Afya Limited

Consolidated financial statements
as of December 31, 2022 and 2021 and
for the years ended December 31, 2022, 2021 and 2020

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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, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board - IASB.

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.

	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 three entities during the year ended December 31, 2022 for a total

aggregated purchase consideration of R$99,399 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 and liabilities assumed for each one of those acquisitions, including acquired intangible assets.

Auditing the Company's accounting for such acquisitions was complex and involved a higher degree of subjective auditor judgement due to the underlying significant assumptions in the Company's determination of the fair value of identified intangible assets of R$64,349 thousand, which consisted mainly of customer relationships, trademark, educational content, developed technology and copyrights. 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 customer relationships, trademark, educational content, developed technology and copyrights. 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 prior 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 Ltda

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

Belo Horizonte, Brazil
March 20, 2023

Afya Limited

Consolidated statements of financial position
As of December 31, 2022 and 2021
(In thousands of Brazilian reais)

	Notes	2022	2021
Assets			
Current assets			
Cash and cash equivalents	6	1,093,082	748,562
Trade receivables	7	452,831	378,351
Inventories		12,190	11,827
Recoverable taxes		27,809	25,579
Other assets	9	51,745	42,533
Total current assets		**1,637,657**	**1,206,852**
Non-current assets			
Trade receivables	7	42,568	27,442
Other assets	9	191,756	180,306
Investment in associate	10	53,907	48,477
Property and equipment	11	542,087	419,808
Right-of-use assets	13.2.2	690,073	663,686
Intangible assets	12	4,041,491	3,900,835
Total non-current assets		**5,561,882**	**5,240,554**
Total assets		**7,199,539**	**6,447,406**
Liabilities			
Current liabilities			
Trade payables		71,482	59,098
Loans and financing	13.2.1	145,202	128,720
Lease liabilities	13.2.2	32,459	24,955
Accounts payable to selling shareholders	13.2.3	261,711	239,849
Notes payable	13.2.4	62,176	14,478
Advances from customers		133,050	114,585
Labor and social obligations		154,518	131,294
Taxes payable		26,221	26,715
Income taxes payable		16,151	11,649
Other liabilities		2,719	15,163
Total current liabilities		**905,689**	**766,506**
Non-current liabilities			
Loans and financing	13.2.1	1,737,699	1,246,156
Lease liabilities	13.2.2	737,066	689,130
Accounts payable to selling shareholders	13.2.3	266,967	439,977
Notes payable	13.2.4	-	58,248
Taxes payable		92,888	96,598
Provision for legal proceedings	23	195,854	148,287
Other liabilities		13,218	2,486
Total non-current liabilities		**3,043,692**	**2,680,882**
Total liabilities		**3,949,381**	**3,447,388**
Equity			
Share capital	17	17	17
Additional paid-in capital		2,375,344	2,375,344
Share-based compensation reserve		123,538	94,101
Treasury shares		(304,947)	(152,630)
Retained earnings		1,004,886	631,317
Equity attributable to equity holders of the parent		**3,198,838**	**2,948,149**
Non-controlling interests		51,320	51,869
Total equity		**3,250,158**	**3,000,018**
Total liabilities and equity		**7,199,539**	**6,447,406**

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, 2022, 2021 and 2020
(In thousands of Brazilian reais, except for earnings per share information)

	Notes	2022	2021	2020
Revenue	19	2,329,057	1,719,371	1,201,191
Cost of services	20	(859,552)	(652,300)	(434,654)
Gross profit		**1,469,505**	**1,067,071**	**766,537**
General and administrative expenses	20	(798,153)	(622,615)	(402,855)
Other expenses, net		(7,252)	(3,561)	(347)
Operating income		**664,100**	**440,895**	**363,335**
Finance income	21	102,042	64,566	62,290
Finance expenses	21	(349,893)	(243,796)	(98,269)
Finance result		(247,851)	(179,230)	(35,979)
Share of income of associate	10	12,184	11,797	7,698
Income before income taxes		**428,433**	**273,462**	**335,054**
Income taxes expenses	22	(35,677)	(31,179)	(27,067)
Net income		**392,756**	**242,283**	**307,987**
Other comprehensive income		-	-	-
Total comprehensive income		**392,756**	**242,283**	**307,987**
Income attributable to				
Equity holders of the parent		373,569	223,326	292,075
Non-controlling interests		19,187	18,957	15,912
		392,756	**242,283**	**307,987**
Basic earnings per share				
Per common share	18	4.14	2.39	3.15
Diluted earnings per share				
Per common share	18	4.12	2.37	3.12

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, 2022, 2021 and 2020
(In thousands of Brazilian reais)

	Equity attributable to equity holders of the parent							
	Share capital	Additional paid-in capital	Treasury shares	Share-based compensation reserve	Retained earnings	Total	Non-controlling interests	Total equity
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	-	17,531	-	-	-	17,531	-	17,531
Issuance of common shares in follow-on public offering	-	389,170	-	-	-	389,170	-	389,170
Shares issuance cost	-	(19,704)	-	-	-	(19,704)	-	(19,704)
Share-based compensation	-	5,444	-	32,610	-	38,054	-	38,054
Dividends declared	-	-	-	-	-	-	(12,984)	(12,984)
Balances at December 31, 2020	**17**	**2,323,488**	**-**	**50,724**	**407,991**	**2,782,220**	**51,560**	**2,833,780**
Net income	-	-	-	-	223,326	223,326	18,957	242,283
Total comprehensive income	-	-	-	-	223,326	223,326	18,957	242,283
Capital increase	-	74,500	-	-	-	74,500	-	74,500
Treasury shares	-	-	(213,722)	-	-	(213,722)	-	(213,722)
Treasury shares transferred from exercise of options	-	(21,861)	55,197	-	-	33,336	-	33,336
Treasury shares transferred from shares contribution on business combination	-	(783)	5,895	-	-	5,112	-	5,112
Share-based compensation	-	-	-	43,377	-	43,377	-	43,377
Dividends declared	-	-	-	-	-	-	(18,648)	(18,648)
Balances at December 31, 2021	**17**	**2,375,344**	**(152,630)**	**94,101**	**631,317**	**2,948,149**	**51,869**	**3,000,018**
Net income	-	-	-	-	373,569	373,569	19,187	392,756
Total comprehensive income	-	-	-	-	373,569	373,569	19,187	392,756
Treasury shares	-	-	(152,317)	-	-	(152,317)	-	(152,317)
Share-based compensation	-	-	-	29,437	-	29,437	-	29,437
Dividends declared	-	-	-	-	-	-	(19,736)	(19,736)
Balances at December 31, 2022	**17**	**2,375,344**	**(304,947)**	**123,538**	**1,004,886**	**3,198,838**	**51,320**	**3,250,158**

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, 2022, 2021 and 2020
(In thousands of Brazilian reais)

	Notes	2022	2021	2020
Operating activities				
Income before income taxes		428,433	273,462	335,054
Adjustments to reconcile income before income taxes				
Depreciation and amortization	20	206,220	154,220	108,744
Write-off of property and equipment		1,697	1,604	-
Write-off of intangible assets		25	2,374	-
Allowance for doubtful accounts	7	42,708	47,819	32,081
Share-based compensation expense	20	31,274	43,377	32,610
Net foreign exchange differences	21	852	17,973	4,613
Net loss (gain) on derivatives		-	-	(20,739)
Accrued interest	21	200,081	108,437	25,543
Interest on lease liability	13.2.2, 13,5, 21	88,571	67,212	44,458
Share of income of associate	10	(12,184)	(11,797)	(7,698)
Provision for legal proceedings		(766)	10,664	5,354
Changes in assets and liabilities				
Trade receivables		(129,165)	(79,665)	(164,286)
Inventories		(363)	(3,720)	(3,110)
Recoverable taxes		(2,230)	(2,327)	(13,709)
Other assets		(1,048)	(19,425)	(23,902)
Trade payables		9,975	14,479	4,475
Taxes payables		(3,915)	(14,902)	(552)
Advances from customers		8,387	36,009	(1,951)
Labor and social obligations		21,247	23,449	11,125
Other liabilities		(12,811)	(2,693)	22,771
		876,988	**666,550**	**390,881**
Income taxes paid		(33,089)	(35,683)	(19,374)
Net cash flows from operating activities		**843,899**	**630,867**	**371,507**
Investing activities				
Acquisition of property and equipment	11	(168,132)	(125,869)	(89,832)
Acquisition of intangibles assets		(128,892)	(150,931)	(47,753)
Dividends received	10	6,754	11,770	-
Acquisition of subsidiaries, net of cash acquired		(301,199)	(1,017,125)	(919,965)
Restricted cash		-	8,103	14,788
Net cash flows used in investing activities		**(591,469)**	**(1,274,052)**	**(1,042,762)**
Financing activities				
Payments of loans and financing	13.5	(118,378)	(158,076)	(155,090)
Issuance of loans and financing	13.5	496,885	809,539	605,041
Payments of lease liabilities	13.2.2, 13.5	(113,512)	(87,751)	(55,455)
Treasury shares	17	(152,317)	(213,722)	-
Capital increase		-	-	5,444
Proceeds from shares public offering		-	-	389,170
Share issuance costs		-	-	(19,704)
Proceeds from exercise of stock options		-	33,336	-
Dividends paid to non-controlling interests	13.5	(19,736)	(18,648)	(12,984)
Net cash flows from (used in) financing activities		**92,942**	**364,678**	**756,422**
Net foreign exchange differences	21	(852)	(17,973)	16,666
Net increase in cash and cash equivalents		**344,520**	**(296,480)**	**101,833**
Cash and cash equivalents at the beginning of the period	6	748,562	1,045,042	943,209
Cash and cash equivalents at the end of the period	6	1,093,082	748,562	1,045,042

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

1 Corporate information

Afya Limited ("Afya"), collectively with its subsidiaries referred to as 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 in July 2019. Up to that date, 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 reflects the operations of Afya Brazil after the corporate reorganization. The Company completed its initial public offering (IPO) on July 19, 2019, and its shares are listed on the Nasdaq under the symbol "AFYA."

