Financial Statements

Ser Educacional S.A.

December 31, 2018
with Independent Auditor's Report

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Financial Statements

December 31, 2018

Contents

Management Report...1
Independent auditor's report 7

Audited financial statements

Statement of financial position 14
Statement of income 15
Statement of comprehensive income 16
Statement of changes in equity..17
Statement of cash flows...18
Statement of value added 19
Notes to the financial statements 22

2018 Management Report

To the Shareholders,

Ser Educacional S.A. Hereby presents its Management Report and Financial Statements for the fiscal year ended December 31, 2018. The consolidated financial statements have been prepared in accordance with the accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC) and the standards issued by the Brazilian Securities and Exchange Commission (CVM), as well as according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Message from Management

2018 was marked as an important milestone in Grupo Ser Educacional's history, given that, in the midst of a challenging political and economic environment for Brazil, the Company was able to successfully sustain its economic and financial results while achieving significant goals in its long-term organic growth plan, with the opening of 14 new campuses in the last 24 months, a 30% expansion in its on-campus unit base, through which the Company began operating in new regions and went from 46 to 60 campuses in operation, and 86 new Distance Learning centers in operation, which went from 119 centers in December 2017 to 205 centers in 2018, an increase of 72%. On the other hand, the Company's financial result show a moderate growth in net revenue and net income, in the comparison between the 2017 and the 2018 fiscal year.

However, the year's results do not reflect how turbulent the period was, especially during the first six months, which was marked by a drop in student enrollment, presenting figures below what was expected by Management, mainly due to: (i) the underwhelming growth of the Brazilian economy, in particular in the North and Northeast regions, (ii) deceleration of consumer confidence levels and a slower improvement in unemployment rates, as well as (iii) strong cuts in government programs, especially in relation to FIES, which presented a significant delay in its intake process during the first half of the year, negatively impacted markets in which the Company operates, as students usually wait on these programs before defining how they will conduct their studies in the semester. In the second half of the year, the higher education sector also showed a drop in demand, also reflecting a weak economy performance from June, this time due to events such as the truck drivers' strike, the World Cup and presidential and state governor elections, non-recurring events that led to lower demand in the period.

Within this scenario, the Company's Management announced, in the first half of 2018, an action plan aimed at readjusting its operational structure to the current student base and re-schedule the opening of the recently accredited units in order to launch them over the coming years with a broader course portfolio. This initiative was important as it reduced the impact and the expected maturity of recently launched units, without undermining the Company's longterm plan.

The successful implementation of this plan during the year allowed the Company to present its shareholders with a relatively stable financial performance, and, at the same time, effectively establish new organic growth fronts – in addition to the new campuses and centers launched in the period, the Company had 13 new units accredited by the Ministry of Education (MEC) and UNAMA was accredited to offer Distance Learning courses. Therefore, the Company maintains its operational expansion process with sustainable results.

The on-campus course base, which went from 1,491 courses to 1,605 courses, an increase of 7.6%, was also a highlight in the year. This variation was mainly aimed at supporting new operations, as well as units with less than 4 years since launching – in this case, accredited courses were more relevant in areas related to health and engineering.

The expansion of the student base is only sustainable with quality education, suitable infrastructure, satisfied students and good academic level, allowing students to enter the labor market and improve their income. In order to achieve these results, Grupo Ser Educacional's academic goals are focused on employability and good performance in the IGC (General Course Index) and the CPC (Preliminary Course Concept) indicators. All units presented a good level of quality: 96% of our courses evaluated in 2017, the most recently published information, received a grade equal to or higher than 3 in the CPC indicator, and practically 100% received a grade higher than or equal to 3 in the IGC indicator.

Social responsibility practices are embedded in the values and the day-to-day activities of Ser Educacional. The Company invests directly and encourages its students, professors and employees to carry out activities that benefit society and the communities surrounding its campuses. These initiatives are divided into three main pillars: culture, sports and social and environmental activities. These activities foster students' feeling of belonging to regional communities and the institution which promotes these activities, creating a connection between students, the community, the government and the institution which is extremely beneficial for all involved. The Company promotes these initiatives through its institutions and coordinates them through the Instituto Ser Educacional, which has assisted thousands of people in the above-mentioned regions.

In recognition of these efforts, UNINASSAU was ranked first among the most remembered private institutions by Pernambuco people for the seventh consecutive time. The Recall de Marcas Award is the result of a research conducted by Jornal do Commercio. The Group also received certifications from the Brazilian Association of Higher Education Supporters (ABMES) attesting to the institution's commitment to social responsibility and community development, due to its work to assist in the development of society through its brands.

Adoption of New Accounting Practices

As of 2018, the Company has recognized its revenue from students' tuition fees in accordance with IFRS 15, and thus registered gross revenue based on the amounts charged on bank slips due on the 30th of each month, or based on contracts for services, and no longer on the monthly tuition fees due on the 5th of each month, which consider a discount for timely payment. The practical effect of this change is the recognition of interest income on students' tuition fees under gross revenue as of 2018, instead of under financial revenue, which was the case until 2017. In 2018, the Company also adopted the Allowance for Doubtful Accounts (AFDA) in accordance with IFRS 9, in order to reflect the expected loss in accounts receivable according to the default of the last 12 months per student, by receivable and for each maturity range, except for student financing from Federal Government programs (FIES). Until 2017, the Company accrued its AFDA considering 100% of default for receivables more than 180 days overdue.

Operating and Financial Performance

Ser Educacional closed 2018 with a total base of 150,200 students, 1.5% less than the 152,400 students recorded in 2017, 127,800 of which in on-campus undergraduate courses, 4.6% down from December 2017. FIES students represented 26.9% of total students, or 31.6% of on-campus undergraduate students, totaling 40,400 enrolled students. The decline in the student base was mainly due to the adverse economic scenario in recent years, which has been gradually increasing unemployment rates, related to the reduction in the Federal Government's student financing program (FIES).

In the on-campus graduate segment, the Group closed the year with 5,200 students, a decline of 18.6% when compared to the 6,400 students recorded in 2017. This reduction was mainly due to the Company's new positioning in the on-campus graduate segment, in order to increase profitability per class.

In the distance-learning segment, the Company closed the year with 16,900 students, including the undergraduate and graduate segments, 44.1% up on the 11,700 students recorded in 2017.

Gross Revenue

In 2018, Ser Educacional's gross revenue totaled R$1,848.0 million, 12.6% up on 2017, mainly due to the implementation of IFRS 15, as mentioned in the Management Report, the pass-through of inflation to courses and the increased share of health courses in the course mix. These effects were offset by the reduction in the total student base.

Net revenue came to R$1,262.5 million, 2.5% up, lower than the increase in gross revenue, mainly due to the implementation of IFRS 15 and the increase in sales discounts to enroll and retain students.

Cost of Services Rendered

Cost of services totaled R$577 million, accounting for 45.7% of net revenue in 2017, 0.5 p.p. up year on year. This increase was primarily due to non-recurring severance pay related to the optimization and adjustment of the structure to support the Company's current student base.

Gross Profit and Gross Margin

Gross profit reached R$685.5 million in 2018, 1.5% up year on year, with a gross margin of 54.3%, 0.5 p.p. down from 2017. This decline was mainly a result of non-recurring severance pay related to the optimization and adjustment of the structure and lower growth in net revenue when compared to previous years, primarily due to the lower on-campus student base.

Operating Expenses

In 2018, operating expenses totaled R$446.8 million, representing 35.4% of net revenue, 1.5 p.p. up year on year. The increase in operating expenses as a percentage of net revenue was primarily due to the higher allowance for doubtful accounts, which grew by 37.5% in the period, as a result of an upturn in default by students, given the increase in the unemployment rate, which has remained at high levels for a longer period, due to the adverse economic scenario of recent years.

Adjusted EBITDA

The Company's adjusted EBITDA came to R$320.1 million, with a margin of 25.4%, 1.6 p.p. down year on year, due to the slower pace of net revenue growth, mainly as a result of the decline in the on-campus student base, and non-recurring expenses related to personnel optimization in order to meet the reduction in that same student base, as well as the 37.5% increase in the allowance for doubtful accounts in the period.

Financial Income and Costs

In 2018, the financial result was a net expense of R$27.1 million, versus a net expense of R$54.1 million in 2017, down by 50%. This improvement was mainly due to increased returns from financial investments, as a result of the Company's higher cash and cash equivalents balance and lower interest expenses due to the reduction in gross debt.

Income Tax and Social Contribution

Income tax and social contribution totaled R$7.3 million, versus R$4.4 million in 2017, primarily due to the reduction in tax incentives from PROUNI, which came to R$79.5 million in 2017 and R$74.7 million in 2018, down by 6.1%.

Net Income

As a result of the above-mentioned events, net income totaled R$201.3 million, down 1.9% from 2017.

Indebtedness

In 2018, Ser Educacional's net cash amounted to R$497.2 million, against R$452.6 million in 2017. This growth in net cash was mainly a result of the increase in the Company's operating cash generation in the period. The Company will continue to seek opportunities for new acquisitions, in line with its strategic plan.

Investments

In 2018, investments totaled R$97.3 million, 11.8% down on 2017. These funds were used for renovations and the construction of new units, in order to sustain growth in the coming years, as well as investments in libraries and computers.

Cash Generated from Operations

Operating cash generation increased from R$427.0 million in 2017 to R$435.8 million in 2018, 2.1% up year on year. This increase was mainly a result of the receipt of the last installment in relation to the Company's agreement with the Federal Government regarding outstanding 2015 FIES amounts (Agreement), pursuant to Ordinance 23/2015 (PN 23), in the amount of R$137.4 million, as well as the Company's solid cash generation during the year, with operating cash generation even exceeding EBITDA in the period.

Dividends

The Board of Directors approved, at a meeting held on March 27, 2019, the distribution of dividends in the amount of R$36.7 million, representing R$0. 284951340 per share, corresponding to 19.2% of the adjusted net income for the period. Added to the distribution of interim dividends approved on September 10, 2018, and paid on September 25, 2018, in the amount of 20,685,235.00 (twenty million, six hundred and eighty-five thousand, two hundred and thirty-five reais), representing R$0.151280291 per share, the Company distributed a total of R$57.4 million, representing R$0,436231631 per share.

Corporate Governance

In 2018, the Company significantly improved its corporate governance practices, with its Board of Directors approving a new version of its Internal Regulations, as well as new policies: Risk Management policy, a new version of its Risk Matrix policy, Management Appointment policy and Management Compensation policy.

Independent Audit

Pursuant to Article 31 of CVM Instruction 308 of May 14, 1999, which prescribes the rotation of independent auditor firm every five years, in accordance with the best corporate governance practices adopted by the Company, thus ensuring their independence, at a meeting held on June 1, 2018, Ser Educacional's Board of Directors resolved on hiring Ernst & Young Auditores Independentes S.S. ("EY") as the independent auditor of the Company and its subsidiaries, replacing PricewaterhouseCoopers Auditores Independentes ("PWC"). ERNST & YOUNG Auditores Independentes S.S. ("EY") was hired in accordance with CVM Instruction 381 of January 14, 2003, in order to audit Ser Educacional's financial statements for the year ended December 31, 2018:

Services	Service Provider	Fees	Term	Type
Audit	PWC	R$372,204.77	Jan/18 – May/18	Review and analysis of the financial statements for the fiscal year ended December 31, 2017 and the quarter ended March 31, 2018.
Consulting	PWC	R$416,678.13	Jan/18 – May/18	Equity valuation report, incorporation report and tax consulting services.
Audit	EY	R$621,669.00	Jun/18 – Dec/18	Quarterly reviews and analysis of the 2018 financial statements.
Total		R$1,410,551.90	Jan/18 – Dec/18	

The contracting of independent auditors is based on principles that preserve their independence, namely that auditors: (a) shall not audit their own work; (b) shall not perform management activities; and (c) shall not provide any services that may be considered prohibited by the current regulations. In addition, Management receives from the independent auditors a statement that any special services rendered do not affect their professional independence. Non-financial information, as well as other operating information, was not audited by our independent auditors.

Statement from Management

Ser Educacional's Management hereby declares, pursuant to CVM Instruction 480 of December 7, 2009, that it has reviewed, discussed and agreed with (i) the content and unqualified opinion in the report issued by EY on March 27, 2019; and (ii) the financial statements for the fiscal year ended December 31, 2018, with a favorable opinion from the Fiscal Council.

Adherence to Arbitration Chamber

The Company, its shareholders, managers and members of the Fiscal Council undertake to settle by means of arbitration proceedings any and all doubts and disputes that may occur between them, related to or arising from, mainly, the application, validity, effectiveness, interpretation, violation and its effects, of the provisions set forth in the Novo Mercado Listing Agreement, the Novo Mercado Listing Regulations, the Company's Bylaws, the shareholders' agreements filed at the Company's headquarters, Brazilian Corporation Law, in the regulations enacted by the National Monetary Council, the Central Bank of Brazil or the Brazilian Securities and Exchange Commission and the regulations of the Brazilian Stock Exchange (Bovespa), as well as other rules applicable to the capital market in general, the Arbitration Clauses and the Market Arbitration Panel Rules.

Acknowledgements

The Management of Ser Educacional is grateful to its students, teachers, employees, shareholders and service providers for the trust and partnership during the year and expects to have this same dedication during the year 2019.

Management

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The Shareholders, Board of Directors and Officers
Ser Educacional S.A.
Recife - PE

Opinion

We have audited the individual and consolidated financial statements of Ser Educacional S.A. ("Company"), identified as Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2018, and the statements of profit or loss, of comprehensive income, of changes in equity, and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of Ser Educacional S.A. as at December 31, 2018, and its individual and consolidated financial performance and cash flows for the year then ended in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

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

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 individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

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

Revenue recognition

Considering that the Company´s and its subsidiaries´ key source of income is the collection of monthly payments directly from individuals (students) enrolled in regular undergraduate, postgraduate, distance learning and technical courses per semester, the following main aspects came to our attention during the audit: (i) Revenue arises from a large volume of transactions, individually of low value, significantly increasing the importance of the internal controls established, notably the maintenance of an adequate register of students and pricing of the courses offered; (ii) significance of students enrolled in connection with the government´s Student Financing Fund (FIES) program, which accounts for approximately 26.9% of the student base in 2018, requiring management´s considerably complex judgment in relation to the likelihood of future receipt of the tuition fees of these students; and (iii) given the six-monthly enrollment cycle, students who remain in default at the end of each semester or are no longer enrolled lead to a higher risk of losses on accounts receivable, requiring agreements to recover overdue receivables and judgment to determine the allowance for doubtful accounts, which includes not only students in default, but also those who have entered into agreements for payment of overdue installments that may not be fully honored.

How our audit addressed this matter

Our procedures included the following, among others: (i) We updated our understanding and tested the effectiveness of the relevant internal controls implemented by the Company and its subsidiaries for the process of enrollment and definition of the price table; (ii) examination of documents that evidence student revenue transactions, on a sample basis, including: a) service agreements signed by the students; b) documentation required in the policies of the Company and its subsidiaries for enrollment of the student; c) proof of settlement of the registration payment slip, monthly fees and agreements; and d) student attendance reports; issue of collection forms and accounting for tuition fees; (iii) selection on sample basis of monthly fees from students who are eligible to the University for All Program (PROUNI) to confirm proof of student's enrollment in the program; (iv) subsequent settlement tests for billed monthly fees; (v) confirmation that the amounts corresponding to these revenues have been recorded in the proper period; and (vi) check of the reconciliation of the bases of accounts receivable of students with accounting records. We also evaluated the fairness of the respective disclosures, included in Notes 2.2, 20, and 29.19.

Based on the results of the audit procedures performed on the Company's and its subsidiaries' revenue recognition process, which is consistent with management's assessment, we consider that the revenue recognition criteria and assumptions adopted by management, as well as the respective disclosures in the notes to the financial statements, are acceptable in the context of the individual and consolidated financial statements taken as a whole.

Allowance for doubtful accounts

Determination of the amount of allowance for doubtful accounts involves subjectivity and a high degree of management judgment. The determination of the allowance for doubtful accounts involves a process that takes into account various assumptions and factors, including debt renegotiation.

This was considered a key audit matter, as the use of judgments, assumptions and factors in determining the allowance for doubtful accounts may result in significant changes in this estimate in relation to actual losses.

How our audit addressed this matter

Among other factors, our audit procedures considered the understanding of the process for calculation of the allowance for doubtful accounts, including: (i) evaluation of the integrity of the database considered in the analysis; (ii) discussion with management of the assumptions adopted for measurement of the recoverable amount of accounts receivable; (iii) checking of whether the allowance for doubtful accounts policy established by management has been applied uniformly for the entire student base; (iv) recalculation of the allowance, including reprocessing of the aging list, application of the criteria defined by management, and tests of the mathematical accuracy of the allowance calculation; and (iv) comparison between the allowance determined and the related amount recorded. We also evaluated the fairness of the respective disclosures, included in Notes 2.2 and 9 (e).

Based on the result of the audit procedures carried out on the estimated allowance for doubtful accounts, which is consistent with the management's assessment, we consider that the criteria and assumptions for recognition and measurement of the allowance adopted by management, as well as the respective disclosures in the explanatory notes, are acceptable, in the context of the individual and consolidated financial statements taken as a whole.

Impairment test of goodwill and intangible assets with indefinite useful life

As a result of the business combination transactions carried out in prior years, the Company recorded goodwill and certain intangible assets with indefinite useful life that represent approximately 14.8% of the total consolidated assets as of December 31, 2018, which are subject to annual impairment test.

Given the high subjectivity of the estimates necessary to conduct said impairment test by management to support the key assumptions (such as discount rate, revenue growth, projected volumes and monthly payments), as well the fact that the book value of goodwill and certain intangible assets with indefinite useful life represent 14.8% of total consolidated assets as of December 31, 2018, the goodwill impairment test was identified as a key audit matter for our audit.

