de Energia	422.842	-
Coop Economia	37.935	-
Andressa Nunes da Silva ME	24.000	-
Others	231.044	78.607
	<u>1.197.658</u>	<u>892.963</u>

(b) Donations from abroad

These are funds received in foreign currency from the parent company (Operation Smile Inc.) or from international partner organizations, as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>
Operation Smile	510.690	374.903
Temasek	374.984	-
Others	55.571	-
	<u>941.245</u>	<u>374.903</u>

(c) Individual donations

These are donations performed by individuals through direct deposit into the Association's current account.

(d) Donations of products and services

Donations of products of surgical consumption performed by companies responsible producing these materials or voluntary services provided to the Association. The composition is as follows:

Associação Operação Sorriso do Brasil

Notes to the financial statements at December 31, 2016 and 2015
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<u>Description</u>	<u>2016</u>	<u>2015</u>
Alfa Computer Assessoria em Informática	-	20.520
Auto Suture do Brasil Ltda.	-	29.205
Azul Linhas Aéreas	151.115	244.154
Pepsi Cola Indústria da Amazônia Ltda.	-	135.995
Cristália Prods. Químicos Farmacêuticos Ltda.	-	14.601
Medtronic	-	131.904
Johnson & Johnson BR Ind. e Com. Ltda.	74.317	51.073
Schiwartche Advogados	15.000	15.000
Others	40.095	24.143
	<u>280.527</u>	<u>666.595</u>

16. Costs of programs

In compliance with the provisions of item VI of article 3 of Decree 2,536/98, in 2016 and 2015 the Association granted the following gratuities for the holding of assistance programs:

<u>Description</u>	<u>2016</u>	<u>2015</u>
Air tickets	(326,048)	(527,757)
Meals	(29,950)	(179,888)
Medical supplies	(638,085)	(175,806)
Lodging services	(120,665)	(84,220)
Cargo storage services	(77,324)	(38,742)
Transportation services	(26,764)	(41,356)
Customs technical services	-	(20,648)
IT advisory services	-	(20,520)
Phone calls	(3,141)	(15,578)
Legal advisory services	-	(15,000)
Press advisory services	(19,416)	(12,600)
Distribution of gifts/prizes/presents/Kits	(29,598)	(8,777)
Other costs	(89,711)	(56,462)
Total	<u>(1,360,702)</u>	<u>(1,197,354)</u>

17. Personnel expenses

<u>Description</u>	<u>2016</u>	<u>2015</u>
Personnel expenses	(517,615)	(430,112)
Personnel charges	(159,092)	(213,837)
Total	<u>(676,707)</u>	<u>(643,949)</u>

Associação Operação Sorriso do Brasil

Notes to the financial statements at December 31, 2016 and 2015

In reais (R\$)

18. Administrative expenses

Description	2016	2015
Rental	(47,352)	(58,107)
Office equipment lease	(6,268)	(7,766)
Internet	(9,577)	(1,276)
Office supplies	(5,281)	(3,369)
Travels/air tickets	(103,276)	(6,323)
Registration/domain of website	(6,327)	(10,050)
Accounting advisory services	(19,322)	(21,005)
Audit services	(10,702)	(9,329)
Mailing/motoboy/transportation services	(24,481)	(3,945)
Advisory and consulting services	(351,776)	(390,549)
Phone calls	(17,844)	(3,382)
Other expenses	(53,144)	(59,736)
Total	(655,350)	(574,837)

19. Finance income (costs), net

Description	2016	2015
Finance income	20,331	54,138
Finance costs	(18,109)	(2,856)
Total	2,222	51,282

20. Insurance coverage

The Association has insurance coverage in amounts considered sufficient by Management to cover any risks on its assets and/or liabilities. The scope of the work of our auditors does not include the issuance of an opinion on the sufficiency of the insurance coverage.

21. Financial instruments

The financial instruments (cash and banks, accounts receivable, other receivables, and accounts payable) are recorded in the statement of financial position at their carrying amounts, according to the criteria mentioned in the explanatory notes. During the year, the Association did not enter into derivative transactions.

The Association carries out transactions with financial instruments. These instruments are managed by means of operating strategies and internal controls aimed to ensure liquidity, profitability and safety. The control policy consists in ongoing monitoring of the contracted conditions against the prevailing market conditions. The Association does not make speculative investments in derivatives or any other risk assets. The results obtained from these transactions are consistent with the policies and strategies defined by its management.

Associação Operação Sorriso do Brasil

Notes to the financial statements at December 31, 2016 and 2015
In reais (R\$)

22. Exemptions enjoyed and tax relief

In compliance with ITG 2002 (R1) – Non-profit entity, approved by CFC resolution 1,409/12, the Association presents below the amount of the tax relief determined in 2016 and 2015, if the obligation was due. Therefore, in our judgment, we considered the following taxes and contributions and related rates and point out that they refer to estimated calculations of tax relief covering the main taxes and contributions as the Association does not have the obligation to have tax bookkeeping.

The amounts are comprised as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>
PIS and COFINS (3.65% on revenues)	114,762	95,476
IRPJ and CSLL (34% on the surplus for the year)	5,105	-
Total	119,867	95,476

23. Events after the reporting period

In conformity with Brazilian accounting standards, Management has made its assessments and reached the conclusion that there are no significant events to be disclosed between the end of the reporting period and the date of approval of the financial statements.