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. In non-regulated education, Afya provides services that comprise the development and sale of electronically distributed educational courses on medicine science, related printed and soft skills educational content. The Company also offers solutions to empower the physicians in their daily routine including supporting clinic decisions through mobile app subscription, delivering practice management tools through a SaaS ("Software as a Service") model and supporting the patient-physician relationship.

On February 23, 2022, Afya announced that the Secretary of Regulation and Supervision of Higher Education of the Ministry of Education ("MEC") authorized the operations of the medical schools in Abaetetuba, in the State of Pará, and Itacoatiara, in the State of Amazonas, both under Mais Médicos II program. With the authorizations, Afya reaches its third and fourth authorized schools to start operating under the Mais Medicos II program. Each medical school will contribute with 50 seats.

On March 16, 2022, MEC authorized the operations of the medical schools in Bragança, in the State of Pará, and Manacapuru, in the State of Amazonas, both under Mais Médicos II program. With the authorizations, Afya reaches its fifth and sixth authorized schools to start operating under the Mais Medicos II program. Each medical school will contribute with 50 seats.

On March 18, 2022, Afya announced that MEC authorized the increase of 28 seats of Centro Universitário São Lucas, in Ji-Parana located in the state of Rondônia. The earn-out related to the seats approval is R$800 per seat, adjusted by the Interbank Certificates of Deposit ("CDI" or "CDI rate") rate from the closing until the payment date, of which: (i) 50% was paid in April 2022, and (ii) 50% is payable in cash in two equal installments through 2024.

On December 29, 2022, Afya announced that MEC authorized the increase of 64 medical seats of Faculdade Santo Agostinho, in the city of Itabuna, located in the state of Bahia. No additional commitment is required regarding this authorization.

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 share and gross proceeds of US$ 83,048 thousand (R$ 358,286). The Company received net proceeds of US$ 78,846 thousand (R$ 339,648), after deducting US$ 4,202 thousand (R$ 18,638) 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 US$ 6,615 thousand (R$ 30,884). The net proceeds from the additional shares were US$ 6,387 thousand (R$ 29,819), after deducting U$ 228 thousand (R$ 1,066) in underwriting discounts and commissions.

Afya transferred US$ 68,060 thousand (R$ 294,312) 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 denominated in Brazilian reais.

Bertelsmann Increases Stake in Afya

On May 5, 2022, Afya was notified of the closing of the transaction where Bertelsmann SE& Co. KGaA, or "Bertelsmann" acquired 6,000,000 Class B common shares of Afya at the purchase price of US$26.90 per share, from Nicolau Carvalho Esteves, Rosângela de Oliveira Tavares Esteves and NRE Capital Ventures Ltd (together with Nicolau Carvalho Esteves and Rosângela de Oliveira Tavares Esteves, the "Esteves Family"). As a result of the closing of the transaction, Bertelsmann and the Esteves family will beneficially own ~57.5% and ~33.0% voting interest, and ~31.0% and ~18.0% of the total shares, respectively, in Afya. The transaction has no effect on Afya's Consolidated financial statements.

Acquisitions in 2022

(i) On March 4, 2022, Afya Brazil acquired BMV Atividades Médicas Ltda. ("Além da Medicina"). Além da Medicina is a medical content online platform for physicians and medical students that provides educational tools besides technical medical content that can assist them throughout their careers. Its contents include mentoring for residency, soft skills and finance, accounting, and investment basics for physicians. See Note 5.

(ii) On April 5, 2022, Afya Brazil acquired Cardiopapers Soluções Digitais Ltda. ("CardioPapers"). CardioPapers is the main medical content and education platform in the Cardiology field, offering courses and books developed by physicians and for physicians, covering all phases of the medical career, aligned with Afya's overall business strategy. See Note 5.

(iii) On May 23, 2022, Afya Brazil acquired Quasar Telemedicina Desenvolvimento de Sistemas Computacionais Ltda. ("Glic"). Glic is a free diabetes care and management app solution for physicians and patients that uses technology to improve diabetes education and daily routine practices, connecting users, devices and healthcare providers. See Note 5.

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. By the date of issuance of these financial statements all of the lockdown restrictions have been revoked by Brazilian authorities in our campus locations and the Company has also successfully retaken all of its face to face operations.

During 2020, some of the Brazilian states issued decrees granting discounts to our students because of COVID-19. These mandatory discounts have been suspended as their constitutionality has been challenged in the superior courts.

On November 18, 2021, the Brazilian Federal Court of Justice (STF) decided, by a majority of votes, that any lawsuit with decisions to apply linear discounts in monthly tuition fees for private universities with respect to the COVID-19 pandemic are unconstitutional. Therefore, the Company shall not apply linear discounts on any active monthly tuition fees that are related to the effects of the Covid-19 pandemic. Regarding the discounts granted by the date of issuance of these financial statements, the Company is charging back the students as final legal decisions were given by the Brazilian Federal Court of Justice.

For the year ended December 31, 2022, the Company has invoiced R$9,926 from previous periods, net of discounts granted due to COVID-19 and net of provisions, being the amount substantially arising from its subsidiary FCMPB, following a lower court decision that suspended the granted discounts in favor of the Company but with restrictions on the collection in such invoices (R$ 33,081 discounts granted, net of discounts recovered, for the year ended December 31, 2021). The outstanding balances are classified as accounts receivables.

Conflict between Russia and Ukraine.

As a result of the current geopolitical tensions and conflict between Russia and Ukraine, and the recent recognition by Russia of the independence of the self-proclaimed republics of Donetsk and Luhansk in the Donbas region of Ukraine, the governments of the United States, the European Union, Japan and other jurisdictions have recently announced the imposition of sanctions on certain industry sectors and parties in Russia, Belarus and the regions of Donetsk and Luhansk, as well as enhanced export controls on certain products and industries. These and any additional sanctions and export controls, as well as any counter responses by the governments of Russia or other jurisdictions, could adversely affect, directly or indirectly, the global supply chain, with negative implications on the availability of raw materials, energy prices, and our customers, as well as the local and global financial markets and financial services industry and the global economy in general.

As of the date of these financial statements, the conflict between Russia and Ukraine has not brought significant impact over Afya’s operations and results

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 and contingent consideration (earn-outs) that have been measured at fair value.

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, 2022 were authorized for issue by the Board of Directors on March 20, 2023.