How our audit addressed this matter

Our audit procedures included the following, among others: (i) testing of the principles and integrity of discounted future cash flow models prepared by the management expert; (ii) comparison of the previous year's projections with the respective results realized in the current year, as a way to evaluate the effectiveness of the business plans and the level of adherence of the previous projections; (iii) testing of the key assumptions used by the Company during the projection horizon, such as macroeconomic variables, expected growth rates, CAPEX level and working capital required, as well as the discount rate, projected volumes and monthly payments, comparing said assumptions with external data and our own evaluations of relevant data, such as projected economic growth, cost inflation and discount rates; and (iv) involvement of our valuation experts to assist in the review and evaluation of the assumptions and methods used by the Company to test discount rates and evaluate the model that calculates future cash flows. We also analyzed the disclosures in the notes to the financial statements.

Based on the results of the audit procedures performed on the impairment test of goodwill and intangible assets with indefinite useful life, which is consistent with management's assessment, we consider that the criteria and assumptions used to determine value at use of goodwill and respective intangible assets adopted by management, as well as the respective disclosures in Note 11 (e), are acceptable, in the context of the individual and consolidated financial statements taken as a whole.

Other matters

Audit of corresponding figures

The Company's financial statements for the year ended December 31, 2017 were audited by another independent auditor who issued a report on March 22, 2018 with an unmodified opinion on these financial statements.

Statements of value added

The individual and consolidated statements of value added (SVA) for year ended December 31, 2016, prepared under the responsibility of Company’s management, and presented as supplementary information for purposes of IFRS, were submitted to audit procedures conducted together with the audit of the Company’s financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by CPC 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned accounting pronouncement, and are consistent in relation to the overall individual and consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' 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 Company's and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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

From the matters communicated with those charged with governance, we 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 or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Recife, March 27, 2019

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

Henrique Piereck de Sá
Accountant CRC-PE 023398/O-3

Ser Educacional S.A.

Statement of financial position
December 31, 2018
All amounts in thousands of Reais, except when otherwise stated

		Parent Company		Consolidated	
Assets	**Note**	**December 31, 2018**	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
Current assets					
Cash and cash equivalents	8	236.115	269.739	314.731	279.286
Securities	8	581.194	617.772	606.167	632.427
Accounts receivable	9	64.009	111.151	185.560	317.358
Taxes recoverable	10	6.759	4.944	8.254	11.544
Other assets		7.268	7.546	28.927	24.846
		895.345	1.011.152	1.143.639	1.265.461
Non-current assets					
Long-term receivables					
Accounts receivable	9	8.831	3.465	28.867	11.709
Judicial deposits and blocked escrows		5.162	2.837	29.380	23.343
Indemnification assets	26.d	3.249	3.249	112.015	112.015
Financial investments		447		1.401	
Investments	6	653.827	655.499		
Intangible assets	11	30.379	31.087	424.367	428.511
Property and equipment	12	427.872	398.413	689.891	666.835
		1.129.767	1.094.550	1.285.921	1.242.413
Total assets		2.025.112	2.105.702	2.429.560	2.507.874

		Parent Company		Consolidated	
Liabilities and equity	**Note**	**December 31, 2018**	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
Current liabilities					
Suppliers	13	12.240	12.363	33.921	31.422
Borrowings	15	24.970	25.938	24.970	26.569
Debentures	16	108.476	2.636	108.476	2.636
Payroll and related charges	17	36.953	34.432	73.692	74.831
Taxes payable	10	4.575	4.203	15.648	16.220
Commitments payable	14	862	862	82.770	80.720
Lease commitments	18	10.667	10.069	17.209	16.446
Related parties	25.a	12.859	51.561		
Dividends payable	19.g	27.119	27.034	27.119	27.034
Other liabilities		11.612	7.368	23.460	19.309
		250.333	176.466	407.265	295.187
Non-current liabilities					
Borrowings	15	63.880	87.410	63.880	87.410
Debentures	16	108.892	198.245	108.892	198.245
Commitments payable	14			34.684	63.566
Lease commitments	18	127.252	130.303	221.050	227.794
Taxes payable	10	442	793	1.154	1.777
Provision for contingencies	26	1.454	446	119.759	121.845
Other liabilities		2.316	3.649	2.333	3.660
		304.236	420.846	551.752	704.297
Equity	19				
Attributable to shareholders of parent company					
Share capital		987.549	987.549	987.549	987.549
Profit reserve		548.521	527.295	548.521	527.295
Treasury shares		(65.527)	(6.454)	(65.527)	(6.454)
Total equity		1.470.543	1.508.390	1.470.543	1.508.390
Total liabilities and equity		2.025.112	2.105.702	2.429.560	2.507.874

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

Ser Educacional S.A.

Statement of financial position
December 31, 2018
All amounts in thousands of Reais, except when otherwise stated

	Note	Parent Company 1/1/2018 to 12/31/2018	Parent Company 1/1/2017 to 12/31/2017	Consolidated 1/1/2018 to 12/31/2018	Consolidated 1/1/2017 to 12/31/2017
Net revenue from services	20	464,283	416,668	1,262,486	1,231,785
Cost of services	21	(222,421)	(183,898)	(576,990)	(556,645)
Gross profit		241,862	232,770	685,496	675,140
Selling expenses	22	(44,000)	(45,861)	(83,548)	(92,517)
General and administrative expenses	22	(211,599)	(175,346)	(363,301)	(325,047)
Other operating income (expenses), net	22	(3,366)	331	(2,962)	(1,541)
Equity in income of subsidiaries	6	211,669	198,992		
Operating profit		194,566	210,886	235,685	256,035
Financial income	23	58,865	54,250	74,396	80,607
Financial expenses	23	(51,826)	(68,276)	(101,470)	(134,727)
Financial income (expenses), net		7,039	(14,026)	(27,074)	(54,120)
Profit before taxation		201,605	196,860	208,611	201,915
Income tax and social contribution	24	(2,238)	(5,554)	(81,991)	(83,156)
Tax incentive - PROUNI	24	1,912	6,169	74,659	79,467
Deferred income tax and social contribution	24				(751)
Net income for the period		201,279	197,475	201,279	197,475
Attributable to					
Shareholders of the parent company		201,279	197,475	201,279	197,475
		201,279	197,475	201,279	197,475
Weighted average of outstanding common shares at the end of the period (in thousands)		135,829	127,225	135,829	127,225
Earnings per share attributable to shareholders of the Parent Company during the period (in R$ per share)		1.48	1.55	1.48	1.55

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

Ser Educacional S.A.

Statement of comprehensive income
December 31, 2018
All amounts in thousands of Reais, except when otherwise stated

	Parent Company and Consolidated	
	December 31, 2018	December 31, 2017
Net income for the year	201.279	197.475
Other components of comprehensive income for the period		
Comprehensive income for the year	201.279	197.475

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

Ser Educacional S.A.

Statement of changes in equity
Fiscal year ended December 31, 2018
All amounts in thousands of Reais, except when otherwise stated

		Attributable to shareholders of parent company								
		Capital		Profit reserve						
	Note	Share capital	Share issue costs	Tax incentives	Legal	Retention	Proposed dividends	Treasury shares	Net income for the year	Total equity
As of January 01, 2017		377,048		44,567	35,585	499,654		(6,454)		950,400
Net income for the year	27								197,475	197,475
Capital increase	19.a	614,596				(222,952)				391,644
Share issue expenses			(4,095)							(4,095)
Tax incentive reserve	19.d			6,169					(6,169)	
Legal reserve	19.e				9,874				(9,874)	
Dividend distribution	19.g					(10,813)	10,813		(27,034)	(27,034)
Retained earnings reserve	19.g					154,398			(154,398)	
As of December 31, 2017		991,644	(4,095)	50,736	45,459	420,287	10,813	(6,454)		1,508,390
As of January 01, 2018		991,644	(4,095)	50,736	45,459	420,287	10,813	(6,454)		1,508,390
Adoption of IFRS 9	2.2					(25,757)				(25,757)
Net income for the year	27								201,279	201,279
Tax incentive reserve	19.d									
Legal reserve	19.e				10,064				(10,064)	
Reversal of tax incentives	19.d			(50,736)		50,736				
Dividend payment	19.g						(10,813)		(20,685)	(31,498)
Dividend distribution	19.g					(9,561)	9,561		(27,119)	(27,119)
Treasury shares acquired	19.b							(154,752)		(154,752)
Cancellation of treasury shares	19.b					(95,679)		95,679		
Retained earnings reserve	19.g					143,411			(143,411)	
As of December 31, 2018		991,644	(4,095)		55,523	483,437	9,561	(65,527)		1,470,543

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

Ser Educacional S.A.

Statement of cash flows
Fiscal year ended December 31, 2018
All amounts in thousands of Reais, except when otherwise stated

		Parent Company		Consolidated	
	Note	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Cash flow from operations					
Profit before income tax and social contribution		201.605	196.860	208.611	201.915
Adjustments for					
Depreciation and amortization	11 and 12	46.691	37.568	76.348	65.090
(Reversal of) provision for contingencies		415	(755)	(2.086)	1.499
Equity in the results of subsidiaries	6.a	(211.669)	(198.992)		
Adjustment to present value of accounts receivable	9	840		2.727	
Allowance for doubtful accounts	9.e	31.585	19.624	88.243	64.195
Loss on write-off of non-current assets	11 and 12	1.526	3.526	2.066	9.092
Interest, and monetary variations, net	23	42.504	54.422	66.404	78.239
		113.497	112.253	442.313	420.030
Changes in assets and liabilities					
Accounts receivable		20.482	17.036	(28)	21.228
Taxes recoverable		(1.532)	1.375	3.290	(786)
Other assets		(1.861)	(3.126)	(11.519)	(16.599)
Suppliers		(898)	(442)	2.499	1.688
Payroll and related charges		614	(27)	(1.139)	2.958
Taxes payable		(447)	(97)	(1.195)	(4.038)
Income tax and social contribution payable		241	628	(1.273)	2.197
Other liabilities		492	1.097	2.824	285
Cash from operations		130.588	128.697	435.772	426.963
Interest paid on borrowing and leases		(26.335)	(48.679)	(40.983)	(63.728)
Income tax and social contribution paid		(567)	(13)	(6.059)	(6.637)
Net cash provided by (used in) operations		103.686	80.005	388.730	356.598
Cash flow from investing activities					
Securities		36.578	(280.225)	26.260	(294.880)
Advances for future capital increase in subsidiaries		(45.916)	(35.717)		
Dividends received from subsidiaries		203.368	173.757		
Additions to property and equipment		(49.039)	(59.483)	(83.396)	(98.035)
Additions to intangible assets		(11.479)	(11.092)	(13.930)	(12.331)
Net cash from absorption		173			
Payables for acquisition of subsidiaries			(1.112)	(37.324)	(38.548)
Net cash provided by (used in) investing activities		133.685	(213.872)	(108.390)	(443.794)
Cash flow from financing activities					
Cash generated by issue of shares			387.549		387.549
Funding through debentures			196.335		196.335
Amortization of debentures			(153.510)		(153.510)
Repayments of borrowing	15	(24.980)	(83.610)	(25.630)	(86.399)
Amortization of leases	18	(4.257)	(3.771)	(5.981)	(5.295)
Related parties		(28.474)	40.370		
Acquisition of treasury shares	19.b	(154.752)		(154.752)	
Dividends and interest on equity paid to Company shareholders		(58.532)	(34.234)	(58.532)	(34.234)
Variação do Patrimônio Líquido		-		-	
Net cash provided by (used in) financing activities		(270.995)	349.129	(244.895)	304.446
Increase (reduction) in cash and cash equivalents		(33.624)	215.262	35.445	217.250
Cash and cash equivalents					
At the end of the period		236.115	269.739	314.731	279.286
At the beginning of the period		269.739	54.477	279.286	62.036
Increase (reduction) in cash and cash equivalents		(33.624)	215.262	35.445	217.250

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

Ser Educacional S.A.

Statement of value added
Fiscal year ended December 31, 2018
All amounts in thousands of Reais, except when otherwise stated

	Note	Parent Company December 31, 2018	Parent Company December 31, 2017	Consolidated December 31, 2018	Consolidated December 31, 2017
Revenue					
Services	20	681.453	549.799	1.847.993	1.640.922
Allowance for doubtful accounts (AFDA)	22	(31.585)	(19.624)	(88.243)	(64.195)
Revenue deductions	20	(203.002)	(118.542)	(542.315)	(365.249)
		446.866	411.633	1.217.435	1.211.478
Inputs acquired from third parties					
Services provided by individuals and companies	21 and 22	(38.168)	(28.225)	(55.220)	(47.214)
Electricity, water and telephone	21	(17.247)	(13.548)	(37.361)	(33.394)
Publicity and advertising	22	(44.000)	(45.861)	(83.548)	(92.517)
Service materials	22	(10.623)	(9.272)	(17.557)	(18.003)
Other		(42.973)	(31.938)	(61.200)	(54.521)
		(153.011)	(128.844)	(254.886)	(245.649)
Gross value added		293.855	282.789	962.549	965.829
Depreciation and amortization	21 and 22	(46.691)	(37.568)	(76.348)	(65.090)
Net value added generated by the entity		247.164	245.221	886.201	900.739
Financial income	23	61.702	56.698	78.141	84.044
Equity in the results of subsidiaries	6	211.669	198.992		
Total value added to distribute		520.535	500.911	964.342	984.783
Distribution of value added					
Payroll and related charges	21 and 22	(220.650)	(188.582)	(523.425)	(513.721)
Taxes, charges and contributions		(21.074)	(19.824)	(62.893)	(59.119)
Federal taxes		(3.330)	(2.008)	(12.214)	(8.950)
Municipal taxes		(17.744)	(17.816)	(50.679)	(50.169)
Third-party capital remuneration		(77.532)	(95.030)	(176.745)	(214.468)
Financial expenses	23	(51.826)	(68.276)	(101.470)	(134.727)
Rents	21	(25.706)	(26.754)	(75.275)	(79.741)
Net income for the year		(201.279)	(197.475)	(201.279)	(197.475)
Value added distributed		(520.535)	(500.911)	(964.342)	(984.783)

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

Section A — General information

1 General information

Ser Educacional S.A. (the "Company") and its subsidiaries (jointly, the "Group") are principally involved in development and management activities for on-campus and distance-learning undergraduate, graduate, professional training and other areas of education, and in participation, as a partner or shareholder, in other partnerships and companies in Brazil.

The Group also owns 21 private limited liability companies, which operate as two universities, eight university centers, 67 accredited colleges and 205 operational distance-learning centers, constituting one of Brazil's largest private education groups, with a leading presence in the North and Northeast regions in terms of number of enrolled students. The Group is present in all 26 states of the country and the Federal District, with a consolidated base of approximately 150,000 students, and operates under the following brands: UNINASSAU – Centro Universitário Maurício de Nassau, UNINABUCO – Centro Universitário Nabuco, UNG - Universidade Guarulhos, UNAMA -Universidade da Amazônia, UNIVERITAS - Centro Universitário Universus Veritas, Faculdades UNINASSAU, Faculdades UNINABUCO and Escolas Técnicas Joaquim Nabuco and Maurício de Nassau, through which it offers approximately 1,605 courses. (Not audited)

Ser Educacional is a publicly-held company headquartered in Recife, in the state of Pernambuco, listed on the Securities, Commodities and Futures Exchange ("BM&FBOVESPA"), in the Novo Mercado special segment, where its shares are traded under the ticker SEER3. In July 2018, Fitch Ratings issued a report reaffirming the Company's long-term national rating of "AA-(bra)", with a stable outlook.

The Board of Directors approved the issuance of these financial statements after the Audit Committee issued an opinion on March 27, 2019.

2 Summary of significant accounting policies

The main accounting policies applied to the preparation of these financial statements are detailed in Section F, Note 29. These accounting policies have been applied in a consistent manner in all the years shown.

2.1 Basis of preparation

The financial statements for the year ended December 31, 2018 were prepared on a historical cost basis, with financial assets and liabilities measured at fair value.

The parent company and consolidated financial statements have been prepared in accordance with the accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), and the standards issued by the Brazilian Securities and Exchange Commission (CVM), in compliance with the International Accounting Standards Board (IASB), and show all material information that is relevant to the financial statements, which is consistent with the practices used by Management.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Group's accounting policies. Those areas involving a high degree of judgment or complexity, and areas where assumptions and estimates are significant to the consolidated interim financial information are disclosed in Note 3.

The presentation of the parent company and consolidated statements of value added is required by the Brazilian Corporate Law and by the accounting practices adopted in Brazil applicable to publicly-held companies. The International Financial Reporting Standards (IFRS) do not require the presentation of this statement. As a result, under the IFRS, this statement is reported as additional information, without prejudice to the set of financial statements.

2.2 New standards, amendments and interpretations in effect as of January 1, 2018

- **IFRS 9 – Financial Instruments (CPC 48)**

On January 1, 2018, the Group adopted IFRS 9 (CPC 48), which replaces IAS 39/CPC38, in relation to the classification and measurement of financial instruments. IFRS 9 included the following main changes: (i) new criteria for the classification of financial assets; (ii) new impairment model for financial assets, hybrid of expected and incurred losses, replacing the current model of incurred losses; and (iii) flexibilization of requirements to adopt hedge accounting.

The Group calculated expected credit losses on doubtful accounts based on the hybrid model of expected and incurred losses, with a simplified approach that records expected losses throughout the entire accounts receivable cycle. As a result, on January 1, 2018, the Company recognized R$25,757, in addition to the provision recorded under current assets on December 31, 2017, against equity, using the modified retrospective adoption method without restating the accompanying figures, pursuant to IFRS 9 (CPC 48).

Regarding the other financial instruments, the Group did not identify any changes from the current structure.

- **IFRS 15 – Revenue from Contracts with Customers (CPC 47)**

On January 1, 2018, the Group adopted IFRS 15, which replaces IAS 11/ CPC 17 – Construction Contracts and IAS 18/ CPC 30 – Revenue and respective interpretations, to converge the standard for the recognition and disclosure of revenues applied to contracts with customers. This standard is based on the principle that revenue is recognized when control of goods or services is transferred to customers, i.e. when the Group has already fulfilled its performance obligation, replacing the principle of transfer of risks and benefits, establishing the moment and amount that represent the Group's expectation of receiving, in exchange, the rights to those goods or services.

