

Afya Limited

**Consolidated financial statements
as of December 31, 2020 and 2019 and
for the years ended December 31, 2020, 2019 and 2018**



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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Afya Limited

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Afya Limited (the Company) as of December 31, 2020 and 2019, the related consolidated statements of income and comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board - IASB.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 30, 2021 expressed an adverse opinion thereon.

Adoption of IFRS 16

As discussed in Note 12.2.2 to the consolidated financial statements, the Company changed its method for recognizing leases in 2019, due to the adoption of IFRS 16 – Leases using the modified retrospective method of adoption.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.



We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Accounting for Business combinations

Description of the Matter As described in Note 5 of the consolidated financial statements, the Company, through its wholly owned subsidiary Afya Participações S.A., completed the acquisition of several entities during the year ended December 31, 2020 for a total aggregated purchase consideration of R\$1,184,301 thousand. Such transactions were accounted for as business combinations, in accordance with the requirements of IFRS 3 *Business Combinations*, and the Company estimated the fair value of net assets acquired for each one of those acquisitions, including acquired intangible assets.

Auditing the Company's accounting for such acquisitions was complex and involved significant auditor judgement due to the significant estimation uncertainty in the Company's determination of the fair value of identified intangible assets of R\$952,483 thousand, which principally consisted of licenses, customer relationships, trademark and developed technology. The significant estimation uncertainty was primarily due to the sensitivity of the respective fair values to underlying assumptions about the future performance of the acquired businesses. The Company used valuation techniques to measure licenses, customer relationships, trademark and developed



technology. The significant assumptions used to estimate the value of these intangible assets included discount rates and certain assumptions that form the basis of the forecasted results, such as revenue growth rates, projected profit margins and royalty rates. These significant assumptions are forward looking and could be affected by future economic events and market conditions.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of the Company's controls over accounting for business combinations, including controls over the recognition and measurement of identifiable intangible assets. For example, we tested controls over management's evaluation of underlying assumptions in the valuation models applied, and we also tested management's controls over the data used in the valuation models.

To test the estimated fair value of the intangible assets acquired, we performed audit procedures that included, among others, evaluating the valuation methodology and the significant assumptions used by the Company; obtaining the reports prepared by the Company's valuation specialist; testing the completeness and accuracy of underlying data used in the estimation of fair value of intangible assets acquired; involving our valuation specialists to assist with the evaluation of the methodology and key assumptions used by the Company and comparing the key assumptions used to the ones used by the Company in relation to past acquisitions and available third-party industry information. We also assessed the Company's disclosures in Note 5 to the consolidated financial statements.

ERNST & YOUNG AUDITORES INDEPENDENTES S.S.
ERNST & YOUNG
Auditores Independentes S.S.

We have served as the Company's auditor since 2016.

Belo Horizonte, Brazil
April 30, 2021



Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Afya Limited

Opinion on Internal Control over Financial Reporting

We have audited Afya Limited's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, Afya Limited (the Company) has not maintained effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Sociedade Universitária Redentor S.A. ("UniRedentor"), Centro Universitário São Lucas Ltda. ("UniSL"), PEBMED Instituição de Pesquisa Médica e Serviços Tecnológicos da Área da Saúde S.A. ("PEBMED"), Faculdade de Ensino Superior da Amazônia Reunida ("FESAR"), MedPhone Tecnologia em Saúde Ltda. ("MedPhone") and Centro Superior de Ciências da Saúde S/S Ltda. ("FCMPB"), which are included in the 2020 consolidated financial statements of the Company and constituted 8% and 3% of total and net assets, respectively, as of December 31, 2020 and 20% and 22% of net revenue and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of UniRedentor, UniSL, PEBMED, FESAR, MedPhone and FCMPB.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Management has identified deficiencies relating to the IT General Controls (ITGCs) which, when aggregated, have been classified as a material weakness.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's consolidated statements of financial position as of December 31, 2020 and 2019, the related consolidated statements of income and comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2020 consolidated financial statements, and this report does not affect our report dated April 30, 2021, which expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting



included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ERNST & YOUNG AUDITORES INDEPENDENTES S.S.
ERNST & YOUNG
Auditores Independentes S.S.

Belo Horizonte, Brazil
April 30, 2021

Afya Limited

Consolidated statements of financial position As of December 31, 2020 and 2019 (In thousands of Brazilian reais)

	Notes	2020	2019
Assets			
Current assets			
Cash and cash equivalents	6	1,045,042	943,209
Restricted cash		-	14,788
Trade receivables	7	302,317	125,439
Inventories		7,509	3,932
Recoverable taxes		21,019	6,485
Other assets		29,614	17,912
Total current assets		1,405,501	1,111,765
Non-current assets			
Restricted cash		2,053	2,053
Trade receivables	7	7,627	9,801
Other assets		74,037	17,267
Property and equipment	10	260,381	139,320
Investment in associate	9	51,410	45,634
Right-of-use assets	12.2.2	419,074	274,275
Intangible assets	11	2,573,010	1,312,338
Total non-current assets		3,387,592	1,800,688
Total assets		4,793,093	2,912,453
Liabilities			
Current liabilities			
Trade payables		35,743	17,628
Loans and financing	12.2.1	107,162	53,607
Derivatives	12.2.1	-	757
Lease liabilities	12.2.2	61,976	22,693
Accounts payable to selling shareholders	12.2.3	188,420	131,883
Notes payable	12.2.4	10,503	-
Advances from customers		63,839	36,860
Labor and social obligations		77,855	46,770
Taxes payable		32,976	19,442
Income taxes payable		4,574	3,213
Other liabilities		6,331	376
Total current liabilities		589,379	333,229
Non-current liabilities			
Loans and financing	12.2.1	510,323	6,750
Lease liabilities	12.2.2	385,727	261,822
Accounts payable to selling shareholders	12.2.3	329,820	168,354
Notes payable	12.2.4	65,678	-
Taxes payable		21,425	21,304
Provision for legal proceedings	22	53,139	5,269
Other liabilities		3,822	1,999
Total non-current liabilities		1,369,934	465,498
Total liabilities		1,959,313	798,727
Equity			
Share capital	16	17	17
Additional paid-in capital		2,323,488	1,931,047
Share-based compensation reserve		50,724	18,114
Retained earnings		407,991	115,916
Equity attributable to equity holders of the parent		2,782,220	2,065,094
Non-controlling interests		51,560	48,632
Total equity		2,833,780	2,113,726
Total liabilities and equity		4,793,093	2,912,453

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

Afya Limited

Consolidated statements of income and comprehensive income

For the years ended December 31, 2020, 2019 and 2018

(In thousands of Brazilian reais, except earnings per share)

	Notes	2020	2019	2018
Net revenue	18	1,201,191	750,630	333,935
Cost of services	19	(434,654)	(308,853)	(168,052)
Gross profit		766,537	441,777	165,883
General and administrative expenses	19	(402,855)	(239,120)	(70,034)
Other (expenses) income, net		(347)	2,594	599
Operating income		363,335	205,251	96,448
Finance income	20	62,290	51,689	10,428
Finance expenses	20	(98,269)	(72,365)	(8,154)
Finance result		(35,979)	(20,676)	2,274
Share of income of associate	9	7,698	2,362	-
Income before income taxes		335,054	186,937	98,722
Income taxes expense	21	(27,067)	(14,175)	(3,988)
Net income		307,987	172,762	94,734
Other comprehensive income		-	-	-
Total comprehensive income		307,987	172,762	94,734
Income attributable to				
Equity holders of the parent		292,075	153,916	86,353
Non-controlling interests		15,912	18,846	8,381
		307,987	172,762	94,734
Basic earnings per share				
Per common share	17	3.15	2.03	1.84
Diluted earnings per share				
Per common share	17	3.12	2.02	1.81

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

Afya Limited

Consolidated statements of changes in equity
For the years ended December 31, 2020, 2019 and 2018
(In thousands of Brazilian reais)

	Equity attributable to equity holders of the parent							Non-controlling interests	Total equity
	Share capital	Additional paid-in capital	Share-based compensation reserve	Legal reserve	Retained earnings reserve	Retained earnings	Total		
Balances at January 1, 2018	66,485	(63,588)	-	2,905	40,309	-	46,111	651	46,762
Net income	-	-	-	-	-	86,353	86,353	8,381	94,734
Total comprehensive income	-	-	-	-	-	86,353	86,353	8,381	94,734
Capital increase with cash	156,304	-	-	-	(40,312)	(40,229)	156,304	-	156,304
Capital increase with reserve	80,541	-	-	-	-	-	-	-	-
Capital increase with contribution of IPTAN and IESVAP	11,670	188,602	-	-	-	10,781	200,272	-	200,272
Dividends declared	-	-	2,161	-	-	-	10,781	-	10,781
Share-based compensation	-	-	-	4,318	-	(4,318)	2,161	-	2,161
Legal reserve	-	-	-	-	-	-	-	(5,845)	(5,845)
Dividends declared to non-controlling interests	-	-	-	-	-	-	-	85,185	85,185
Non-controlling interest arising on business combination	-	-	-	-	-	-	-	-	-
Earning retention	-	-	-	-	52,587	(52,587)	-	-	-
Balances at December 31, 2018	315,000	125,014	2,161	7,223	52,584	-	501,982	88,372	590,354
Net income	-	-	-	-	-	153,916	153,916	18,846	172,762
Total comprehensive income	-	-	-	-	-	153,916	153,916	18,846	172,762
Capital increase with cash	150,000	-	-	-	-	-	150,000	-	150,000
Capital increase from shares contribution of shareholders	48,768	36,358	-	-	-	-	85,126	(44,774)	40,352
Capital increase from the corporate reorganization	122,062	137,051	-	-	-	-	259,113	-	259,113
Share-based compensation	1	17,627	18,114	-	-	-	35,742	-	35,742
Allocation to additional paid-in capital	-	33,001	-	-	(33,001)	-	-	-	-
Dividends declared	-	-	-	-	-	(38,000)	(38,000)	(13,812)	(51,812)
Dividends cancelled	-	-	-	-	4,107	-	4,107	-	4,107
Corporate reorganization	(635,830)	668,904	-	(7,223)	(23,690)	-	-	-	-
Issuance of common shares in initial public offering	16	992,762	-	-	-	-	992,778	-	992,778
Shares issuance cost	-	(79,670)	-	-	-	-	(79,670)	-	(79,670)
Balances at December 31, 2019	17	1,931,047	18,114	-	-	115,916	2,065,094	48,632	2,113,726
Net income	-	-	-	-	-	292,075	292,075	15,912	307,987
Total comprehensive income	-	-	-	-	-	292,075	292,075	15,912	307,987
Capital increase from shares contribution of shareholders	-	17,531	-	-	-	-	17,531	-	17,531
Issuance of common shares in follow-on public offering	-	389,170	-	-	-	-	389,170	-	389,170
Share issuance cost	-	(19,704)	-	-	-	-	(19,704)	-	(19,704)
Dividends declared	-	-	-	-	-	-	-	(12,984)	(12,984)
Share-based compensation	-	5,444	32,610	-	-	-	38,054	-	38,054
Balances at December 31, 2020	17	2,323,488	50,724	-	-	407,991	2,782,220	51,560	2,833,780

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

Afya Limited

Consolidated statements of cash flows

For the years ended December 31, 2020, 2019 and 2018

(In thousands of Brazilian reais)

	2020	2019	2018
Operating activities			
Income before income taxes	335,054	186,937	98,722
Adjustments to reconcile income before income taxes			
Depreciation and amortization	108,744	73,152	9,078
Disposals of property and equipment	-	78	-
Allowance for doubtful accounts	32,081	15,040	7,714
Share-based compensation expense	32,610	18,114	2,161
Net foreign exchange differences	4,613	(13,321)	2,697
Net loss (gain) on derivatives	(20,739)	1,780	(1,219)
Accrued interest	25,543	24,002	1,856
Accrued lease interest	44,458	31,469	-
Share of income of associate	(7,698)	(2,362)	-
Provision for legal proceedings	5,354	(2,568)	(344)
Others	-	-	(11)
Changes in assets and liabilities			
Trade receivables	(164,286)	(35,556)	(28,198)
Inventories	(3,110)	(236)	(593)
Recoverable taxes	(13,709)	(3,940)	(63)
Other assets	(23,902)	(7,403)	(3,304)
Trade payables	4,475	3,029	(1,528)
Taxes payables	(552)	4,940	(3,797)
Advances from customers	(1,951)	19,324	2,073
Labor and social obligations	11,125	6,124	(3,019)
Other liabilities	22,771	(10,881)	1,990
	390,881	307,722	84,215
Income taxes paid	(19,374)	(8,506)	(3,897)
Net cash flows from operating activities	371,507	299,216	80,318
Investing activities			
Acquisition of property and equipment	(89,832)	(56,964)	(18,634)
Acquisition of intangibles assets	(47,753)	(64,745)	(3,053)
Restricted cash	14,788	7,530	(18,810)
Payments of notes payable	(5,974)	-	-
Acquisition of subsidiaries, net of cash acquired	(913,991)	(241,568)	(221,298)
Loans to related parties	-	1,598	(594)
Net cash flows used in investing activities	(1,042,762)	(354,149)	(262,389)
Financing activities			
Issuance of loans and financing	605,041	7,383	74,980
Payments of loans and financing	(155,090)	(75,093)	(6,492)
Payments of lease liabilities	(55,455)	(39,779)	-
Related parties loans	-	-	(106)
Capital increase	5,444	167,628	156,304
Dividends paid to non-controlling interests	(12,984)	(51,812)	(5,845)
Proceeds from initial public offering	389,170	992,778	-
Share issuance costs	(19,704)	(79,670)	-
Net cash flows from (used in) financing activities	756,422	921,435	218,841
Net foreign exchange differences	16,666	14,447	-
Net increase in cash and cash equivalents	101,833	880,949	36,770
Cash and cash equivalents at the beginning of the year	943,209	62,260	25,490
Cash and cash equivalents at the end of the year	1,045,042	943,209	62,260

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

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

1 Corporate information

Afya Limited (“Afya”) and its subsidiaries (collectively, the “Company”) is a holding company incorporated under the laws of the Cayman Islands on March 22, 2019. Afya Limited became the holding company of Afya Participações S.A. (hereafter referred to as “Afya Brazil”), formerly denominated NRE Participações S.A., through the completion of the corporate reorganization described below.

Until the contribution of Afya Brazil shares to Afya Limited in July 2019, Afya Limited did not have commenced operations and had only nominal assets and liabilities and no material contingent liabilities or commitments. Accordingly, Afya Limited’s consolidated financial information substantially reflect the operations of Afya Brazil after the corporate reorganization.

The Company is formed by a network of higher education and post graduate institutions focused on medicine located in 18 Brazilian states forming the largest educational group by the number of medical seats in the country and by services that comprises the development and sale of electronically distributed educational courses on medicine science, related printed and technological educational content and mobile app subscription for digital medical content.

Corporate reorganization

On March 29, 2019, Afya Brazil merged (i) BR Health Participações S.A. (“BR Health”), a wholly-owned subsidiary of Bozano Educacional II Fundo de Investimento em Participações Multiestratégia (“Crescera”) that controlled Guardaya Empreendimentos and Participações S.A. (“Guardaya”) and was one of Afya Brazil’s shareholders; and (ii) Guardaya which owned 100% of Medcel Editora e Eventos S.A. (“Medcel Editora”) and CBB Web Serviços e Transmissões On Line S.A. (“CBB Web”), focused on medical residency preparation courses located in the state of São Paulo, resulting in the transfer to Afya Brazil of 100% of Medcel Editora and CBB Web and 15% of União Educacional do Planalto Central S.A. (“UEPC”), a medical school located in the Federal District. On June 18, 2019 Afya Brazil acquired an additional 15% interest in UEPC resulting in an interest of 30%.

On July 7, 2019, each of Afya Brazil’s shareholders had agreed to contribute their respective shares on Afya Brazil into Afya Limited, exchanging one common share into 28 Class A or Class B common shares of Afya Limited. The holders of the Class A common shares and Class B common shares have identical rights, except that (i) the holder of Class B common shares is entitled to 10 votes per share, whereas holders of Class A common shares are entitled to one vote per share, (ii) Class B common shares have certain conversion rights and (iii) the holders of Class B common shares are entitled to maintain their proportional ownership interest in the event that common shares and/or preferred shares are proposed to be issued. The holders of Class A common shares and Class B common shares vote together as a single class on all matters (including the election of directors) submitted to a vote of shareholders, unless otherwise required by law and subject to certain exceptions.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

Initial public offering

On July 18, 2019, Afya Limited priced its initial public offering (“IPO”) of 13,744,210 Class A common shares, which began trading on the Nasdaq Global Select Market (“NASDAQ”) on July 19, 2019 under the symbol “AFYA”. On July 23, 2019, the underwriters exercised the option to buy an additional 2,061,631 Class A common shares to cover over-allotments, totaling 15,805,841 Class A common shares, which 13,888,887 Class A common shares were offered by Afya Limited and 1,916,954 Class A common shares were offered by the selling shareholders at the initial public offering price. The initial offering price was US\$ 19.00 per Class A common share.

On July 23, 2019, the share capital of Afya Limited was increased by 13,888,887 Class A shares through the proceeds received as a result of the IPO of US\$ 263,888 thousand (or R\$ 992,778). The net proceeds from the IPO were US\$ 242,711 thousand (or R\$ 913,108), after deducting US\$ 15,833 thousand (or R\$ 59,566) in underwriting discounts and commissions and other offering expenses totaled US\$ 5,344 thousand (or R\$ 20,104). The share issuance costs totaled R\$ 79,670.