Expressed in thousands of Brazilian reais, unless otherwise stated

2.2 Basis consolidation

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

Name	Principal activities	Location	Investment type	Direct and indirect interest December 31, 2022	Direct and indirect interest December 31, 2021
Afya Participações S.A. ("Afya Brazil")	Holding	Nova Lima - MG	Subsidiary	100%	100%
Instituto Tocantinense Presidente Antônio Carlos Porto S.A. – ("ITPAC Porto")	Undergraduate degree programs	Porto Nacional - TO	Subsidiary	100%	100%
Instituto Tocantinense Presidente Antônio Carlos S.A. – ("ITPAC Araguaina")	Undergraduate degree programs	Araguaína - TO	Subsidiary	100%	100%
União Educacional do Vale do Aço S.A. – ("UNIVAÇO")	Medicine undergraduate degree program	Ipatinga - MG	Subsidiary	100%	100%
IPTAN - Instituto de Ensino Superior Presidente Tancredo de Almeida Neves S.A. ("IPTAN")	Undergraduate degree programs	São João Del Rei - MG	Subsidiary	100%	100%
Instituto de Educação Superior do Vale do Parnaíba S.A. ("IESVAP")	Undergraduate degree programs	Parnaíba - PI	Subsidiary	80%	80%
Centro de Ciências em Saúde de Itajubá S.A. ("CCSI")	Medicine undergraduate degree program	Itajubá - MG	Subsidiary	60%	60%
Instituto de Ensino Superior do Piauí S.A. ("IESP")	Undergraduate and graduate degree programs	Teresina - PI	Subsidiary	100%	100%
Centro Integrado de Saúde de Teresina ("CIS")	Outpatient care	Teresina - PI	Subsidiary	100%	100%
FADEP - Faculdade Educacional de Pato Branco Ltda. ("FADEP")	Undergraduate degree programs	Pato Branco - PR	Subsidiary	100%	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 degree programs	Montes Claros - MG	Subsidiary	100%	100%
ESMC Educação Superior Ltda. ("ESMC")	Undergraduate degree programs	Montes Claros - MG	Subsidiary	100%	100%
Instituto de Pesquisa e Ensino Médico do Estado de Minas Gerais Ltda. ("IPEMED")	Graduate	Belo Horizonte - MG	Subsidiary	100%	100%
Instituto Paraense de Educação e Cultura Ltda ("IPEC")	Medicine degree programs	Marabá - PA	Subsidiary	100%	100%
Sociedade Universitária Redentor S.A. ("UniRedentor")	Undergraduate and graduate degree programs	Itaperuna - RJ	Subsidiary	100%	100%
Centro Universitário São Lucas Ltda. ("UniSL")	Undergraduate degree programs	Porto Velho - RO	Subsidiary	100%	100%
Peb Med Instituição de Pesquisa Médica e Serviços Ltda ("PebMed")	Content and clinical tools and online platform	Rio de Janeiro - RJ	Subsidiary	100%	100%
Faculdade de Ensino Superior da Amazônia Reunida – ("FESAR")	Undergraduate degree programs	Redenção – PA	Subsidiary	100%	100%
Centro Superior de Ciências da Saúde S/S Ltda. ("FCMPB")	Medicine degree programs	João Pessoa – PB	Subsidiary	100%	100%
MedPhone Tecnologia em Saúde Ltda. ("MedPhone") **	Content and clinical tools and online platform	Recife – PE	Subsidiary	-	100%
iClinic Desenvolvimento de Software Ltda ("iClinic")	Electronic Medical Record, Clinical Management System	Ribeirão Preto - SP	Subsidiary	100%	100%
Medicinae Solutions S.A. ("Medicinae")	Healthcare payments and financial services	Rio de Janeiro – RJ	Subsidiary	100%	100%
Medical Harbour Aparelhos Médico Hospitalares e Serviços em Tecnologia Ltda. ("Medical Harbour")	Educational health and medical imaging	Florianópolis – SC	Subsidiary	100%	100%
Cliquefarma Drogarias Online Ltda.("Cliquefarma")	Online platform	São Paulo – SP	Subsidiary	100%	100%
Shosp Tecnologia da Informação Ltda. ("Shosp")	Electronic Medical Record, Clinical Management System	Rio de Janeiro – RJ	Subsidiary	100%	100%
Sociedade Padrão de Educação Superior Ltda. ("UnifipMoc")	Undergraduate degree programs	Montes Claros - MG	Subsidiary	100%	100%
Nucleo de Atenção à Saúde e de Práticas Profissionalizantes ("NASPP)	Outpatient care	Montes Claros - MG	Subsidiary	100%	100%
Companhia Nilza Cordeiro Herdy de Educação e Cultura. ("Unigranrio")	Undergraduate and graduate degree programs	Duque de Caxias - RJ	Subsidiary	100%	100%
Policlínica e Centro de Estética Duque de Caxias Ltda. ("Policlínica")	Outpatient care	Duque de Caxias - RJ	Subsidiary	100%	100%
Sociedade Educacional de Palhoça S/A Ltda. ("SOCIESP")	Basic Education	Palhoça - SC	Subsidiary	100%	100%
Instituto de Ensino Superior de Palhoça S/S Ltda. ("IESP PALHOÇA")	Undergraduate degree programs	Palhoça - SC	Subsidiary	100%	100%
RX PRO Soluções de Tecnologia Ltda. ("RX PRO")	Marketing for pharmaceutical industry	São Paulo – SP	Subsidiary	100%	100%
RX PRO LOG Transporte e Logística Ltda. ("RX PRO LOG")	Marketing for pharmaceutical industry	São Paulo – SP	Subsidiary	100%	100%
BMV Atividades Médicas Ltda. ("Além da Medicina") *	Medical education content	São Paulo – SP	Subsidiary	100%	-
Cardiopapers Soluções Digitais Ltda ("CardioPapers") *	Medical education content	Recife – PE	Subsidiary	100%	-
Quasar Telemedicina Desenvolvimento de Sistemas Computacionais Ltda. ("Glic") *	Patient physician relationship	Barueri – SP	Subsidiary	100%	-
União Educacional do Planalto Central S.A. ("UEPC")	Undergraduate degree programs	Brasília - DF	Associate	30%	30%

* See Note 5 for further details of the business combinations during 2022.
** Medphone was merged by Afya Participações in October 2022.

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.

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.

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.

c) Fair value measurement

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.

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 are no financial assets designated as fair value through OCI.

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 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 considering 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.

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, notes payable, lease liabilities, advances from costumers 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, when applicable, 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 considering 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.

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) 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.

f) 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.

g) 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.

h) 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	5 - 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.

i) Leases

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.

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.

j) 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.

k) 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 considered. 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, except for digital services segment, which combines subsidiaries of (i) “Content & Technology for medical education”; (ii) “Clinical Decision Software”; and (iii) “Practice Management Tools & Electronic Prescription”, where the subsidiaries were combined as one CGU following the business strategic pillars.

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 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.

l) 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.

m) 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.

n) 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.

o) 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.

p) 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.

q) Share-based payments

Certain key executives of the Company receive remuneration in the form of share-based payments, which includes Stock Options and Restricted Stock Units (“RSUs”), 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 considered 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.

r) Revenue from contracts with customers

Revenue recognition transferred over time

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

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

Revenue from tuitions, digital education content and electronic medical records 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.

Revenue recognition transferred at point in time

Revenue from sale of printed books, e-books, healthcare payments, online platforms and marketing for pharmaceutical industry 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.

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.

s) Taxes

The Company's subsidiaries in the undergrad segment 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.

t) Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in the share premium.

2.4 Changes in accounting policies and disclosures

New standards, interpretations and amendments adopted by the Company

The following amendments apply for the first time in 2022, but there are no significant impacts on the financial statements of the Company:

Expressed in thousands of Brazilian reais, unless otherwise stated

Amendments / standards	Description	Period First adopted	Impact
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	Specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.	1 January 2022	These amendments have no significant impact on the Company's consolidated financial statements.
Reference to the Conceptual Framework – Amendments to IFRS 3	The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.	1 January 2022	These amendments had no impact on the Company's consolidated financial statements.
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases	The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.	1 January 2022	These amendments had no impact on the Company's consolidated financial statements.

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are presented below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments / standards	Description	Period First adopted	Impact
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	The amendments clarify: i) what is meant by a right to defer settlement; ii) that a right to defer must exist at the end of the reporting period; iii) that classification is unaffected by the likelihood that an entity will exercise its deferral right; iv) that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification The amendments must be applied retrospectively.	1 January 2023	These amendments are not expected to have a significant impact on the Company's financial statements.
Definition of Accounting Estimates - Amendments to IAS 8	The IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments when effective apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.	1 January 2023	These amendments are not expected to have a significant impact on the Company's financial statements.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	The IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.	1 January 2023	These amendments are not expected to have a significant impact on the Company's financial statements.
Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12	The Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.	1 January 2023	These amendments are not expected to have a significant impact on the Company's financial statements.

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:

- Financial instruments risk management objectives and policies – Note 13.4
- Sensitivity analyses disclosures – Note 13.4.1

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 when they occur.

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 12.

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. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 16 (b).

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).

Expressed in thousands of Brazilian reais, unless otherwise stated

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

The Company has three reportable segments as follows:

• Undergrad, which provides educational services through undergraduate courses related to medicine, other health sciences and other undergraduate programs;

• Continuing Education, which provides specialization programs and graduate courses in medicine; and

• Digital Services, which provides content and technology for medical education, clinical decisions software, practice management tools (that encompass electronic medical records, telemedicine and digital prescription for physicians), doctor-patient relationship and provides access, demand and efficiency for the healthcare players.

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.

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.
The following tables presents assets and liabilities information for the Company’s operating segments as of December 31, 2022 and December 31, 2021, respectively:

	Undergrad	Continuing Education	Digital Services	Total reportable segments	Adjustments and eliminations	Total
As of December 31, 2022						
Total assets	**6,775,829**	**149,254**	**275,564**	**7,200,647**	**(1,108)**	**7,199,539**
Current assets	1,461,802	61,673	115,290	1,638,765	(1,108)	1,637,657
Non-current assets	5,314,027	87,581	160,274	5,561,882	-	5,561,882
Total liabilities and equity	**6,775,829**	**149,254**	**275,564**	**7,200,647**	**(1,108)**	**7,199,539**
Current liabilities	711,896	57,605	137,296	906,797	(1,108)	905,689
Non-current liabilities	2,938,960	63,990	40,742	3,043,692	-	3,043,692
Equity	3,124,973	27,659	97,526	3,250,158	-	3,250,158

	Undergrad	Continuing Education	Digital Services	Total reportable segments	Adjustments and eliminations	Total
As of December 31, 2022						
Other disclosures						
Investments in associate	53,907	-	-	53,907	-	53,907
Capital expenditures (*)	247,634	8,827	61,694	318,155	-	318,155

(*) Some of the capital expenditures are considered non-cash transactions (refer to note 24).

Undergrad	Continuing Education	Digital Services	Total reportable segments	Adjustments and eliminations	Total

As of December 31, 2021						
Total assets	**6,072,135**	**105,629**	**272,122**	**6,449,886**	**(2,480)**	**6,447,406**
Current assets	1,048,869	42,737	117,726	1,209,332	(2,480)	1,206,852
Non-current assets	5,023,266	62,892	154,396	5,240,554	-	5,240,554
Total liabilities and equity	**6,072,135**	**105,629**	**272,122**	**6,449,886**	**(2,480)**	**6,447,406**
Current liabilities	645,657	32,300	91,029	768,986	(2,480)	766,506
Non-current liabilities	2,551,175	47,705	82,002	2,680,882	-	2,680,882
Equity	2,875,303	25,624	99,091	3,000,018	-	3,000,018

	Undergrad	**Continuing Education**	**Digital Services**	**Total reportable segments**	**Adjustments and eliminations**	**Total**
As of December 31, 2021						
Other disclosures						
Investments in associate	48,477	-	-	48,477	-	48,477
As of December 31, 2021						
Capital expenditures (*)	220,202	25,682	56,095	301,979	-	301,979

(*) Some of the capital expenditures are considered non-cash transactions (refer to note 24).