After analyzing the changes introduced by this standard, the Group now recognizes gross revenue based on the amounts of the payment slips due on the 30th of every month, or based on the service provision contracts, thus recognizing a discount for monthly tuitions paid on time, which was previously recognized in the financial result, with no impact on the Group's equity.

2.3 Standards, amendments and interpretations not yet in effect

- **IFRS 16 – Leases / (CPC 06(R2) – Leases)**

IFRS 16 replaced the existing lease standards, including CPC 06 (R1) (IAS 17) – Leases and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) – Complementary Aspects of Leasing Operations. The new standard established a single model to recognize leases, based on the right-of-use asset in exchange for a consideration, similarly to finance leases. This standard is effective for years beginning on or after January 1, 2019.

The Group acts as a lessee in a great number of lease agreements focused on properties where its universities, university centers, learning centers, colleges and offices are located. A significant portion of these agreements is recorded as operating leases, in accordance with the current lease standard, with the lease payments being recognized on a straight-line basis during the term of the agreement.

The Group concluded its analysis regarding the impact of this new standard on such agreements. This analysis included an estimate of the term of the agreement, based on the non-cancellable period and the periods covered by an option to extend the lease agreement, when the exercise depends solely on the Company and the Company is reasonably certain to exercise that option. In addition, the Company and its subsidiaries adopted assumptions to calculate the discount rate, which was based on the average rate of the current cost of third-party capital. On the other hand, the Group concluded that there are no non-lease components in its lease agreements for the type of assets in question.

The standard also provides for two transition options: retrospectively for all periods presented, or following a modified retrospective approach, through which the cumulative effect of the adoption is recognized at the date of initial application, with the effects of the adjustments being directly recorded on the opening balance of retained earnings, without restating comparative information. The Group decided to adopt the modified retrospective approach. The Company used the practical expedient, which does not require the lessee to reassess whether a contract is, or contains, a lease at the initial adoption of CPC 06(R2) / IFRS 16; instead, the lessee directly applies the new requirements to all agreements that, pursuant to the current standard, have been identified as lease agreements. In addition, certain practical expedients are available at the first application in relation to the right-of-use, asset measurement, discount rates, impairment, leases for which the lease term ends within 12 months of the date of initial adoption, initial direct costs and the lease term. As a result, the Group chose to adopt the following practical expedients during the transition to new criteria: (i) the use of a single discount rate for the leases in question, given that they have similar characteristics in relation to their terms, the asset that is the object of their agreement, their currency and the economic environment; (ii) the application of the practical expedient that allows the lessee not to adopt the new criteria for leases for which the lease term ends within 12 months of the date of initial adoption; and (iii) the exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial adoption.

All amounts in thousands of Reais, except when otherwise stated

Based on the volume of agreements affected, as well as the magnitude of the future lease commitments, the Group expects the changes introduced by CPC 06(R2) / IFRS 16 to have a significant impact on its financial statements as of the date of adoption, including the recognition in the balance sheet of the right-of-use asset and corresponding lease obligations in relation to the majority of the agreements that are classified as operating lease agreements in accordance with the current standards. In addition, the amortization of the right-of-use asset and the recognition of interest expenses on lease obligations in the statement of income will replace the amounts recognized as lease expenses in accordance with the current lease standards. The classification of lease payments in the statement of cash flows will also be affected by the requirements of the new lease standard.

Based on the analyses carried out, the Company expects that the impact from the adoption of CPC 06 (R2) / IFRS 16 will be as follows:

	Parent Company	Consolidated
Assets		
Property and equipment (right-of-use assets)	**62,620**	**289,734**
Liabilities		
Lease liabilities	**(62,620)**	**(289,734)**
Impact on equity		

Section B – Risks

3 Critical accounting estimates and judgments

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

Based on assumptions, the Group makes estimates concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that carry a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are addressed below.

(a) Provisions for contingencies

The Group recognizes provisions for civil, tax and labor lawsuits. The assessment of the probability of loss includes an appraisal of the available evidence, the hierarchy of laws, the available case law, recent court decisions and their relevance in the judicial system, as well as the opinion of external and internal legal counsel. Provisions for contingencies (labor, civil and tax) are recognized when: (i) there is a present or non-formalized obligation as a result of events that have already occurred; (ii) it is probable that an outflow of resources will be necessary to settle the obligation; and (iii) the amount of this outflow can be reliably estimated based on the judgment of legal counsel. These provisions are reviewed and adjusted for changes in circumstances, such as applicable limitation period, findings of tax inspections or additional exposure identified based on new matters or court decisions (Note 26).

(b) Impairment of goodwill

The Group tests annually, at the end of the year, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 29.10. The recoverable amounts of cash-generating units (CGUs) have been determined based on value-in-use calculations, based on estimates prepared by internal experts and reviewed by Management. They consider discount rate and revenue growth estimates, among others, as shown in Note 11(e).

(c) Allocation of fair value in business combinations

The Group analyzes on the business combination dates the identifiable assets and liabilities arising from business combinations, in accordance with CPC 15 - "Business Combinations", and identifies those that must be recorded. Judgment is used for the purpose of identifying the intangible assets acquired and contingent liabilities assumed. Estimates are used to determine the fair values of the assets and liabilities arising from the combination and goodwill.

(d) Allowance for doubtful accounts

The Group carries out analyses to cover any losses on the collection of monthly fees and checks receivable, taking into account the risks involved, and records them when objective evidence of losses is identified, as per Note 2.2.

(e) Intangible assets with definite and indefinite useful lives

The Group has identified intangible assets arising from business combinations or acquired (licenses) that have indefinite useful lives, and portfolios of students and brands that have defined useful lives. Licenses refer to certificates granted by regulatory authorities on a permanent basis, and therefore considered as having indefinite useful lives, in order to authorize institutions to provide education activities. The useful life of the brands and portfolios of students is similar to the students' intake and graduation cycle, i.e. from 4 to 5 years.

Annually, the Group tests the intangible assets that have indefinite useful lives for impairment in accordance with the accounting policy presented in Note 29.10. The recoverable amounts for the CGUs are determined based on the estimated value in use. Management estimates the useful lives of certain intangible assets based on historical experience with respect to the use of these intangible assets.

(f) Leases

The assessment of the classification between operating and financial leases considers estimates of the fair value of the properties leased for the Group's activities, as well as their estimated useful lives given their use. The fair value and useful life estimates are based on reports from third-party experts.

(g) Determination of adjustments to present value of certain assets and liabilities

Management evaluates, and recognizes upon initial recording, the effects of the adjustment to present value of certain financial assets and liabilities that are part of the Group's operations, taking into account the time value of money and the uncertainties associated with them.

4 Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including cash flow or fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize any potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge risk exposure.

Risk management is carried out by the Group's central treasury department, which identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board of Directors provides written principles for overall risk management, as well as for specific areas.

(a) Market risk

The Group's interest rate risk arises from short- and long-term borrowing, debentures, lease commitments and financial investments substantially linked to interbank deposit certificate (CDI) floating rates. The Group analyzes its interest rate exposure on a dynamic basis, simulating various scenarios and taking into consideration the refinancing and renewal of existing positions. Based on this evaluation, the Group monitors the risk of significant changes in interest rates and calculates the impact on income (Note 4.3).

(b) Credit risk

Credit risk is managed at a Group level and arises from cash and cash equivalents, financial instruments and deposits with banks and other financial institutions, as well as from exposure to student credit, including outstanding accounts receivable.

The Group's sales policy is directly related to the level of credit exposure experienced in the course of their business. Enrollment for the next semester is not permitted if a student is in default with the institution. In order to minimize the effects of defaults on its accounts receivable, the Company has diversified its receivables portfolio, has selection procedures in place for its students and follows up on due dates. In the segment of on-campus higher education, a substantial portion of the Group's credits is guaranteed by the Higher Education Student Financing Program (*Programa de Financiamento ao Estudante de Ensino Superior* or FIES), which has been declining every semester due to the reduction in the number of scholarships offered by the Federal Government and the graduation of students.

The Group sets up allowance for doubtful accounts to cover credit risk, including the possible risk of default on the unguaranteed portion of the debts of the students who benefit from FIES. This credit analysis considers the credit quality of the students based on their payment history, the duration of their relationship with the institution and their default situation (SPC and Serasa).

Management monitors specific credit risks and does not expect any losses due to defaults by counterparties additional to the amounts already provided for in Note 9 (e), which reflect the changes in the allowance for doubtful accounts in the year.

All amounts in thousands of Reais, except when otherwise stated

With respect to credit risk related to financial institutions, the Group invests cash, cash equivalents and securities with financial institutions and investment funds with credit ratings of at least brBBB, by Standard & Poor's; BBB(br), by Fitch Ratings; and Baa1.br, by Moody's.

(c) Liquidity risk

Liquidity risk is the risk of the Company not having sufficient funds to meet its financial commitments, on account of mismatches in maturities or volumes between expected revenue and payments.

Assumptions regarding future disbursements and receipts are made in order to manage cash liquidity and are monitored daily by the treasury department.

The following table gives a breakdown of financial liabilities, grouped according to their due dates, for the remaining period from the balance sheet date to their contracted maturities. The amounts correspond to projected undiscounted cash flows at the contracted rates.

	Parent Company			
	Up to one year	**Between one and two years**	**Between two and five years**	**More than five years**
As of December 31, 2018				
Borrowing	30,316	28,374	42,205	2,188
Debentures	114,188	73,051	52,875	
Leases	23,751	24,822	53,054	316,929
Commitments payable	862			
	169,118	126,246	148,134	319,117
As of December 31, 2017				
Borrowing	33,750	31,114	69,374	4,325
Debentures		116,317	129,675	
Leases	23,438	24,495	52,353	350,753
Commitments payable	862			
	58,050	171,926	251,402	355,078

All amounts in thousands of Reais, except when otherwise stated

	Consolidated			
	Up to one year	Between one and two years	Between two and five years	More than five years
As of December 30, 2018				
Borrowing	30,316	28,374	42,205	2,188
Debentures	114,188	73,051	52,875	
Leases	40,757	42,595	91,040	616,202
Commitments payable	83,250	42,008		
	268,512	186,027	186,120	618,390
As of December 31, 2017				
Borrowing	34,404	31,114	69,374	4,325
Debentures		116,317	129,675	
Leases	40,757	42,595	91,040	684,302
Commitments payable	80,720	39,818	42,008	
	155,881	229,844	332,097	688,627

(d) Regulatory risk

The Group's regulatory aspect analysis in the education sector serves as a decision-making instrument for the supporting entity, designed to improve the institutions performance by identifying opportunities for gains and the impact of losses.

The Group periodically analyzes its regulatory risks aiming to mitigate or minimize their impact, mainly those related to the availability of PROUNI and FIES and the understanding of these programs' rules, as well as the monitoring of maintenances and/or courses. In the current political scenario, the Company is awaiting a new positioning by the new Government to assess possible changes in the regulatory environment. The Company does not expect any significant impact on its operations.

4.2 Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Consistently with others in the industry, the Group monitors its capital based on the financial leverage ratio. This ratio corresponds to the net debt expressed as a percentage of the sum of net debt and equity. Net debt is calculated as total borrowing (including short- and long-term borrowing, as shown in the consolidated statement of financial position) less cash and cash equivalents and securities.

Given that the Company recorded net cash, the financial leverage ratios did not apply on December 31, 2018 and 2017, as follows:

All amounts in thousands of Reais, except when otherwise stated

		Consolidated
	December 31, 2018	December 31, 2017
Total borrowing from banks	88,850	113,979
Total debentures	217,368	200,881
Total commitments payable	117,454	144,286
Cash and cash equivalents	(314,731)	(279,286)
Securities	(606,167)	(632,427)
Net cash	(497,226)	(452,567)
Total equity	1,470,543	1,508,390
Equity plus net debt (Applicable case) - Total share capital	1,470,543	1,508,390
Financial leverage ratio	Not applicable	Not applicable

4.3 Additional sensitivity analysis required by the Brazilian Securities and Exchange Commission (CVM)

CVM Resolution 550 of October 17, 2008 provides that publicly-held companies must issue explanatory notes with specific qualitative and quantitative information on all their financial instruments, whether or not they are recognized as assets or liabilities in the statement of financial position.

The Group's financial instruments consist of cash and cash equivalents, accounts receivable and payable, judicial deposits and borrowings, and are recorded at cost adjusted by revenue or charges incurred, which was close to their market value at December 31, 2018 and December 31, 2017. The principal risks underlying the Group's operations are linked to changes in the CDI (Certificate of Interbank Deposit) rate.

CVM Instruction 475 of December 17, 2008 provides that specific information on financial instruments must be shown in an explanatory note, and that a table must be included giving details of the sensitivity analysis.

Borrowing operations are shown at values approximating the market values of the corresponding financial instruments. Investments in CDIs are recorded at market value, based on the prices issued by the corresponding financial institutions, and other investments relate mainly to bank deposit certificates, repurchase operations and investment funds, where the book value is the same as the market value.

Three different scenarios were used to verify the Group's sensitivity to the index on the base date of December 31, 2018, using the latest interest rates and indicators of accumulated inflation over the last twelve months (Scenario I), and based on that, we calculated variations of 25% (Scenario II) and 50% (Scenario III), reflecting the increase and decline of the indices. For each scenario, we calculated the net position (financial income less financial expenses), excluding the tax effect. The base date used was December 31, 2018, with a projection period of one year. The sensitivity of the CDI, the long-term interest rate (TJLP) and the General Market-Price (IGP-M) index were tested for each scenario.

All amounts in thousands of Reais, except when otherwise stated

		Index increase scenario		
Transactions	**Risk**	**(I)**	**(II)**	**(III)**
Assets				
Financial investments	CDI	6.40%	8.00%	9.60%
310,051		19,843	24,804	29,765
Securities	CDI	6.40%	8.00%	9.60%
606,167		38,795	48,493	58,192
Liabilities				
Finame	TJLP	6.98%	8.73%	10.47%
(11,932)		(833)	(1,041)	(1,249)
IFC	CDI	6.40%	8.00%	9.60%
(76,918)		(4,923)	(6,153)	(7,384)
Debentures	CDI	6.40%	8.00%	9.60%
(217,368)		(13,912)	(17,389)	(20,867)
Commitments payable	CDI	6.40%	8.00%	9.60%
(41,669)		(2,667)	(3,334)	(4,000)
Commitments payable	IGP-M	7.55%	9.44%	11.33%
(75,785)		(5,722)	(7,152)	(8,583)
Net Position		30,582	38,228	45,873

		Index decrease scenario		
Transactions	**Risk**	**(I)**	**(II)**	**(III)**
Assets				
Financial investments	CDI	6.40%	4.80%	3.20%
310,051		19,843	14,882	9,922
Securities	CDI	6.40%	4.80%	3.20%
606,167		38,795	29,096	19,397
Liabilities				
Finame	TJLP	6.98%	5.24%	3.49%
(11,932)		(833)	(625)	(416)
IFC	CDI	6.40%	4.80%	3.20%
(76,918)		(4,923)	(3,692)	(2,461)
Debentures	CDI	6.40%	4.80%	3.20%
(217,368)		(13,912)	(10,434)	(6,956)
Commitments payable	CDI	6.40%	4.80%	3.20%
(41,669)		(2,667)	(2,000)	(1,333)
Commitments payable	IGP-M	7.55%	5.66%	3.78%
(75,785)		(5,722)	(4,291)	(2,861)
Net Position		30,582	22,937	15,291

Considering the economic projections disclosed by the Federal Government and supported by financial market economists, inflation, measured by the IGP-M, is expected to fall to levels slightly above Index Increase Scenario III and interest rates, measured by the CDI and TJLP, are expected to be closer to Index Increase Scenario II.

All amounts in thousands of Reais, except when otherwise stated

Section C – Segment reporting

5 Evaluation of information by segment

Since its activities are mainly concentrated in on-campus higher education, the Group is organized and managed in a single business unit. The courses offered by the Company, although intended for a diverse customer audience, are not monitored and managed by management as independent segments. The results of the Group are monitored and assessed as an integrated whole.

Section D – Group structure

6 Subsidiaries

The consolidated financial statements for the year ended December 31, 2018 include the operations of the Group and of the following subsidiaries, which are shown below with a summary of the Company's interest in each of them:

	Direct interest (%)		Indirect interest (%)	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Instituto Campinense de Ensino Superior Ltda	99.99	99.99		
UNESPA - União de Ensino Superior do Pará (i)				100.00
ISES - Instituto Santareno de Educação Superior (i)				100.00
ABES - Sociedade Baiana de Ensino Superior Ltda.	99.99	99.99		
ADEA - Sociedade de Desenvolvimento Educacional Avançado Ltda. (iii)		99.99		
Centro de Educação Profissional BJ Ltda.	99.99	99.99		
CETEBA - Centro de Ensino e Tecnologia da Bahia Ltda.	99.99	99.99		
Sociedade Educacional Carvalho Gomes Ltda.	99.99	99.99		
CENESUP - Centro Nacional de Ensino Superior Ltda.	99.99	99.99		
Sociedade Paulista de Ensino e Pesquisa S/S Ltda. (ii)			100.00	100.00
Sociedade Universitária Mileto Ltda. (ii)			100.00	100.00
FMN Clinica Escola de Fisioterapia, Psicologia, Enfermagem e Nutrição Ltda.	99.99	99.99		
Educred - Administradora de Crédito Educativo e Cobrança Ltda.	99.99	99.99		
Centro de Educação Continuada Mauricio de Nassau Ltda.	99.99	99.99		
SESPS - Sociedade de Ensino Superior e de Pesquisa de Sergipe Ltda	99.99	99.99		
Faculdade Maurício de Nassau de Belém Ltda	99.99	99.99		
CESP - Centro de Ensino Superior Piauiense	99.99	99.99		
CIESPI - Centro Integrado de Educação Superior do Piauí Ltda.	99.99	99.99		
Sociedade de Ensino Superior Piauiense Ltda.	99.99	99.99		
Uninassau Participações S.A.	99.99	99.99		
Instituto de Ensino Superior Juvêncio Terra Ltda.	99.99	99.99		
Faculdade Joaquim Nabuco de São Lourenço da Mata Ltda	99.99	99.99		
Faculdade Joaquim Nabuco de Olinda Ltda	99.99	99.99		
Overdrives Coworking Escritórios Virtuais Ltda. (iv)	99.99			

(i) União de Ensino Superior do Pará (UNESPA) and Instituto Santareno de Educação Superior (ISES) were absorbed by Instituto Campinense de Ensino Superior Ltda. on December 31, 2017.