Afya Limited transferred US\$ 251,800 thousand (or R\$ 961,438) of the net proceeds from the Cayman Islands to bank accounts in Brazil. These deposits are invested on first-line financial institutions in Brazil and are denominated in Brazilian reais.

Issuance of additional common shares

On February 6, 2020, Afya completed its follow-on public offering of 3,019,928 Class A common shares offered by the Company and 9,406,812 Class A common shares offered by the selling shareholders.

The offering price was US\$ 27.50 per Class A common shares and gross proceeds of R\$ 358,286 (US\$ 83,048 thousand). The Company received net proceeds of R\$ 339,648 (US\$ 78,846 thousand), after deducting R\$ 18,638 (US\$ 4,202 thousand) in underwriting discounts, commissions and other offering expenses.

On March 10, 2020, the underwriters exercised their option to acquire additional 240,552 Class A common shares at the offering price, resulting in gross proceeds of R\$ 30,884 (US\$ 6,615 thousand). The net proceeds from the additional shares were R\$ 29,819 (US\$ 6,387 thousand), after deducting R\$ 1,066 (US\$ 228 thousand) in underwriting discounts and commissions.

Afya transferred R\$ 294,312 (US\$ 68,060 thousand) of the net proceeds to bank accounts in Brazil with an increase in the capital of Afya Brazil. These deposits were invested in first-line financial institutions in Brazil and are denominated in Brazilian reais.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

Acquisitions in 2020

(i) On January 31, 2020, Afya Brazil acquired control of Sociedade Universitária Redentor S.A. ("UniRedentor"), through the acquisition of 100% of its shares. UniRedentor is a post-secondary education institution with governmental authorization to offer on-campus, undergraduate degrees and graduate programs in medicine and health, as well as other courses, in the State of Rio de Janeiro. See Note 5.

(ii) On May 5, 2020, Afya Brazil acquired control of Centro Universitário São Lucas Ltda. ("UniSL"), through the acquisition of 100% of its shares. UniSL is a post-secondary education institution with governmental authorization to offer on-campus, undergraduate courses in medicine and health, as well as other courses, in the State of Rondônia. See Note 5.

(iii) On July 20, 2020, Afya Brazil acquired control of PEBMED *Instituição de Pesquisa Médica e Serviços Tecnológicos da Área da Saúde* S.A. ("PEBMED"), through the acquisition of 100% of its shares. PEBMED offers content and clinical tools for healthcare professionals, including web portals and mobile apps. See Note 5.

(iv) On November 3, 2020, Afya Brazil acquired 100% of the total share capital of *Faculdade de Ensino Superior da Amazônia Reunida* ("FESAR"). FESAR is a post-secondary education institution with government authorization to offer on-campus, undergraduate courses in medicine and health, as well as other courses, in the State of Pará. See Note 5.

(v) On November 4, 2020, Afya Brazil acquired 100% of the total share capital of MedPhone Tecnologia em Saúde Ltda. ("MedPhone"). MedPhone is a clinical decision and leaflet consultation app in Brazil, that helps physicians, medical students and other healthcare professionals to make faster and more accurate decisions on a daily basis. See Note 5.

(vi) On November 9, 2020, Afya Brazil acquired 100% of the total share capital of *Centro Superior de Ciências da Saúde S/S Ltda.* ("FCMPB"). FCMPB is a post-secondary education institution with government authorization to offer on-campus, undergraduate courses in medicine in the State of Paraíba and medical course represented 99% of its net revenue in 2019. See Note 5.

Other acquisitions

(i) On October 22, 2020, Afya Brazil entered into a purchase agreement for the acquisition of 100% of the total share capital of *Sociedade Padrão de Educação Superior Ltda.*, which includes UNIFIPMoc and Fip Guanambi ("SPES"). SPES is a post-secondary education institution with government authorization to offer on-campus, undergraduate courses in medicine in the States of Minas Gerais and Bahia. The transaction is subject to conditions precedent before closing, of which had not occurred up to the issuance of these financial statements. The purchase price is R\$360,000, adjusted by the Net Debt at the closing date, of which: (i) 100% is payable in cash on the transaction closing date.

(ii) See Note 24 for further information regarding other acquisitions concluded after December 31, 2020.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

COVID-19

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have emerged in Wuhan, China. COVID-19 has since spread to most of the countries around the globe, including every state in Brazil. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, and on March 20, 2020 the Brazilian federal government declared a national emergency with respect to COVID-19.

Since March 17, 2020, there has been some interruption of our on-campus activities due to Brazilian government authorities mandatory lockdowns. We managed to rapidly adapt our business to these unusual times, and although there has been an interruption of our on-campus activities, we are offering our non-practical educational activities to our students through our online platform (rather than on-site). Regarding the offering of practical classes, we quickly resumed our in-hospital and health care residency programs for fifth and sixth year students, which represents the largest portion of our practical curriculum. As of December 31, 2020, we have recorded deferred revenues of R\$2,361 in advances from customers in the statement of financial position because some of our practical educational activities (particularly for students in the first to fourth years) that we provide in our on-campus labs and clinics were suspended and thus a portion of the net revenue should be deferred to the next year, in accordance with IFRS 15.

During 2020, the States of Rio de Janeiro, Pará, Tocantins, Piau , Rondonia, Bahia and Maranh o had issued state decrees granting discounts to our students because of COVID-19. As of the date of these financial statements, these mandatory discounts have been suspended as their constitutionality has been challenged in the superior courts. As long as it has not been declared constitutional, we started to invoice our students without these discounts and, from March 2021, with the discount granted during 2020. Additionally, we are also facing individual and collective legal proceedings all across the country, which total R\$ 6,545 during 2020 that are still pending on final legal decisions to be recovered.

As we continue to offer non-practical educational activities to our students through our platform and practical activities for fifth and sixth year students, through the same professors, staff and suppliers, we continue to charge our standard monthly tuitions fees. We are committed to deliver the best quality service, minimize the impacts of the COVID-19 pandemic on our students, employees and our local communities. In addition, as of the date of these financial statements, the COVID-19 pandemic has had no significant impact on the payment default rates of our students. We continue to support our students by providing special payment arrangements. Furthermore, there have been no significant impacts on our financial performance and position of assets and there have been no significant changes in our financial condition triggering impairment indicators in these financial statements.

The COVID-19 pandemic is still evolving, and Brazilian authorities may maintain a lockdown of our on-campus activities for a longer or undefined extended of period of time or impose a more severe lockdown, among other measures, all of which are outside of our control and may materially adversely affect our business and results of operations including the resumption of on-campus practical classes. We may also suffer labor shortages, particularly of our teaching faculty, which is mostly comprised of

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

doctors that continue to have work shifts at hospitals and are consequently more exposed to COVID-19 than non-medical administrative staff. Furthermore, the COVID-19 pandemic is expected to cause a material and adverse effect on the general economic, financial, political, demographic and business conditions in Brazil, which may reduce the disposable income of our students and their families, and consequently (i) result in an adverse impact on the ability of our students (current and/or prospective) to pay our tuition fees and/or (ii) trigger an increase in our attrition rates.

While we are aware of the uncertainties created by the COVID-19 pandemic, we remain confident in our strategy, in the financial robustness of our business and in our contribution of high quality medical professionals who we believe will help our society overcome the COVID-19 pandemic and other future challenges.

2 Significant accounting policies

2.1 Basis for preparation of the consolidated financial statements

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

The corporate reorganization described in Note 1, occurred on July 7, 2019, was accounted for as a reorganization of entities under common control whereby Afya Limited was created as a holding company of Afya Brazil. As a result, the assets and liabilities of Afya Brazil is carried at historical cost and there was no step-up in basis or goodwill, or other intangible assets recorded as a result of the corporate reorganization.

As a result, the consolidated financial statements prepared by the Company subsequent to the completion of the reorganization are presented "as if" Afya Brazil is the predecessor of the Company. Accordingly, these consolidated financial statements reflect: (i) the historical operating results of Afya Brazil prior to the reorganization; (ii) the consolidated results of the Company and Afya Brazil following the reorganization; (iii) the assets and liabilities of Afya Brazil at their historical cost; and (iv) the Company's equity and earnings per share for all periods presented.

Afya Limited is a holding company, as such the primary source of revenue derives from its interest on the operational companies in Brazil. As result, the Brazilian Real has been assessed as the Company's functional currency.

The consolidated financial statements are presented in Brazilian reais ("BRL" or "R\$"), which is the Company's functional and presentation currency. All amounts are rounded to the nearest thousand.

These consolidated financial statements as of and for the year ended December 31, 2020 were authorized for issue by the Board of Directors on April 30, 2021.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

2.2 Basis of consolidation

The table below list the Company's subsidiaries and associate:

Name	Principal activities	Location	Investment type	Direct and indirect interest		
				December 31, 2020	December 31, 2019	December 31, 2018
Afya Participações S.A. (Afya Brazil)	Holding	Nova Lima - MG	Subsidiary	100%	100%	100%
Instituto Tocantinense Presidente Antônio Carlos Porto S.A. – ("ITPAC Porto")	Undergraduate and graduate degree programs	Porto Nacional - TO	Subsidiary	100%	100%	100%
Instituto Tocantinense Presidente Antônio Carlos S.A. – ("ITPAC Araguaína")	Undergraduate and graduate degree programs	Araguaína - TO	Subsidiary	100%	100%	100%
União Educacional do Vale do Aço S.A. – ("UNIVAÇO")	Undergraduate and graduate degree programs	Ipatinga - MG	Subsidiary	100%	100%	76%
IPTAN - Instituto de Ensino Superior Presidente Tancredo de Almeida Neves S.A. ("IPTAN")	Undergraduate and graduate degree programs	São João Del Rei - MG	Subsidiary	100%	100%	100%
Instituto de Educação Superior do Vale do Parnaíba S.A. ("IESVAP")	Undergraduate and graduate degree programs	Parnaíba - PI	Subsidiary	80%	80%	80%
Centro de Ciências em Saúde de Itajubá S.A. ("CCSI")	Undergraduate and graduate degree programs	Itajubá - MG	Subsidiary	60%	60%	60%
Instituto de Ensino Superior do Piauí S.A. ("IESP")	Undergraduate and graduate degree programs	Teresina - PI	Subsidiary	100%	100%	80%
RD Administração e Participações Ltda. ("RD") ****	Holding	Pato Branco - PR	Subsidiary	-	100%	100%
FADEP - Faculdade Educacional de Pato Branco Ltda. ("FADEP")	Undergraduate and graduate degree programs	Pato Branco - PR	Subsidiary	100%	100%	100%
CBB Web Serviços e Transmissões Online S.A. ("CBBW")***	Medical education courses and online platform	São Paulo - SP	Subsidiary	-	100%	-
Medcel Editora e Eventos S.A. ("Medcel")	Medical education content	São Paulo - SP	Subsidiary	100%	100%	-
Instituto Educacional Santo Agostinho S.A. ("FASA")	Undergraduate and graduate degree programs	Montes Claros - MG	Subsidiary	100%	100%	-
ESMC Educação Superior Ltda.*	Undergraduate and graduate degree programs	Montes Claros - MG	Subsidiary	100%	-	-
Instituto de Pesquisa e Ensino Médico do Estado de Minas Gerais Ltda. ("IPEMED")	Post-graduate	Belo Horizonte - MG	Subsidiary	100%	100%	-
Instituto Paraense de Educação e Cultura Ltda ("IPEC")	Undergraduate and graduate degree programs	Marabá - PA	Subsidiary	100%	100%	-
Sociedade Universitária Redentor S.A. ("UniRedentor") **	Undergraduate and graduate degree programs	Itaperuna - RJ	Subsidiary	100%	-	-
Centro Universitário São Lucas Ltda. ("UniSL") **	Undergraduate and graduate degree programs	Porto Velho - RO	Subsidiary	100%	-	-
PEBMED Instituição de Pesquisa Médica e Serviços Tecnológicos da Área da Saúde S.A. ("PEBMED")**	Content and clinical tools and online platform	Rio de Janeiro - RJ	Subsidiary	100%	-	-
Centro Superior de Ciências da Saúde S/S Ltda. ("FCMPB")	Undergraduate and graduate degree programs	João Pessoa - PB	Subsidiary	100%	-	-
Faculdade de Ensino Superior da Amazônia Reunida – ("FESAR")	Undergraduate and graduate degree programs	Redenção - PA	Subsidiary	100%	-	-
MedPhone Tecnologia em Saúde Ltda. ("MedPhone")	Content and clinical tools and online platform	Recife - PE	Subsidiary	100%	-	-
União Educacional do Planalto Central S.A. ("UEPC")	Undergraduate and graduate degree programs	Brasília - DF	Associate	30%	30%	-

* On January 1, 2020, Afya Brazil incorporated ESMC Educação Superior Ltda. ("ESMC") and transferred the two FASA campuses located in the State of Minas Gerais, which do not offer medicine courses, to ESMC. This spin-off did not have an impact on the consolidated financial statements.

** See Note 5.1 for further details on the business combinations during 2020.

*** CBBW was merged by Medcel on May 1, 2020.

**** RD Administração e Participações Ltda was merged by Afya Brazil on December 15, 2020.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

The financial information of the acquired subsidiaries is included in the Company's consolidated financial statements beginning on the respective acquisition dates.

The Company consolidates the financial information for all entities it controls. Control is achieved when the Company is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and it ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries in order to bring their accounting policies in line with the Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resulting gain or loss is recognized in the statement of income.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of financial position, consolidated statements of income and comprehensive income and consolidated statements of changes in equity.

2.3 Summary of significant accounting policies

This note provides a description of the significant accounting policies adopted in the preparation of these consolidated financial statements in addition to other policies that have been disclosed in other notes to these consolidated financial statements. These policies have been consistently applied to all periods presented, except for the adoption of IFRS 16 as of January 1, 2019.

The accounting policies have been consistently applied to all consolidated companies.

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

b) Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

c) Fair value measurement

The Company measures derivative financial instruments at fair value at each balance sheet date as disclosed in Note 12.3.

Fair value is 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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (i) in the principal market for the asset or liability; or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Company analyzes the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

The Company also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

d) Financial instruments – initial recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI (Other Comprehensive Income), it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified as: financial assets at amortized cost or financial assets at fair value through profit or loss. There is no financial assets designated as fair value through OCI.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

Financial assets at amortized cost

The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective 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.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in the statement of income when the asset is derecognized, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be 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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. 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, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of income. This category includes derivative instruments.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Significant accounting estimates and assumptions – Note 3
- Trade receivables – Note 7

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes an allowance for credit losses based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade payables, loans and financing and accounts payable to selling shareholders.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Gains or losses on liabilities held for trading are recognized in the statement of income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

Loans and borrowings

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance expenses in the statement of income.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

e) Derivative financial instruments

The Company has derivative financial instruments related to cross-currency interest rate swaps in connection with a loan denominated in Euros. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are recorded directly to finance result in the statement of income.

f) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, and short-term financial investments with an original maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term financial investments, as they are considered an integral part of the Company's cash management.

g) Restricted cash

Restricted cash in the statement of financial position comprise of financial investments in investment funds that serve as collateral for loan agreements and other commitments.

h) Inventories

Inventories are valued at the lower of cost and net realizable value. The costs of inventories are based on the average cost method and include costs incurred in the purchase of inventories and other costs incurred in bringing them to their current location and condition. Costs of purchased inventory are determined after deducting any discounts and recoverable taxes.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

i) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Subsequent expenditures are capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Building	25 years
Machinery and equipment	10 years
Vehicles	4 years
Furniture and fixtures	10 years
IT equipment	5 years
Library books	10 years
Laboratories and clinics	10 years
Leasehold improvements	20 years

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefit is expected from its use or disposal. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

j) Leases

Prior to the adoption of IFRS 16, the determination of whether an arrangement is (or contains) a lease was based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

A lease was classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company was classified as a finance lease.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

An operating lease is a lease other than a finance lease. The Company did not have leases classified as finance lease. Operating lease payments were recognized as an operating expense in the statement of income on a straight-line basis over the lease term.

As from January 1, 2019, the determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the contract. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of properties (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

k) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles are not capitalized and the related expenditure is reflected in the statement of income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

I) Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years, considering the companies activities and maturation period of its graduate and undergraduate courses. A long-term growth rate is calculated and applied to project future cash flows after the last projected year.

For impairment testing, goodwill acquired through business combinations and licenses with indefinite useful lives are allocated to their respective CGUs. The Company has defined each of its operating subsidiaries as a CGU.

Whenever applicable, impairment losses of continuing operations are recognized in the statement of income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income.

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

m) Investments

Investments in associates are initially recognized at consideration transferred and adjusted thereafter for the equity method, being increased or reduced from its interest in the investee's income after the acquisition date. An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

n) Accounts payable to selling shareholders

These amounts represent liabilities related to the acquisitions made by the Company which are not yet due. Accounts payable to selling shareholders are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

o) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the statement of income, net of any reimbursement, when applicable.

p) Dividends payable

The Company recognizes a liability to pay a dividend when the distribution is authorized and the distribution is no longer at the discretion of the Company. The distribution is authorized when it is required to pay a minimum dividend of the net income for the year in accordance with the Brazilian Corporate Law (applicable for Afya Brazil) and the Company's By-Laws or is approved by the shareholders. A corresponding amount is recognized directly in equity.

q) Labor and social obligations

Labor and social obligations are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

r) Share-based payments

Certain key executives of the Company receive remuneration in the form of share-based payments, whereby the executives render services as consideration for equity instruments (equity-settled transactions).