The following tables present the statements of income for the Company's operating segments for the years ended December 31, 2022, 2021 and 2020:

	December 31, 2022					
	Undergrad	**Continuing Education**	**Digital Services**	**Total reportable segments**	**Elimination (inter-segment transactions)**	**Total**
External customer	2,037,889	108,806	182,362	2,329,057	-	2,329,057
Inter-segment	-	-	7,622	7,622	(7,622)	-
Revenue	**2,037,889**	**108,806**	**189,984**	**2,336,679**	**(7,622)**	**2,329,057**
Cost of services	(763,185)	(56,554)	(47,435)	(867,174)	7,622	(859,552)
Gross profit	**1,274,704**	**52,252**	**142,549**	**1,469,505**	**-**	**1,469,505**
General and administrative expenses						(798,153)
Other expenses, net						(7,252)
Operating income						**664,100**
Finance income						102,042
Finance expenses						(349,893)
Share of income of associate						12,184
Income before income taxes						**428,433**
Income taxes expenses						(35,677)
Net income						**392,756**

	December 31, 2021					
	Undergrad	**Continuing Education**	**Digital Services**	**Total reportable segments**	**Elimination (inter-segment transactions)**	**Total**
External customer	1,498,408	72,983	147,980	1,719,371	-	1,719,371
Inter-segment	-	-	3,978	3,978	(3,978)	-
Revenue	**1,498,408**	**72,983**	**151,958**	**1,723,349**	**(3,978)**	**1,719,371**
Cost of services	(554,995)	(50,773)	(50,510)	(656,278)	3,978	(652,300)
Gross profit	**943,413**	**22,210**	**101,448**	**1,067,071**	**-**	**1,067,071**
General and administrative expenses	-	-	-	-	-	(622,615)
Other expenses, net	-	-	-	-	-	(3,561)
Operating income	**-**	**-**	**-**	**-**	**-**	**440,895**
Finance income	-	-	-	-	-	64,566
Finance expenses	-	-	-	-	-	(243,796)
Share of income of associate	-	-	-	-	-	11,797
Income before income taxes	**-**	**-**	**-**	**-**	**-**	**273,462**
Income taxes expenses	-	-	-	-	-	(31,179)
Net income	**-**	**-**	**-**	**-**	**-**	**242,283**

December 31, 2020

Expressed in thousands of Brazilian reais, unless otherwise stated

	Undergrad	Continuing Education	Digital Services	Total reportable segments	Elimination (inter-segment transactions)	Total
External customer	1,002,461	107,197	91,533	1,201,191	-	1,201,191
Inter-segment	-	-	1,619	1,619	(1,619)	-
Revenue	**1,002,461**	**107,197**	**93,152**	**1,202,810**	**(1,619)**	**1,201,191**
Cost of services	(381,964)	(40,000)	(14,309)	(436,273)	1,619	(434,654)
Gross profit	**620,497**	**67,197**	**78,843**	**766,537**	**-**	**766,537**
General and administrative expenses	-	-	-	-	-	(402,855)
Other expenses, net	-	-	-	-	-	(347)
Operating income	**-**	**-**	**-**	**-**	**-**	**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 expenses	-	-	-	-	-	(27,067)
Net income	**-**	**-**	**-**	**-**	**-**	**307,987**

Seasonality of operations

Undergrad’s tuition revenues are related to the enrollment process and monthly tuition fees charged to students over the period; thus, does not have significant fluctuations during the semester. Continuing Education revenues are related to monthly intake and tuition fees and do not have a considerable concentration in any period. Digital Services is comprised mainly of Medcel, Pebmed, and iClinic revenues. While Pebmed and iClinic do not have significant fluctuation regarding seasonality, Medcel’s revenue is concentrated in the first and last quarter of the year due to the enrollments of Medcel’s clients’ period. In addition, the majority of Medcel’s revenues are derived from printed books and e-books, which are recognized at the point in time when control is transferred to the customer. Consequently, the Digital Services segment generally has higher revenues and results of operations in the first and last quarters of the year than in the second and third quarters.

5 Business combinations

Expressed in thousands of Brazilian reais, unless otherwise stated

5.1 Acquisitions in 2022

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

Assets	**Além da Medicina**	**CardioPapers**	**Glic**
Cash and cash and equivalents	298	3,648	151
Trade receivables	1,705	1,350	94
Other assets	266	1	36
Property and equipment	37	43	-
Intangible assets	20,299	28,655	15,395
	22,605	**33,697**	**15,676**
Liabilities			
Trade payables	705	1,703	1
Labor and social obligations	79	60	-
Taxes and contributions payable	1,182	352	91
Advances from customers	6,185	3,893	-
Other liabilities	-	-	574
	8,151	**6,008**	**666**
Total identifiable net assets at fair value	**14,454**	**27,689**	**15,010**
Goodwill arising on acquisition	12,335	14,324	15,587
Purchase consideration transferred	**26,789**	**42,013**	**30,597**
Cash paid	14,952	34,924	21,602
Contingent consideration	11,074	7,422	8,995
Consideration to be transferred (Price adjustment)	763	(333)	-
Analysis of cash flows on acquisition:			
Transaction costs of the acquisition (included in cash flows from operating activities)	227	274	222
Cash paid net of cash acquired with the subsidiary (included in cash flows from investing activities)	14,654	31,276	21,451
Net of cash flow on acquisition	**14,881**	**31,550**	**21,673**

(a) Acquisition of Além da Medicina

On March 4, 2022, Afya Brazil acquired 100% of the share capital of BMV Atividades Médicas Ltda. (“Além da Medicina”). The aggregate purchase price of R$26,789 is comprised by: i) R$14,952 paid in cash on the transaction closing date; ii) an earn-out (“contingent consideration”) of up of R$ 19,200 is payable in connection with revenue target achievements for 2023 and 2024; and iii) price adjustment related to net debt of R$763 in favor of selling shareholders. The contingent consideration of R$11,074 is based on the present value of the obligation considering the facts and circumstances at the acquisition date. See Note 13.2.3 for further details of the earn-out amounts as of December 31, 2022.

Além da Medicina is a medical content online platform for physicians and medical students that provides educational tools besides technical medical content that can assist them throughout their careers. Its contents include mentoring for residency, soft skills and finance, accounting, and investment basics for physicians.

The acquisition of Além da Medicina was accounted for under IFRS 3 – Business Combinations.

Transaction costs to date amount to R$227 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 goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Digital Services segment. The goodwill recognized is not expected to be deductible for income taxes purposes.

Expressed in thousands of Brazilian reais, unless otherwise stated

The Company did not recognize deferred taxes related to the business combination because the tax basis and the accounting basis, including fair value adjustments, were the same at the date of the business combination.

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.
Educational content	**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.
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, Além da Medicina has contributed R$12,859 of revenue and R$1,448 of income before income taxes to the Company. Should the acquisition had taken place at the beginning of the period, revenue for the period ended December 31, 2022 would have been increased by R$2,529 and income before income taxes would have been increased by R$867.

(b) Acquisition of CardioPapers

On April 5, 2022, Afya Brazil acquired 100% of the share capital of Cardiopapers Soluções Digitais Ltda. (“CardioPapers”). The aggregate purchase price of R$42,013 is comprised by: i) R$34,924 paid in cash on the transaction closing date; ii) an earn-out (“contingent consideration”) of up of R$15,000 is payable in connection with revenue target achievements for 2023 and 2024 and other goals; and iii) price adjustment related to net debt of R$333 in favor of Afya Brazil. The contingent consideration of R$7,422 is based on the present value of the obligation considering the facts and circumstances at the acquisition date. See Note 13.2.3 for further details of the earn-out amounts as of December 31, 2022.

CardioPapers is the main medical content and education platform in the Cardiology field, offering courses and books developed by physicians and for physicians, covering all phases of the medical career, aligned with Afya's overall business strategy.

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

Expressed in thousands of Brazilian reais, unless otherwise stated

Transaction costs to date amount to R$274 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 goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Digital Services segment. The goodwill recognized is not expected to be deductible for income taxes purposes.

The Company did not recognize deferred taxes related to the business combination because the tax basis and the accounting basis, including fair value adjustments, were the same at the date of the business combination.

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.
Educational content	**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.
Copyrights	**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.

From the date of acquisition, CardioPapers has contributed R$9,934 of revenue and R$2,352 of income before income taxes to the Company. Should the acquisition had taken place at the beginning of the period, revenue for the period ended December 31, 2022 would have been increased by R$2,117 and income before income taxes would have been decreased by R$2,041.

(c) Acquisition of Glic

On May 23, 2022, Afya Brazil acquired 100% of the share capital of Quasar Telemedicina Desenvolvimento de Sistemas Computacionais Ltda. (“Glic”). The aggregate purchase price of R$30,597 is comprised by: i) R$21,602 paid in cash on the transaction closing date and ii) an earn-out (“contingent consideration”) of up of R$12,000 is payable in connection with revenue target achievements for 2023 and 2024 and product development goals. The contingent consideration of R$8,995 is based on the present value of the obligation considering the facts and circumstances at the acquisition date. See Note 13.2.3 for further details of the earn-out amounts as of December 31, 2022.