(ii) Sociedade Paulista de Ensino e Pesquisa S/S Ltda. and Sociedade Universitária Mileto Ltda. are indirect subsidiaries of the Company through Centro Nacional de Ensino Superior Ltda. (CENESUP).
(iii) Sociedade de Desenvolvimento Educacional Avançado Ltda (ADEA) was absorbed by the Parent Company on April 30, 2018.
(iv) Overdrives Coworking Escritórios Virtuais Ltda. became a subsidiary in 4Q18.

The year covered by the financial statements of the subsidiaries included in the consolidation is the same as that of the parent company. Uniform accounting policies were applied to all of the companies consolidated, and they are consistent with those used for the previous year.

The consolidation process of the balance sheet and income accounts corresponds to the sum of the balances of assets, liabilities, revenue and expenses, as appropriate, eliminating transactions between the consolidated companies. In the case of income accounts, the amounts are consolidated only from the date on which control was acquired by the Company.

All amounts in thousands of Reais, except when otherwise stated

(a) Investments (Parent Company):

	December 31, 2018						
	Direct Interest	Indirect Interest	Equity	Equity pick-up	Investment amount	Goodwill (Note 11(c))	Total
Direct subsidiaries							
CETEBA - Centro de Ensino e Tecnologia da Bahia Ltda.	99.99	100.00	13,797	5,137	13,797	4,140	17,937
FMN Clinica Escola de Fisioterapia, Psicologia, Enfermagem e Nutrição Ltda.	99.99	100.00	(298)	(786)	(298)		(298)
CENESUP - Centro Nacional de Ensino Superior Ltda.	99.99	100.00	151,434	5,822	151,434		151,434
Educred - Administradora de Crédito Educativo e Cobrança Ltda.	99.99	100.00	259	1,264	259		259
Sociedade Educacional Carvalho Gomes Ltda.	99.99	100.00	29,441	9,240	29,441	4,362	33,803
Instituto Campinense de Ensino Superior Ltda	99.99	100.00	212,390	103,799	212,390		212,390
Centro de Educação Profissional BJ Ltda.	99.99	100.00	2,261	1,385	2,261		2,261
ADEA - Sociedade de Desenvolvimento Educacional Avançado Ltda.	99.99	100.00		6,177		5,125	5,125
ABES - Sociedade Baiana de Ensino Superior Ltda.	99.99	100.00	37,667	1,475	37,667	8,405	46,072
Centro de Educação Continuada Mauricio de Nassau Ltda.	99.99	100.00	2,196	605	2,196		2,196
Sociedade de Ensino Superior e de Pesquisa de Sergipe Ltda - SESPS	99.99	100.00	48,079	8,292	48,546	1,043	49,589
Faculdade Maurício de Nassau de Belém Ltda	99.99	100.00	32,670	19,920	33,931	959	34,890
Centro de Ensino Superior Piauiense - FAP Teresina	99.99	100.00	11,753	13,193	15,031	8,662	23,693
Centro Integrado de Educação Superior do Piauí Ltda. - FAP Aliança	99.99	100.00	13,816	15,172	13,816		13,816
Sociedade de Ensino Superior Piauiense Ltda. - Fap Parnaíba	99.99	100.00	14,306	19,741	18,419	5,360	23,779
Uninassau Participações S.A.	99.99	99.99	31		31		31
Instituto de Ensino Superior Juvêncio Terra Ltda.	99.99	100.00	10,854	3,725	13,274	573	13,847
Faculdade Joaquim Nabuco de São Lourenço da Mata Ltda. - FAL	99.99	100.00	1,268	(557)	1,268	2,232	3,500
Faculdade Joaquim Nabuco de Olinda Ltda. - FASE	99.99	100.00	7,014	(1,754)	9,794	3,521	13,315
Overdrives Coworking Escritórios Virtuais	99.99	100.00	(60)	(161)	(60)		(60)
Acquisition of operating licenses							
Faculdade Decisão - FADE				(20)	2,220	1,028	3,248
Faculdades COC de Maceió - FACOCMA					3,000		3,000
Total direct subsidiaries			588,878	211,669	608,417	45,410	653,827
Indirect subsidiaries							
Sociedade Paulista de Ensino e Pesquisa S/S Ltda. - UNG				2,397	113,600	43,590	157,190
Sociedade Universitária Mileto Ltda. - FAMIL				994	4,500	1,346	5,846
Total indirect subsidiaries				3,391	118,100	44,936	163,036
Acquisition of indirect operating licenses							
Sociedade Metodista Bennet					10,000		
Total Goodwill						90,346	

All amounts in thousands of Reais, except when otherwise stated

					December 31, 2017		
	Direct Interest	Indirect Interest	Equity	Equity pick-up	Investment amount	Goodwill (Note 11(c))	Total
Direct subsidiaries							
CETEBA - Centro de Ensino e Tecnologia da Bahia Ltda.	99,99	100,00	16.362	5.601	16.362	4.140	20.502
FMN Clinica Escola de Fisioterapia, Psicologia, Enfermagem e Nutrição Lt	99,99	100,00	338	281	338		338
CENESUP - Centro Nacional de Ensino Superior Ltda.	99,99	100,00	113.237	(11.897)	113.237		113.237
Educred - Administradora de Crédito Educativo e Cobrança Ltda.	99,99	100,00	310	1.266	310		310
Sociedade Educacional Carvalho Gomes Ltda.	99,99	100,00	25.552	12.473	25.552	4.362	29.914
Instituto Campinense de Ensino Superior Ltda	99,99	100,00	229.327	99.034	229.327		229.327
Centro de Educação Profissional BJ Ltda.	99,99	100,00	2.189	2.735	2.189		2.189
ADEA - Sociedade de Desenvolvimento Educacional Avançado Ltda.	99,99	100,00	33.108	9.401	33.108	5.125	38.233
ABES - Sociedade Baiana de Ensino Superior Ltda.	99,99	100,00	43.310	4.225	43.310	8.405	51.715
Centro de Educação Continuada Mauricio de Nassau Ltda.	99,99	100,00	1.085	(2.372)	1.085		1.085
Sociedade de Ensino Superior e de Pesquisa de Sergipe Ltda - SESPS	99,99	100,00	45.176	7.457	45.649	1.043	46.692
Faculdade Maurício de Nassau de Belém Ltda	99,99	100,00	22.792	23.756	24.053	959	25.012
Centro de Ensino Superior Piauiense - FAP Teresina	99,99	100,00	13.767	11.186	17.146	8.662	25.808
Centro Integrado de Educação Superior do Piauí Ltda. - FAP Aliança	99,99	100,00	10.059	14.370	10.059		10.059
Sociedade de Ensino Superior Piauiense Ltda. - Fap Parnaíba	99,99	100,00	20.388	17.925	24.640	5.360	30.000
Uninassau Participações S.A.	99,99	99,99					
Nassau Escola de Aviação Civil Ltda.	99,99	100,00				120	120
Instituto de Ensino Superior Juvêncio Terra Ltda.	99,99	100,00	8.725	4.296	11.225	573	11.798
Faculdade Joaquim Nabuco de São Lourenço da Mata Ltda. - FAL	99,99	100,00	1.408	(398)	1.348	2.232	3.580
Faculdade Joaquim Nabuco de Olinda Ltda. - FASE	99,99	100,00	2.931	(1.527)	5.791	3.521	9.312
Acquisition of operating licenses							
Faculdade Decisão - FADE				(20)	2.240	1.028	3.268
Faculdades COC de Maceió - FACOCMA				1.200	3.000		3.000
Total direct subsidiaries			590.064	198.992	609.969	45.530	655.499
Indirect subsidiaries							
União de Ensino Superior do Pará - UNAMA		100,00	66.834	61.233	125.234	87.136	212.370
Instituto Santareno de Educação Superior - FIT		100,00	10.623	12.345	18.923	5.320	24.243
Sociedade Paulista de Ensino e Pesquisa S/S Ltda. - UNG		100,00	15.425	(13.155)	129.025	43.591	172.616
Sociedade Universitária Mileto Ltda. - FAMIL		100,00	459	(358)	4.959	1.346	6.305
Acquisition of indirect operating licenses							
Sociedade Metodista Bennet					10.000		
Total indirect subsidiaries			93.341	60.065	288.141	137.393	415.534
Total Goodwill						182.923	

All amounts in thousands of Reais, except when otherwise stated

(b) Changes in investments in subsidiaries (Parent Company):

	Parent Company	
	December 31, 2018	December 31, 2017
At the beginning of the period/year	655,499	594,547
Capital increase	45,916	35,717
Equity in the results of subsidiaries	211,669	198,992
Profit received from subsidiaries	(203,368)	(173,757)
Adoption of new practices - IFRS 9	(20,578)	
Write-off of goodwill	(120)	
Write-off due to absorption	(35,192)	
At the end of the year	653,827	655,499

The amounts of the capital increase and dividend distribution are shown as follows:

Subsidiary	Capital increase	Dividend distribution
CETEBA - Centro de Ensino e Tecnologia da Bahia Ltda.		(7,393)
Instituto Campinense de Ensino Superior Ltda		(113,956)
Instituto de Ensino Superior Juvêncio Terra Ltda.		(1,530)
Faculdade Joaquim Nabuco de São Lourenço da Mata Ltda	461	
Faculdade Joaquim Nabuco de Olinda Ltda	5,796	
Sociedade de Ensino e Pesquisa de Sergipe - SESPS		(4,787)
CENESUP - Centro Nacional de Ensino Superior Ltda.	37,400	(1,354)
ABES - Sociedade Baiana de Ensino Superior Ltda.	1,339	(7,521)
Sociedade Educacional Carvalho Gomes Ltda.		(4,635)
Faculdade Maurício de Nassau de Belém Ltda		(8,513)
CESP - Centro de Ensino Superior Piauiense		(14,685)
CIESPI - Centro Integrado de Educação Superior do Piauí Ltda.		(10,894)
FMN Clinica Escola de Fisioterapia, Psicologia, Enfermagem e Nutrição Ltda.	150	
Sociedade de Ensino Superior Piauiense Ltda.		(25,485)
Centro de Educação Continuada Maurício de Nassau Ltda.	640	
EDUCRED - Adm de Crédito Educ. e Cobrança		(1,315)
Uninassau Participações	29	
Overdrives Coworking Escritórios Virtuais	101	
Centro de Educação Profissional BJ Ltda.		(1,298)
Total 2018	45,916	(203,368)
Total 2017	35,717	(173,757)

All amounts in thousands of Reais, except when otherwise stated

Section E – Selected significant notes

7 Financial instruments by category

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Financial assets at amortized cost				
Cash and cash equivalents	920	1,107	4,680	7,494
Accounts receivable	61,166	114,616	179,421	329,067
	62,086	115,723	184,101	336,561
Measured at fair value				
Cash and cash equivalents	235,195	268,632	310,051	271,792
Securities	581,194	617,772	606,167	632,427
Accounts receivable - Educred	11,674	6,137	35,006	16,711
	828,063	892,541	951,224	920,930
	890,149	1,008,264	1,135,325	1,257,491

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Financial liabilities at amortized cost				
Borrowing	88,850	113,348	88,850	113,979
Debentures	217,368	200,881	217,368	200,881
Leases	137,919	140,372	238,259	244,240
Related parties	12,859	51,561		
Suppliers	12,240	12,363	33,921	31,422
Commitments payable	862	862	117,454	144,286
	470,098	519,387	695,852	734,808

The fair values of the financial instruments approximate their carrying amounts, since the impact of the discount to present value, using market interest rates as of December 31, 2018, is not significant. The fair values are based on the discounted cash flow, using the Group's cash cost, which approximates the rate used in the respective agreements.

All amounts in thousands of Reais, except when otherwise stated

8 Cash and cash equivalents and securities

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Cash on hand	66	63	159	180
Banks - current account	854	1,044	4,521	7,314
Financial investments	235,195	268,632	310,051	271,792
Cash and cash equivalents	236,115	269,739	314,731	279,286
Financial investments	581,194	617,772	606,167	632,427
Securities	581,194	617,772	606,167	632,427
Total	817,309	887,511	920,898	911,713

Cash and cash equivalents consist of the Group's cash on hand, deposits in banks and short-term financial investments with daily liquidity, maintained to meet short-term commitments and not for investment or other purposes, and that are readily convertible into a known amount of cash and subject to an immaterial risk of changes in value.

The funds will be used to finance the expansion of its business, through: (i) acquisitions; and (ii) investments in organic growth, including the expansion and infrastructure of distance-learning centers and investments to set up new on-campus units.

Financial investments comprise conservative fixed income investment funds, with securities indexed to the DI rate and portfolios that invested mostly in government bonds and securities from financial institutions, in addition to repo agreements backed by debentures, belonging to the portfolio of financial institutions, without risk for the group, and Bank Deposit Certificates (CDB), which are securities issued by financial institutions, as follows:

		Parent Company		Consolidated	
Type	Average return	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Repurchase agreement (i)	76.14% of CDI	3,403	10,681	3,403	13,707
CDB	100.02% of CDI	231,792	257,951	306,648	258,085
	Financial investments	235,195	268,632	310,051	271,792
Repurchase agreement	76.14% of CDI	231,253	232,850	239,960	247,505
Investment funds	100.02% of CDI	349,941	384,922	366,207	384,922
	Securities	581,194	617,772	606,167	632,427

All amounts in thousands of Reais, except when otherwise stated

9 Students

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Monthly tuition fees (a)	46,248	29,201	125,616	92,106
FIES receivable (b)	18,766	76,397	62,120	206,600
Agreements receivable (c)	21,814	20,135	66,277	70,315
Educational loans receivable (d)	17,177	9,329	52,737	27,890
Other	11,008	5,553	19,359	8,904
Total	115,013	140,615	326,109	405,815
(-) Allowance for doubtful accounts (PDD) (e)	(36,756)	(22,953)	(94,037)	(65,715)
(-) Adjustment to present value - Educred	(5,417)	(3,046)	(17,645)	(11,033)
	72,840	114,616	214,427	329,067
(-) Current	(64,009)	(111,151)	(185,560)	(317,358)
Non-current	8,831	3,465	28,867	11,709

Non-current receivables relate to educational credits receivable with terms over 365 days, as per Note 9 (d).

(a) Student tuition

At December 31, 2018 and 2017, the maturity analysis of student tuition was as follows:

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Overdue up to 30 days	9,525	6,069	24,908	17,708
Overdue 31 - 60 days	8,366	4,097	22,175	13,493
Overdue 61 - 90 days	6,853	3,667	20,208	12,419
Overdue 91 - 180 days	10,509	6,332	25,937	20,041
Overdue more than 180 days	10,995	9,036	32,388	28,445
	46,248	29,201	125,616	92,106

Part of the monthly inflow from accounts receivable for student tuitions is pledged as collateral for the Company's borrowings with the International Finance Corporation (IFC) (Note 15(c)) in amounts equivalent to 25% of debt.

All amounts in thousands of Reais, except when otherwise stated

(b) Higher Education Student Financing Fund (FIES) receivable

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Credits paid in installments (i)		52,714		133,554
Amounts not paid in installments (ii)	18,766	23,683	62,120	73,046
FIES credits receivable	18,766	76,397	62,120	206,600

Educational credits receivable (the FIES system) represent educational credits, the financing of which is contracted by the students with Caixa Econômica Federal (CEF) and the National Fund for Education Development (FNDE). The financial resources are transferred monthly from CEF and Banco do Brasil to a specific bank account, and are used for the payment of withheld social security contributions on the salaries of Company employees, and are also converted into cash by means of auctions of National Treasury Bonds.

The outstanding amounts refer to the installments of students with FIES pending transfer by the Federal Government, basically comprising a portion of the monthly tuitions prior to December 2018 and still not paid by the National Fund for Education Development (FNDE).

(i) On February 3, 2016, the Group signed the court settlement agreement entered into between the higher education institution (IES) members of the Brazilian Association for the Development of Higher Education (ABRAES) and the federal government to receive the FIES credits not settled by the FNDE during 2015. The amounts were received in three annual installments maturing up to June of each year, restated based on the variation in the IPCA consumer price index from the date of maturity in 2015 up to actual receipt. The three installments were received in August 2016, 2017 and 2018, thus settling the agreement.

On July 6, 2017, the federal government issued an executive decree (MP 785/2017) that addresses the amendments to Law 10,260 of July 12, 2001, related to the Higher Education Student Financing Program (FIES). Executive Decree 785/2017 was approved by the House of Representatives and the Senate and later converted into Law 13,530, of December 7, 2017, sanctioned by the President. Among the main changes that came into effect in 2018, the following are highlighted:

- Exclusion of the grace period to begin paying the financing installments and change in the financing payment term;
- Creation of regional development funds and use of regional constitutional funds to finance the program;
- Recognition of (i) the Public FIES, with resources from FNDE and managed by Caixa Econômica Federal and Banco do Brasil; (ii) the Regional Private FIES, with resources from regional constitutional funds; and (iii) the National Private FIES, with resources from BNDES. Both the Regional Private FIES and the National Private FIES are managed by financial institutions; and

All amounts in thousands of Reais, except when otherwise stated

- Increase in the percentage of contribution to the guarantee fund and the liability limit of each educational institution, based on individual default generated by the portfolio of students, for the Public FIES.

This Fund went through several operating adjustments this year, which resulted in the enrollment of 3,942 students in 2018. Under the former FIES rule, this Fund accounted for the enrollment of 15,168 students in the same period in 2017.