The expense of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That expense is recognized in general and administrative expenses, together with a corresponding increase in equity, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through the statement of income.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

s) Revenue from contracts with customers

Tuition fees and other revenue

The Company's revenue consists primarily of tuition fees charged for medical courses and other courses. The Company also generates revenue from tuition fees for other undergraduate courses, student fees, certain education-related activities and digital education content.

Revenues are recognized when services are rendered to the customer and the performance obligation is satisfied.

Revenue from tuitions, digital education content and mobile app subscription for digital medical content are recognized over time when services are rendered to the customer and the Company satisfies its performance obligation under the contract at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. Revenues from tuitions are recognized net of scholarships and other discounts, refunds and taxes.

Other revenues are recognized at a point in time when the service is rendered to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for the service. Other revenues are presented net of the corresponding discounts, returns and taxes.

Printed books and e-books revenue are transferred at point in time

Revenue from sale of printed books and e-books are recognized at the point in time when control of the asset or services is transferred to the customer, generally on delivery of the goods at the customer's location and permission to access the digital content. The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the printed books and e-books, the Company considers the effects of variable consideration, financing component, noncash consideration, and consideration payable to the customer to be not significant.

The Company has concluded that it is the principal in its revenue arrangements.

The Company assesses collectability on a portfolio basis prior to recording revenue. Generally, students cannot re-enroll for the next academic session without satisfactory resolution of any past-due amounts. If a student withdraws from an institution, the Company's obligation to issue a refund depends on the refund policy at that institution and the timing of the student's withdrawal. Generally, the refund obligations are reduced over the course of the academic term.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

Trade receivables

Trade receivables represent the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in Financial instruments – initial recognition and subsequent measurement.

Advances from customers

Advances from customers (a contract liability) are the obligation to transfer services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer, as a result of pre-paid tuition, digital education content and mobile app subscription for digital medical content received from customers and is recognized separately in current liabilities, when the payment is received. Advances from customers are recognized as revenue when the Company performs all obligations related to the contract, generally in the following month.

t) Taxes

The Company's subsidiaries joined the PROUNI (*Programa Universidade para Todos – University for All Program*) program, which is a federal program that exempts post-secondary institutions of some federal taxes in exchange for providing a certain number of student enrollment for low income students, and benefits from the exemption of the following federal taxes:

- Income taxes and social contribution
- PIS and COFINS

The regulation of PROUNI defines that the revenue from traditional and technological graduation activities is exempt from PIS and COFINS. For income from other teaching activities, PIS and COFINS are charged at rates of 0.65% and 3.00%, respectively, and for non-teaching activities, PIS is charged at a rate of 1.65% and to COFINS at 7.6%.

Current income taxes

Current income taxes were calculated based on the criteria established by the Normative Instruction of the Brazilian Internal Revenue Service, specifically regarding the PROUNI program, which allows exemption of these taxes from traditional and technological graduation activities.

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

2.4 Changes in accounting policies and disclosures

New standards, interpretations and amendments adopted by the Company

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On May 28, 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The other new amendments and interpretations were applied for the first time in 2020, but did not have a significant impact on the consolidated financial statements of the Company.

3 Significant accounting estimates and assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. 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. Revisions to estimates are recognized prospectively. Other disclosures relating to the Company's exposure to risks and uncertainties includes:

- Capital management – Note 14
- Financial instruments risk management objectives and policies – Note 12.4
- Sensitivity analyses disclosures – Note 12.4.1

Estimates and assumptions

The key assumptions about the future and other key sources of estimated uncertainty as of the reporting date that include a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances that arise and that are beyond the Company's control. Such changes are reflected in the assumptions where they occur.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

Identification and fair-value measurement of assets and liabilities acquired in a business combination

Business combinations are accounted for using the acquisition method. Such method requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The Company, as the acquirer, must classify or designate the identifiable assets and liabilities assumed on the basis of its own contractual terms, economic conditions, operating and accounting policies and other relevant conditions as at the acquisition date. Such assessment requires judgments from the Company on the methods used to determine the fair value of the assets acquired and liabilities assumed, including valuation techniques that may require prospective financial information inputs.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit (“CGU”) or group of CGUs exceeds its recoverable amount, defined as the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on data available from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow model (“DCF” model). The cash flows are derived from the budget for the next five years and do not include restructuring activities to which the Company has not yet committed or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as to expected future cash-inflows and the growth rate used for extrapolation purposes.

These estimates are most relevant to goodwill and indefinite lived intangible assets recognized by the Company. The key assumptions used to determine the recoverable amount for each CGU, including a sensitivity analysis, are disclosed and further explained in Note 11.

Share-based compensation

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity-settled transactions, the Company uses the Binomial model. As disclosed in Note 15 (b) the Company had stock plans that were fully exercised on July 31, 2019, for which the Monte Carlo and Black & Scholes pricing model were used for the Afya Brazil and Guardaya plans, respectively. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 15 (b).

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).

The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

4 Segment information

As a result of the corporate reorganization described in Note 1 which occurred on March 29, 2019, the Company has two reportable segments, as follows:

- Education Services Segment (Business Unit 1), which provides educational services through undergraduate and graduate courses related to medicine, other health sciences and other undergraduate programs; and
- Digital Content, Residency Preparatory and Specialization Programs Segment (Business Unit 2), which provides digital and printed medical content services, including online courses for residency preparatory, medical and other than medical post-graduate specialization programs and mobile app subscription for digital medical content.

No operating segments have been aggregated to form the above reportable operating segments. There is only one geographic region and the results are monitored and evaluated as a single business.

Segment information is presented consistently with the internal reports provided to the Company's Chief Executive Officer (CEO), which is the Chief Operating Decision Maker (CODM) and is responsible for allocating resources, assessing the performance of the Company's operating segments, and making the Company's strategic decisions.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

The following table presents assets and liabilities information for the Company's operating segments as of December 31, 2020:

	Business Unit 1	Business Unit 2	Total reportable segments	Elimination (inter-segment transactions)	Total
As of December 31, 2020					
Total assets	4,541,988	251,220	4,793,208	(115)	4,793,093
Current assets	1,280,342	125,274	1,405,616	(115)	1,405,501
Non-current assets	3,261,646	125,946	3,387,592	-	3,387,592
Total liabilities and equity	4,541,988	251,220	4,793,208	(115)	4,793,093
Current liabilities	522,522	66,972	589,494	(115)	589,379
Non-current liabilities	1,261,894	108,040	1,369,934	-	1,369,934
Equity	2,757,572	76,208	2,833,780	-	2,833,780
As of December 31, 2020					
Other disclosures					
Investments in associate	51,410	-	51,410	-	51,410
Capital expenditures (*)	82,916	26,565	109,481	-	109,481

(*) Capital expenditures consider the acquisitions of property and equipment and intangible assets.

The following table presents statements of income for the Company's operating segments for the year ended December 31, 2020:

	Business Unit 1	Business Unit 2	Total reportable segments	Elimination (inter-segment transactions)	Total
External customer	1,002,461	198,730	1,201,191	-	1,201,191
Inter-segment	-	1,619	1,619	(1,619)	-
Net revenue	1,002,461	200,349	1,202,810	(1,619)	1,201,191
Cost of services	(381,964)	(54,309)	(436,273)	1,619	(434,654)
Gross profit	620,497	146,040	766,537	-	766,537
General and administrative expenses					(402,855)
Other expenses, net					(347)
Operating profit					363,335
Finance income					62,290
Finance expenses					(98,269)
Share of income of associate					7,698
Income before income taxes					335,054
Income taxes expense					(27,067)
Net income					307,987

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

The following table presents assets and liabilities information for the Company's operating segments as of December 31, 2019:

	Business Unit 1	Business Unit 2	Total reportable segments	Elimination (inter-segment transactions)	Total
As of December 31, 2019					
Total assets	2,714,161	199,285	2,913,446	(993)	2,912,453
Current assets	1,026,857	85,901	1,112,758	(993)	1,111,765
Non-current assets	1,687,304	113,384	1,800,688	-	1,800,688
Total liabilities and equity	2,714,161	199,285	2,913,446	(993)	2,912,453
Current liabilities	312,303	21,919	334,222	(993)	333,229
Non-current liabilities	360,005	105,493	465,498	-	465,498
Equity	2,041,853	71,873	2,113,726	-	2,113,726
As of December 31, 2019					
Other disclosures					
Investments in associate	45,634	-	45,634	-	45,634
Capital expenditures (*)	167,427	8,282	175,709	-	175,709

(*) Capital expenditures consider the acquisitions of property and equipment and intangible assets, including the acquisition of IPEC licenses in the amount of R\$ 108,000 (R\$ 54,000 paid and included in the acquisition of intangible assets in the cash flows used in investing activities) as described in Note 11.

The following table presents statements of income for the Company's operating segments for the year ended December 31, 2019:

	Unit 1	Unit 2	Total reportable segments	Adjustments and eliminations *	Total
External customer	653,760	96,870	750,630	-	750,630
Inter-segment	-	3,880	3,880	(3,880)	-
Net revenue	653,760	100,750	754,510	(3,880)	750,630
Cost of services	(279,066)	(33,667)	(312,733)	3,880	(308,853)
Gross profit	374,694	67,083	441,777	-	441,777
General and administrative expenses					(239,120)
Other income, net					2,594
Operating profit					205,251
Finance income					51,689
Finance expenses					(72,365)
Share of income of associate					2,362
Income before income taxes					186,937
Income taxes expense					(14,175)
Net income					172,762

(*) These eliminations are related to sale transactions from Medcel to other entities in Business Unit 1.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

Seasonality of operations

Business Unit 1's tuition revenues do not have significant fluctuations during the year.

Business Unit 2's sales are concentrated in the first and last quarter of the year, as a result of enrollments at the beginning of the year. The majority of Business Unit 2's revenues is derived from printed books and e-books, which are recognized at the point in time when control is transferred to the customer. Consequently, Business Unit 2 generally has higher revenues and results of operations in the first and last quarter of the year compared to the second and third quarters of the year.

5 Business combinations

5.1 Acquisitions in 2020

The preliminary fair values of the identifiable assets acquired and liabilities assumed as of each acquisition date were:

	UniRedentor*	UniSL**	PEBMED	FESAR	FCMPB	MedPhone
Assets						
Cash and cash equivalents	11,796	3,245	1,119	4,236	100	60
Trade receivables	4,800	21,567	7,984	-	8,148	-
Inventories	-	467	-	-	-	-
Recoverable taxes	3	822	-	-	-	-
Other assets	2,486	7,251	161	42	123	9
Indemnification assets	710	12,645	12,350	6,871	-	-
Right-of-use assets	10,265	42,062	865	-	23,663	-
Property and equipment	4,207	19,144	391	23,176	962	-
Intangible assets	142,399	314,097	60,372	167,106	264,782	3,727
	176,666	421,300	83,242	201,431	297,778	3,796
Liabilities						
Trade payables	(746)	(3,554)	(9,024)	(143)	(173)	-
Loans and financing	(16,187)	(58,541)	-	(1,087)	-	-
Lease liabilities	(10,265)	(42,062)	(865)	-	(23,663)	-
Labor and social obligations	(4,471)	(8,070)	(1,786)	(1,801)	(3,832)	-
Taxes payable	(850)	(5,779)	(1,210)	(29)	(5)	(2)
Provision for legal proceedings	(710)	(12,645)	(12,350)	(6,871)	-	-
Advances from customers	(10,994)	(6,084)	(9,312)	(759)	(1,781)	-
Notes payable	-	(80,526)	-	-	-	-
Other liabilities	-	(14,754)	-	-	-	(228)
	(44,223)	(232,015)	(34,547)	(10,690)	(29,454)	(230)
Total identifiable net assets at fair value	132,443	189,285	48,695	190,741	268,324	3,566
Preliminary goodwill arising on acquisition	77,662	4,420	84,175	71,664	110,483	2,843
Purchase consideration transferred	210,105	193,705	132,870	262,405	378,807	6,409
Cash paid	114,607	141,065	115,339	260,836	189,913	6,373
Payable in installments	95,498	52,640	-	1,569	188,894	36
Paid in Afya Brazil's shares	-	-	17,531	-	-	-
Analysis of cash flows on acquisition:						
Transaction costs (included in cash flows from operating activities)	(1,380)	(1,666)	(613)	(2,047)	(721)	(158)
Cash paid, net of cash acquired with the subsidiary (included in cash flows from investing activities)	(102,811)	(137,820)	(114,220)	(256,600)	(189,813)	(6,313)
Net of cash flow on acquisition	(104,191)	(139,486)	(114,833)	(258,647)	(190,534)	(6,471)

*During the measurement period, the preliminary goodwill for the acquisition of UniRedentor was adjusted to R\$77,662 (R\$90,282 initial goodwill) as a result of an increase of intangible assets from R\$134,281 to R\$142,399 and a purchase price consideration adjustment of R\$ 4,503.

**During the measurement period, the preliminary goodwill for the acquisition of UniSL was adjusted to R\$4,422 (R\$53,192 previously disclosed) as a result of (i) a purchase consideration decrease of R\$7,816 and (ii) adjustments increasing intangible assets of R\$ 40,961 and a decrease in property and equipment of R\$7.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

(a) Acquisition of UniRedentor

On January 31, 2020, Afya Brazil acquired 100% of the share capital of UniRedentor. The original purchase price of R\$214,608, was adjusted by R\$4,503 and was comprised by: i) R\$114,607 paid in cash on the acquisition date; and ii) R\$100,000 is payable in five equal installments from January 2021 to July 2024, adjusted by the CDI rate. The purchase consideration adjustment of R\$4,503 will be deducted from the first installment due in January 2021.

UniRedentor is a post-secondary education institution with governmental authorization to offer on-campus, undergraduate degrees and graduate programs in medicine and health, as well as other courses, in the State of Rio de Janeiro. The acquisition contributed with 112 medical school seats, with a potential 44 additional medical school seats subject to the approval by MEC and is in line with the Company's strategy to focus on medical education, including medical school.

The acquisition of UniRedentor was accounted for under IFRS 3 – Business Combinations.

Transaction costs to date amount to R\$1,380 and were expensed and are included in general and administrative expenses in the consolidated statement of income.

At the acquisition date, the fair value of the trade receivables acquired equals its carrying amount. Afya Brazil measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the unfavorable terms of the lease relative to market terms.

The goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Business Unit 1 segment. The preliminary goodwill recognized is not expected to be deductible for income taxes purposes.

The Company has not yet finalized the valuation of all identifiable assets acquired and liabilities assumed in the business combination of UniRedentor and therefore some of these amounts are preliminary. These amounts may be adjusted when the valuations are finalized.

The valuation techniques used for measuring the fair value of separately identified intangible assets acquired were as follows:

Intangible assets acquired	Valuation technique
Licenses	With-and-without method The with-and-without method consists of estimating the fair value of an asset by the difference between the value of this asset in two scenarios: a scenario considering the existence of the asset in question and another considering its non-existence.
Customer relationships	Multi-period excess earnings method The method considers the present value of net cash flows expected to be generated by customer relationships, by excluding any cash flows related to contributory assets.

From the date of acquisition, this business combination has contributed R\$ 96,065 of net revenue and R\$ 30,952 of income before income taxes to the Company. Should the acquisition had taken place at the beginning of the period, net revenue for 2020 would have been increased by R\$ 5,931 and income before income taxes for 2020 would have been decreased by R\$ 321.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

(b) Acquisition of UniSL

On May 5, 2020, Afya Brazil acquired 100% of the total share capital of UniSL. UniSL is a post-secondary education institution with governmental authorization to offer on-campus, undergraduate courses in medicine and health, as well as other courses, in the State of Rondônia. UniSL also offers other medical related undergraduate degrees. The original purchase consideration of R\$201,521 was adjusted by R\$7,816, of which: (i) 70% is payable in cash on the transaction closing date, and (ii) 30% is payable in cash in three equal installments through 2023, adjusted by the CDI rate. The purchase consideration adjustment of R\$7,816 will be deducted from the first installment due in May 2021.

The acquisition contributed with 182 medical school seats. There are 100 additional seats still pending approval which, if approved by MEC, will result in a potential additional payment of up to R\$80,000, adjusted by the CDI rate. Such potential additional payment has not been recognized as the approval of additional seats have not yet occurred and is contingent.

The acquisition of UniSL was accounted for under IFRS 3 – Business Combinations.

Transaction costs to date amount to R\$1,666 and were expensed and are included in general and administrative expenses in the consolidated statement of income.

At the acquisition date, the fair value of the trade receivables acquired equals its carrying amount. Afya Brazil measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the unfavorable terms of the lease relative to market terms.

The goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Business Unit 1 segment. The preliminary goodwill recognized is not expected to be deductible for income taxes purposes.

The Company has not yet finalized the valuation of all identifiable assets acquired and liabilities assumed in the business combination of UniSL and therefore some of these amounts are preliminary. These amounts may be adjusted when the valuations are finalized.

The valuation techniques used for measuring the fair value of separately identified intangible assets acquired were as follows:

Intangible assets acquired	Valuation technique
Licenses	With-and-without method The with-and-without method consists of estimating the fair value of an asset by the difference between the value of this asset in two scenarios: a scenario considering the existence of the asset in question and another considering its non-existence.
Customer relationships	Multi-period excess earnings method The method considers the present value of net cash flows expected to be generated by customer relationships, by excluding any cash flows related to contributory assets.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

From the date of acquisition, UniSL has contributed R\$ 113,894 of net revenue and R\$ 30,648 to the income before income taxes to the Company. If the acquisition had taken place at the beginning of the period, net revenue for 2020 would have been increased by R\$ 57,477 and income before income taxes for 2020 would have been increased by R\$ 9,455.