Expressed in thousands of Brazilian reais, unless otherwise stated

Glic is a free diabetes care and management app solution for physicians and patients that uses technology to improve diabetes education and daily routine practices, connecting users, devices and healthcare providers.

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

Transaction costs to date amount to R$222 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 goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Digital Services segment. The goodwill recognized is not expected to be deductible for income taxes purposes.
The Company did not recognize deferred taxes related to the business combination because the tax basis and the accounting basis, including fair value adjustments, were the same at the date of the business combination.

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, Glic has contributed R$389 of revenue and R$1,539 of losses before income taxes to the Company. Should the acquisition had taken place at the beginning of the period, revenue for the period ended December 31, 2022 would have been increased by R$173 and income before income taxes would have been decreased by R$700.

Expressed in thousands of Brazilian reais, unless otherwise stated

5.2 Acquisitions in 2021

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

Assets	**iClinic**	**Medicinae**	**Medical Harbour**	**Cliquefarma**	**Shosp**	**Unifipmoc**	**Unigranrio (i)**	**RXPRO (ii)**
Cash and cash and equivalents	1,659	201	47	1,009	397	6,140	34,755	91
Restrict cash	6,050	-	-	-	-	-	-	-
Trade receivables	1,201	-	159	501	-	34,309	26,622	1,211
Inventories	-	-	-	-	-	-	352	246
Recoverable taxes	72	15	-	-	1	1,295	738	112
Other assets	20	-	2	-	-	702	12,159	366
Right-of-use assets	88	-	-	-	-	52,079	87,265	82
Property and equipment	473	17	34	-	5	24,277	40,775	42
Indemnification assets	1,252	-	-	-	-	7,331	71,669	-
Intangible assets	84,987	4,518	7,359	14,991	4,856	227,534	510,356	6,330
	95,802	**4,751**	**7,601**	**16,501**	**5,259**	**353,667**	**784,691**	**8,480**
Liabilities								
Trade payables	619	-	6	8	1	985	6,197	1,060
Loans and financing	-	-	299	580	-	30,179	5,533	-
Labor and social obligations	1,414	159	4	102	89	5,306	22,854	62
Taxes and contributions payable	77	4	1	307	123	758	94,025	100
Provision for legal proceedings	1,252	-	-	-	-	7,331	71,669	-
Leases liabilities	88	-	-	-	-	52,079	87,265	82
Advances from customers	400	-	35	3	167	10,745	3,387	-
Other liabilities	-	-	-	-	-	5,739	4,878	-
	3,850	**163**	**345**	**1,000**	**380**	**113,122**	**295,808**	**1,304**
Total identifiable net assets at fair value	**91,952**	**4,588**	**7,256**	**15,501**	**4,879**	**240,545**	**488,883**	**7,176**
Goodwill arising on acquisition	99,168	4,584	4,022	6,588	3,022	87,777	130,073	38,446
Purchase consideration transferred	**191,120**	**9,172**	**11,278**	**22,089**	**7,901**	**328,322**	**618,956**	**45,622**
Cash paid	119,620	5,600	5,000	16,166	5,855	328,322	375,670	30,263
Contingent consideration	-	3,572	6,278	2,923	1,592	(*)-	(**)-	10,171
Consideration to be transferred	-	-	-	-	454	-	243,286	76
Paid in shares	71,500	-	-	3,000	-	-	-	5,112
Analysis of cash flows on acquisition:								
Transaction costs of the acquisition (included in cash flows from operating activities)	856	117	144	336	188	177	10,990	264
Cash paid net of cash acquired with the subsidiary (included in cash flows from investing activities)	117,961	5,399	4,953	15,157	5,458	322,182	340,915	30,172
Net of cash flow on acquisition	**118,817**	**5,516**	**5,097**	**15,493**	**5,646**	**322,359**	**351,905**	**30,436**

(*) There are 40 additional seats still pending approval, which, if approved by the Ministry of Education, will result in a potential additional payment of up to R$50,000.

(**) There are 82 additional seats still pending approval, which, if approved by the Ministry of Education, will result in a potential additional payment of up to R$90,200.

(i) During the measurement period, the goodwill for the acquisition of Unigranrio was adjusted by R$39,100 (R$130,073 initial goodwill) as a result of an increase of liabilities regarding tax contingencies.

(ii) During the measurement period, R$8,637 of goodwill (R$38,446 initial goodwill) arising from the acquisition of RXPRO was reduced, in connection with management's view of remote likelihood of RXPRO achieving the revenue goals stablished at the terms of the earn-out.

(a) Acquisition of iClinic

On January 21, 2021, Afya Brazil acquired 100% of the share capital of iClinic (comprised by iClinic Participações, iClinic Desenvolvimento and Black River). The aggregate purchase price of R$191,120 is comprised of: (i) 62.6% was paid in cash, and (ii) 37.4% was settled with Afya's shares on the transaction closing date.

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.

Expressed in thousands of Brazilian reais, unless otherwise stated

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

Transaction costs to date amount to R$856 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 Digital Services segment. The goodwill recognized is not 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. 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.

iClinic has contributed R$ 16,456 of revenue and R$ 8,250 of loss before income taxes to the Company in 2021. Should the acquisition had taken place at the beginning of the period, revenue for 2021 would have been increased by R$ 1,158 and income before income taxes for 2021 would have been decreased by R$ 1,320.

(b) Acquisition of Medicinae

On March 25, 2021, Afya Brazil acquired 100% of the total share capital of Medicinae, a leading Brazilian healthcare technology company that specializes in healthcare payments and financial services. The aggregate purchase price of R$9,172 is comprised by: i) R$ 5,600 of which 100% was paid in cash on the transaction closing date; and ii) an earn-out ("contingent consideration") of up of R$ 4,400 is payable in connection with product development goals for 2021 and revenue achievements for 2022. The contingent consideration of R$3,572 is based on the present value of the obligation considering the facts and circumstances at the acquisition date.

Expressed in thousands of Brazilian reais, unless otherwise stated

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. Afya's intention is to grow the Digital Services segment.

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

Transaction costs to date amount to R$117 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 goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Digital Services segment. The goodwill recognized is not 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. 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.
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.

Medicinae has contributed R$ 359 of revenue and R$ 1,518 of loss before income taxes to the Company in 2021. If the acquisition had taken place at the beginning of the period, revenue for 2021 would have been increased by R$ 105 and income before income taxes for 2021 would have been decreased by R$ 113.

(c) Acquisition of Medical Harbour

On April 8, 2021, Afya Brazil acquired 100% of the total share capital of Medical Harbour, which offers educational health and medical imaging solutions through an interactive platform for anatomical study, 3D virtual dissection and analysis of medical images, which allow the exploration, and knowledge of human anatomy with digital resources. The aggregate purchase price of R$11,278 is comprised by: i) R$ 5,000 of which 100% was paid in cash on the transaction closing date; and ii) an earn-out ("contingent consideration") of up to R$ 9,000 is payable in connection with product development goals for 2021 and 2022 and revenue achievements for 2023. The contingent consideration of R$6,278 is based on the present value of the obligation considering the facts and circumstances at the acquisition date.

Expressed in thousands of Brazilian reais, unless otherwise stated

This acquisition enables Afya to start providing a high quality solution to study the human body, allowing efficient classes and remote practical sessions with greater student acceptance and scalability. Additionally, Afya will be able to distribute Medical Harbour solutions to all of its ecosystem, creating B2C and B2B growth opportunities.

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

Transaction costs to date amount to R$144 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 goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Digital Services segment. The goodwill recognized is not 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. 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.

Medical Harbour has contributed R$ 484 of revenue and R$ 1,945 of loss before income taxes to the Company in 2021. Should the acquisition had taken place at the beginning of the period, revenue for 2021 would have been increased by R$ 268 and income before income taxes for 2021 would have been increased by R$ 127.

(d) Acquisition of Cliquefarma

On April 16, 2021, Afya Brazil acquired 100% of the total share capital of Cliquefarma, a healthtech company operating a free-to-use website that tracks prescription drugs, cosmetics and personal hygiene product prices in Brazil. The aggregate purchase price of R$ 22,089 is comprised by: (i) R$ 16,166 paid in cash; (ii) R$3,000 settled with Afya's shares on the transaction closing date; and (iii) an earn-out ("contingent consideration") of R$ 3,000 is payable in relation to product development. The contingent consideration of R$2,923 is based on the present value of the obligation considering the facts and circumstances at the acquisition date.

Expressed in thousands of Brazilian reais, unless otherwise stated

Users of Cliquefarma can easily search for medications or healthcare products and compare prices from over 15,000 pharmacies in Brazil. The traffic generated is monetized through a cost-per-click model, where drugstores pay for each click on their advertisements, a cost-per-acquisition, where drugstores pay for each concluded sale.
The acquisition of Cliquefarma will enhance the Digital Services segment, creating the opportunity to leverage traffic and GMV with prescriptions generated from Afya's physician ecosystem.

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

Transaction costs to date amount to R$336 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 goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Digital Services segment. The goodwill recognized is not 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. 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.
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.