(c) Receivable agreements

The Group's Management imposes strict criteria preventing debt rollover from one semester to the next. Student agreement receivables refer to renegotiations with students who are in debt to the Group, which offers different means of payment to students, observes the respective credit limits for each student, and, if necessary, requests the assignment of a guarantor for the credit granted. At December 31, 2018 and 2017, the analysis of the balance due from agreements was as follows:

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Current	6,122	3,563	18,523	14,744
Overdue up to 30 days	2,393	1,799	7,655	6,756
Overdue 31 - 60 days	2,280	1,834	7,213	6,720
Overdue 61 - 90 days	2,130	1,734	6,641	6,368
Overdue 91 - 180 days	4,126	4,144	12,029	14,502
Overdue more than 180 days	4,763	7,061	14,216	21,225
	21,814	20,135	66,277	70,315

(d) Receivable educational credits

Educational credits receivable include those from Educred and Fundação de Crédito Educativo (Fundacred), referring to financing contracted by students and approved by the Group, recorded at present value. These financial resources are transferred to the Company and its subsidiaries after the graduation of the respective students. In 2018, the Company focused on its campaign to enroll students, through the offer of private educational credits, thus increasing the student base from 2,390 on December 31, 2017 to 3,952 on December 31, 2018.

All amounts in thousands of Reais, except when otherwise stated

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Educred	17,091	9,183	52,651	27,744
Fundacred	86	146	86	146
	17,177	9,329	52,737	27,890
(-) Adjustment to present value - Educred	(5,417)	(3,046)	(17,645)	(11,033)
	11,760	6,283	35,092	16,857
(-) Current	(8,346)	(5,864)	(23,870)	(16,181)
Non-current	8,831	3,465	28,867	11,709

At December 31, 2018, the maturity of educational credits receivable was as follows:

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Current	10,403	5,141	31,768	14,613
Overdue up to 30 days	197	144	475	311
Overdue 31 - 60 days	173	102	435	232
Overdue 61 - 90 days	151	96	415	215
Overdue 91 - 180 days	401	269	1,061	515
Overdue more than 180 days	435	531	938	971
	11,760	6,283	35,092	16,857

The current amounts include the adjustment to present value of the balance in the amount of R$17,645 in the consolidated, R$3,179 of which refers to students enrolled between July and December 2018, totaling R$5,417 between January and December 2018, recognized as gross revenue in profit or loss for the year.

(e) Allowance for doubtful accounts

The allowance for doubtful accounts reflects the expected loss on accounts receivable based on default for the last twelve months per student, per payment slip and per maturity interval, except for educational credits from programs with the Federal Government (FIES).

As described in Note 2.2, as of January 1, 2018, the allowance for doubtful accounts of agreements, monthly tuitions and own and third-party educational credits has been calculated in accordance with IFRS 9 – CPC 48. On December 31, 2017, the allowance for doubtful accounts corresponded to 100% of monthly tuitions more than 180 days overdue.

All amounts in thousands of Reais, except when otherwise stated

The allowance for doubtful accounts for students who have FIES educational credits, within the scope of the previous program, was calculated as follows:

(i) For FIES students with guarantors, and the Guarantee Fund for Educational Credit Operations (FGEDUC): provision was set up for 4.05% of the accounts receivable, on an assumption of 15% credit risk on 27% default, that is, 0.405%;
(ii) For financing guaranteed by FGEDUC: for the non-covered risk, provision was set up for the 10% of the supporting entities' responsibility for the 15% credit risk from an estimate of 27% default, that is 0.405%; and
(iii) According to the new FIES, the provision is based on 13% of the student's tuition. FGEDUC charges and administrative fees are no longer discounted from students' monthly tuitions of new FIES.

The change in the allowance for doubtful accounts related to accounts receivable from the Group's students was as follows:

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
At the beginning of the period/year	(22,953)	(14,839)	(65,715)	(44,613)
Adoption of IFRS 9 (Note 2.2)	(5,179)		(25,757)	
Write-off of uncollectible receivables	22,961	11,510	85,678	43,093
Allowance for doubtful accounts	(31,585)	(19,624)	(88,243)	(64,195)
At the end of the year	(36,756)	(22,953)	(94,037)	(65,715)

The Group writes off receivables past due for more than 360 days, considered non-collectible, on a quarterly basis.

All amounts in thousands of Reais, except when otherwise stated

10 Taxes recoverable and payable

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Taxes recoverable (Current)				
Income tax and social contribution to offset	5,748	2,603	6,722	5,760
Service tax (ISS)		1,376		4,265
PIS and COFINS to offset	1,011	965	1,523	1,519
Other			9	
	6,759	4,944	8,254	11,544
Taxes payable				
Income tax and social contribution			2,590	1,564
Withholding income tax	1,939	1,659	6,056	6,818
Service tax (ISS)	1,912	1,810	5,765	6,586
Taxes payable in installments	824	1,197	1,786	2,100
PIS and COFINS	246	267	450	440
Municipal Real Estate Tax (IPTU)	12		46	
Other	84	63	109	489
	5,017	4,996	16,802	17,997
(-) Current	(4,575)	(4,203)	(15,648)	(16,220)
Non-current	442	793	1,154	1,777

11 Intangible assets

(a) Parent Company

		December 31, 2018			December 31, 2017
	Annual amortization rates	Cost	Amortization	Balance	Balance
Trademarks and patents		**567**		**567**	567
Software licenses and deployment	20%	**34,994**	**(22,418)**	**12,576**	14,842
Operating licenses	33%	**11,958**	**(9,529)**	**2,429**	4,576
Agreements	25%	**6,275**	**(1,290)**	**4,985**	4,227
Digital content	20%	**10,526**	**(3,980)**	**6,546**	4,151
Trade fund	20%	**5,282**	**(2,006)**	**3,276**	2,724
		69,602	**(39,223)**	**30,379**	31,087

All amounts in thousands of Reais, except when otherwise stated

	Balance on December 31, 2017	Additions	Write-offs	Amortization	Balance on December 31, 2018
Trademarks and patents	567				**567**
Software licenses and deployment	14,842	**3,637**		**(5,921)**	**12,576**
Operating licenses	4,576	**1,371**	**(1,194)**	**(2,452)**	**2,429**
Agreements	4,227	**1,042**		**(284)**	**4,985**
Digital content	4,151	**3,816**		**(1,421)**	**6,546**
Trade fund	2,724	**1,613**		**(1,061)**	**3,276**
	31,087	**11,479**	**(1,194)**	**(11,139)**	**30,379**

(b) Consolidated

	Annual amortization rates	December 31, 2018 Cost	Amortization	Balance	December 31, 2017 Balance
Trademarks and patents		**610**		**610**	610
Software licenses and deployment	20%	**42,918**	**(29,667)**	**13,251**	16,028
Operating licenses	33%	**20,446**	**(16,584)**	**3,862**	6,464
Agreements	25%	**7,524**	**(1,939)**	**5,585**	4,483
Portfolio of students	25%	**197**		**197**	197
Digital content	20%	**10,526**	**(3,980)**	**6,546**	4,151
Trade fund	20%	**5,300**	**(2,018)**	**3,282**	2,734
Goodwill		**182,803**		**182,803**	182,923
Intangible assets identified in acquisitions		**219,228**	**(10,997)**	**208,231**	210,921
		489,552	**(65,185)**	**424,367**	428,511

	Balance on December 31, 2017	Additions	Write-offs	Amortization	Balance on December 31,2018
Trademarks and patents	610				**610**
Software licenses and deployment	16,028	**3,637**		**(6,414)**	**13,251**
Operating licenses	6,464	**2,853**	**(1,653)**	**(3,802)**	**3,862**
Agreements	4,483	**2,011**		**(909)**	**5,585**
Portfolio of students	197				**197**
Digital content	4,151	**3,816**		**(1,421)**	**6,546**
Trade fund	2,734	**1,613**		**(1,065)**	**3,282**
Goodwill	182,923		**(120)**		**182,803**
Intangible assets identified in acquisitions	210,921			**(2,690)**	**208,231**
	428,511	**13,930**	**(1,773)**	**(16,301)**	**424,367**

All amounts in thousands of Reais, except when otherwise stated

(c) Goodwill

At December 31, 2018 and December 31, 2017, goodwill recorded from business combinations was as follows:

	December 31, 2018	December 31, 2017
CETEBA - Centro de Ensino e Tecnologia da Bahia Ltda.	4,140	4,140
ABES - Sociedade Baiana de Ensino Superior Ltda.	8,405	8,405
Sociedade Educacional Carvalho Gomes Ltda.	4,362	4,362
ADEA - Sociedade de Desenvolvimento Educacional Avançado Ltda. (i)	5,125	5,125
SESPS - Sociedade de Ensino Superior e de Pesquisa de Sergipe Ltda	1,043	1,043
Faculdade Maurício de Nassau de Belém Ltda	959	959
CESP - Centro de Ensino Superior Piauiense	8,662	8,662
Sociedade de Ensino Superior Piauiense	5,360	5,360
Nassau Escola de Aviação Civil Ltda.		120
FADE - Faculdade Decisão	1,028	1,028
Instituto de Ensino Superior Juvêncio Terra Ltda.	573	573
Faculdade Joaquim Nabuco de São Lourenço da Mata Ltda	2,232	2,232
Sociedade Paulista de Ensino e Pesquisa S/S Ltda.	43,590	43,590
Faculdade Joaquim Nabuco de Olinda Ltda	3,521	3,521
Sociedade Universitária Mileto Ltda	1,346	1,346
	90,346	90,466
Absorbed companies		
UNESPA - União de Ensino Superior do Pará (ii)	87,137	87,137
ISES - Instituto Santareno de Educação Superior (ii)	5,320	5,320
	182,803	182,923

The goodwill recorded on the acquisition of investments has an indefinite useful life, therefore it is tested for impairment on an annual basis. See item (e) to this Note.

(i) Sociedade de Desenvolvimento Educacional Avançado (ADEA) was absorbed by the Parent Company on April 30, 2018;

(ii) Refers to the goodwill of União de Ensino Superior do Pará (UNESPA) and Instituto Santareno de Educação Superior (ISES), which were absorbed by ICES on December 31, 2017.

All amounts in thousands of Reais, except when otherwise stated

(d) Intangible assets identified on acquisitions

At December 31, 2018 and December 31, 2017, intangible assets identified on investment acquisitions were as follows:

	December 31, 2018				December 31, 2017			
	Course Licenses (i)	Brands (ii)	Customer Portfolio (ii)	Total	Course Licenses (i)	Brands (ii)	Customer Portfolio (ii)	Total
Sociedade de Ensino Superior e de Pesquisa de Sergipe Ltda - SESPS	467		200	667	467		200	667
Faculdade Maurício de Nassau de Belém Ltda	1,261			1,261	1,261			1,261
Centro de Ensino Superior Piauiense - CESP	4,404	508		4,912	4,404	508		4,912
Sociedade de Ensino Superior Piauiense Ltda.	5,996	692		6,688	5,996	692		6,688
Faculdade Decisão - FADE	2,200	100		2,300	2,200	100		2,300
Instituto de Ensino Superior Juvêncio Terra Ltda.	2,400	100		2,500	2,400	100		2,500
Faculdades COC de Maceió - FACOCMA	3,000			3,000	3,000			3,000
Faculdade Joaquim Nabuco de Olinda Ltda	2,700	400		3,100	2,700	400		3,100
Sociedade Universitária Mileto Ltda	4,500			4,500	4,500			4,500
Sociedade Paulista de Ensino e Pesquisa S/S Ltda.	90,600	17,400	5,600	113,600	90,600	17,400	5,600	113,600
Sociedade Metodista Bennett (Nota 11.f)	10,000			10,000	10,000			10,000
Total	127,528	19,200	5,800	152,528	127,528	19,200	5,800	152,528
Accumulated amortization		(3,663)	(4,520)	(8,183)		(2,723)	(3,474)	(6,197)
	127,528	15,537	1,280	144,345	127,528	16,477	2,326	146,331
Absorbed companies								
União de Ensino Superior do Pará – UNESPA (iii)	45,500	12,100	800	58,400	45,500	12,100	800	58,400
Instituto Santareno de Educação Superior – ISES (iii)	7,600	700		8,300	7,600	700		8,300
Total	53,100	12,800	800	66,700	53,100	12,800	800	66,700
Accumulated amortization		(2,173)	(640)	(2,813)		(1,630)	(480)	(2,110)
	53,100	10,627	160	63,887	53,100	11,170	320	64,590
	180,628	26,164	1,440	208,232	180,628	27,647	2,646	210,921

All amounts in thousands of Reais, except when otherwise stated

(i) The course licenses acquired through business combinations are recognized initially at fair value. These intangible assets identified on acquisitions have indefinite useful lives and are subject to annual impairment tests.
(ii) Brands and portfolios of students acquired through business combinations are recognized initially at fair value. These intangible assets identified on acquisitions have defined useful lives and are subject to amortization, with the annual rate averaging 4% for brands and 20% for portfolios of students.
(iii) UNESPA and ISES were acquired by ICES in October 2014 and absorbed on December 31, 2017.

(e) Impairment of goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives are allocated to CGUs identified in accordance with the respective units that benefit from the transaction and that do not generate economic benefits for the Group.

The recoverable amount of a CGU is determined based on the calculation of its value in use. Those calculations use estimates of cash flow, before income tax (IRPJ) and social contribution (CSLL), based on financial assumptions approved by Management. The amounts concerning the cash flow subsequent to the five-year period are extrapolated based on estimated growth rates. The growth rate does not exceed the average long-term growth rate for the sector in which a CGU operates.

Until December 31, 2017, the effects of inflation measured by the IPCA consumer price index were incorporated in the growth rates and discount rates in the projections of cash flow (nominal rates). As of 2018, the Company has used real rates, without the effect of any inflation index.

We present below the assumptions used in the projections:

	2018	2017
Gross margin (a)	55.6%	55.5%
Growth rate (b)	2.8%	6.6%
Discount rate (c)	9.0%	12.8%

(a) Budgeted gross margin related to net revenue less personnel costs, rental costs, concessionaire costs and service costs, among other factors. Management determined this margin based on past performance and on its market development expectations; and
(b) Stable nominal growth rate, used to project revenues and other costs, whose weighted average rates used are consistent with the macroeconomic projections disclosed by the Brazilian Central Bank (Time Series Management System).

For impairment testing sensitivity scenarios, the working capital, growth rate, discount rate and margin assumptions were altered and, even so, the Group did not record any impairment loss.

(f) Sociedade Metodista Bennet – currently Univeritas Rio de Janeiro

Within the scope of the Group's strategy to expand geographically, on March 26, 2015, the Company acquired, through its subsidiary União de Ensino Superior do Pará - UNESPA, the maintenance of Centro Universitário Bennet ("Bennet"), a higher education institution licensed in Rio de Janeiro, state of Rio de Janeiro, for the amount of R$10,000, based on the approximate value of investments for the accreditation of the courses related to the maintenance. Given that it is an Assignment of Accreditation and Operating Licenses Agreement, the Company understands that it involves the acquisition of assets and not a business combination, therefore the investment is treated as an intangible asset in accordance with Technical Pronouncement CPC 04, Intangible assets.

The main reasons to enter the Rio de Janeiro market through the acquisition of this maintenance were as follows:

- Bennet was highly recognized in the city and its building was already set for an education institution (classrooms, auditoriums, etc.), in addition to having an excellent location;
- The possibility of expanding the Company's presence in the Southeast region of the country, given that UNG had also been recently acquired, in accordance with Ser's strategy of having a national presence;
- In 2014, the main universities in Rio de Janeiro lost their accreditation by the MEC, due to poor academic performance and insufficient funds; and
- Given that it is a University Center, it has autonomy to open new units in the city of Rio de Janeiro, pursuant to the MEC's new regulations.

The key assumptions used by Management to assess the financial feasibility and calculate future cash flows of Univeritas/RJ were based on projections approved by the Board of Executive Officers and the Board of Directors, considering the Group's experience regarding the economic growth of several units with the same profile of operations, being consistent in the use of external sources. The main characteristics were as follows:

- The projections of future cash flows were calculated in real terms and per semester;
- The projections were based on an eight-year flow, given that Management believes that the maturation time for this maintenance in Rio de Janeiro is longer, due to the economic and social aspects faced by the State. Management understands and, based on its history in this segment, believes that a consolidated brand in a given market tends to mature faster than a new unit, specially in regions where the Group's brands are not present;
- The average annual revenue growth rate during the eight-year flow came to 4.6%, taking into account the number of enrolled students times the average ticket of students per course, and excluding the approval of new courses already requested with the MEC;
- Certain expenditures with the cost of services rendered and expenses that may be considered manageable were projected as a percentage of net operating revenue higher than the average percentage of the Group's expenditures;
- Marketing expenses, which are manageable costs, have also been projected as a percentage higher than the average percentage of the Group's expenditures, given that they require more effort since the brand is not yet consolidated in Rio de Janeiro;
- The discount rate used was 9.0%, which is the real weighted average cost of capital, and reflects the rate before the tax benefit; and

All amounts in thousands of Reais, except when otherwise stated

- The perpetuity growth rate reached 2.8% p.a., reflecting the GDP from services projected for the last year of the eight-year flow. This same rate was used for net revenue growth and main costs and expenses as of the fifth year of the flow.

The cash flow projections calculated based on the above-mentioned assumptions indicated that the recoverability of the asset is focused on the perpetuity of the flow.

In addition, the Group's Management conducted a test to determine the fair value, which, pursuant to CPC 01 – Impairment of Assets, consists of "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

The Group's Management is constantly monitoring the performance of assets in relation to the projections, as well as economic and market conditions that may affect the business, in order to identify signs of impairment. Based on these projections, the Group did not identify impairment of the asset in question.