(c) Acquisition of PEBMED

On July 20, 2020, Afya Brazil acquired 100% of the share capital of PEBMED. The original purchase price of R\$ 132,900 was adjusted by R\$ 30 and was comprised by: i) R\$115,339 paid in cash on the acquisition date; and ii) R\$ 17,531 was paid with Afya Brazil's shares which were afterwards contributed to the Company in exchange of issuance of 141,976 of its own shares.

PEBMED offers content and clinical tools for healthcare professionals, including web portals and mobile apps. With the integration of PEBMED into our platform, Afya will continue to expand offerings for the medical professionals now focusing in the interaction with the patient.

The acquisition of PEBMED was accounted for under IFRS 3 – Business Combinations.

Transaction costs to date amount to R\$ 613 and were expensed and are included in general and administrative expenses in the consolidated statement of income.

At the acquisition date, the fair value of the trade receivables acquired equals its carrying amount. Afya Brazil measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the unfavorable terms of the lease relative to market terms.

The preliminary goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Business Unit 2 segment. The preliminary goodwill recognized is not expected to be deductible for income taxes purposes.

The Company has not yet finalized the valuation of all identifiable assets acquired and liabilities assumed in the business combination of PEBMED and therefore some of these amounts are preliminary. These amounts may be adjusted when the valuations are finalized.

The valuation techniques used for measuring the fair value of separately identified intangible assets acquired were as follows:

Intangible assets acquired	Valuation technique
Trademark	Relief from royalty This methodology is based on the market remuneration of the use license granted to third parties. The value of the asset is restated by the savings of royalties that the owner would have to own the asset. It is necessary to determine a royalty rate that reflects the appropriate remuneration of the asset. The royalty payments, net of taxes, are discounted to present value.
Customer relationships	Multi-period excess earnings method The method considers the present value of net cash flows expected to be generated by customer relationships, by excluding any cash flows related to contributory assets.
Developed technology intangible assets	Replacement cost

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

	This methodology is based on the estimated cost of replacing the referred asset with a new one (acquisition or reconstruction), adjusted to reflect the losses in value resulting from the physical deterioration and the functional and economic obsolescence of that asset.
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From the date of acquisition, this business combination has contributed R\$ 17,535 of net revenue and R\$ 3,413 of income before income taxes to the Company. Should the acquisition had taken place at the beginning of the period, net revenue for 2020 would have been increased by R\$ 17,452 and income before income taxes for 2020 would have been decreased by R\$ 1,813.

(d) Acquisition of FESAR

On November 3, 2020, Afya Brazil acquired 100% of the share capital of FESAR. The aggregate purchase price was R\$260,836, including the CDI rate adjustment from the signing date and the real state of the operation, estimated at R\$ 17,397, of which 100% was paid in cash on the closing of the operation. The purchase consideration was adjusted by R\$1,569 and was paid on February 25, 2021.

FESAR is a post-secondary education institution with government authorization to offer on-campus, undergraduate courses in medicine and health, as well as other courses, in the State of Pará and medical course represents 70% of its 2019's net revenue. The acquisition contributed with 120 medical school seats.

The acquisition of FESAR was accounted for under IFRS 3 – Business Combinations.

Transaction costs to date amount to R\$2,047 and were expensed and are included in general and administrative expenses in the consolidated statement of income.

At the acquisition date, the fair value of the trade receivables acquired equals its carrying amount.

The preliminary goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Business Unit 1 segment. The preliminary goodwill recognized is not expected to be deductible for income taxes purposes.

The Company has not yet finalized the valuation of all identifiable assets acquired and liabilities assumed in the business combination of FESAR and therefore some of these amounts are preliminary. These amounts may be adjusted when the valuations are finalized.

The valuation techniques used for measuring the fair value of separately identified intangible assets acquired were as follows:

Intangible assets acquired	Valuation technique
Licenses	With-and-without method The with-and-without method consists of estimating the fair value of an asset by the difference between the value of this asset in two scenarios: a scenario considering the existence of the asset in question and another considering its non-existence.
Customer relationships	Multi-period excess earnings method The method considers the present value of net cash flows expected to be generated by customer relationships, by excluding any cash flows related to contributory assets.

From the date of acquisition, this business combination has contributed R\$ 6,280 of net revenue and R\$ 3,751 of income before income taxes to the Company. Should the acquisition had taken place at the beginning of the period, net revenue for 2020 would

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

have been increased by R\$ 29,113 and income before income taxes for 2020 would have been increased by R\$ 14,918.

(e) Acquisition of MedPhone

On November 4, 2020, Afya Brazil acquired 100% of the share capital of MedPhone. The net purchase price was R\$6,373 of which 100% was paid in cash on the closing of the operation. The purchase price was adjusted to R\$6,409, this price adjustment of R\$ 36 was paid on February 2, 2021.

MedPhone is a clinical decision and leaflet consultation app in Brazil, that helps physicians, medical students and other healthcare professionals to make faster and more accurate decisions on a daily basis.

The acquisition of MedPhone was accounted for under IFRS 3 – Business Combinations.

Transaction costs to date amount to R\$158 and were expensed and are included in general and administrative expenses in the consolidated statement of income.

There are no trade receivables, right of use assets or lease liabilities associated with the acquisition of MedPhone.

The preliminary goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Business Unit 2 segment. The preliminary goodwill recognized is not expected to be deductible for income taxes purposes.

The Company has not yet finalized the valuation of all identifiable assets acquired and liabilities assumed in the business combination of MedPhone and therefore some of these amounts are preliminary. These amounts may be adjusted when the valuations are finalized.

The valuation techniques used for measuring the fair value of separately identified intangible assets acquired were as follows:

Intangible assets acquired	Valuation technique
Trademark	Relief from royalty This methodology is based on the market remuneration of the use license granted to third parties. The value of the asset is restated by the savings of royalties that the owner would have to own the asset. It is necessary to determine a royalty rate that reflects the appropriate remuneration of the asset. The royalty payments, net of taxes, are discounted to present value.
Customer relationships	Multi-period excess earnings method The method considers the present value of net cash flows expected to be generated by customer relationships, by excluding any cash flows related to contributory assets.
Developed technology intangible assets	Replacement cost This methodology is based on the estimated cost of replacing the referred asset with a new one (acquisition or reconstruction), adjusted to reflect the losses in value resulting from the physical deterioration and the functional and economic obsolescence of that asset.

From the date of acquisition, this business combination has contributed R\$ 49 of net revenue and R\$ 57 of loss before income taxes to the Company. Should the acquisition had taken place at the beginning of the period, net revenue for 2020 would have been

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

increased by R\$ 142 and income before income taxes for 2020 would have been decreased by R\$ 46.

(f) Acquisition of FCMPB

On November 9, 2020, Afya Brazil acquired 100% of the share capital of FCMPB. The total net purchase price of R\$379,913 was adjusted to R\$378,807 and is comprised of (i) R\$189,913 paid in cash on the transaction closing date, and (ii) R\$188,894 is payable in cash in four equal installments through 2024, adjusted by the CDI rate.

FCMPB is a post-secondary education institution with government authorization to offer on-campus, undergraduate courses in medicine in the State of Paraíba and medical course represents 99% of its 2019's net revenue. The acquisition contributed with 157 medical school seats

The acquisition of FCMPB was accounted for under IFRS 3 – Business Combinations.

Transaction costs to date amount to R\$721 and were expensed and are included in general and administrative expenses in the consolidated statement of income.

At the acquisition date, the fair value of the trade receivables acquired equals its carrying amount. Afya Brazil measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the unfavorable terms of the lease relative to market terms.

The preliminary goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Business Unit 1 segment. The preliminary goodwill recognized is not expected to be deductible for income taxes purposes.

The Company has not yet finalized the valuation of all identifiable assets acquired and liabilities assumed in the business combination of FCMPB and therefore some of these amounts are preliminary. These amounts may be adjusted when the valuations are finalized.

The valuation techniques used for measuring the fair value of separately identified intangible assets acquired were as follows:

Intangible assets acquired	Valuation technique
Licenses	With-and-without method The with-and-without method consists of estimating the fair value of an asset by the difference between the value of this asset in two scenarios: a scenario considering the existence of the asset in question and another considering its non-existence.
Customer relationships	Multi-period excess earnings method The method considers the present value of net cash flows expected to be generated by customer relationships, by excluding any cash flows related to contributory assets.

From the date of acquisition, this business combination has contributed R\$ 10,509 of net revenue and R\$ 3,570 of income before income taxes to the Company. FCMPB was constituted through a spin-off recently in August, 2020 and there is no information before this period to be presented.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

5.2 Acquisitions in 2019

	Guardaya	FASA*	IPEMED**
Assets			
Cash and cash equivalents	1,548	3,834	307
Restrict cash	-	5,561	-
Trade receivables	44,277	1,832	8,965
Inventories	2,581	-	-
Recoverable taxes	280	-	-
Other assets	489	458	3,266
Right-of-use assets	4,556	47,789	8,800
Property and equipment	1,594	22,946	3,676
Investment in associate	24,458	-	-
Intangible assets	59,977	171,511	33,039
	139,760	253,931	58,053
Liabilities			
Trade payables	(454)	(1,133)	(4,908)
Loans and financing	(4,076)	(35,419)	(3,592)
Lease liabilities	(4,607)	(47,793)	(8,965)
Labor and social obligations	(1,844)	(5,254)	(1,575)
Taxes payable	(3,571)	(483)	(26,503)
Provision for legal proceedings	(680)	(1,684)	(2,008)
Advances from customers	-	(3,192)	(607)
Other liabilities	(4,709)	(460)	-
	(19,941)	(95,418)	(48,158)
Total identifiable net assets at fair value	119,819	158,513	9,895
Non-controlling interest	-	(15,851)	-
Goodwill arising on acquisition	139,294	58,903	87,647
Purchase consideration transferred	259,113	201,565	97,542
Cash paid	-	102,330	52,239
Capital contribution	259,113	-	-
Payable in installments	-	99,235	45,303
Analysis of cash flows on acquisition:			
Transaction costs (included in cash flows from operating activities)	(482)	(1,887)	(180)
Cash paid net of cash acquired with the subsidiary (included in cash flows from investing activities)	1,548	(98,496)	(51,932)
Net of cash flow on acquisition	1,066	(100,383)	(52,112)

*During the measurement period, the purchase consideration for the acquisition of FASA was adjusted by R\$3,022 as a result of purchase price adjustments. Accordingly, goodwill was updated to R\$58,903.

** During the measurement period of the assets acquired and liabilities assumed at the fair value, the Company has identified R\$1,320 of indemnification assets, related to the acquisition of IPEMED.

(a) Acquisition of Guardaya

In connection with the corporate reorganization, on March 29, 2019, Afya Brazil merged (i) BR Health, a wholly-owned subsidiary of Crescera that controls Guardaya and is one of Afya Brazil's shareholders; and (ii) Guardaya which owns 100% of Medcel Editora and CBB Web, resulting in the transfer to Afya Brazil of 100% of Medcel Editora and CBB Web shares. In connection with the transaction 15% of UEPC's shares were acquired. Afya Brazil issued 378,696 common shares as a consideration for the interest in BR Health and Guardaya. The fair value of the consideration given was R\$ 259,113. This transaction was strategic to the Company and was accounted for under IFRS 3 – Business Combinations.

Transaction costs to date amount to R\$ 482 and were expensed and are included in general and administrative expenses in the consolidated statement of income.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

The goodwill recognized is primarily attributed to the expected synergies and other benefits arising from the transaction. The goodwill is not expected to be deductible for income tax purposes.

At the acquisition date, the fair value of the trade receivables acquired equals its carrying amount. Afya Brazil measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the unfavorable terms of the lease relative to market terms.

The valuation techniques used for measuring the fair value of separately identified intangible assets acquired were as follows:

Intangible assets acquired	Valuation technique
Trademark	Relief-from-royalty This methodology is based on the market remuneration of the use license granted to third parties. The value of the asset is restated by the savings of royalties that the owner would have to own the asset. It is necessary to determine a royalty rate that reflects the appropriate remuneration of the asset. The royalty payments, net of taxes, are discounted to present value.
Customer relationships	Multi-period excess earning method The method considers the present value of net cash flows expected to be generated by customer relationship, by excluding any cash flows related to contributory assets.
Educational content	Replacement cost This methodology is based on the estimate of the cost of replacing the asset with a new one (acquisition or reconstruction), adjusted to reflect the losses of value resulting from the physical deterioration and the economic functional obsolescence of the asset.

This business combination contributed R\$ 40,554 of net revenue and R\$ 5,786 of income before income taxes to the Company in 2019. If the acquisition had taken place at the beginning of the period, net revenue for 2019 would have been R\$ 75,238 and income before income taxes for 2019 would have been R\$ 21,924.

(b) Acquisition of FASA

On April 3, 2019, Afya Brazil acquired control of FASA, through the acquisition of 90% of its shares. The purchase price of R\$ 201,565 is comprised by: i) R\$ 102,330 paid in cash on the acquisition date; ii) R\$ 39,695 payable in April 2020; iii) R\$ 29,770 payable in April 2021; and iv) R\$ 29,770 payable in April 2022, adjusted by the IPCA rate + 4.1% per year. This transaction was strategic to the Company and was accounted for under IFRS 3 – Business Combinations. There is no contingent consideration associated with the acquisition of FASA.

Transaction costs to date amount to R\$ 1,887 and were expensed and are included in general and administrative expenses in the consolidated statement of income.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

At the acquisition date, the fair value of the trade receivables acquired equals its carrying amount. The Company measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the unfavorable terms of the lease relative to market terms.

The goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. None of the goodwill recognized is expected to be deductible for income taxes purposes.

The valuation techniques used for measuring the fair value of separately identified intangible assets acquired were as follows:

Intangible assets acquired	Valuation technique
Licenses	With-and-without method The with-and-without method consists of estimating the fair value of an asset by the difference between the value of this asset in two scenarios: a scenario considering the existence of the asset in question and another considering its non-existence.
Customer relationships	Multi-period excess earning method The method considers the present value of net cash flows expected to be generated by customer relationship, by excluding any cash flows related to contributory assets.

FASA contributed R\$ 69,996 of net revenue and R\$ 16,501 of income before income taxes to the Company in 2019. If the acquisition had taken place at the beginning of the period, net revenue for 2019 would have been R\$ 90,063 and income before income taxes for 2019 would have been R\$ 16,872.

(c) Acquisition of IPEMED

On May 9, 2019, Afya Brazil acquired control of IPEMED, through the acquisition of 100% of its shares. IPEMED is a post-secondary education institution with campuses located in the states of Bahia, Minas Gerais, Rio de Janeiro, São Paulo and in the Distrito Federal. It focuses on medical graduate programs. The purchase price was R\$ 97,542, being: i) R\$ 25,000 paid in cash as advance through April 2019; ii) R\$ 27,239 paid in cash on the acquisition date; iii) R\$45,303 payable in five annual installments due from February 2020 to February 2024 adjusted by the Interbank Certificates of Deposit ("CDI") rate. This transaction was strategic to the Company and was accounted for under IFRS 3 – Business Combinations. There is no contingent consideration associated with the acquisition of IPEMED.

Transaction costs to date amount to R\$ 180 and were expensed and are included in general and administrative expenses in the consolidated statement of income. The acquisition was completed recently and the valuation of property and equipment will be finalized at a later date, and the final allocation of the purchase price is dependent on a number of factors, including the final evaluation of the fair values of tangible and intangible assets acquired and liabilities assumed as of the closing date of the transaction.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

At the acquisition date, the fair value of the trade receivables acquired equals its carrying amount. The Company measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the unfavorable terms of the lease relative to market terms.

The goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. None of the goodwill recognized is expected to be deductible for income taxes purposes.

The valuation techniques used for measuring the fair value of separately identified intangible assets acquired were as follows:

Intangible assets acquired	Valuation technique
Trademark	Relief-from-royalty This methodology is based on the market remuneration of the use license granted to third parties. The value of the asset is restated by the savings of royalties that the owner would have to own the asset. And it is necessary to determine a royalty rate that reflects the appropriate remuneration of the asset. The royalty payments, net of taxes, are discounted to present value.
Customer relationships	Multi-period excess earning method The method considers the present value of net cash flows expected to be generated by customer relationship, by excluding any cash flows related to contributory assets.

IPEMED contributed R\$ 43,244 of net revenue and R\$ 10,735 of income before income taxes to the Company in 2019. If the acquisition had taken place at the beginning of the period, net revenue for 2019 would have been R\$ 67,594 and income before income taxes for 2019 would have been R\$ 6,808.

6 Cash and cash equivalents

	2020	2019
Cash and bank deposits	57,729	13,092
Cash equivalents (a)	987,313	930,117
	<u>1,045,042</u>	<u>943,209</u>

Cash equivalents correspond mainly to financial investments in Bank Certificates of Deposit ("CDB") with highly rated financial institutions and investment funds managed by highly rated financial institutions. As of December 31, 2020, the average interest on these CDB are equivalent to 90.95% of the Interbank Certificates of Deposit ("CDI") (December 31, 2019: 99.2%). These funds are available for immediate use and have insignificant risk of changes in value. Cash equivalents denominated in U.S. dollars totaled R\$70,523 as of December 31, 2020 (December 31, 2019: R\$2,529).

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

7 Trade receivables

	2020	2019
Tuition fees	195,318	80,156
Educational content (a)	62,931	37,154
FIES	49,425	17,789
Educational credits	11,248	9,899
Mobile app subscription (b)	13,526	-
Others	10,476	5,005
	342,924	150,003
(-) Allowance for doubtful accounts	(32,980)	(14,763)
	309,944	135,240
Current	302,317	125,439
Non-current	7,627	9,801

(a) Related to trade receivables from sales of printed books, e-books and medical courses through digital platform from Medcel.