Cliquefarma has contributed R$ 3,268 of revenue and R$ 1,752 of income before income taxes to the Company in 2021. Should the acquisition had taken place at the beginning of the period, revenue for 2021 would have been increased by R$ 1,435 and income before income taxes for 2021 would have been increased by R$ 926.

(e) Acquisition of Shosp

On May 13, 2021, Afya Brazil acquired 100% of the total share capital of Shosp, a clinical management software that offers all functionalities needed for clinics all over Brazil to manage their financials, patients appointments, medical records, marketing, and others. Afya's intention is to reinforce the Digital Services operating segment. The aggregate purchase price of R$7,901 is comprised by: i) R$ 5,855 was paid in cash; ii) R$ 454 of consideration to be transferred; and iii) an earn-out ("contingent consideration") of up to R$ 1,793 is payable in relation to product development. The contingent consideration of R$1,592 is based on the present value of the obligation considering the facts and circumstances at the acquisition date.

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

Expressed in thousands of Brazilian reais, unless otherwise stated

Transaction costs to date amount to R$188 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 goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Digital Services segment. The goodwill recognized is not 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. 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.

Shosp has contributed R$ 1,376 of revenue and R$ 448 of income before income taxes to the Company in 2021. Should the acquisition had taken place at the beginning of the period, revenue for 2021 would have been increased by R$ 306 and income before income taxes for 2021 would have been decreased by R$ 82.

(f) Acquisition of UNIFIPMoc

On June 1, 2021, Afya Brazil acquired 100% of the total share capital of Sociedade Padrão de Educação Superior Ltda. (“UNIFIPMoc”). The aggregate purchase price is R$ 328,322 and the total amount was paid in cash. There are 40 additional seats still pending approval, which, if approved by the Ministry of Education, will result in a potential additional payment of up to R$ 50,000. Given the future event that will trigger the potential payout is not under the Company’s control, the probability of such payout cannot be reliably estimated and thus the contingent consideration was not measured at acquisition date. Should the additional seats be approved it will result in additional licenses, which will be measured accordingly if and when approved.

UNIFIPMoc 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 acquisition is in line with the Company’s strategy to focus on medical education, including medical school.

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

Expressed in thousands of Brazilian reais, unless otherwise stated

Transaction costs to date amount to R$177 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 goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Undergrad segment. The goodwill recognized is not 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 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.

The valuation technique for property and equipment consists of determining the fair value of an asset by using methodologies like replacement costs, market value, remaining useful life and physical depreciation.

UNIFIPMoc has contributed R$ 69,887 of revenue and R$ 19,458 of income before income taxes to the Company in 2021. Should the acquisition had taken place at the beginning of the period, revenue for 2021 would have been increased by R$ 46,150 and income before income taxes for 2021 would have been increased by R$ 12,847.

(g) Acquisition of UNIGRANRIO

On August 4, 2021, Afya Brazil acquired 100% of the total share capital of Companhia Nilza Cordeiro Herdy de Educação e Cultura, Instituto de Ensino Superior de Palhoça S/S Ltda., Sociedade Educacional de Palhoça S/S Ltda., and Policlínica e Centro de Estética Duque de Caxias Ltda. (combined denominated “Unigranrio”). The aggregate original purchase price of R$ 626,116 of which 60% was paid in cash on the transaction closing date, and 40% is payable in cash in four equal installments through 2022 to 2025, adjusted by the CDI rate, was adjusted by R$7,160, because of the actual net debt, to R$618,956. There are 82 additional seats still pending approval which, if approved by MEC, will result in a potential additional payment of up to R$90,200. Given the future event that will trigger the potential payout is not under the Company’s control, the probability of such payout cannot be reliably estimated and thus the contingent consideration was not measured at acquisition date. Should the additional seats be approved it will result in additional licenses, which will be measured accordingly if and when approved.

Expressed in thousands of Brazilian reais, unless otherwise stated

Unigranrio 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 and Santa Catarina

The acquisition of Unigranrio was accounted for under IFRS 3 – Business Combinations. Transaction costs to date amount to R$10,990 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 goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Undergrad segment. The goodwill recognized is not 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 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.

The valuation technique for property and equipment consists of determining the fair value of an asset by using methodologies like replacement costs, market value, remaining useful life and physical depreciation.

Unigranrio has contributed R$ 123,369 of net revenue and R$ 33,450 of income before income taxes to the Company in 2021. Should the acquisition had taken place at the beginning of the period, net revenue for 2021 would have been increased by R$ 150,456 and income before income taxes for 2021 would have been increased by R$ 22,191.

(h) Acquisition of RXPRO

On October 1, 2021, Afya Brazil acquired 100% of RX PRO, comprised of (i) RX PRO Soluções de Tecnologia Ltda. and (ii) RX PRO LOG Transporte e Logistica Ltda..Soluções de Tenologia Ltda. RX PRO consists of a solution that connects physicians with the pharmaceutical industry, providing specialized and personalized marketing for those companies, in a more convenient way for physicians. Afya’s intention is to reinforce the Digital Services operating segment. The aggregate purchase price of R$45,622 is comprised by: i) R$ 30,263 was paid in cash; ii) R$ 76 to be paid as price adjustment, iii) R$5,112 settled with Afya's treasury shares on the transaction closing date; and (iv) an earn-out (“contingent consideration”) of R$ 21,000 is payable in relation to revenue achievements. The contingent consideration of R$10,171 is based on the present value of the obligation considering the facts and circumstances at the acquisition date.

Expressed in thousands of Brazilian reais, unless otherwise stated

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

Transaction costs to date amount to R$264 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 goodwill recognized includes the value of expected synergies arising from the acquisition, which is not separately recognized. Goodwill is allocated entirely to Digital Services segment. The goodwill recognized is not 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. 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.

RXPRO has contributed R$ 907 of net revenue and R$ 984 of loss before income taxes to the Company in 2021. Should the acquisition had taken place at the beginning of the period, net revenue for 2021 would have been increased by R$ 3,155 and income before income taxes for 2021 would have been decreased by R$ 325.

6 Cash and cash equivalents

	2022	2021
Cash and bank deposits	57,509	88,487
Cash equivalents	1,035,573	660,075
	1,093,082	**748,562**

Cash equivalents correspond mainly to financial investments in Bank Certificates of Deposit ("CDB") with highly rated financial institutions and investments funds managed by highly rated financial institutions. As of December 31, 2022, the average interest rate on these investments is equivalent to 99.21% of the CDI rate (December 31, 2021 - 100.38%). These funds are available for immediate use and have insignificant risk of changes in value. Cash equivalents denominated in U.S. dollars totaled R$24,447 as of December 31, 2022 (December 31, 2021: R$23,228).

Expressed in thousands of Brazilian reais, unless otherwise stated

7 Trade receivables

	2022	2021
Tuition fees	356,074	279,915
Educational content (a)	50,913	69,227
FIES	62,325	61,342
Educational credits (b)	27,535	5,375
Mobile app subscription (c)	27,675	20,946
Others	14,923	14,001
	539,445	**450,806**
(-) Allowance for doubtful accounts	(44,046)	(45,013)
	495,399	**405,793**
Current	452,831	378,351
Non-current	42,568	27,442

(a) Related to trade receivables from sales of printed books, e-books and medical courses through digital platform from Medcel, Além da Medicina and CardioPapers.
(b) Related to trade receivables from special financing programs and balances outstanding from previous acquisitions.
(c) Related to trade receivables from mobile applications subscriptions for digital medical content.

As of December 31, 2022 and 2021, the aging of trade receivables was as follows:

	2022	2021
Neither past due nor impaired	261,025	184,382
Past due		
1 to 30 days	56,280	68,932
31 to 90 days	90,734	69,299
91 to 180 days	80,522	55,764
More than 180 days	50,884	72,429
	539,445	**450,806**

The changes in the allowance for doubtful accounts for the years ended December 31, 2022, 2021 and 2020, was as follows:

	2022	2021	2020
Balances at the beginning of the period	(45,013)	(32,980)	(14,763)
Additions	(42,708)	(47,819)	(32,081)
Write-offs	43,675	35,786	13,864
Balances at the end of the period	**(44,046)**	**(45,013)**	**(32,980)**

Expressed in thousands of Brazilian reais, unless otherwise stated

8 Related parties

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

	2022	2021
Assets		
Trade receivables (a)	917	692
Other assets (b)	1,975	-
	2,892	**692**
Current	2,892	692
Non-current	-	-
Liabilities		
Accounts payable to selling shareholders (c)	30,653	54,556
	30,653	**54,556**
Current	30,653	27,278
Non-current	-	27,278

	2022	2021	2020
Other income			
UEPC (a)	477	752	104
	477	**752**	**104**
Lease			
RVL Esteves Gestão Imobiliária S.A.	20,394	15,336	11,288
UNIVAÇO Patrimonial Ltda.	3,409	3,210	2,915
IESVAP Patrimonial Ltda.	4,920	4,560	3,470
	28,723	**23,106**	**17,673**

(a) Refers to sales of educational content from Medcel to UEPC;
(b) Refers to amounts to be reimbursed from Bertelsmann SE& Co. KGaA regarding the transaction on which the control of Afya was acquired;
(c) Refers to amounts to be payable to our shareholder Nicolau Carvalho Esteves regarding the agreement to which Afya Brazil acquired the right to develop ITPAC Garanhuns medical school, a greenfield unit. The amount represents 50% of the transaction, due in two equal annual installments, adjusted by the CDI rate.