12 Property and equipment

(a) Balance breakdown - Parent Company

	Annual depreciation rates	December 31, 2018			December 31, 2017
		Cost	Depreciation	Balance	Balance
Land		**25,257**		**25,257**	25,257
Buildings and improvements	4%	**215,885**	**(49,274)**	**166,611**	159,824
Leased properties	4%	**151,638**	**(52,782)**	**98,856**	104,908
Vehicles and aircraft	6% and 10%	**27,456**	**(7,566)**	**19,890**	21,092
Equipment and facilities	10%	**55,194**	**(20,474)**	**34,720**	25,923
Furniture and fittings	10%	**22,494**	**(10,425)**	**12,069**	10,487
Computers	20%	**29,247**	**(19,038)**	**10,209**	10,163
Books	20%	**37,858**	**(18,545)**	**19,313**	16,090
Total in operation		**565,029**	**(178,104)**	**386,925**	373,744
Construction in progress		**40,947**		**40,947**	24,669
Total property and equipment		**605,976**	**(178,104)**	**427,872**	398,413

	Balances on December 31, 2017	Additions	Write-offs	Depreciation	Effects of incorporation	Balances on December 31, 2018
Land	25,257					**25,257**
Buildings and improvements	159,824	**10,300**		**(12,537)**	**9,024**	**166,611**
Leased properties	104,908			**(7,431)**	**1,379**	**98,856**
Vehicles and aircraft	21,092	**776**		**(1,978)**		**19,890**
Equipment and facilities	25,923	**10,366**	**(41)**	**(4,442)**	**2,914**	**34,720**
Furniture and fittings	10,487	**2,667**	**(63)**	**(1,969)**	**947**	**12,069**
Computers	10,163	**4,313**	**(108)**	**(4,422)**	**263**	**10,209**
Books	16,090	**4,433**		**(2,773)**	**1,563**	**19,313**
Total in operation	373,744	**32,855**	**(212)**	**(35,552)**	**16,090**	**386,925**
Construction in progress	24,669	**16,184**			**94**	**40,947**
Total property and equipment	398,413	**49,039**	**(212)**	**(35,552)**	**16,184**	**427,872**

All amounts in thousands of Reais, except when otherwise stated

(b) Balance breakdown - Consolidated

	Annual depreciation rates	December 31, 2018 Cost	Depreciation	Balance	December 31, 2017 Balance
Land		**25,257**		**25,257**	25,257
Buildings and improvements	4%	**326,210**	**(70,286)**	**255,924**	254,833
Leased properties	4%	**258,340**	**(76,814)**	**181,526**	194,309
Vehicles and aircraft	6% and 10%	**28,567**	**(8,516)**	**20,051**	21,317
Equipment and facilities	10%	**146,172**	**(61,635)**	**84,537**	71,543
Furniture and fittings	10%	**47,424**	**(24,136)**	**23,288**	22,625
Computers	20%	**54,997**	**(40,677)**	**14,320**	16,013
Books	20%	**84,300**	**(46,068)**	**38,232**	34,321
Total in operation		**971,267**	**(328,132)**	**643,135**	640,218
Construction in progress		**46,756**		**46,756**	26,617
Total property and equipment		**1,018,023**	**(328,132)**	**689,891**	666,835

	Balances on December 31, 2017	Additions	Write-offs	Depreciation	Balances on December 31, 2018
Land	25,257				**25,257**
Buildings and improvements	254,833	**19,430**		**(18,339)**	**255,924**
Leased properties	194,309			**(12,783)**	**181,526**
Vehicles and aircraft	21,317	**787**		**(2,053)**	**20,051**
Equipment and facilities	71,543	**24,077**	**(53)**	**(11,030)**	**84,537**
Furniture and fittings	22,625	**4,438**	**(65)**	**(3,710)**	**23,288**
Computers	16,013	**5,264**	**(175)**	**(6,782)**	**14,320**
Books	34,321	**9,261**		**(5,350)**	**38,232**
Total in operation	640,218	**63,257**	**(293)**	**(60,047)**	**643,135**
Construction in progress	26,617	**20,139**			**46,756**
Total property and equipment	666,835	**83,396**	**(293)**	**(60,047)**	**689,891**

Investments in buildings and improvements, equipment and facilities and works in progress mainly refer to the construction and remodeling of buildings in the Fortaleza, Caruaru, Olinda and Recife campuses.

All amounts in thousands of Reais, except when otherwise stated

(c) Other information

(c.i) Leased properties

The Group has lease agreements classified as finance leases under property and equipment, with corresponding entries in liabilities, as follows:

				December 31, 2018	December 31, 2017
Type	Amortization term	Cost	Accumulated depreciation	Balance	Balance
Buildings - Parent company	20 years	151,638	(52,782)	98,856	104,908
Buildings - Consolidated	20 years	258,340	(76,814)	181,526	194,309

(c.ii) Guarantees

The Group has borrowing agreements (leases and FINAME financing) of vehicles, aircraft, machinery and equipment and IT equipment, which allow for the fiduciary sale of the assets acquired. At December 31, 2018, the Company recorded R$18,548 in the parent company and on a consolidated basis in guarantees related to these agreements (R$22,887 and R$28,116 at December 31, 2017, respectively). In addition, buildings, machinery and IT equipment pledged as collateral in legal proceedings totaled R$13,465 (R$12,925 at December 31, 2017).

(d) Capitalized borrowing costs

The Group has new projects under construction involving new units and renovations. As per Note 15(a), two sets of borrowing were obtained in 2015 to finance these enterprises, and the capitalized borrowing costs in the year ended December 31, 2018 amounted to R$2,248, excluding interest expenses (R$2,427 at December 31, 2017). The rate used to determine the capitalized borrowing costs is the effective rate of the borrowing concerned.

13 Suppliers

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Domestic suppliers	12,025	12,282	33,511	31,156
Domestic service providers	215	81	410	266
	12,240	12,363	33,921	31,422

All amounts in thousands of Reais, except when otherwise stated

14 Commitments payable

Commitments payable arise from the following acquisitions:

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
FAL	115	115	115	115
FASE	747	747	747	747
UNAMA and FIT (*)			41,669	41,670
UNG			74,023	100,854
FAMIL			900	900
	862	862	117,454	144,286

(*) The balance includes amounts related to differences in the recognition of net debt reimbursements and pre-established contingencies, which are being discussed by the competent authority and may not be fully paid by the Group.

The installments mature as follows:

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Up to one year	862	862	82,770	80,720
Between one and two years			34,684	30,932
Between two and three years				32,634
	862	862	117,454	144,286

15 Borrowings

(a) Breakdown

		Parent Company		Consolidated	
Type	Financial charges	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
IFC (i)	CDI + 2.05% p.a.	76,918	99,054	76,918	99,054
Finame	TJLP + 2.50% to 3.50% p.a.	11,932	13,937	11,932	13,975
Leasing	CDI + 0.45% to 1.62% p.m.		357		950
		88,850	113,348	88,850	113,979
(-) Current		(24,970)	(25,938)	(24,970)	(26,569)
Non-current		63,880	87,410	63,880	87,410

All amounts in thousands of Reais, except when otherwise stated

(i) On June 30, 2015, the Group signed a financing agreement with the IFC to cover the building costs of the Aracaju (Sergipe) and Fortaleza (Ceará) campuses, the modernization and remodeling of existing campuses and new acquisitions. The amount financed was R$120,000, which was released on August 3, 2015, with funding costs totaling R$1,335 and a seven-year payment term, including a two-year grace period for the principal, with interest payment in April and October each year.

Although the funds were obtained abroad in US Dollars, the IFC established the transaction in Brazilian Reais with no foreign exchange risk to the Group. There are no borrowing amounts in foreign currency.

(b) Changes

Changes in debt are as follows:

	Parent Company	Consolidated
At December 31, 2017	113,348	113,979
Incurred interest	10,668	10,715
Capitalized interest (Note 12(d))	(2,248)	(2,248)
Amortization	(24,980)	(25,630)
Amortized interest	(7,938)	(7,966)
At December 31, 2018	88,850	88,850

(c) Collaterals

Finame and Leasing agreements mainly refer to IT equipment, vehicles, televisions, air conditioners, aircraft, among other items, guaranteed by the chattel mortgage of the respective asset and/or receivables (Note 12 (c.ii)). For the IFC, the Group has pledged as guarantee the fiduciary assignment of a portion of the monthly tuition paid by the Group's students, representing 25% of the total debt related to this borrowing.

(d) Classification by year of maturity

The long-term installments fall due as shown below:

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2018
Between one and two years	23,530	23,530	23,530	23,530
Between two and three years	23,530	23,530	23,530	23,530
Between three and four years	12,753	23,530	12,753	23,530
Between four and five years	1,952	12,753	1,952	12,753
More than five years	2,115	4,067	2,115	4,067
	63,880	87,410	63,880	87,410

The fair value of borrowings approximates the carrying amounts, since the impact of discounting is not significant. The fair values are based on the discounted cash flow, using the Group's cash cost, which approximates the rate used in the respective agreements.

(e) Covenants

The borrowing from the IFC requires the maintenance of covenant financial indices. The covenants are calculated based on the financial statements of the Group, which is the guarantor of the issue, for the quarters ended on March 30, June 30, September 30, and December 31 of each year, and will be required until final maturity. The financial indices are as follows:

- result of the division of current assets less prepaid expenses by current liabilities - current ratio of at least 1.2;
- result of the division of gross debt by adjusted Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) - not higher than 2.5; and
- result of the division of profit (less adjustments with no cash effect) by the projected payment of interest and amortization of gross debt in the next 12 months - not lower than 1.2.

In the year ended December 31, 2018, the covenants related to the borrowing agreements were analyzed and there were no amounts outside the contractual limits.

16 Debentures

On August 10, 2017, the Board of Directors approved the Group's second issue of simple, unsecured debentures, not convertible into shares, in two equal series, in accordance with CVM Instruction 476. The funds obtained were used to settle first issue debentures and financing entered into by the Group, and the remaining balance was used to strengthen working capital. The nominal unit price of the debentures will be subject to interest corresponding to the accumulated variations of the DI rate, plus a spread of 0.65% per year for First Series Debentures and of 1.35% per year for Second Series Debentures.

The issue of the debentures was completed on October 3, 2017. The nominal unit price of the debentures on the issue date was R$1,000, with a total amount of R$200,000. The costs incurred on the issue totaled R$3,302. The payment term of the First Series is two years with a single installment on September 15, 2019, and the payment term of the Second Series is four years with four equal half-yearly installments, the first maturity on March 15, 2020 and last on September 15, 2021.

The debentures issued by the Group require the maintenance of covenant financial indices. The covenants are calculated based on the financial statements of the Group, which is the guarantor of the issue,
for each fiscal year ended on December 31, and were required starting in 2017 through final maturity. The main financial indices are as follows:

All amounts in thousands of Reais, except when otherwise stated

- the result of the division of net debt by adjusted EBITDA, which must not be higher than 2.5, but which may be higher than 0.5 for four consecutive quarters, in the case of acquisition of interest in a company with a similar corporate purpose; and
- the result of the division of EBITDA by net financial expenses, considering bank debt charges deducted from gains with financial investments, which must not be lower than 2.0.

In the year ended December 31, 2018, the covenants related to the debenture indentures were analyzed and there were no amounts in excess of the contractual limits.

If the Company acquires an interest in a company with a similar corporate purpose, the net debt/EBITDA ratio may increase by up to 0.5 for four consecutive quarters as of the quarter in which the debt related to the acquisition is contracted.

The long-term installments fall due as shown below:

	Parent Company and Consolidated	
	December 31, 2018	**December 31, 2017**
Current		
Less than one year	108,476	2,636
Non-current		
Between one and two years	54,446	98,968
Between two and three years	54,446	49,587
Between three and four years		49,690
	108,892	198,245
	217,368	200,881

The fair value of the debentures approximates the carrying amounts, since the contractual rate reflects the restated amount to settle the transaction.

Changes in debt are as follows:

	Parent Company and Consolidated
At December 31, 2017	200,881
Incurred interest	16,487
At December 31, 2018	217,368

All amounts in thousands of Reais, except when otherwise stated

17 Salaries and social charges

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Profit sharing	4,000	3,825	4,000	3,825
Salaries payable	8,108	7,905	18,708	19,838
Social charges	5,165	4,750	12,104	12,933
Provision for vacation pay and charges	19,375	17,733	38,176	37,498
Other	305	219	704	737
	36,953	34,432	73,692	74,831

18 Lease obligations

The Group has lease agreements that are classified as lease-purchase agreements in property and equipment and in obligations for lease-purchase agreements, as discussed in Note 12.

The agreements are for a period of ten years, and may be automatically renewed at the lessee's request at the end of the term. The agreements are payable monthly at fixed amounts, which are adjusted annually by the civil construction index or the IGP-M disclosed by the Getulio Vargas Foundation. There are no restrictions or clauses that depend on income or the distribution of dividends by the Group.

The agreements were considered by the Group as essentially lease agreements, either because the terms of the rental agreements represent most of the economic life of the assets, or because the fair values of the buildings and land are lower than the present value of the minimum payments of the leases. The present value of the agreements was calculated at rates equivalent to the borrowing rates of transactions of a similar risk and nature.

The due dates for the payments of the minimum lease of the lease agreements are as follows:

All amounts in thousands of Reais, except when otherwise stated

Parent Company			**December 31, 2018**	**December 31, 2017**
Maturity	**Minimum payments**	**Discount at present value**	**Present value of minimum payments**	**Present value of minimum payments**
Current:				
Less than one year	22,726	(12,059)	10,667	10,069
Non-current				
Between one and two years	22,726	(12,059)	10,667	10,069
Between two and three years	22,726	(12,059)	10,667	10,069
Between three and four years	22,726	(12,059)	10,667	10,069
More than four years	208,191	(112,940)	95,251	100,096
	276,369	(149,117)	127,252	130,303
	299,095	(161,176)	137,919	140,372

Consolidated			**December 31, 2018**	**December 31, 2017**
Maturity	**Minimum payments**	**Discount at present value**	**Present value of minimum payments**	**Present value of minimum payments**
Current:				
Less than one year	38,998	(21,789)	17,209	16,446
Non-current				
Between one and two years	38,998	(21,789)	17,209	16,446
Between two and three years	38,998	(21,789)	17,209	16,446
Between three and four years	38,998	(21,789)	17,209	16,446
More than four years	395,395	(225,972)	169,423	178,456
	512,389	(291,339)	221,050	227,794
	551,387	(313,128)	238,259	244,240

19 Share capital and reserves

(a) Share capital

On December 31, 2018, the Company's share capital consisted of 132,951,860 registered common shares with no par value, versus 138,812,000 on December 31, 2017, totaling R$987,549 in the year. Costs incurred by the Company for the issue of shares in November 2017 totaled R$4,095, deducted from the share capital and awaiting capitalization by the Company's Board of Directors.

The Company's shareholders authorized the Board of Directors to increase the share capital to up to R$1,200,000.

(b) Treasury shares

On January 12, 2015, the acquisition of up to 3,752,237 non-par, book-entry, registered, common shares issued by the Company, was approved, to be held, canceled in treasury or placed on the market again, with no capital reduction, within 365 days from January 12, 2015, and closing on January 11, 2016. As a result, 377,500 shares were acquired, in the amount of R$6,452, at a weighted average cost of R$17.09, within the repurchase program.

On January 9, 2016, the Company's Board of Directors approved the extension of the Share Repurchase Program to up to January 9, 2017, renewing it until January 9, 2018, when it was terminated, without changes.

On April 3, 2018, the Company's Board of Directors reopened this program and approved the acquisition of up to 5,482,640 shares, within 365 days, with closing on April 3, 2019. On October 16, 2018, this program was terminated and all the shares were acquired, at an average cost of R$16.27, in the amount of R$89,225, which were subsequently canceled.

On October 16, 2018, a new program was open to repurchase up to 5,326,100 shares, within 365 days, with expiration on October 16, 2019. During this new phase of the program, until December 31, 2018, 4,230,300 shares had been acquired, totaling R$65,527, at a weighted average cost of R$15.49.

The common shares acquired will be held in treasury for subsequent cancellation or allocation to other plans that may be approved in the future by the Company's Shareholders' Meeting.

(c) Capital reserve

At December 31, 2018 and 2017, the Company had no amount recorded as a capital reserve.

(d) Reserve for tax incentives

This reserve was set up as provided for by Article 195-A of the Brazilian Corporate Law (amended by Law 11638 of 2008). This reserve received the portion of tax incentives recognized in the statement of income and allocated to it from the retained earnings account.

Due to its adherence to the "University for All" Program (*Programa Universidade para Todos* or PROUNI), the Company records as income for the year the IRPJ and CSLL amounts not paid by virtue of the tax incentive, reducing tax expenses. The parent company's tax relief granted, after passing through the statement of income, was recorded in the account "Reserve for tax incentives" in equity.

Through the reply to query published in November 2018, the tax authority established that the exemption from income tax and social contribution granted to higher education institutions that have joined the PROUNI program is not characterized as subsidies for investment, described in Article 30 of

Law 12,973 of 2014. Therefore, there is no obligation to recognize a reserve for tax incentives and no restriction to the distribution of profit or dividends. As a result, the Company reversed the balance of the retained earnings reserve and stopped paying monthly installments to said reserve. The Company will also no longer exclude the incentive amount from the calculation base of dividends.

All amounts in thousands of Reais, except when otherwise stated

(e) Legal reserve

At December 31, 2018, the Company had a legal reserve of R$55,523 (2017 - R$45,459). The legal reserve takes 5% of profit for the year or the remaining balance, up to the limit of 20% of capital. The purpose of the legal reserve is to ensure the integrity of capital, and it may only be used to offset losses and increase capital.

(f) Retained earnings

At December 31, 2018, the Company's retained earnings amounted to R$483,437 (2017 - R$420,287). Retained earnings represent the portion of profit allocated to the retained earnings reserve account for future capital investment subject to the approval of shareholders at the Annual Shareholders' Meeting.