(b) Related to trade receivables from mobile applications subscriptions for digital medical content.

As of December 31, 2020 and 2019, the aging of trade receivables was as follows:

	2020	2019
Neither past due nor impaired	145,076	71,095
Past due		
1 to 30 days	44,365	15,042
31 to 90 days	57,198	27,221
91 to 180 days	51,521	20,543
More than 180 days	44,764	16,102
	342,924	150,003

The changes in the allowance for doubtful accounts for the years ended December 31, 2020, 2019 and 2018, was as follows:

	2020	2019	2018
Balance at the beginning of the year	(14,763)	(7,537)	(3,794)
Additions	(32,081)	(15,040)	(7,714)
Write-offs	13,864	7,814	3,971
Balance at the end of the year	(32,980)	(14,763)	(7,537)

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

8 Related parties

The table below summarizes the balances and transactions with related parties:

	<u>2020</u>	<u>2019</u>	
Assets			
Trade receivables (a)	174	557	
Related parties (b)	421	-	
	<u>595</u>	<u>557</u>	
Current	174	557	
Non-current	421	-	
Other income	<u>2020</u>	<u>2019</u>	<u>2018</u>
IESVAP (c)	-	-	252
IPTAN (c)	-	-	882
UEPC (a)	104	557	-
	<u>104</u>	<u>557</u>	<u>1,134</u>
Lease			
RVL Esteves Gestão Imobiliária S.A.	11,288	10,417	9,655
UNIVAÇO Patrimonial Ltda.	2,915	2,816	2,625
IESVAP Patrimonial Ltda.	3,470	2,609	1,274
	<u>17,673</u>	<u>15,842</u>	<u>13,554</u>

- (a) Refers to sales of educational content from Medcel to UEPC recorded in trade receivables
- (b) Amounts to be reimbursed by the shareholders to Afya Brazil, mainly related to payments of legal cost and advisory services recorded in other assets.
- (c) Refers to share services and corporate expenses provided by Afya Brazil to IPTAN and IESVAP for the periods prior to their acquisition on April 26, 2018 recorded in the consolidated statements of income.

Lease agreements with RVL Esteves Gestão Imobiliária S.A.

Afya Brazil has entered into lease agreements with RVL Esteves Gestão Imobiliária S.A. ("RVL"), an entity controlled by the shareholder Nicolau Carvalho Esteves and of which Mr. Renato Esteves is an executive officer, as described below:

On June 21, 2016, RVL entered into lease agreements (as amended on April 26, 2018) with ITPAC – Instituto Tocantinense Presidente Antônio Carlos S.A., or ITPAC, and Itpac Porto Nacional – Instituto Tocantinense Presidente Antonio Carlos Porto S.A., or ITPAC Porto Nacional, pursuant to which RVL Esteves Gestão Imobiliária S.A. agreed to lease campuses to ITPAC and ITPAC Porto Nacional in the cities of Araguaína and Porto Nacional, both located in the State of Tocantins. The lease agreements are adjustable in accordance with the provisions of each lease agreement. The lease agreements are for an initial term of 20 years, and are renewable for an additional 20 years subject to the provisions of each lease agreement.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

On November 1, 2016, RVL entered into a lease agreement with Afya Brazil, pursuant to which RVL agreed to lease to Afya Brazil certain offices located in the city of Nova Lima, State of Minas Gerais, where Afya Brazil's principal executive offices are located. On February 9, 2019 the agreement was amended to extend lease terms and adjust the lease amounts, subject to certain discount conditions set forth in the lease agreement and adjustable in accordance with the provisions of the lease agreement. The lease agreement is for an initial term of five years, and may be renewable for an additional five years subject to the provisions of the lease agreement.

On September 6, 2018, RVL entered into a lease agreement with ITPAC, a subsidiary of Afya Brazil, pursuant to which RVL agreed to lease to ITPAC the new ITPAC campus currently under construction by RVL in the city of Palmas, State of Tocantins. The lease agreement is for an amount equal to 7.5% of the monthly net revenue of ITPAC during the prior semester, which will start to become due once the new ITPAC campus becomes operational, subject to the provisions of the lease agreement. The lease agreement is for an initial term of 20 years, starting on the date the new ITPAC campus becomes operational, and is renewable for an additional 20 years subject to the provisions of the lease agreement.

On October 30, 2019, RVL entered into a lease agreement with IPTAN, pursuant to which RVL agreed to lease to IPTAN the new IPTAN medical campus, currently under construction by RVL in the city of Santa Inês, State of Maranhão. The lease agreement is for a monthly amount equal to (i) up to June 2020, R\$12 and (ii) after June 2020 and until October 2024, 6.5% of the monthly net revenue of IPTAN assessed during the prior semester, in each case adjustable in accordance with the provisions of the lease agreement. The lease agreement is for an initial term of 5 years counted from the conclusion of the construction works, and may be renewable for an additional 5 years subject to the provisions of the lease agreement.

The lease payments in connection with the lease agreements with RVL totaled R\$11,288 and R\$10,417 in the years ended December 31, 2020 and 2019, respectively. In the year ended December 31, 2018, the lease expenses in connection with the lease agreements with RVL totaled R\$9,655.

Lease agreement with UNIVAÇO Patrimonial Ltda.

On July 14, 2016, UNIVAÇO Patrimonial Ltda., an entity controlled by the shareholder Nicolau Carvalho Esteves and of which Ms. Rosângela Esteves is the chief executive officer, entered into a lease agreement with UNIVAÇO, a subsidiary of Afya Brazil, pursuant to which UNIVAÇO Patrimonial Ltda. agreed to lease the UNIVAÇO campus to UNIVAÇO, located in the city of Ipatinga, State of Minas Gerais. The lease agreement is adjustable in accordance with the provisions of the lease agreement. The lease agreement is for an initial term of 20 years, and is renewable for an additional 20 years subject to the provisions of the lease agreement. The lease payments in connection with this lease agreement totaled R\$2,915 and R\$2,816 in the years ended December 31, 2020 and 2019, respectively. In the year ended December 31, 2018, the lease expenses in connection with this lease agreement totaled R\$2,625.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

Lease agreement with IESVAP Patrimonial Ltda.

On April 25, 2018, IESVAP Patrimonial Ltda., an entity controlled by the shareholder Nicolau Carvalho Esteves and of which Mr. Renato Esteves is an executive officer, entered into a lease agreement with IESVAP, a subsidiary of Afya Brazil, pursuant to which IESVAP Patrimonial Ltda. agreed to lease the IESVAP campus to IESVAP located in the city of Parnaíba, State of Piauí. The lease agreement is for an amount equal to 7.5% of the monthly net revenue of IESVAP during 2018. The lease agreement is for an initial term of 20 years, and is renewable for an additional 20 years subject to the provisions of the lease agreement. The lease payments in connection with this lease agreement totaled R\$3,470 and R\$2,609 in the years ended December 31, 2020 and 2019, respectively. In the year ended December 31, 2018, the lease expenses in connection with this lease agreement totaled R\$1,274.

Key management personnel compensation

Key management personnel compensation included in the Company's consolidated statement of income comprised the following:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Short-term employee benefits	9,629	4,947	2,681
Share-based compensation plans	23,989	13,893	2,161
	<u>33,618</u>	<u>18,840</u>	<u>4,842</u>

Compensation of the Company's key management includes short-term employee benefits comprised by salaries, labor and social charges, and other ordinary short-term employee benefits. The amounts disclosed in the table are the amounts recognized as an expense in general and administrative expenses during the reporting period related to key management personnel.

The executive officers participate in share-based compensation plans described in Note 15 (b).

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

9 Investment in associate

In connection with the corporate reorganization, described in Note 1 regarding the merger with BR Health, the Company acquired a 30% interest in UEPC, a medical school located in the Federal District, that offers higher education and post-graduate courses, both in person and long-distance learning. The Company's interest in UEPC is accounted for using the equity method. The following table illustrates the summarized financial information of the Company's investment in UEPC:

	December 31, 2020	December 31, 2019
Current assets	55,413	26,762
Non-current assets	82,575	77,031
Current liabilities	(34,531)	(29,328)
Non-current liabilities	(76,132)	(66,294)
Equity	27,325	8,171
Company's share in equity – 30%	8,227	2,451
Goodwill	43,183	43,183
Carrying amount of the investment	51,410	45,634
Net revenue	113,965	85,816
Cost of services	(55,926)	(39,459)
General and administrative expenses	(27,341)	(29,476)
Finance result	(4,882)	(4,121)
Income before income taxes	25,816	12,760
Income taxes expenses	(252)	(2,275)
Net income for the year	25,564	10,485
Company's share of income for the year	7,698	2,362
	December 31, 2020	December 31, 2019
Opening balance	45,634	-
Acquisition of minority interest (15%) in March 2019	-	24,458
Acquisition of additional minority interest (15%) in June 2019	-	24,457
Dividends receivable (included in Other assets)	(1,922)	(5,643)
Share of income	7,698	2,362
Closing balance	51,410	45,634

The Company tests at least annually the recoverability of the carrying amount of goodwill and there was no impairment for this goodwill.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

10 Property and equipment

Cost	Building	Machinery and equipment	Lands	Vehicles	Furniture and fixtures	IT equipment	Library books	Laboratories and clinics	Leasehold improvements	Construction in progress	Total
As of January 1, 2018	-	20,135	-	120	8,357	6,494	10,016	-	7,094	1,187	53,403
Additions	-	3,226	2,770	-	1,023	1,728	949	-	1,940	7,918	19,554
Transfer	-	-	-	-	-	-	-	-	2,271	(2,271)	-
Business combinations	-	7,142	-	62	2,517	2,021	1,873	597	577	3,902	18,691
As of December 31, 2018	-	30,503	2,770	182	11,897	10,243	12,838	597	11,882	10,736	91,648
Additions	-	9,838	4,235	422	6,976	4,241	1,205	34	4,488	25,525	56,964
Transfers	-	-	-	-	-	(525)	-	-	-	-	(525)
Business combinations	-	3,988	-	103	2,565	2,035	4,096	418	14,541	470	28,216
As of December 31, 2019	-	44,329	7,005	707	21,438	15,994	18,139	1,049	30,911	36,731	176,303
Additions	-	13,806	672	-	4,550	9,657	1,012	-	54,748	5,387	89,832
Business combinations	6,771	8,973	5,724	508	3,061	2,493	2,473	-	12,787	5,090	47,880
Transfer	19,148	1,395	-	-	82	367	-	(1,049)	23,559	(43,502)	-
As of December 31, 2020	25,919	68,503	13,401	1,215	29,131	28,511	21,624	-	122,005	3,706	314,015
Depreciation											
As of January 1, 2018	-	(7,810)	-	(49)	(3,449)	(3,472)	(6,012)	-	(136)	-	(20,928)
Depreciation	-	(1,886)	-	(10)	(812)	(1,017)	(1,003)	(27)	(202)	-	(4,957)
As of December 31, 2018	-	(9,696)	-	(59)	(4,261)	(4,489)	(7,015)	(27)	(338)	-	(25,885)
Depreciation	-	(4,097)	-	-	(1,629)	(2,495)	(1,648)	(359)	(1,317)	-	(11,545)
Disposals	-	-	-	-	-	447	-	-	-	-	447
As of December 31, 2019	-	(13,793)	-	(59)	(5,890)	(6,537)	(8,663)	(386)	(1,655)	-	(36,983)
Depreciation	-	(5,065)	-	(112)	(2,199)	(4,314)	(2,154)	(78)	(2,729)	-	(16,651)
Transfer	-	(464)	-	-	-	-	-	464	-	-	-
As of December 31, 2020	-	(19,322)	-	(171)	(8,089)	(10,851)	(10,817)	-	(4,384)	-	(53,634)
Net book value											
As of December 31, 2020	25,919	49,181	13,401	1,044	21,042	17,660	10,807	-	117,621	3,706	260,381
As of December 31, 2019	-	30,536	7,005	648	15,548	9,457	9,476	663	29,256	36,731	139,320

The Company assesses, at each reporting date, whether there is an indication that a property and equipment asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount. There were no indications of impairment of property and equipment as of and for the years ended December 31, 2020, 2019 and 2018.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

11 Intangible assets and goodwill

	Goodwill	Licenses with indefinite useful life	Trademarks	Customer relationships	Software	Education content	Developed technology	Educational platform and software in progress	Total
Cost									
As of January 1, 2018	-	-	-	-	6,633	-	-	-	6,633
Additions	-	-	-	-	1,301	-	-	1,752	3,053
Business combinations	169,535	445,616	-	63,303	354	-	-	-	678,808
As of December 31, 2018	169,535	445,616	-	63,303	8,288	-	-	1,752	688,494
Additions (i) (ii)	4,030	108,000	-	-	1,101	-	-	9,644	122,775
Business combinations	285,844	150,156	32,111	62,110	-	17,305	-	2,845	550,371
As of December 31, 2019	459,409	703,772	32,111	125,413	9,389	17,305	-	14,241	1,361,640
Additions	-	-	-	-	4,175	-	-	15,474	19,649
Disposals	-	-	-	-	(460)	-	-	-	(460)
Business combinations	351,247	747,498	42,903	158,126	3,117	-	355	484	1,303,730
As of December 31, 2020	810,656	1,451,270	75,014	283,539	16,221	17,305	355	30,199	2,684,559
Amortization									
As of January 1, 2018	-	-	-	-	(1,904)	-	-	-	(1,904)
Amortization	-	-	-	(2,945)	(1,176)	-	-	-	(4,121)
As of December 31, 2018	-	-	-	(2,945)	(3,080)	-	-	-	(6,025)
Amortization	-	-	(1,150)	(34,927)	(1,456)	(4,876)	-	(868)	(43,277)
As of December 31, 2019	-	-	(1,150)	(37,872)	(4,536)	(4,876)	-	(868)	(49,302)
Amortization	-	-	(2,352)	(47,960)	(2,180)	(2,816)	(32)	(7,367)	(62,707)
Disposals	-	-	-	-	460	-	-	-	460
As of December 31, 2020	-	-	(3,502)	(85,832)	(6,256)	(7,692)	(32)	(8,235)	(111,549)
Net book value									
As of December 31, 2020	810,656	1,451,270	71,512	197,707	9,965	9,613	323	21,964	2,573,010
As of December 31, 2019	459,409	703,772	30,961	87,541	4,853	12,429	-	13,373	1,312,338

(i) The amount of R\$4,030 added to goodwill relates to adjustments during the measurement period of the business combination of IESP in respect to amounts to be included as part of the purchase price allocation at acquisition date mainly related to impairment of receivables.

(ii) On August 13, 2019, Afya Brazil entered into a purchase agreement with the shareholders of IPEC for the acquisition of 100% of IPEC. IPEC was a non-operational postsecondary education institution with governmental authorization to offer on-campus post-secondary undergraduate courses in medicine in the State of Pará, that commenced its operation in September 2019. Prior to the acquisition date, IPEC has no significant assets and liabilities. The purchase price of R\$ 108,000 is comprised of: i) R\$ 54,000 paid in cash on the acquisition date; ii) R\$ 54,000 is payable in two equal instalments of R\$ 27,000 payable annually from August 13, 2020 to August 13, 2021, and adjusted by the CDI rate. The instalment due in August 2020 was paid in the total amount of R\$28,104.

Licenses with indefinite useful life include intangible assets acquired through business combinations. The licenses for medicine and other courses granted by the Ministry of Education ("MEC") to the companies acquired have no expiration date and the Company has determined that these assets have indefinite useful lives.

For impairment testing goodwill and licenses with indefinite useful lives acquired through business combinations are allocated to CGUs.

The Company performed its annual impairment test on December 31, 2020 and 2019.

The Company tests at least annually the recoverability of the carrying amount of goodwill and licenses with indefinite useful lives for each CGU. The process of estimating these values involves the use of assumptions, judgments and estimates of future cash flows that represent the Company's best estimate.

There was no impairment for goodwill and licenses with indefinite useful lives as of December 31, 2020, 2019 and 2018.

The carrying amounts of goodwill and licenses with indefinite useful life by CGU and their value in use and the discount rates used for the impairment assessment as of December 31, 2020 and 2019 was:

Afya Limited

Notes to the consolidated financial statements
Expressed in thousands of Brazilian reais, unless otherwise stated

CGU	Carrying amount					
	Goodwill		Licenses with indefinite useful life		CGU	
	2020	2019	2020	2019	2020	2019
IPTAN	17,446	17,446	57,214	57,214	126,397	110,224
IESVAP	27,956	27,956	81,366	81,366	112,898	119,129
CCSI	4,664	4,664	56,737	56,737	48,411	68,354
IESP	73,838	73,838	179,693	179,693	380,410	251,364
FADEP	49,661	49,661	70,606	70,606	160,787	133,996
Medcel and CBBW*	139,294	139,294	-	-	219,359	213,881
FASA	58,903	58,903	144,507	150,156	267,279	227,271
ESMC	-	-	5,649	-	7,230	-
IPEMED	87,647	87,647	-	-	119,227	106,924
IPEC	-	-	108,000	108,000	122,325	106,964
UniRedentor	77,662	-	121,477	-	253,370	-
UniSL	4,420	-	249,387	-	258,234	-
PEBMED	84,175	-	-	-	143,328	-
FESAR	71,664	-	141,616	-	263,914	-
FCMPB	110,483	-	235,018	-	380,682	-
Medphone	2,843	-	-	-	6,477	-

*CBBW as merged by Medcel on May 1, 2020.