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 Araguaína and ITPAC Porto, pursuant to which RVL agreed to lease campuses to those entities 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.

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 Araguaína, pursuant to which RVL agreed to lease to ITPAC the new ITPAC campus by RVL in the city of Palmas, State of Tocantins. The lease agreement is for an amount equal to 7.5% of the monthly revenue of ITPAC during the prior semester, and will be effective (and 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 and is renewable for an additional 20 years. As of December 31, 2022, the campus is fully operational.

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) from July 2020 until March 2024, 6.5% of the monthly revenue of IPTAN during the prior semester, adjusted in accordance with the provisions of the lease agreement. The lease agreement is for an initial term of 5 years starting when the campus becomes operational, and may be renewable for an additional 5 years subject to the provisions of the lease agreement. As of December 31, 2022, the campus is fully operational.

On August 02, 2021, RVL entered into a lease agreement with ITPAC Araguaína, pursuant to which RVL agreed to lease to ITPAC the new ITPAC Garanhuns medical campus, in the city of Garanhuns, State of Pernambuco. The lease agreement is for a monthly amount equal to (i) up to June 2022, R$40; (ii) from July 2022 until December 2028, 6.5% of the monthly revenue of ITPAC Garanhuns during the prior semester, adjusted in accordance with the provisions of the lease agreement; and (iii) as from January 2029, the monthly amount should be adjusted by the inflation rate (IPCA). The lease agreement is for a term of 20 years.

The lease payments in connection with the lease agreements with RVL totaled R$20,394, R$15,336 and R$11,288 in the years ended December 31, 2022, 2021 and 2020, respectively.

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$3,409, R$3,210 and R$2,915 in the years ended December 31, 2022, 2021 and 2020, respectively.

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 revenue of IESVAP until maturation. 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$4,920, R$4,560 and R$3,470 in the years ended December 31, 2022, 2021 and 2020, respectively.

Expressed in thousands of Brazilian reais, unless otherwise stated

Key management personnel compensation

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

	2022	2021	2020
Short-term employee benefits	13,564	11,933	9,629
Share-based compensation plan	13,116	20,251	23,989
	26,680	**32,184**	**33,618**

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 costs of key management personnel are shared by the Company's subsidiaries in accordance with internal policies. The amounts disclosed in the table above 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 16(b).

9 Other assets

As of December 31, 2022, the Company has R$243,501 (R$ 222,839 on December 31, 2021) accounted for as Other assets as follow:

	2022	2021
Indemnification assets (a)	145,300	135,355
Judicial deposits	12,693	18,825
Prepaid expenses	18,441	10,110
Other FIES receivables	26,440	21,450
Other	40,627	37,099
Total	**243,501**	**222,839**
Current	51,745	42,533
Non-current	191,756	180,306

(a) Under the terms of the Share Purchase and Sale Agreements ("Agreements") between the Company and the selling shareholders of certain 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.

Expressed in thousands of Brazilian reais, unless otherwise stated

10 Investment in associate

The Company holds 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:

	2022	2021
Current assets	32,651	33,976
Non-current assets	122,378	109,805
Current liabilities	(22,840)	(35,049)
Non-current liabilities	(96,442)	(91,086)
Equity	**35,747**	**17,646**
Company's share in equity – 30%	10,724	5,294
Goodwill	43,183	43,183
Carrying amount of the investment	**53,907**	**48,477**

	2022	2021	2020
Net revenue	138,584	127,618	113,965
Cost of services	(57,421)	(57,935)	(55,926)
General and administrative expenses	(34,991)	(24,025)	(27,341)
Finance results	(4,103)	(4,585)	(4,882)
Income before income taxes	**42,069**	**41,073**	**25,816**
Income taxes expenses	(1,456)	(1,748)	(252)
Net income for the period	**40,613**	**39,325**	**25,564**
Company's share of income for the period	**12,184**	**11,797**	**7,698**

	2022	2021	2020
Opening balance	48,477	51,410	45,634
Dividends received	(6,754)	(11,770)	-
Dividends receivable (included in Other assets)	-	(2,960)	(1,922)
Share of income	12,184	11,797	7,698
Closing balance	**53,907**	**48,477**	**51,410**

The Company tests at least annually the recoverability of the carrying amount of goodwill. As of December 31, 2022 and 2022, no impairment had to be recognized for this goodwill.

Expressed in thousands of Brazilian reais, unless otherwise stated

11 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, 2020	**-**	**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**
Additions	1,384	10,268	5,451	111	21,075	19,511	3,392	-	4,720	59,957	**125,869**
Business combinations	-	12,810	-	346	16,684	10,138	5,142	-	17,425	3,078	**65,623**
Write-off *	62	(14,213)	-	(205)	2,862	(4,985)	(86)	-	(550)	(417)	**(17,532)**
Transfer	25,068	3	-	-	82	9	-	-	9,376	(34,538)	-
As of December 31, 2021	**52,433**	**77,371**	**18,852**	**1,467**	**69,834**	**53,184**	**30,072**	**-**	**152,976**	**31,786**	**487,975**
Additions	527	36,486	-	968	26,047	15,766	645	-	2,667	85,026	168,132
Business combinations	-	45	-	-	-	35	-	-	-	-	80
Write-off *	13	(8,159)	-	(933)	500	(6,992)	-	-	-	(78)	(15,649)
Transfer	38,884	(5,353)	-	(449)	(5,669)	6,600	6,645	-	(9,797)	(30,046)	815
As of December 31, 2022	**91,857**	**100,390**	**18,852**	**1,053**	**90,712**	**68,593**	**37,362**	**-**	**145,846**	**86,688**	**641,353**
Depreciation											
As of January 1, 2020	**-**	**(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)**
Depreciation	(1,673)	(7,215)	-	(196)	(5,601)	(7,529)	(3,416)	-	(4,831)	-	(30,461)
Write-off *	-	10,146	-	147	1,194	3,458	633	-	350	-	15,928
As of December 31, 2021	**(1,673)**	**(16,391)**	**-**	**(220)**	**(12,496)**	**(14,922)**	**(13,600)**	**-**	**(8,865)**	**-**	**(68,167)**
Depreciation	(3,472)	(11,166)	-	(284)	(7,725)	(10,140)	(3,415)	-	(8,849)	-	(45,051)
Write-off *	-	5,474	-	791	153	7,350	67	-	117	-	13,952
Transfer	(606)	1,453	-	1	9,719	(4,125)	(5,940)	-	(502)	-	-
As of December 31, 2022	**(5,751)**	**(20,630)**	**-**	**288**	**(10,349)**	**(21,837)**	**(22,888)**	**-**	**(18,099)**	**-**	**(99,266)**
Net book value											
As of December 31, 2022	**86,106**	**79,760**	**18,852**	**1,341**	**80,363**	**46,756**	**14,474**	**-**	**127,747**	**86,688**	**542,087**
As of December 31, 2021	**50,760**	**60,980**	**18,852**	**1,247**	**57,338**	**38,262**	**16,472**	**-**	**144,111**	**31,786**	**419,808**

* Refers to items written-off as result of lack of expectation of future use, in connection with the Company's physical inventory procedures.

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, 2022, 2021 and 2020.

Expressed in thousands of Brazilian reais, unless otherwise stated

12 Intangible assets and goodwill

	Goodwill	Licenses with indefinite useful life (i)	Trademark	Customer relationships	Software	Education content	Developed technology	Educational platform	Software in progress	Other	Total
Cost											
As of January 1, 2020	**459,409**	**703,772**	**32,111**	**125,413**	**9,389**	**17,305**	**-**	**12,191**	**2,050**	**-**	**1,361,640**
Additions	-	-	-	-	4,175	-	-	15,227	247		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**	**27,902**	**2,297**	**-**	**2,684,559**
Additions (iv)	-	108,000	-	684	3,044	-	996	39,686	23,700	-	176,110
Write-off *	-	-	-	-	1,020	-	-	(2,743)	(417)	-	(2,140)
Business combinations	373,680	606,136	58,355	147,054	1,474	-	33,046	11,599	3,267	-	1,234,611
As of December 31, 2021	**1,184,336**	**2,165,406**	**133,369**	**431,277**	**21,759**	**17,305**	**34,397**	**76,444**	**28,847**	**-**	**4,093,140**
Additions (ii) (i)	39,100	24,408	-	80	1,423	11,231	32,879	14,761	26,141	-	150,023
Write-off	-	-	(22)	-	(381)	(7)	-	(9)	(28)	-	(447)
Remeasurement (iii)	(8,637)	-	-	-	-	-	-	-	-	-	(8,637)
Transfer	-	-	(2,472)	530	20,466	38,433	17,953	(35,499)	(40,226)	-	(815)
Business combinations	42,246	-	51,185	3,929	33	2,627	5,520	-	-	1,055	106,595
As of December 31, 2022	**1,257,045**	**2,189,814**	**182,060**	**435,816**	**43,300**	**69,589**	**90,749**	**55,697**	**14,734**	**1,055**	**4,339,859**
Amortization											
As of January 1, 2020	**-**	**-**	**(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)**
Amortization	-	-	(5,027)	(56,438)	(5,844)	(8,980)	(625)	(3,608)	-	-	(80,522)
Write-off	-	-	-	-	(599)	-	-	365	-	-	(234)
As of December 31, 2021	**-**	**-**	**(8,529)**	**(142,270)**	**(12,699)**	**(16,672)**	**(657)**	**(11,478)**	**-**	**-**	**(192,305)**
Amortization	-	-	(6,426)	(70,093)	(4,943)	(9,634)	(9,436)	(5,874)	-	(79)	(106,485)
Write-off	-	-	-	-	365	57	-	-	-	-	422
Transfer	-	-	-		-	(313)	-	313	-	-	-
As of December 31, 2022	-	-	(14,955)	(212,363)	(17,277)	(26,562)	(10,093)	(17,039)	-	(79)	(298,368)
Net book value											
As of December 31, 2022	**1,257,045**	**2,189,814**	**167,105**	**223,453**	**26,023**	**43,027**	**80,656**	**38,658**	**14,734**	**976**	**4,041,491**
As of December 31, 2021	**1,184,336**	**2,165,406**	**124,840**	**289,007**	**9,060**	**633**	**33,740**	**64,966**	**28,847**	**-**	**3,900,835**

* Refers to intangible assets written-off as result of lack of expectation of future use.