(g) Dividends

Shareholders are entitled to mandatory minimum dividends of 25% of profit for the year adjusted by the recognition of the legal reserve, in accordance with the Brazilian Corporate Law.
Management prepared the proposed distribution of dividends as follows:

	December 31, 2018	December 31, 2017
Profit for the year	201,279	197,475
(-) Tax incentive reserve		(79,467)
(-) Legal reserve	(10,064)	(9,874)
Adjusted profit	191,215	108,134
Mandatory minimum dividend calculated (25%) to be distributed	47,804	27,034
Interim dividends distributed (i)	(20,685)	
Dividends payable	27,119	27,034
Supplementary dividends (ii)	9,561	10,813
Total dividends to be distributed	36,680	37,847
Weighted average of dividends outstanding	135,829	127,225
Dividends distributed/ to be distributed per share (in Reais)	0.27	0.30

(i) On September 10, 2018, the Company's Board of Directors approved the distribution of interim dividends, based on net income accumulated until June 30, 2018, within the limit of the mandatory minimum dividend for the period;

(ii) Additional dividends were submitted for approval by the Annual Shareholders' Meeting and were recorded under revenue reserve in equity on December 31, 2018.

20. Net income from services rendered

All amounts in thousands of Reais, except when otherwise stated

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Gross revenue from services				
Undergraduate tuition	621,339	514,354	1,731,307	1,566,726
Graduate tuition	3,268	3,333	29,458	24,857
Distance Learning (EAD) tuition	51,816	28,215	70,786	32,984
Other revenue	5,030	3,897	16,442	16,355
	681,453	549,799	1,847,993	1,640,922
Deductions from gross revenue				
Discounts and scholarships (i)	(122,677)	(53,488)	(334,580)	(181,873)
PROUNI (ii)	(66,619)	(48,772)	(171,711)	(138,585)
FGEDUC and FIES charges (iii)	(13,706)	(16,282)	(36,024)	(44,791)
Taxes on services	(14,168)	(14,589)	(43,192)	(43,888)
	(217,170)	(133,131)	(585,507)	(409,137)
	464,283	416,668	1,262,486	1,231,785

(i) The increase is due to the higher volume of discounts and scholarships as a result of campaigns in 2018;

(ii) The increase refers to the beginning of operations of new units, when the volume of scholarships from PROUNI carries more weight in the student base; and

(iii) The variation includes the reduction in the number of FIES students, due to the lower number of places offered by the federal government.

21 Cost of services rendered

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Payroll and social charges (i)	(128,984)	(108,931)	(380,387)	(377,659)
Services rendered by individuals and companies	(11,142)	(7,130)	(19,993)	(14,761)
Electricity, water and telephone	(17,247)	(13,548)	(37,361)	(33,394)
Depreciation and amortization	(28,623)	(19,998)	(49,474)	(39,717)
Rents	(25,706)	(26,754)	(75,275)	(79,741)
Other	(10,719)	(7,537)	(14,500)	(11,373)
	(222,421)	(183,898)	(576,990)	(556,645)

All amounts in thousands of Reais, except when otherwise stated

22 Selling, general and administrative expenses

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Payroll and social charges (i)	(91,666)	(79,651)	(143,038)	(136,062)
Services rendered by individuals and companies	(27,026)	(21,095)	(35,227)	(32,453)
Selling, marketing and advertising expenses	(44,000)	(45,861)	(83,548)	(92,517)
Allowance for and actual loss on doubtful accounts (ii)	(31,585)	(19,624)	(88,243)	(64,195)
Depreciation and amortization	(18,068)	(17,570)	(26,874)	(25,373)
Office supplies	(10,623)	(9,272)	(17,557)	(18,003)
Taxes	(3,743)	(3,402)	(8,624)	(7,354)
Other	(28,888)	(24,732)	(43,738)	(41,607)
	(255,599)	(221,207)	(446,849)	(417,564)

(i) The increase was due to expenses related to severance pay as a result of the Group's Restructuring Plan, in addition to the units' collective bargaining agreements;

(ii) This variation was due to the change in the calculation method for the allowance for doubtful accounts, pursuant to IFRS 9 – Financial Instruments (CPC 48), which came into effect on January 1, 2018, as described in Note 2.2.

23 Financial income and costs

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Financial income				
Interest on tuition and agreements (i)	5,185	8,466	15,526	27,854
Earnings from financial investments (ii)	52,943	41,853	55,276	42,444
Discounts obtained	2,554	2,024	4,645	3,529
Capitalization of interest				
Monetary variation gains(iii)	772	3,646	2,059	9,234
(-) PIS and COFINS on finance income	(2,837)	(2,448)	(3,745)	(3,437)
Other	248	709	635	983
	58,865	54,250	74,396	80,607
Financial expenses				
Interest expenses (iv)	(25,096)	(38,204)	(25,381)	(38,896)
Capitalization of interest	2,248	2,427	2,248	2,427
Interest on leases	(18,369)	(18,655)	(33,017)	(33,704)
Discounts granted (v)	(7,868)	(10,600)	(24,623)	(34,743)
Monetary variation losses			(10,492)	(14,100)
Other	(2,741)	(3,244)	(10,205)	(15,711)
	(51,826)	(68,276)	(101,470)	(134,727)
Finance costs, net	7,039	(14,026)	(27,074)	(54,120)

(i) The decline is related to the implementation of IFRS 15, which reduced the increase in the monthly tuitions paid between the 5th and the 30th of every month and which are now recorded as gross revenue;

(ii) This variation is due to the increase in the Group's securities and financial investments, despite the decline in their yields due to the reduction in the interest rate;

(iii) Refers to the reduction in the accounts receivable balance, due to the agreement entered into with the FNDE (Note 9.b), which was settled in August 2018;

All amounts in thousands of Reais, except when otherwise stated

(iv) The reduction refers to the drop in the interest rate, the beginning of amortization of IFC borrowings in 2017 and the settlement of first issue debentures; and
(v) The reduction mainly refers to the change in the discount granting policy to recover non-collectible receivables, given that the Company had a campaign aimed at receivables more than 360 days overdue in 2017, and to the reduction in the amount of negotiations carried out.

24 Income Tax (IRPJ) and Social Contribution (CSLL)

In accordance with Law 11096/2005 regulated by Decree 5493/2005 and by Normative Instruction of the Federal Revenue Office 456/2004, under the terms of Article 5 of Executive Decree 213/2004, higher education institutions that join PROUNI are exempted, during the term of the membership agreement, from taxes including IRPJ and CSLL. The accounting for this exemption must be based on the profit arising from the exempted activities. The reconciliation of the taxes determined, according to the nominal rates, and the amount of taxes recorded in the years ended December 31, 2018 and December 31, 2017, were as follows:

(a) Breakdown of Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL)

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Income tax and social contribution - current				
Presumed profit			446	1,724
Taxable incomel	2,238	5,876	81,545	82,228
Tax incentive	(1,912)	(5,586)	(74,659)	(77,545)
Income tax and social contribution - previous period		(905)		(2,718)
Total income tax and social contribution	326	(615)	7,332	3,689

(b) Companies under the presumed profit regime

	Consolidated	
	December 31, 2018	December 31, 2017
Gross sales revenue	2,066	5,756
Projected 32%	661	1,842
Other revenues	652	3,230
Profit before income tax and social contribution	1,313	5,072
Income tax and social contribution - 34%	446	1,724

Part of the higher education support operations and professional education operations are carried out under the presumed profit regime of the Company’s investees. In 2017, the graduate segment was taxed under the presumed profit regime.

All amounts in thousands of Reais, except when otherwise stated

(c) Companies under the taxable income regime

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Profit before income tax and social contribution	201,605	196,860	207,298	196,843
Combined nominal rate of income tax and social contribution - %	34%	34%	34%	34%
Income tax and social contribution based on current legislation rates	68,546	66,932	70,481	66,927
Equity in subsidiaries	(71,998)	(67,657)		
Adjustment to present value of accounts receivable	604	(117)	1,831	(1,390)
Leases	1,079	1,221	2,057	2,551
Allowance for doubtful accounts	384	480	879	1,213
Other additions exclusions	4,472	6,538	10,421	15,190
Reversal of contingencies	141	(257)	(878)	510
Unused expenses Offsetting of tax loss	(990)	(1,264)	(3,246)	(2,773)
	2,238	5,876	81,545	82,228
Tax incentive from exploration profit - PROUNI	(1,912)	(5,586)	(74,659)	(77,545)
Income tax and social contribution expenses on the results for the year	326	290	6,886	4,683
Effective rate - %	0.16%	0.15%	3.32%	2.38%

(d) Breakdown of the effective rate

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Profit before income tax and social contribution				
Presumed profit			1,313	5,072
Taxable income	201,605	196,860	207,298	196,843
	201,605	196,860	208,611	201,915
Income tax and social contribution				
Companies opting for the presumed income system			446	1,724
Companies opting for the taxable income system	326	290	6,886	4,683
Total current income tax and social contribution	326	290	7,332	6,407
Effective rate	0.16%	0.15%	3.51%	3.17%

All amounts in thousands of Reais, except when otherwise stated

25 Related parties

(a) Current accounts with subsidiaries

	Parent Company	
	December 31, 2018	December 31, 2017
Liabilities		
CENESUP - Centro Nacional de Ensino Superior Ltda.		2,969
CETEBA - Centro de Ensino e Tecnologia da Bahia Ltda.	1,500	8,842
Sociedade Educacional Carvalho Gomes Ltda.		2,235
ADEA - Sociedade de Desenvolvimento Educacional Avançado Ltda.		6,614
SIESPI - Sociedade de Ensino Superior Piauiense Ltda.		9,525
FMN Clinica Escola de Fisioterapia, Psicologia, Enfermagem e Nutrição Ltda.		334
Faculdade Maurício de Nassau de Belém Ltda.		1,584
CESP - Centro de Ensino Superior Piauiense Ltda.		5,121
SESPS - Sociedade de Ensino Superior e de Pesquisa de Sergipe ltda.	7,590	9,723
Instituto de Ensino Superior Juvêncio Terra Ltda.	3,608	4,614
ABES - Sociedade Baiana de Ensino Superior Ltda.	161	
	12,859	51,561

(b) Remuneration of key management personnel

Key Management personnel include the Group's directors and officers. The remuneration paid or payable to key Management personnel is as follows:

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Total key management remuneration	8,122	9,061	8,122	9,061

(c) Other transactions

	Consolidated					
	December 31, 2018			December 31, 2017		
	Expenses	Payment (*)	Liabilities	Expenses	Payment (*)	Liabilities
Rents - Ocktus Participações Ltda (i)	22,451	43,389	134,207	26,843	48,890	138,332
Social actions (ii)	503			546		
	22,954	43,389	134,207	27,389	48,890	138,332

(*) Refers to the amount of expenses plus lease interests.

All amounts in thousands of Reais, except when otherwise stated

(i) The Group entered into commercial lease agreements for real estate with Ocktus Participações Ltda., owned by shareholder José Janguiê Bezerra Diniz, for a ten-year term, which can be extended for an equal period. The difference between the expense and the payments refers to the minimum lease payment, which is amortized in liabilities. In the first quarter of 2018, the Group and Ocktus agreed to suspend payments of the leases on two properties and maintain the suspension of another two leases that began in 2017, all of which are located in Recife, for one year.

(ii) The Company supports the Instituto Ser Educacional, a nonprofit institution, to perform activities related to corporate social responsibility.

Related-party transactions are negotiated at market value.

26 Provision for contingencies

Management, based on the opinion of its external legal counsel, has set up provisions considered sufficient to cover probable potential losses from pending litigation.

	Parent Company		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Civill (a)	797	306	3,194	3,446
Labor (b)	657	140	4,550	6,384
	1,454	446	7,744	9,830
Indemnity contingencies (d)			112,015	112,015
	1,454	446	119,759	121,845

(a) Civil

The Group, with the support of its legal advisors, has performed a study, valuation and quantification of its civil lawsuits to determine the probable outflow of funds related to them. At December 31, 2018, Management made a provision of R$797 (2017 - R$306) in the parent company and R$3,194 (2017 - R$3,446) in the consolidated. The major lawsuits classified as probable losses involve indemnity for pain and suffering and damage to property. There are no debts to the Group.

The Group has also performed a study, evaluation and quantification of the civil lawsuits classified as possible losses, for which no provision has been made, and which amounted to R$22,997 (2017 - R$4,138) in the parent company and R$46,718 (2017 - R$23,099) in the consolidated at December 31, 2018. The main claims relate to: (i) lawsuits arising from undue blacklisting in credit protection bodies and undue maintenance of said negative entry; (ii) lawsuits due to delays in issuing diplomas; (iii) lawsuits due to problems in amendment, enrollment, refund (class not created) and transfer related to FIES.

(b) Labor

The Group, with the support of its legal advisors, has performed a study, valuation and quantification of its labor lawsuits to determine the probable outflow of funds related to them. At December 31, 2018, Management made a provision of R$657 (2017 - R$140) in the parent company and R$4,550 (2017 - R$6,384) in the consolidated.

The Group has also performed a study, evaluation and quantification of the various labor lawsuits classified as representing possible losses, for which there is no provision. At December 31, 2018, these amounted to R$23,265 (2017 - R$11,317) in the parent company and R$33,610 (2017 - R$39,726) in the consolidated, with the main claims related to overtime, unused vacation, the recognition of employment relationships, salary parity and salary differences resulting from the reduction of faculty working hours.

(c) Tax

The Group, with the support of its legal advisors, has performed a study, valuation and quantification of its tax lawsuits to determine the probable outflow of funds related to them. Management has not made provision for the parent company and consolidated, as there were no lawsuits classified as probable losses on that date.

The Group has also performed a study, evaluation and quantification of the various tax lawsuits classified as representing possible losses, for which there is no provision. At December 31, 2018, these amounted to R$10,727 (2017 - R$8,534) in the parent company and R$20,815 (2017 - R$28,608) in the consolidated (See Note 26 (d)).

Among the main tax lawsuits whose likelihood of loss is classified as possible by the legal counsel, the following are highlighted:

a. 07.51613.0.15 - This refers to a tax deficiency notice issued by the finance department of Recife for the alleged non-payment of Service Tax (ISS) on the Company's educational service revenues related to PROUNI scholarships. Said notice is the object of an action for annulment in which a provisional remedy for suspension of the tax credit was granted. The estimated amount was R$3,679 at December 31, 2018 and 2017.
b. 10480.727015/2011-88 - This is an administrative proceeding due to divergences in the information provided about withholding income tax for calendar years 2008, 2009 and 2010. The estimated amount was R$2,496 at December 31, 2018 and 2017.
c. 07.51986.1.15 - This refers to a tax deficiency notice issued by the finance department of Recife for the alleged non-payment of ISS on 5% of the Company's educational service revenues related to vocational programs. A defense has been filed requesting the nullity of the notice, given that the percentage of the tax to be paid is 3%, in accordance with the law. The estimated amount was R$1,705 at December 31, 2018 and 2017.

(d) Labor contingencies for indemnity purposes resulting from business combination

At December 31, 2018 and 2017, among the main labor claims provided for, a contingent liability for indemnity of R$3,249 is highlighted, which was recognized in relation to the labor exposure of Centro de Ensino Superior Piauiense Ltda. (CESPI), Sociedade de Ensino Superior Piauiense Ltda. (SIESPI) and its subsidiary Centro Integrado de Educação Superior do Piauí Ltda. (CIESPI), as a result of their business combination in 2013.

Another major tax claim provided for was a contingent liability of R$108,766 at December 31, 2018 and 2017, which was recognized for the tax exposure of União de Ensino Superior do Pará (UNESPA) and Instituto Santareno de Ensino Superior (ISES), as a result of their business combination in 2014. Other tax claims include:

a. 0019270-28.2014.8.14.0301 - This relates to a tax collection lawsuit brought by the Municipality of Belém related to the collection of ISS due to UNESPA's supposed loss of tax exemption. The matter is related to the ISS tax exemption granted to UNESPA by the government through a municipal decree. The exemption was later withdrawn, and the tax credit related to the last five years was assessed, generating this lawsuit. Before this lawsuit was filed, UNESPA filed an action for annulment, registered under No. 0057879-84.2009.8.14.0301, to annul the tax deficiency notices that authorized the filing of the present tax collection lawsuit. Motions to stay execution have been filed and the process is currently in the evidentiary stage. The loss risk classification attributed by the external legal advisors is possible, and the amount is R$103,082 at December 31, 2018 and 2017. Nevertheless, the lawsuit is recorded at the amount of the contingent liability arising from the business combination with UNESPA.

The selling shareholders have contractually agreed to indemnify the Company for the amount that may become due with respect to the lawsuits mentioned above. The withholding of a portion of the purchase amounts has been fixed contractually, as well as discounts on the future rental of the units, and the properties have been mortgaged in favor of the Company to guarantee that amount. An indemnity asset, equivalent to the fair value of the indemnified liability, as mentioned above, was recognized in the amount of R$112,015 at December 31, 2018 and 2017.

In addition to the lawsuits provisioned, with indemnification assets recognized by the Company, we also have the following cases under discussion:

a. Case relating to the use of software licenses for distance learning, brought by the company Centro de Estratégia Operacional Propaganda, Publicidade e Comércio Ltda. against Rede Brasileira de Educação à Distância (RBED), in which União de Ensino Superior do Pará (UNESPA) is a partner, together with nine other teaching institutions in Brazil, who are joint defendants in the case. The amount currently under discussion, which has not been provided for, is R$76,075, arising from business combinations. In 2018, RBED was granted an injunction to suspend the billing process; and

b. Deficiency notices for collection of social security contributions and contributions to entities and funds, from January 2011 to December 2012, totaling R$90,945 at December 31, 2018 and 2017, of Sociedade Paulista de Ensino e Pesquisa (SOPEP), the current supporting entity of UNG. The

Federal Revenue Office understood that the activities carried out by Associação Paulista de Educação e Cultura (APEC), the former supporting entity of UNG, were not classified as non-profit, and even though the maintenance of UNG was only transferred in January 2015, SOPEP was issued a notice of secondary liability for the lack of payment of said contributions. In addition, on April 19, 2018, a new tax deficiency notice was issued, extending the period in question to 2014, adding R$82,084 and totaling R$173,029. Both processes are being analyzed by the Administrative Tax Appeals Council (CARF), a body that is connected to the current Ministry of the Economy.

In all the cases, as the contingencies refer to periods prior to the acquisition, the agreement establishes that any losses are guaranteed by the retention of purchase and sale amounts, discounts in the future rent of units and mortgages of properties in favor of the Company. The lawyers in charge of these proceedings were contracted by the selling shareholders and are monitored by the Group's lawyers, and classified these lawsuits as possible losses.