The main assumptions used by the Company to determine the value in use of the CGUs were:

Student enrollment – refer to the number of students that are currently enrolled in each CGU.

Tuition fees – is the monthly fee charged to students.

Occupancy rate – the occupancy rate of the medical schools is the ratio of the number of students effectively enrolled divided by the regulatory capacity in a given period.

Regulatory capacity – the regulatory capacity is defined by the number of medical schools seats available per year awarded by MEC, multiplied by the number of years of operations since the seats were awarded.

Faculty – refer to the cost with faculty in the CGU, which means the amount paid to teachers and doctors.

Digital content platform users – refer to mobile app subscription and online courses for digital content users.

Discount rates: discount rates represent the current market assessment of the risks specific to the CGU being tested. The pre-tax discount rate applied to cash flow projections is 13.00% in 2020 (12.60% in 2019).

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

Significant estimate: impact of possible changes in key assumptions

An increase of 13 basis points in management's estimated discount rate applied to the cash flow projections of each CGU for the year ended December 31, 2020, or a decrease of 50 basis points on estimated EBITDA would have not resulted in significant impacts on these financial statements.

Other intangible assets

Intangible assets, other than goodwill and licenses with indefinite useful lives, are valued separately for each acquisition and are amortized during each useful life. The useful lives and methods of amortization of other intangibles are reviewed at each financial year end and adjusted prospectively, if appropriate.

The estimated useful lives of intangible assets are as follows:

Customer relationships – medicine	6 years
Customer relationships – other courses	4.5 years
Software license	5 years
Education content	3 years
Trademarks	19 - 20 years
Developed technology	5 years

For the years ended December 31, 2020, 2019 and 2018, there were no indications that the Company's intangible assets with finite useful lives might be impaired.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

12 Financial assets and financial liabilities

12.1 Financial assets

Financial assets	2020	2019
At amortized cost		
Cash and cash equivalents	1,045,042	943,209
Restricted cash	2,053	16,841
Trade receivables	309,944	135,240
Total	1,357,039	1,095,290
Current	1,347,359	1,083,436
Non-current	9,680	11,854

12.2 Financial liabilities

Financial liabilities	2020	2019
At amortized cost		
Trade payables	35,743	17,628
Loans and financing	617,485	60,357
Lease liabilities	447,703	284,515
Accounts payable to selling shareholders	518,240	300,237
Notes payable	76,181	-
Advances from customers	63,839	36,860
Total	1,759,191	699,597
Current	467,643	262,671
Non-current	1,291,548	436,926
Derivatives not designated as hedging instruments		
Cross-currency interest rate swaps	-	757
Total	-	757
Current	-	757
Non-current	-	-

Debt instruments at amortized cost include trade receivables and receivables from related parties. Financial assets at amortized cost also include cash and cash equivalents and restricted cash.

Derivatives not designated as hedging instruments reflect the positive change in fair value of cross-currency interest rate swaps that are not designated in hedge relationships, but are intended to mitigate the foreign currency risk for the loan denominated in Euros.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

12.2.1 Loans and financing

Financial institution	Currency	Interest rate	Maturity	2020	2019
Itaú Unibanco S.A. (e)	Euro	1.01% p.y.	2020	-	52,959
Itaú Unibanco S.A.	Brazilian real	1.22% a 1.26% p.m.	2020	-	648
FINEP (d)	Brazilian real	TJLP p.y.	2027	10,864	6,750
BNDES (c)	Brazilian real	10.03% p.y.	2024	471	-
Banco Votorantim (b)	Brazilian real	CDI + 1.65% p.y.	2021	101,785	-
Itaú Unibanco S.A. (a)	Brazilian real	CDI + 1.62% p.y.	2023	504,365	-
				617,485	60,357
Current				107,162	53,607
Non-current				510,323	6,750

- (a) On October 1, 2020, Afya Brazil entered into a loan with Banco Itaú Unibanco S.A. in the amount of R\$ 500,000 adjusted by the CDI rate plus an interest rate of 1.62% per year and is repayable in three installments in October 2022, April 2023 and October 2023.
- (b) On July 3, 2020, Afya Brazil entered into a loan agreement with Banco Votorantim S.A. in the amount of R\$ 100,000 adjusted by the CDI rate plus an interest rate of 1.65% per year and is repayable at maturity on July 5, 2021.
- (c) On May 5, 2020, as a result of the acquisition of UniSL, the Company assumed loans agreements BNDES which has an interest rate of 10.03% per year and maturity in 2024.
- (d) On July 23, 2019, Medcel entered into a loan of R\$ 16,153 with Financiadora de Estudos e Projetos (“FINEP”), a governmental agency focused on financing investments on R&D, which has an interest rate based on TJLP (Long term interest rate), 2019 and maturity in 2027. The first and second tranches of R\$6,734 and R\$4,130, respectively, were drawdown in October 2019 and December 2020, respectively, in order to develop the Medical web series and other digital content. There is no financial covenant related to this agreement. The loan is guaranteed by bank warranty in the amount of R\$ 10,864.
- (e) On November 16, 2018, Afya Brazil entered into a euro-denominated loan agreement with Itaú Unibanco S.A. in the amount of R\$ 74,980 (equivalent to €17,500). The loan accrues interest at 1.01% per annum and is repayable in three equal installments on November 18, 2019, May 18, 2020 and November 12, 2020. The loan agreement contains a financial covenant requiring Afya Brazil to maintain a Net Debt to EBITDA ratio less or equal to: 2.2x at end of 2018 and 2019 and 1.8x at the end of 2020. The loan was guaranteed by financial investments, classified as restricted cash, in the amount of R\$14,788 as of December 31, 2019. This loan was repaid on November 12, 2020.

On November 21, 2018, Afya Brazil entered into cross-currency interest rate swaps in order to mitigate the foreign exchange exposure related to a loan denominated in Euros. The swap agreements are comprised of derivative assets to swap the foreign exchange exposure (Euros to Brazilian real) and derivative liabilities for the interest rate swap (1.01% p.y. to 128% of CDI). The swap agreements have three maturities on November 18, 2019, May 18, 2020 and November 12, 2020.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

	Principal amount (notional)	Fair value	
		2020	2019
Cross-currency interest rate swap agreements			
Asset position: Euros + 1.01% p.y.	49,165	-	53,045
Liability position: 128% of CDI	(49,165)	-	(53,802)
Net position – assets (liabilities)		-	(757)
Current assets (liabilities)		-	(757)
Noncurrent assets (liabilities)		-	-

12.2.2 Leases

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. The Company has lease contracts for properties. The maturity of the lease contracts generally have lease terms between 5 and 30 years. There are no sublease and variable payments in-substance lease agreements in the period.

Set out below are the carrying amounts of right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets	Lease liabilities
As at January 1, 2019	212,360	212,360
Additions	19,100	19,100
Business combinations	61,145	61,365
Depreciation expense	(18,330)	-
Interest expense	-	31,469
Payments of lease liabilities	-	(39,779)
As at December 31, 2019	274,275	284,515
Additions	64,743	64,743
Remeasurement	34,161	34,161
Business combinations	76,855	76,855
Depreciation expense	(29,386)	-
Interest expense	-	44,458
Payments of lease liabilities	-	(55,455)
Disposals	(1,574)	(1,574)
As at December 31, 2020	419,074	447,703
As at December 31, 2019		
Current	-	22,693
Non-current	274,275	261,822
As at December 31, 2020		
Current	-	61,976
Non-current	419,074	385,727

The Company recognized lease expense from short-term leases and low-value assets of R\$ 2,555 for the year ended December 31, 2020 (R\$ 4,494 for the year ended December 31, 2019).

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

12.2.3 Accounts payable to selling shareholders

	<u>2020</u>	<u>2019</u>	
Acquisition of IESP (a)	38,771	75,450	
Acquisition of FADEP (b)	-	18,745	
Acquisition of FASA (c)	70,356	105,306	
Acquisition of IPEMED (d)	38,622	45,646	
Acquisition of IPEC (e)	28,307	55,090	
Acquisition of UniRedentor (f)	97,773	-	
Acquisition of UniSL (g)	53,386	-	
Acquisition of FCMPB (h)	189,420	-	
Acquisition of FESAR (i)	1,569	-	
Acquisition of MedPhone (j)	36	-	
	<u>518,240</u>	<u>300,237</u>	
Current	188,420	131,883	
Non-current	329,820	168,354	

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Opening balance	300,237	177,730	-
Cash flows	(134,518)	(92,688)	-
Acquisition of IPEC	-	54,000	-
Interest	13,884	17,977	1,687
Business combinations	343,140	144,538	176,043
Compensation of legal proceedings disbursement	(4,503)	(1,320)	-
Closing balance	<u>518,240</u>	<u>300,237</u>	<u>177,730</u>

- (a) On November 27, 2018, Afya Brazil acquired 80% of IESP and the amounts of (i) R\$8,906 was paid in February 2019, and (ii) R\$106,200 is payable in three equal installments of R\$35,400, each adjusted by the CDI rate through the payment date. The first and second installments were paid in November 2019 and 2020, respectively, and the remaining installment is due by the end of the third year from the transaction closing date.
- (b) On December 5, 2018, Afya Brazil acquired 100% of FADEP and the amount of R\$52,846 is payable in three equal installments of R\$17,615, each adjusted by the SELIC rate through the payment date and due semiannually from the transaction closing date. The first installment was paid in June 2019, the second installment was paid in December 2019, and the last installment was paid in June 2020.
- (c) On April 3, 2019, Afya Brazil acquired 90% of FASA and R\$ 39,695 was paid in April 2020, R\$ 29,770 is payable in April 2021, and R\$ 29,770 is payable in April 2022; each adjusted by the IPCA rate + 4.1% per year.
- (d) On May 9, 2019, Afya Brazil acquired 100% of IPEMED and R\$ 45,303 is payable in five equal installments of R\$ 9,061, adjusted by the CDI rate, and due annually in February 2020, 2021, 2022, 2023 and 2024.
- (e) On August 13, 2019, Afya Brazil acquired 100% of IPEC and R\$54,000 was paid in cash on the transaction closing date, and (ii) R\$54,000 is payable in two equal installments, adjusted by the CDI rate, and due annually at the end of the first and the second year from the transaction closing date.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

- (f) On January 31, 2020, Afya Brazil acquired 100% of UniRedentor and R\$ 114,607 was paid in cash on the transaction closing date, and the original amount of R\$100,000 is payable in five equal installments from January 2021 through July 2024, adjusted by the CDI rate. The purchase consideration was adjusted by R\$4,503 and such amount will be deducted from the first installment due in January 2021.
- (g) On May 5, 2020, Afya Brazil acquired 100% of UniSL. The purchase consideration is R\$201,521, of which: R\$ 141,065 was paid in cash on the transaction closing date, and R\$ 60,456 is payable in three equal installments through May 2023, adjusted by the CDI rate. The purchase consideration was adjusted by R\$7,816 and such amount will be deducted from the first installment due in May 2021.
- (h) On November 9, 2020, Afya Brazil acquired 100% of FCMPB. The net purchase price of R\$379,913 was adjusted to R\$378,807, of which: R\$ 189,913 was paid in cash on the transaction closing date, and R\$ 188,894 is payable in four installments through November 2024, adjusted by the CDI rate.
- (i) On November 3, 2020, Afya Brazil acquired 100% of the share capital of FESAR. The aggregate purchase price was R\$260,836, including the CDI rate adjustment from the signing and the real state of the operation, estimated at R\$ 17,397, of which 100% was paid in cash on the closing of the operation. The purchase consideration was adjusted by R\$1,569 and was paid on February 25, 2021.
- (j) On November 4, 2020, Afya Brazil acquired 100% of the share capital of MedPhone. The net purchase price was R\$6,373 of which 100% was paid in cash on the closing of the operation. The purchase consideration was adjusted by R\$36 and was paid on February 2, 2021.

12.2.4 Notes payable

With the acquisition of UniSL, Afya Brazil assumed notes payable regarding the previous acquisition of a portion of the operations of Universidade Luterana do Brasil (ULBRA) by UniSL in auction by the end of 2018. Two of the UniSL campuses, located in the cities of Ji-Paraná and Porto Velho in the State of Rondônia, were acquired in such transaction. As at December 31, 2020, notes payable of R\$ 76,181, has a final maturity in 2023 and is adjusted by 100% of IPCA-E.

Set out below are the carrying amount of notes payable and the movements during the period:

	<u>Notes payable</u>
As at January 1, 2020	-
Business combination	80,526
Payments	(5,974)
Monetary indexation	1,629
As at December 31, 2020	<u>76,181</u>
Current liabilities	10,503
Non-current liabilities	65,678

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

12.3 Fair values

The table below is a comparison of the carrying amounts and fair values of the Company's financial instruments, other than those carrying amounts that are reasonable approximation of fair values:

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Restricted cash	2,053	2,053	16,841	16,841
Trade receivables (non-current)	7,627	7,627	9,801	9,801
Total	9,680	9,680	26,642	26,642
Financial liabilities				
Loans and financing	617,485	637,723	60,357	60,443
Lease liabilities	447,703	447,703	284,515	284,515
Accounts payable to selling shareholders	518,240	518,240	300,237	300,237
Notes payable	76,181	76,181	-	-
Derivatives	-	-	757	757
Total	1,659,609	1,679,847	645,866	645,952

The Company assessed that the fair values of cash and cash equivalents, restricted cash, trade receivables, other assets, trade payables, advances from customers and other liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Derivatives not designated as hedging instruments are recorded at fair value.

The fair value of interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk at December 31, 2020 was assessed to be insignificant.

12.4. Financial instruments risk management objectives and policies

The Company's principal financial liabilities, other than derivatives, comprise loans and financing, accounts payable to selling shareholders, trade payables and advances from customers. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include trade receivables, cash and cash equivalents and financial investments classified as restricted cash that derive directly from its operations. The Company has also entered into derivative transactions to protect its exposure to foreign currency risk.

The Company is exposed to market risk, credit risk and liquidity risk. The Company monitors market, credit and operational risks in line with the objectives in capital management and counts with the support, monitoring and oversight of the Board of Directors in decisions related to capital management and its alignment with the objectives and risks. The Company's policy is that no trading of derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

12.4.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's exposure to market risk is related to interest rate risk and foreign currency risk.

The sensitivity analysis in the following sections relate to the position as at December 31, 2020.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's cash equivalents and financial investments classified as restricted cash with floating interest rates and accounts payable to selling shareholders.

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the current interest rates on cash equivalents, restricted cash, loans and financing and derivatives and accounts payable to selling shareholders. With all variables held constant, the Company's income before income taxes is affected through the impact on floating interest rate, as follows:

	Balance as of 12/31/2020	Index – % per year	Base rate	Increase / decrease in basis points			
				+75	-75	+150	-150
Cash equivalents	916,790	90.95% CDI	15,843	6,876	(6,876)	13,752	(13,752)
Restricted cash	2,053	76.10% CDI	30	15	(15)	31	(31)
Loans and financing	(10,864)	TJLP p.y.	(494)	(81)	81	(163)	163
Loans and financing	(101,785)	1.65%+100 %CDI	(3,613)	(763)	763	(1,527)	1,527
Loans and financing	(504,365)	1.62%+CDI	(17,754)	(3,783)	3,783	(7,565)	7,565
Accounts payable to selling shareholders	(447,848)	CDI	(8,510)	(3,359)	3,359	(6,718)	6,718
Accounts payable to selling shareholders	(70,356)	IPCA+4.1%	(2,894)	(528)	528	(1,055)	1,055
Notes payable	(76,181)	IPCA	(1,028)	(571)	571	(1,143)	1,143

(ii) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates to cash and cash equivalents denominated in U.S. dollars in the amount of R\$70,523 as of December 31, 2020 (December 31, 2019: R\$2,529).

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

Foreign currency sensitivity

The following table demonstrates the sensitivity in the Company's income before income taxes of a 10% change in the U.S. dollar exchange rate (R\$5.1961 to U.S. dollar 1.00) as of December 31, 2020 and 2019, with all other variables held constant.

	Exposure	+10%	-10%
As of December 31, 2020			
Cash and cash equivalents	70,523	7,052	(7,052)

12.4.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including cash and cash equivalents and restricted cash.

Customer credit risk is managed by the Company based on the established policy, procedures and control relating to customer credit risk management. Outstanding customer receivables are regularly monitored. See Note 7 for additional information on the Company's trade receivables.

Credit risk from balances with banks and financial institutions is management by the Company's treasury department in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within limits assigned to each counterparty.

The Company's maximum exposure to credit risk for the components of the statement of financial position at December 31, 2020 and 2019 is the carrying amounts of its financial assets.

12.4.3 Liquidity risk

The Company's Management has responsibility for monitor liquidity risk. In order to achieve the Company's objective, Management regularly reviews the risk and maintains appropriate reserves, including bank credit facilities with first tier financial institutions. Management also continuously monitors projected and actual cash flows and the combination of the maturity profiles of the financial assets and liabilities.

The main requirements for financial resources used by the Company arise from the need to make payments for suppliers, operating expenses, labor and social obligations, loans and financing and accounts payable to selling shareholders.