27 Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of the Company by the weighted average number of common shares issued during the year. The Company does not have potential common shares with dilutive effects.

	December 31, 2018	December 31, 2017
Profit for the year attributable to the shareholders of the Parent Company	201,279	197,475
Weighted average number of outstanding common shares (in thousands)	135,829	127,225
Earnings per share - basic and diluted - R$	1.48	1.55

28 Insurance

Insurance coverage at December 31, 2018 was contracted at the amounts shown below, which are in accordance with the insurance policies:

Lines	Insured amounts ('000)
Material damages to property and equipment (buildings/equipment)	R$ 130,000
Aircraft hull and civil liability	US$ 11,270
Aeronautical RETA - Passengers, crew members and third parties on the grour	R$ 1,308
Third-party liability	R$ 15,000
Fleet - Pecuniary loss, personal injury and damages to transported objects	100% Fipe
D&O liability	R$ 30,000

Section F - Accounting policies

29 Summary of significant accounting policies

The main accounting policies used in the preparation of these financial statements are defined below. These policies have been consistently applied in the years presented, unless otherwise stated.

29.1 Consolidation

The following accounting policies are applied to the preparation of the consolidated financial statements:

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. Subsidiaries are fully consolidated as of the date on which control is transferred to the Group. They are deconsolidated from the date on which that control ceases.

Identifiable assets acquired and liabilities and contingent liabilities assumed on the acquisition of subsidiaries in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. Non-controlling interests are determined on each acquisition. Acquisition-related costs are expensed as they are incurred.

Transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of the impairment of the asset being transferred. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

29.2 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and other short-term highly liquid investments with original maturities of three months or less, and with an immaterial risk of changes in value.

29.3 Financial assets and liabilities

29.3.1 Initial recognition and measurement of financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss.

The classification of financial assets at initial recognition depends on the characteristics of the financial asset's contractual cash flows and the Group's business model for managing those financial assets. All financial assets are recognized at fair value plus, in the case of financial assets not measured at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

For the purposes of subsequent measurement, the financial assets are classified into four categories:

- Financial assets measured at amortized cost;
- Financial assets measured at fair value through other comprehensive income with reclassification of cumulative gains and losses (debt instruments);
- Financial assets measured at fair value through other comprehensive income without reclassification of cumulative gains and losses at the time of derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

The Group does not have financial assets classified in the categories of financial assets measured at fair value through other comprehensive income with reclassification of cumulative gains and losses (debt instruments) and financial assets measured at fair value through other comprehensive income without reclassification of cumulative gains and losses at the time of derecognition (equity instruments).

29.3.2 Financial assets measured at amortized cost

The Group measures financial assets at amortized cost when the following conditions are met:

- The objective of the entity's business model is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets measured at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is written off, modified or presents impairment.

The Group's financial assets measured at amortized cost include cash and cash equivalents, accounts receivable and judicial deposits and escrow accounts.

29.3.3 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss or financial assets necessarily measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, regardless of the business model.

Financial assets at fair value through profit or loss are presented in the statement of financial position at fair value, with variations net of fair value recognized in the statement of income.

The Group's financial assets classified at fair value through profit or loss include securities.

29.3.4 Derecognition (write-off)

A financial asset (or, when applicable, a portion of a financial asset or a portion of a group of similar financial assets) is written off (i.e. excluded from profit or loss for the year) mainly when: the rights to receive cash flow from the asset expire; the Group transfers its rights to receive cash flow from the asset or assumes the obligation to pay in full the cash flow received, without significant delay, to a third party, based on a transfer agreement; and (a) the Group transfers substantially all the risks and rewards of the asset, or (b) the Group neither transfers nor retains substantially all the risks and rewards of the asset, but transfers the ownership of the asset.

29.3.5 Initial recognition and measurement of financial liabilities

Financial liabilities are classified at initial recognition as measured at fair value through profit or loss, borrowings and receivables or accounts payable, or derivatives classified as hedge instruments in effective hedge, as applicable.

Financial liabilities are recognized initially at fair value plus directly related transaction costs, in the case of borrowings and financing and accounts payable.

The Group's financial liabilities include accounts payable, borrowings and financing, debentures, commitments payable and obligations for lease-purchase agreements.

Subsequent measurement

After initial recognition, interest-bearing borrowings and financing are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized, as well as through the effective interest method amortization process.

29.3.6 Derecognition (write-off)

A financial liability is derecognized when the obligation is revoked, canceled or expires. When an existing financial liability is substituted for another with the same amount but substantially different terms, or the terms of an existing liability are altered significantly, this substitution or alteration is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the corresponding accounting values recognized in the statement of income.

29.4 Accounts receivable – students

Accounts receivable are the result of teaching services provided, and do not include amounts for services provided after the balance sheet date. Services paid for but not provided prior to the balance sheet date are recorded as monthly fees received in advance, and are recognized as income in the corresponding period on an accruals basis.

Accounts receivable from students are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less an allowance for doubtful accounts or impairment.

29.5 Impairment of financial assets (includes allowance for doubtful accounts)

A provision is set up for exposures to credit when credit risk has not increased significantly since initial recognition, due to default events that are possible within 12 months (12-month expected credit losses). For exposures to credit when credit risk has increased significantly since initial recognition, a provision is set up for expected credit losses during the residual life of the exposure, regardless of the time of default (lifetime expected credit loss).

This methodology is applicable to financial instruments classified as amortized cost.

For accounts receivable, given the short-term nature of the Group's receivables and its policy for the concession and management of risk and used credits, the Group did not identify any significant impact from the adoption that could affect its consolidated financial statements, unlike the impact mentioned in Note 2.2.

Regarding the other financial assets subject to impairment testing, no expected loss was recognized in the year ended December 31, 2018, given that, according to the Group's assessment, the associated risk is low and there is no history of losses. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

29.6 Investments in subsidiaries (applicable only for parent company financial statements)

Investments in subsidiary companies are recorded in the parent company's financial statements using the equity accounting method.

Corporate interests in subsidiaries are shown in the parent company's statement of income as equity income, representing the net income attributable to the shareholders of the subsidiaries.

Goodwill related to expected future profitability is presented in the parent company's financial statements as part of the investment. The same adjustments made in the consolidated financial statements are made in the parent company financial statements to reach the same values of equity and results.

29.7 Intangible assets

(a) Goodwill

Goodwill consists of the positive difference between the amount paid and/or payable for the acquisition of a business and the net amount of the fair value of its assets and liabilities. Goodwill on acquisitions of subsidiaries is recorded under intangible assets in the consolidated financial statements. Goodwill is tested for impairment annually. It is recorded in the books at cost less accumulated impairment losses. Impairment losses recognized on goodwill cannot be reversed.

Gains and losses on the disposal of an entity include the book value of the goodwill corresponding to the entity sold.

(b) Student portfolio

Contractual relationships with students acquired in business combinations are recognized at their fair value on the date of acquisition. The contractual relationships have a defined useful life and are booked at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected period of the relationship with the student.

(c) Software licenses and installation

Software licenses are capitalized on the basis of the costs incurred to acquire the software plus the costs of making it ready for use. These costs are amortized over the estimated five-year useful life of the software.

Software maintenance costs are recognized as expenses at the time they are incurred. Other development costs that do not meet these criteria are recognized as expenses when incurred. Development costs previously recognized as expenses are not recognized as assets in subsequent periods.

Software development costs recognized as assets are amortized over the estimated useful life of the software, which does not exceed five years.

(d) Accreditation and operating licenses

Accreditation and operating licenses are capitalized on the basis of the costs incurred to obtain authorization for and recognition of the courses offered from the Ministry of Education, plus the renewal of licenses for course units. Accreditation and licenses have a defined useful life and are recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method during the period of validity of the licenses obtained from the Ministry of Education.

(e) Digital content

Digital content is capitalized at the amount of the costs incurred to acquire the right to use the digital content as part of the services provided by the Group. These costs are amortized over the contract period.

(f) Agreements

Agreements are capitalized at the amounts of the costs incurred to execute contracts with partner companies, giving the Group's students the right to undertake the supplementary undergraduate activities required for their academic education. These costs are amortized over the periods of the respective agreements.

(g) Goodwill

Intangible assets with defined useful lives, representing amounts paid upon the acquisition of new business premises (goodwill), are amortized on a straight-line basis over the lease term of the properties rented.

(h) Intangible assets identified on acquisitions - course licenses

Course licenses identified on acquisitions relate basically to the amounts of licenses and the accreditation of courses by the Ministry of Education, and are first recorded at fair value based on appraisal reports supporting the amounts allocated as part of business combinations. These intangible assets identified on acquisitions have indefinite useful lives and are subject to annual impairment testing.

(i) Intangible assets identified on acquisitions - trademarks

Trademarks identified on acquisitions are first recorded at fair value based on appraisal reports supporting the amounts allocated in business combinations. These intangible assets identified on acquisitions have defined useful lives and are subject to amortization calculated using the straight-line method to allocate the cost over their estimated useful lives.

29.8 Property and equipment

Property and equipment is measured at historical cost, less accumulated depreciation and impairment losses. Historical costs include expenses directly attributable to the acquisition of the items.

Land is not depreciated. The depreciation of other assets is calculated using the straight-line method, so as to allocate their costs, less residual value, over their useful lives.

Property and equipment in progress refers to the construction of new buildings and the renovation of third-party buildings to adapt them to the Group’s activities. Every six months, these balances are reviewed and transferred to their specific accounts, if concluded, so that depreciation can begin.

Subsequent costs are included in an asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group, and they can be reliably measured. The carrying amount of the replaced item is derecognized. All other repair and maintenance costs are charged to the statement of income as they are incurred.

An item of property and equipment is written off when it is sold, or when no future economic benefit is anticipated from its use or sale. The eventual profit or loss resulting from the asset write-off (calculated as the difference between the net amount of the disposal and the residual value of the asset) are recorded in the statement of income for the period during which the asset is written off.

Residual values, useful lives and depreciation methods for assets are reviewed and adjusted, if necessary, when there is an indication of a significant change since the date of the last balance sheet.

29.9 Capitalized borrowing costs

The historical costs of property and equipment include the costs of borrowings directly related to the acquisition, construction or production of an asset that requires a significant amount of time to be completed for the purpose of use or sale. These are capitalized as part of the cost of the corresponding asset. All other borrowing costs are expensed for the period during which they are incurred. Borrowing costs include interest and other costs related to the borrowing incurred by the entity.

29.10 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the highest of an asset's fair value less sale costs and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flow (cash generating unit or CGU level). Non-financial assets other than goodwill that have been adjusted due to impairment are subsequently reviewed for the possible reversal of the impairment at the balance sheet date.

29.11 Suppliers and commitments payable

Accounts payable are liabilities owing for goods or services acquired from suppliers in the ordinary course of business, and commitments payable are liabilities for the acquisition of property and amounts payable under business combinations. They are classified as current liabilities if payment is due within a year. Otherwise, accounts and commitments payable are shown as non-current liabilities.

Accounts and commitments payable are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method.

29.12 Leases

Leases in which a significant portion of the property's risks and benefits is retained by the lessor are classified as operating leases. The payments made for operating leases (net of any incentives received from the lessor) are recognized in the income statement using the straight-line method over the term of the lease.

The Group leases certain property and equipment assets. Property and equipment leases under which the Group holds substantially all of the risks and benefits of ownership are classified as financial leases. Financial leases are capitalized at the beginning of the lease period at the lower of the fair value of the leased asset and the present value of the minimum lease payments as a counter-entry to lease liability payables.

A portion of each lease installment paid is allocated to liabilities, and a portion to financial charges, in order to obtain a constant rate on the outstanding debt balance. The corresponding obligations, net of financial charges, are included in lease obligations. Interest on financial expenses is recognized in the statement of income over the lease period, to give a constant periodic interest rate on the outstanding liabilities balance for each period. Property and equipment acquired through financial leasing is depreciated over the useful life of the asset.

29.13 Borrowings

Borrowing is recognized initially at fair value, net of transaction costs incurred, and subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the total amount payable is recognized in the statement of income over the period of the borrowing using the effective interest rate method.

Borrowing is classified within current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Both general and specific borrowing costs directly related to the acquisition, construction or production of a qualifying asset, which requires a substantial period of time to prepare for its intended use or sale, are capitalized as part of the cost of that asset when it is probable that future economic benefits associated with the item will flow to the Company, and the costs can be reliably measured. Other borrowing costs are recognized as finance costs in the period in which they are incurred.

29.14 Debentures

Debentures are recognized initially at fair value, net of transaction costs incurred, and are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the total amount payable is recognized in the statement of income over the period in which the debentures are outstanding using the effective interest rate method.

Debentures are classified as current liabilities, unless the Group has an unconditional right to defer settlement for at least 12 months after the reporting period.

Both general and specific debenture costs directly related to the acquisition, construction or production of a qualifying asset, which requires a substantial period of time to prepare for its intended use or sale, are capitalized as part of the cost of that asset when it is probable that future economic benefits associated with the item will flow to the Company, and the costs can be reliably measured. Other debenture costs are recognized as expenses in the period during which they are incurred.

29.15 Provisions

Provisions for contingencies (labor, civil and tax) are recognized when: (i) there is a present or non-formalized obligation as a result of events that have already occurred; (ii) it is probable that an outflow of resources will be necessary to settle the obligation; and (iii) the amount of this outflow can be reliably estimated based on the judgment of legal counsel.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the time elapsed is recognized within financial expenses.

29.16 Taxation

(a) Current income tax (IRPJ) and social contribution (CSLL)

The cost of IRPJ and CSLL for the period includes current tax. Income taxes are recognized in the statement of income, except to the extent that they relate to items recognized directly in equity. In this case, the tax is also recognized in equity. The undergraduate teaching activities by the units that have PROUNI are exempt from IRPJ and CSLL during the term of their membership.

(b) Social Integration Program Tax on Revenue (PIS) and Social Security Financing Tax on Revenue (COFINS)

For revenue from teaching activities, except for undergraduate teaching by units that have joined the PROUNI, PIS and COFINS are payable at the rates of 0.65% and 3%, respectively. PIS is payable on revenue from non-teaching activities at a rate of 1.65% and COFINS at 7.6%.

Undergraduate teaching by units that have joined the PROUNI are exempt from PIS and COFINS.

(c) PROUNI

Units that have joined the PROUNI program are exempt from the following federal taxes while they are members:

- IRPJ and CSLL, introduced by Law 7689 of December 15, 1988;
- COFINS, introduced by Supplementary Law 70 of December 29, 1991; and
- PIS, introduced by Supplementary Law 7 of September 7, 1970.

The above-mentioned exemptions are originally calculated on the amount of revenue received from the provision of higher education services, including undergraduate and specific training courses.

(d) ISS

Revenue from teaching activities is subject to ISS, as established in Supplementary Law 116/2003, at rates from 3% to 5%, depending on the municipality. The tax is recognized in accordance with the recognition of the Group's revenue.

29.17 Earnings per share

The Company calculates earnings per lot of 1,000 shares using the weighted average number of total common shares outstanding during the period, corresponding to income, in accordance with Technical Pronouncement CPC 41 (IAS 33).

Common shares are classified in equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

29.19 Recognition of revenue, costs and expenses

Revenue, costs and expenses are recognized on an accruals basis.

(a) Service revenue

Revenue consists of the fair value of consideration received or receivable from business relating to higher education, graduate courses, short courses and related educational activities. Revenue is shown net of tax and after returns, rebates and discounts. Revenue from services provided is recognized based on services carried out prior to the balance sheet date.

Monthly payments for courses and the discounts granted on them vary depending on the course, the unit and the academic term. Revenue is generated from fixed-price contracts, and recognized monthly as the services are provided.

In October 2013, the Group joined the National Program for Access to Vocational Training (PRONATEC), created by the Ministry of Education to broaden the offering of high-school level technical and professional courses, and basic and continuing training courses for Brazilian workers. Revenue is generated from scholarships and is recognized monthly based on the services provided, and the confirmation of each student's attendance, in accordance with the conditions and requirements of the program.

The Group records as discounts the educational charges arising from financing agreements guaranteed by the students who joined the FGEDUC, in accordance with Regulatory Ordinance 21 of October 21, 2010, Regulatory Ordinance 14 of June 28, 2012 and Regulatory Ordinance 3 of January 3, 2014. The educational charges total 5.63% of revenue arising from students who have joined FGEDUC through FIES. Additionally, as of 2016, a new discount of 2% related to FIES charges was introduced, as per Executive Decree No. 741 ("MP 741").

(b) Financial income and expenses

Financial income is recognized in accordance with the time elapsed on an accruals basis, using the effective interest rate method.

29.20 Distribution of dividends and interest on equity

The distribution of dividends and interest on equity to the Company's shareholders is recognized as a liability in the Group's financial statements at the end of the year pursuant to the Company's bylaws, which establish a mandatory minimum of 25% and any dividends and interest on equity paid in advance during the year. Any amount exceeding the mandatory minimum is provided for only on the date on which it is approved by the shareholders at a Shareholders' Meeting.

The tax effect of interest on capital is recognized in the statement of income.

FISCAL COUNCIL'S OPINION

The members of the Fiscal Council of Ser Educacional S.A. ("Company"), in the exercise of their legal and statutory duties and in compliance with article 163 of Law 6,404/76 and subsequent amendments, have examined the Management report and the Company's parent company and consolidated financial statements for the year ended December 31, 2018, accompanied by the respective notes and prepared in accordance with the current legislation, as well as the dividend distribution proposal presented by the Company's Management.

Based on the documents examined, the clarifications provided by the Company's Management representatives and Ernst & Young Auditores Independentes S.S.' report on the financial statements, issued with no restrictions on this date, the members of the Fiscal Council unanimously concluded that such documents, together with the Management report and the dividend distribution proposal, are fit to be submitted to the Company's Annual Shareholders' Meeting.

Recife, March 27, 2019.

Reginaldo F. Alexandre
Board member

Fernando Eduardo R. Santos
Board member

Nazareno Habib O. Bichara
Board member