The tables below summarize the maturity profile of the Company's financial liabilities based on contractual undiscounted amounts:

As of December 31, 2020	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Trade payables	35,743	-	-	-	35,743
Loans and financing	125,137	566,157	4,010	3,094	698,398
Lease liabilities	63,092	131,225	124,114	705,115	1,023,546
Accounts payable to selling shareholders	191,145	262,340	81,153	-	534,638
Notes payable	11,083	83,803	-	-	94,886
Advances from customers	63,839	-	-	-	63,839
	490,039	1,043,525	209,277	708,209	2,451,050

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

As of December 31, 2019	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Trade payables	17,628	-	-	-	17,628
Loans and financing	54,507	3,537	2,517	1,926	62,487
Lease liabilities	44,139	81,326	76,013	502,831	704,309
Accounts payable to selling shareholders	137,608	182,535	12,072	-	332,215
Advances from customers	36,860	-	-	-	36,860
Derivatives	757	-	-	-	757
	291,499	267,398	90,602	504,757	1,154,256

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

12.5 Changes In liabilities arising from financing activities

	January 1, 2020	Payments	Addition / Remeasurement	Interest	Foreign exchange movement	Business combination	Other	December 31, 2020
Loans and financing	60,357	(155,090)	605,041	10,031	21,279	75,815	52	617,485
Lease liabilities	284,515	(55,455)	98,904	44,458	-	76,855	(1,574)	447,703
Dividends payable	-	(12,984)	12,984	-	-	-	-	-
Total	344,872	(223,529)	716,929	54,489	21,279	152,670	(1,522)	1,065,188

	January 1, 2019	Payments	Addition / Remeasurement	Interest	Foreign exchange movement	Business combination	Other	December 31, 2019
Loans and financing	77,829	(75,093)	7,383	6,025	1,126	43,087	-	60,357
Lease liabilities	212,360	(39,779)	19,100	31,469	-	61,365	-	284,515
Dividends payable	4,107	(51,812)	51,812	-	-	-	(4,107)	-
Total	294,296	(166,684)	78,295	37,494	1,126	104,452	(4,107)	344,872

	January 1, 2018	Payments	Addition / Remeasurement	Interest	Foreign exchange movement	Business combination	Other	December 31, 2018
Loans and financing	3,823	(6,492)	74,980	2,821	2,697	-	-	77,829
Related parties	106	(106)	-	-	-	-	-	-
Dividends payable	14,888	(5,845)	-	-	-	-	(4,936)	4,107
Total	18,817	(12,443)	74,980	2,821	2,697	-	(4,936)	81,936

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

13 Fair value measurement

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities as of December 31, 2020 and 2019.

	Fair value measurement			
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	
December 31, 2020				
Assets for which fair values are disclosed				
Trade receivable (non-current)	7,627	-	7,627	-
Restricted Cash	2,053	-	2,053	-
Liabilities for which fair values are disclosed				
Loans and financing	(637,723)	-	(637,723)	-
Lease liabilities	(447,703)	-	(447,703)	-
Accounts payable to selling shareholders	(518,240)	-	(518,240)	-
Notes payable	(76,181)	-	(76,181)	-
December 31, 2019				
Liabilities measured at fair value:				
Derivative financial liabilities				
Cross-currency interest rate swaps	(757)	-	(757)	-
Assets for which fair values are disclosed				
Restricted cash	16,841	-	16,841	-
Trade receivable (non-current)	9,801	-	9,801	-
Liabilities for which fair values are disclosed				
Loans and financing	(60,443)	-	(60,443)	-
Lease liabilities	(284,515)	-	(284,515)	-
Accounts payable to selling shareholders	(300,237)	-	(300,237)	-

There were no transfers between Level 1 and Level 2 during 2020 and 2019.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

14 Capital management

For the purposes of the Company's capital management, capital considers total equity. The primary objective of the Company's capital management is to maximize the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and to maintain and adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using net debt and total equity. The Company includes within net debt, loans and financing less cash and cash equivalents and restricted cash.

	<u>2020</u>	<u>2019</u>
Loans and financing	617,485	60,357
Lease liabilities	447,703	284,515
Accounts payable to selling shareholders	518,240	300,237
Notes payable	76,181	-
Less: cash and cash equivalents	(1,045,042)	(943,209)
Less: restricted cash	(2,053)	(16,841)
Net debt	<u>612,514</u>	<u>(314,941)</u>
Total equity	<u>2,833,780</u>	<u>2,113,726</u>
Total equity and net debt	<u>3,446,294</u>	<u>1,798,785</u>

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2020 and 2019.

15 Labor and social obligations

a) Variable compensation (bonuses)

The Company recorded bonuses related to variable compensation of employees and management in cost of services and general and administrative expenses of R\$ 9,514, R\$ 6,871 and R\$1,945 for the years ended December 31, 2020, 2019 and 2018, respectively.

b) Share-based compensation plans

b.1) Share-based compensation plans exercised in 2019

The fair value of the stock options was estimated at the grant date using the Monte Carlo pricing model for Afya Brazil and Black & Scholes pricing model for the Guardaya's plan, taking into account the terms and conditions on which the stock options were granted. The exercise price of the stock options granted was monetarily adjusted by the CDI rate. The Company accounted for the stock options plan as an equity-settled plan.

The stock options granted in June 2018 had the following vesting periods after the grant date: 10% after 90 days, 15% after 12 months, 25% after 24 months, 25% after 36 months and 25% after 48 months.

The stock options granted in February 2019 had the following vesting periods after the grant date: 10% after 90 days, 15% after 15 months, 25% after 27 months, 25% after 39 months and 25% after 51 months.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

The Guardaya's stock options had the following vesting periods: 10% after 1 year, 15% after 2 years, 25% after 3 years and 50% after 4 years.

The stock options vest immediately at the following liquidity events: (i) an IPO, (ii) changes in the Company's control group; and (iii) sale of Crescera's interest on Afya Brazil. On July 18, 2019, Afya Limited completed its IPO and the stock options became vested.

The following table list the inputs to the model used to determine the fair value of the stock options:

	05/15/2018	02/07/2019	03/29/2019*
Weighted average fair value at the measurement date	R\$ 366.16	R\$ 529.12	R\$ 684.22
Dividend yield (%)	0.0%	0.0%	0.0%
Expected volatility (%)	49.5%	45.5%	43.7%
Risk-free interest rate (%)	7.7%	7.6%	7.2%
Expected life of stock options (years)	4.0	4.0	4.0
Weighted average share price	R\$254.13	R\$ 368.41	R\$ 213.35
Model used	Monte Carlo	Monte Carlo	Black & Scholes

*After the corporate reorganization described in Note 1, the options originally granted under the Guardaya's plan granted on August 10, 2018 were remeasured at fair value and included in Afya Brazil's plan with no changes to the previous terms and conditions other than the shares subject to such options granted and, consequently, the number of stock and exercise price of the shares as per the share exchange ratio applied on the corporate reorganization.

The stock options became vested immediately as a result of the IPO mentioned in Note 1 and was fully exercised on July 31, 2019 at Afya Limited. The share-based compensation expense recognized in general and administrative expenses in the statement of income for the year ended December 31, 2019 related to these stock option plans was R\$ 7,074 (R\$ 2,161 for the year ended December 31, 2018).

In September, 2019, as a result of the IPO mentioned in Note 1, the Company had a capital increase through the issuance of 1,842,428 Class A common shares in the amount of R\$ 17,627 related to the exercise of the stock options.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

The following table illustrates the number and movements in stock options during the periods:

	Number of stock options (i) – 2019	Number of stock options (i) – 2018
Outstanding at January 1	1,291,248	-
Granted	293,860	1,434,720
Forfeited	-	-
Addition of Guardaya's plan	257,320	-
Exercised	(1,842,428)	(143,472)
Expired	-	-
Outstanding at December 31	-	1,291,248

- (i) The number of common shares outstanding from Afya Brazil was retrospectively adjusted in the proportion of 1:28 due to the contribution of the shareholders of Afya Brazil into Afya in a one-to-28 exchange for the shares of Afya Brazil contributed to Afya, which did not result in changes on the arrangements of the plans.

b.2) Afya Limited share-based compensation plan

The stock options plan approved on August 30, 2019 as a result of the IPO will govern the issuance of equity incentive awards with respect to Company's Class A common shares. On September 2, 2019 and September 25, 2019, the Company granted 2,306,213 and 58,000 stock options, respectively. The fair value of the stock options was estimated at the grant date using the Binomial pricing model, taking into account the terms and conditions on which the stock options were granted. The Company accounts for the stock options plan as an equity-settled plan.

The stock options will vest in five installments of 20% per year, starting on May 1 of the year following the date of execution of the option agreement with each beneficiary.

On March 19, 2020, 230,000 additional stock options were granted, with an exercise price of US\$19.00 each. These stock options will vest in four annual installments, representing each, respectively, 25% of the total stock options granted to such option holder.

On July 29, 2020, the board of directors approved a change in the strike price of the current share-based compensation plan. The strike price is now measured in Brazilian Reais (where the Company's operations are located and valued) adjusted by CDI rate instead of U.S. dollar adjusted by T-Bond. Furthermore, the first tranche had its vesting period extended from May 2020 to May 2021, including one year lock-up period after the vesting period. This change was assessed as a modification by the Company and was accounted in accordance with IFRS 2.

As result, the expense related to the share-based payment of the Company reflects the cost of the original award at grant date over the vesting period plus the incremental fair value of the repriced options at modification date (R\$11.53 average per option, in Brazilian Reais) over the vesting period of the options.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

On August 17, 2020, 127,000 additional stock options were granted, with an exercise price of R\$74 and R\$122 (in Brazilian Reais). These stock options will vest in 3 to 5 annual installments.

On November 26, 2020, 115,000 additional stock options were granted, with an exercise price of R\$126 (in Brazilian Reais). These stock options will vest in 5 annual installments.

On December 16, 2020, 5,220 additional stock options were granted, with an exercise price of R\$97 (in Brazilian Reais). These stock options will vest in 1 annual installment.

The share-based compensation expense, including the incremental fair value as result of the modification, recognized in general and administrative expenses in the statement of income for the year ended December 31, 2020 was R\$ 32,610 (December 31, 2019: R\$ 11,040).

The following table illustrates the number and movements in stock options during the period:

	Weighted average exercise price (in Reais)	Number of stock options	
		2020	2019
Outstanding at January 1	74.53	2,364,214	-
Granted	94.55	477,220	2,364,214
Forfeited	74.57	(274,359)	-
Exercised	96.20	(56,092)	-
Expired		-	-
Outstanding at December 31	78.22	2,510,983	2,364,214

The following table list the inputs to the model used to determine the original fair value of the stock options granted in March 2020 and September 2019:

	March 2020	September 2019
Strike price at the measurement date	US\$ 19.00	US\$ 19.00
Dividend yield (%)	0.0%	0.0%
Expected volatility (%)	39.7%	38.9%
Risk-free interest rate (%)	0.8%	1.4%
Expected life of stock options (years)	4.0	5.0
Share price at the measurement date	US\$ 16.30	US\$ 21.90
Model used	Binomial	Binomial
Weighted average fair value at the measurement date	US\$ 3.94	US\$ 6.55

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

On July 29, 2020 the stock options plans granted in September 2019 and March 2020 was remeasured considering the new strike price in Brazilian Reais. The strike price was previously measured at US\$ 19.00 adjusted by T-Bond rates. The average incremental fair value, as result of the modification, was R\$ 15.94 per option. The following table list the inputs to the model used to determine the incremental fair value of the stock options as result of the modification:

	Modified plan	Original plan (*)
Strike price at the measurement date	R\$ 74.38	R\$ 99.09
Dividend yield (%)	0.0%	0.0%
Expected volatility (%)	41% - 76%	42% - 76%
Risk-free interest rate (%)	2.0% - 4.9%	0.2% - 0.4%
Expected life of stock options (years)	1 – 4	1 – 4
Share price at the measurement date	R\$ 133.68	R\$ 133.68
Model used	Binomial	Binomial
Weighted average fair value at the measurement date	R\$ 69.54	R\$ 57.12

(*) The strike price of the original plan was based in U.S. dollars.

The following table list the inputs to the model used to determine the fair value of the stock options granted on August 17, 2020, November 26, 2020 and December 16, 2020, which has been granted in line with the modified plan on July 29, 2020:

	August 2020	November 2020	December 2020
Strike price at the measurement date	R\$74 – R\$122	R\$126	R\$97
Dividend yield (%)	0.0%	0.0%	0.0%
Expected volatility (%)	41% - 75%	40% - 69%	69%
Risk-free interest rate (%)	2.2% - 6.1%	2.2% - 6.9%	0.9%
Expected life of stock options (years)	1 – 5	1 – 5	1
Share price at the measurement date	R\$ 136	145.15	R\$ 119.78
Model used	Binomial	Binomial	Binomial
Weighted average fair value at the measurement date	R\$ 67.12	R\$ 56.43	R\$ 40.38

16 Equity

a. Share capital

As of December 31, 2020, the Company's share capital was R\$ 17 (R\$ 17 as of December 31, 2019) comprised by 93,146,731 shares (45,112,416 class A common shares and 48,034,315 class B common shares) and 89,744,275 shares as of December 31, 2019 (31,814,690 class A common shares and 57,929,585 class B common shares).

In 2020, the Company issued 3,260,480 of the Class A common shares through the public equity offering, as described in Note 1. In addition, on July 20, 2020, the Company's additional paid in capital was increased by R\$17,531 in connection with issuance of 141,976 Class A common shares as described in Note 5.1(c).

b. Afya Brazil

Prior to the completion of Afya's IPO in July 2019, Afya Brazil was the predecessor of Afya. As such, the consolidated financial statements reflect the operating results of Afya Brazil prior to the reorganization. As of December 31, 2018, Afya Brazil's share capital was R\$ 315,000 represented by 1,443,541 shares, comprised of 1,411,895 common shares, 26,523 Class A preferred shares and 5,123 Class B preferred shares.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

Common shares were the only class of shares with voting rights.

Class A preferred shares had the following characteristics: (i) do not grant voting rights at the shareholders meetings; (ii) the right to receive an amount, as dividend, per share equal to 17.7 times the amount received per common share; and (iii) were convertible into common shares at the ratio of 1 preferred share for 17.7 common shares in the situations described in the Shareholders Agreement.

Class B preferred shares had no voting rights and had priority in capital reimbursement in case of liquidation of the Company, with no premium. Class B preferred shares were convertible into common shares at the ratio of 1 Class B preferred share for 1 common share, in certain situations.

On April 26, 2018, the shareholders approved a capital increase of (i) R\$55,000 through the issuance of 124,994 common shares; and (ii) R\$ 11,670 through the issuance of 26,523 Class A preferred shares.

On August 31, 2018, the Board of Directors approved a capital increase of R\$1,304 through the issuance of 5,123 Class B preferred shares.

On December 4, 2018, the shareholders approved a capital increase of R\$99,999 through the issuance of 137,298 common shares.

On December 31, 2018, the shareholders approved a capital increase of R\$ 80,541 with earnings reserves and retained earnings without an issuance of new shares.

On March 8, 2019, the shareholders of Afya Brazil approved a renounce of dividends for the year ended December 31, 2016 of R\$4,107; and an increase of capital through the issuance of 37,200 common shares, in the amount of R\$ 0.01, subscribed entirely by the shareholders BR Health and certain members of the Esteves Family.

On March 12, 2019, the shareholders of Afya Brazil approved amongst other matters: (i) the change in its legal name to Afya Participações S.A.; (ii) a capital increase through the issuance of 156,337 common shares, in the amount of R\$ 150,000, subscribed entirely by BR Health; and (iii) the propose to repurchase 160,000 common shares issued by the Company, at the acquisition price of R\$ 206.25 per share, in the total amount of R\$33,001, all held by the shareholder Nicolau Carvalho Esteves. The Company's common shares object of the repurchase approved were immediately canceled by the Company, without reduction of its share capital.

On March 29, 2019, Afya Brazil issued 378,696 common shares to the shareholders of BR Health and Guardaya, and had a capital increase of R\$ 122,062 and an additional paid-in capital of R\$ 137,051.

In June 2019, Afya Brazil's shareholders approved an increase of capital through the issuance of 157,202 common shares in exchange of the acquisitions of FASA, IESP and Univaço minority interests, in the total amount of R\$ 24,310.

On June 18, 2019, the shareholders of Afya Brazil approved an increase of capital through the issuance of 27,211 common shares in exchange of the acquisition of an addition 15% interest at UEPC, in the total amount of R\$ 24,458, subscribed entirely by the shareholder Bozano Educacional II Fundo de Investimento em Participações Multiestratégia.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

In addition to the capital increase related to the acquisition of the non-controlling interests of FASA, IESP and Univaço and the interest in UEPC, the Company had an additional paid-in capital of R\$ 36,358.

c. Dividends (Afya Brazil)

On March 8, 2019, the shareholders of Afya Brazil approved the cancellation of dividends for the year ended December 31, 2016 of R\$4,107.

On June 13, 2019, Afya Brazil approved the payment of interim dividends totaling R\$ 38,000 to Afya Brazil shareholders of record on June 13, 2019. The dividend amount was determined based on the Afya Brazil's net income for the five months ended May 31, 2019 and were paid on September 26, 2019. Afya and its public shareholders were not entitled to receive such dividends.

In 2020, CCSI and IESVAP approved the payment of interim dividends totaling R\$12,984 of which R\$8,392 and R\$4,592 was distributed to IESVAP and CCSI's non-controlling shareholders, respectively. The dividends were already paid.

d. Buy-back program

On December 23, 2020, the Company announced that its Board of Directors has approved a share buy-back program. Under the share buyback program, Afya may repurchase up to 1,015,844 of its outstanding Class A common shares in the open market, based on prevailing market prices, or in privately negotiated transactions, over a period beginning on December 24, 2020 continuing until the earlier of the completion of the repurchase or December 31, 2021, depending upon market conditions.

The share buy-back program will take place in accordance with the conditions established by the Board of Directors. Afya intends to repurchase the shares to execute the Stock Option Program for the executives of the Company. Afya's Board of Directors will review the share buy-back program periodically and may authorize adjustments to its terms and size or suspend or discontinue the program. Afya expects to utilize its existing funds to fund the repurchase of its shares. As of the issuance date of these financial statements and during the first months of 2021, the Company had repurchased 521,117 shares at the weighted average price of R\$ 124.15 (in Brazilian Reais) or US\$ 22.51.

17 Earnings per share (EPS)

Basic EPS is calculated by dividing net income attributable to the equity holders of the Company by the weighted average number of common and preferred shares outstanding during the year.

Diluted EPS is calculated by dividing net income attributable to the equity holders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all potential shares with dilutive effects.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

Diluted earnings per share are computed including stock options granted to key management using the treasury shares method when the effect is dilutive. The Company has the stock option plan in the category of potentially dilutive shares.

The following table reflects the net income and share data used in the basic and diluted EPS calculations:

	2020	2019	2018*
Numerator			
Net income attributable to equity holders of the parent	292,075	153,916	86,353
Denominator			
Weighted average number of outstanding shares	92,683,848	75,969,797	46,936,064
Effects of dilution from stock options	951,920	221,846	840,700
Weighted average number of outstanding shares adjusted for the effect of dilution	93,635,768	76,191,643	47,776,764
Basic earnings per share (R\$)	3.15	2.03	1.84
Diluted earnings per share (R\$)	3.12	2.02	1.81

* Considers the effects from the contribution of the shareholders of Afya Brazil into Afya in a one-to-28 exchange for the shares of Afya Brazil contributed to Afya.

18 Revenue

The Company's net revenue is as follows:

	2020	2019	2018
Tuition fees(*)	1,388,735	856,561	385,784
Other	99,817	43,116	4,414
Deductions			
Granted discounts	(89,017)	(43,767)	(11,104)
Early payment discounts	(29,299)	(8,523)	(3,189)
Returns	(11,437)	(7,462)	(1,801)
Taxes	(49,629)	(28,157)	(24,239)
PROUNI	(107,979)	(61,138)	(15,930)
Net revenue from contracts with customers	1,201,191	750,630	333,935
Timing of revenue recognition of net revenue from contracts with customers			
Tuition, digital content and app subscription fees -			
Transferred over time	1,128,558	713,827	331,045
Other - Transferred at a point in time	72,633	36,803	2,890

(*) As mentioned in Note 1, the Company assessed, in connection with the social distancing requirements, whether it has satisfied all performance obligations of its contracts with customers, according to IFRS15, and concluded it was necessary to defer a portion of its net revenues in the second semester of 2020. As result, R\$2,361 of net revenue were deferred to the first semester of 2021 and recorded in advances from customers.

The Company's revenues from contracts with customers are all in Brazil. The Company is not subject to the payment of the social integration program tax (Programa de Integração Social, or PIS) and the social contribution on revenues tax (Contribuição para o Financiamento da Seguridade Social, or COFINS) on the sale of undergraduation degrees under the PROUNI program.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

The following table presents statements of income for the Company's operating segments for the years ended December 31, 2020 and 2019:

Revenue by segment

Segments – December 31, 2020	Business Unit 1	Business Unit 2	Elimination (inter-segment transactions)	Total
Types of services or goods	1,002,461	200,349	(1,619)	1,201,191
Tuition fees	997,055	107,197	-	1,104,252
Other	5,406	93,152	(1,619)	96,939
Timing of revenue recognition	1,002,461	200,349	(1,619)	1,201,191
Transferred over time	997,055	131,503	-	1,128,558
Transferred at a point in time	5,406	68,846	(1,619)	72,633

Segments – December 31, 2019	Business Unit 1	Business Unit 2	Elimination (inter-segment transactions)	Total
Types of services or goods	653,760	100,750	(3,880)	750,630
Tuition fees	648,957	60,195	-	709,152
Other	4,803	40,555	(3,880)	41,478
Timing of revenue recognition	653,760	100,750	(3,880)	750,630
Transferred over time	648,957	64,870	-	713,827
Transferred at a point in time	4,803	35,880	(3,880)	36,803

19 Expenses and cost by nature

	2020	2019	2018
Cost of services	(434,654)	(308,853)	(168,052)
General and administrative expenses	(402,855)	(239,120)	(70,034)
Total	(837,509)	(547,973)	(238,086)
Payroll	(446,473)	(324,252)	(156,623)
Hospital and medical agreements	(37,988)	(16,429)	(10,209)
Depreciation and amortization	(108,744)	(73,152)	(9,078)
Rent	(2,555)	(4,494)	(20,302)
Commercial expenses	(1,488)	(1,363)	(362)
Utilities	(5,892)	(6,628)	(2,701)
Maintenance	(20,746)	(8,658)	(2,373)
Share-based compensation	(32,610)	(18,114)	(2,161)
Tax expenses	(5,326)	(2,696)	(828)
Pedagogical services	(24,037)	(6,271)	(4,212)
Sales and marketing	(16,873)	(11,603)	(3,532)
Allowance for doubtful accounts	(32,081)	(15,040)	(7,714)
Travel expenses	(4,550)	(7,054)	(1,816)
Consulting fees	(31,276)	(13,060)	(7,245)
Other	(66,870)	(39,159)	(8,930)
Total	(837,509)	(547,973)	(238,086)

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

20 Finance result

	2020	2019	2018
Income from financial investments	24,479	25,965	4,680
Changes in fair value of derivative instruments	20,739	-	1,219
Interest received	11,876	9,680	4,364
Foreign exchange differences	-	13,321	-
Other	5,196	2,723	165
Finance income	62,290	51,689	10,428
Change in fair value of derivative instruments	-	(1,780)	-
Interest expense	(25,543)	(24,002)	(2,404)
Interest expense on lease liabilities	(44,458)	(31,469)	-
Financial discounts granted	(8,081)	(923)	(1,063)
Bank fees	(6,333)	(2,876)	(1,219)
Foreign exchange differences	(4,613)	-	(2,697)
IOF taxes (taxes on financial transactions)	(1,661)	(6,801)	(355)
Other	(7,580)	(4,514)	(416)
Finance expenses	(98,269)	(72,365)	(8,154)
Finance result	(35,979)	(20,676)	2,274

21 Income taxes

Income taxes are comprised of taxation over operations in Brazil, related to Corporate Income Tax ("IRPJ") and Social Contribution on Net Profit ("CSLL"). According to Brazilian tax legislation, income taxes and social contribution are assessed and paid by legal entity and not on a consolidated basis.

Reconciliation of income taxes expense

The following is a reconciliation of income tax expense to profit (loss) for the year, calculated by applying the combined Brazilian statutory rates at 34% for the years ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
Income before income taxes	335,054	186,937	98,722
Combined statutory income taxes rate - %	34%	34%	34%
Income taxes at statutory rates	(113,918)	(63,559)	(33,565)
Reconciliation adjustments:			
Tax effect on loss from entities not subject to taxation	(8,474)	(1,265)	-
PROUNI - Fiscal Incentive (a)	120,851	73,397	30,564
Unrecognized deferred tax assets	(41,319)	(19,342)	-
Presumed profit income tax regime effect (b)	(2,640)	351	-
Permanent adjustments	2,567	-	-
Tax effect over pre-acquisition losses	13,893	-	-
Other	1,973	(3,757)	(987)
Income taxes expense – current	(27,067)	(14,175)	(3,988)
Effective rate	8.08%	7.58%	4.04%

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

- (a) The Company adhered to PROUNI, established by Law 11,096 / 2005, which is a federal program that exempt companies of paying income taxes and social contribution.
- (b) Brazilian tax law establishes that companies that generate gross revenues of up to R\$ 78,000 in the prior fiscal year may calculate income taxes as a percentage of gross revenue, using the presumed profit income tax regime. The Company adopted this tax regime and the effect of the presumed profit of subsidiaries represents the difference between the taxation based on this method and the amount that would be due based on the statutory rate applied to the taxable profit of the subsidiaries.

Deferred income taxes

As of December 31, 2020, the Company had unrecognized deferred income tax assets on temporary differences and tax losses in the amount of R\$ 214,387 (tax basis) (R\$ 96,627 (tax basis) as of December 31, 2019) which does not have any tax planning opportunities available that could support the recognition of these temporary differences as deferred tax assets. Accordingly, the Company did not recognize deferred tax assets.

22 Insurance contracts and contingencies

a) Insurance contracts

The Company and its subsidiaries have a risk management program with the purpose of delimiting the risks, seeking in the market coverage compatible with its size and operations.

b) Legal proceedings and contingencies

The provisions related to labor and civil proceedings whose likelihood of loss is assessed as probable are as follows:

	Labor	Civil	Taxes	Total
Balances as of December 31, 2017	297	1,423	-	1,720
Business combinations	2,089	-	-	2,089
Additions	13	-	-	13
Reversals	(166)	(191)	-	(357)
Balances as of December 31, 2018	2,233	1,232	-	3,465
Business combinations	3,301	1,071	-	4,372
Additions	737	1,508	-	2,245
Reversals	(3,770)	(1,043)	-	(4,813)
Balances as of December 31, 2019	2,501	2,768	-	5,269
Business combinations	2,741	2,348	27,487	32,576
Additions*	562	10,869	7,853	19,284
Reversals	(1,285)	(2,705)	-	(3,990)
Balances as of December 31, 2020	4,519	13,280	35,340	53,139

*The total amount of R\$ 9,940 are related to legal proceedings attributed to the selling shareholders administration. The same amount was recorded as indemnification assets in the balance sheet in other assets.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

There are other civil, labor, taxes and social security proceedings assessed by Management and its legal counsels as possible risk of loss, for which no provisions are recognized, as follows:

	<u>2020</u>	<u>2019</u>
Labor	2,318	3,570
Civil	59,969	39,135
Taxes and social security	4,375	7,583
Total	<u>66,662</u>	<u>50,288</u>

The Company has judicial deposits recorded in other assets (non-current) in the amount of R\$ 1,451 as of December 31, 2020 (R\$ 804 as of December 31, 2019).

Under the terms of the Share Purchase and Sale Agreements ("Agreements") between the Company and the selling shareholders of the subsidiaries acquired, the Company assesses that the selling shareholders are exclusively responsible for any provisions (including labor, tax and civil), which are or will be the subject of a claim by any third party, arising from the act or fact occurred, by action or omission, prior to or on the closing dates of the acquisitions.

Accordingly, and considering that the provisions for legal proceedings recorded by the Company that result from causes arising from events occurring prior to the closing dates of the acquisitions, any liability for the amounts to be disbursed, in case of their effective materialization in loss, belongs exclusively to the selling shareholders. In this context, the Agreements state that the Company and its subsidiaries are indemnified and therefore exempt from any liability related to said contingent liabilities and, therefore, the provision amounts related to such contingencies are presented in the non-current liabilities and the correspondent amount of R\$ 53,499 as of December 31, 2020 (December 31, 2019: R\$ 6,690) is presented in non-current other assets.

23 Non-cash transactions

During the years ended December 31, 2020, 2019 and 2018, the Company carried out non-cash transactions which are not reflected in the statements of cash flows. The main non-cash transactions were the business combinations of Guardaya in March 2019 and IPTAN and IESVAP in 2018, and issuance of shares for the acquisition of PEBMED in 2020; and additions and remeasurements of right-of-use assets and lease liabilities in 2020 and 2019.

24 Subsequent events

a) Acquisition of iClinic

On October 9, 2020, Afya Brazil entered into an agreement for the acquisition of 100% of the share capital of iClinic (comprised by iClinic Participações S.A., iClinic Desenvolvimento de Software Ltda. and Black River Brazil Participações S.A.). iClinic is a SaaS model physician focused technology company and the leading medical practice management software in Brazil. iClinic empower doctors to be more independent and have more control over their careers by digitalizing their daily routine, so they can increase their productivity and deliver better healthcare services. With the acquisition of iClinic to our platform Afya will make another step to become the one stop shop for physicians in Brazil.

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

The acquisition was concluded on January 21, 2021. The aggregate net purchase price is R\$182,656: (i) 61.5% is payable in cash, and (ii) 38.5% is payable with Afya's shares on the transaction closing date.

The acquisition date fair value of each major class of consideration, including the allocation of the purchase price has not been completed by the Company as of the issuance date of these financial statements. The impact on revenue and profit or loss of the combined entity for the current reporting period as if the acquisition date had been as of the beginning of the annual reporting period is not available as the Company did not conclude this acquisition by December 31, 2020. Therefore, these financial statements do not include this information. All the precedent conditions were satisfied and this acquisition was closed on January 21, 2021. The transaction costs to date amounted to R\$ 421. Any goodwill generated in the transaction is not expected to be deductible for tax purposes.

b) Acquisition of Medicinae

On March 25, 2021, Afya Brazil concluded the acquisition of 100% of the total share capital of Medicinae Solutions S.A., a leading Brazilian healthcare technology company that specializes in healthcare payments and financial services.

The acquisition will expand Afya's digital health services, as it offers a unique financial platform that allows healthcare professionals all over Brazil to manage receivables in an efficient and scalable way using FIDC (Receivables Investment Fund). Medicinae relieves a number of challenges in the healthcare payments industry, as reduces long payment cycles for professionals and consolidates financial information, improving the consumer financial experience.

The aggregate purchase price is R\$ 5,600 of which 100% was paid in cash on the transaction closing date. An earn-out of R\$ 4,400 is payable in connection with product development goals for 2021 and revenue achievements for 2022.

The acquisition date fair value of each major class of consideration, including the allocation of the purchase price has not been completed by the Company as of the issuance date of these financial statements. The impact on revenue and profit or loss of the combined entity for the current reporting period as if the acquisition date had been as of the beginning of the annual reporting period is not available as the Company did not conclude this acquisition by December 31, 2020. Therefore, these financial statements do not include this information. The transaction costs to date amounted to R\$ 169. Any goodwill generated in the transaction is not expected to be deductible for tax purposes.

c) Acquisition of Medical Harbour

On April 8, 2021, Afya Brazil acquired 100% of the total share capital of Medical Harbour Aparelhos Médico Hospitalares e Serviços em Tecnologia Ltda. through its wholly-owned subsidiary Afya Brazil.

Medical Harbour offers educational health and medical imaging solutions through an interactive platform for anatomical study, 3D virtual dissection and analysis of medical

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

images, which allow the exploration, and knowledge of human anatomy with digital resources.

The aggregate purchase price is R\$ 5,000 of which 100% was paid in cash on the transaction closing date. An earn-out of R\$ 9,000 is payable in connection with product development goals for 2021 and 2022 and revenue achievements for 2023.

The acquisition date fair value of each major class of consideration, including the allocation of the purchase price has not been completed by the Company as of the issuance date of these financial statements. The impact on revenue and profit or loss of the combined entity for the current reporting period as if the acquisition date had been as of the beginning of the annual reporting period is not available as the Company did not conclude this acquisition by December 31, 2020. Therefore, these financial statements do not include this information. The transaction costs to date amounted to R\$ 48. Any goodwill generated in the transaction is not expected to be deductible for tax purposes.

d) Acquisition of Cliquefarma

On April 16, 2021, Afya Brazil acquired 100% of the total share capital of Cliquefarma Drogarias Online Ltda., a healthtech company operating a free-to-use website that tracks prescription drugs, cosmetics and personal hygiene product prices in Brazil.

Users of Cliquefarma can easily search for medications or healthcare products and compare prices from over 5,000 pharmacies in Brazil. The traffic generated is monetized through a cost-per-click model, where drugstores pay for each click on their advertisements.

The aggregate purchase price is R\$ 19,165 of which R\$16,165 was paid in cash on the transaction closing date and R\$3,000 was paid in Afya's stocks. An earn-out of R\$ 3,000 is payable in connection with product developments for 2021.

The acquisition date fair value of each major class of consideration, including the allocation of the purchase price has not been completed by the Company as of the issuance date of these financial statements. The impact on revenue and profit or loss of the combined entity for the current reporting period as if the acquisition date had been as of the beginning of the annual reporting period is not available as the Company did not conclude this acquisition by December 31, 2020. Therefore, these financial statements do not include this information. The transaction costs to date amounted to R\$ 22. Any goodwill generated in the transaction is not expected to be deductible for tax purposes.

e) Investment from the SoftBank Latin America Fund

On April 26, 2021, SoftBank Latin America Fund ("SoftBank") agreed to purchase approximately R\$822,000, equivalent to US\$150,000, of Afya's Series A perpetual convertible preferred shares, subject to customary closing conditions.

The key terms of the perpetual convertible preferred shares are: (i) 6.5% per annum cumulative dividend payable quarterly and in Brazilian reais (payable in U.S. Dollar in

Afya Limited

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

Brazilian reais equivalent); (ii) SoftBank shall have the right at any time, to convert its Series A Preference Shares into 5,917,888 common shares, established at US\$25.35; (iii) SoftBank shall have the right to redeem any time after the 5th year anniversary at 105% premium; and (iv) Afya will have the right to force conversion after the 3rd year anniversary if forced conversion trigger conditions are satisfied.

SoftBank and its affiliates will beneficially own approximately 8.4% of the total shares of the company (on an as-converted basis for the Series A perpetual convertible preferred shares).

f) Share-based compensation

In January 2021, 545,000 additional stock options were granted, with an exercise price of R\$115 (in Brazilian Reais). These stock options will vest in five annual installments.

In March 2021, 65,000 additional stock options were granted, with an exercise price of R\$105 (in Brazilian Reais). These stock options will vest in five annual installments.

In April 2021, 139,000 additional stock options were granted, with an exercise price of R\$105 (in Brazilian Reais). These stock options will vest in five annual installments.