(i) On March 18, 2022, Afya announced that MEC authorized the increase of 28 seats of Centro Universitário São Lucas, in Ji-Parana located in the state of Rondônia. The earn-out related to the seats approval is R$800 per seat, adjusted by the CDI rate from the closing until the payment date, of which 50% was paid in April 2022 and the remaining amount is payable in cash in two equal installments through 2024.

(ii) During the measurement period, the goodwill for the acquisition of Unigranrio was adjusted by R$39,100 (R$130,073 initial goodwill) as a result of an increase of liabilities regarding tax contingencies.

(iii) During the measurement period, R$8,637 of goodwill (R$38,446 initial goodwill) arising from the acquisition of RXPRO was reduced, in connection with management's view of remote likelihood of RXPRO achieving the revenue goals stablished at the terms of the earn-out.

(iv) On November 05, 2021 Secretary of Regulation and Supervision of Higher Education of the Ministry of Education ("MEC") authorized the operation of 120 medical school seats in Garanhuns, for which our shareholder Nicolau Carvalho Esteves entered into an agreement with Afya Brazil pursuant to which he assigned to Afya Brazil the right to develop the ITPAC Garanhuns greenfield unit, a medical school in the city of Garanhuns, State of Pernambuco. Management assessed the aspects of such transaction and concluded that the transaction does not fall under the definition of business, but an acquisition of license with indefinite useful life recognized in intangible assets. Total purchase price was R$108,000 of which 50% was paid in cash on the transaction closing date and 50% in two equal annual installments, adjusted by the CDI rate.

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.

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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, 2022, 2021 and 2020.

The Company tests at least annually the recoverability of the carrying amount of goodwill and licenses with indefinite useful lives for each CGU. The Company determines the recoverable amount of its CGUs based on the value-in-use. 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, 2022, 2021 and 2020.

The carrying amounts of goodwill and licenses with indefinite useful life by CGU and their carrying amount as of December 31, 2022 and 2021 were as follows:

	Carrying amount					
CGU	**Goodwill**		**Licenses with indefinite useful life**		**CGU**	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
IPTAN	17,446	17,446	57,214	57,214	126,024	140,522
IESVAP	27,956	27,956	81,366	81,366	129,305	112,260
CCSI	4,664	4,664	56,737	56,737	53,540	49,030
IESP	73,838	73,838	179,693	179,693	322,968	346,286
FADEP	49,661	49,661	70,606	70,606	153,100	153,791
FASA	58,903	58,903	144,507	144,507	314,967	302,330
IPEMED	87,647	87,647	-	-	192,079	126,965
IPEC	-	-	108,000	108,000	148,067	131,360
UniRedentor	77,662	77,662	121,477	121,477	242,600	246,320
UniSL*	4,420	4,420	273,795	249,387	398,492	305,044
FESAR	71,664	71,664	141,616	141,616	244,084	279,038
FCMPB	110,483	110,483	235,018	235,018	415,453	401,244
ITPAC Garanhuns	-	-	108,000	108,000	112,628	107,232
Medical Harbour	-	4,022	-	-	-	9,150
Content & Technology for medical education (Pillar 1)	169,975	139,294	-	-	279,684	235,300
Practice Management Tools & Electronic Prescription (Pillar 3)	106,774	113,362	-	-	216,297	227,909
Clinical Decision Software (Pillar 2)	87,018	87,018	-	-	153,526	147,592
Cliquefarma	6,588	-	-	-	20,045	-
Moc	87,777	87,777	190,247	190,247	369,007	356,789
Unigranrio	169,173	130,073	421,538	421,538	854,861	630,185
RXPRO*	29,809	38,446	-	-	36,675	46,788
Glic	15,587	-	-	-	31,022	-
Total	**1,257,045**	**1,184,336**	**2,189,814**	**2,165,406**	**4,814,424**	**4,355,135**

* See Note 12 for further details on goodwill changes between 2021 and 2022.

Pillar 1: during 2022, Além da Medicina and CardioPapers were added to Content & Technology for medical education Pillar. Also, Medical Harbour joined Pillar 1 in 2022. Medcel has been disclosed as Pillar's predecessor. All of these entities are internally related and engaged on providing educational tools and technical medical content for physicians throughout their careers. Products originally from each entity are often combined offered to our clients.

Pillar 3: During 2022, Cliquefarma was moved by management from pillar "Practice Management Tools & Electronic Prescription" to a separate cash generating unit in connection with an internal restructuring which results in segregation of the CGU.

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Moc: the cash generating unit is composed by UnifipMoc and ESMC legal entities, due to geographical characteristics and integration of the business, which was approved by the Board of Directors.

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. Growth of students enrolled considers maturation of operations, limited by regulatory seats approved for each CGU.

Tuition fees – is the monthly fee charged to students. Tuition fees are consistent to Management best expectations on prices charged and considers inflation for future periods.

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, clinical management system, healthcare payments, medical imaging, online courses for digital content users and marketing for pharmaceutical industry. Business assumptions includes managements best expectations on long term targets for digital services segment operations, including total addressable market, market share and target prices including inflation.

Capital expenditure – refers to investments to be made on intangible assets related to developments and platform improvements especially on the digital services CGUs.

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 between 13.14% and 15.40% in 2022 (12.10% in 2021).

Perpetuity growth rate – refers to growth rate considered by management on long term periods after the explicit projection period of 5 years. The growth rates ranges from 3% to 7.3%.

Significant estimate: impact of possible changes in key assumptions

An increase of 25 basis points in management's estimated discount rate applied to the cash flow projections of each CGU for the year ended December 31, 2022, or a decrease of 25 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	2 - 30 years
Developed technology	5 years

For the years ended December 31, 2022, 2021 and 2020, there were no indicatives that the Company's intangible assets with finite useful lives might be impaired.

Expressed in thousands of Brazilian reais, unless otherwise stated

13 Financial assets and financial liabilities

13.1 Financial assets

Financial assets	2022	2021
At amortized cost		
Trade receivables	495,399	405,793
Total	**495,399**	**405,793**
Current	452,831	378,351
Non-current	42,568	27,442

Financial instruments at amortized cost include trade receivables.

13.2 Financial liabilities

Financial liabilities	2022	2021
At amortized cost		
Trade payables	71,482	59,098
Loans and financing	1,882,901	1,374,876
Lease liabilities	769,525	714,085
Accounts payable to selling shareholders	528,678	679,826
Notes payable	62,176	72,726
Advances from customers	133,050	114,585
Total	**3,447,812**	**3,015,196**
Current	706,080	581,685
Non-current	2,741,732	2,433,511

13.2.1 Loans and financing

Financial institution	Currency	Interest rate	Maturity	2022	2021
Banco Itaú Unibanco S.A.(a)	Brazilian real	CDI + 1.90% p.y.	2025	518,134	510,972
FINEP (b)	Brazilian real	TJLP p.y.	2027	8,418	10,145
Banco Itaú Unibanco S.A. (c)	Brazilian real	CDI + 1.75% p.y.	2024	32,252	31,199
Softbank (d)	Brazilian real	6.5% p.y.	2026	824,258	822,560
Debentures (e)	Brazilian real	CDI + 1.80 p.y.	2028	499,839	-
				1,882,901	**1,374,876**
Current				145,202	128,720
Non-current				1,737,699	1,246,156

(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. This agreement has financial covenants and the Company should not reduce its EBITDA by 50% or more year over year. As of December 31, 2022, the Company is compliant with all obligations set forth in this agreement.

On September 28, 2022 Afya signed an amendment with Banco Itau Unibanco S.A in order to extend its debt profile, postponing the original repayments dates from 2022 and 2023 to 2023, 2024 and 2025. Due to such extension, the spread over CDI rate increased from 1.62% p.y to 1.90% p.y.

(b) 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), 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 total balance is guaranteed by a bank financial guarantee.

(c) On October 28, 2020, UNIFIPmoc entered into a loan with Banco Itaú Unibanco S.A. in the amount of R$ 30,000. On June 30, 2021 this agreement was amended and is now adjusted by the CDI rate plus an interest rate of 1.75% per year and is repayable in three installments in July 2023, January 2024 and July 2024. There is no financial covenant related to this agreement.

(d) On April 26, 2021, the Company issued and sold 150,000 shares of perpetual convertible preferred shares designated as Series A perpetual convertible preferred shares, with a par value of U.S.$0.00005 per share of the Company for US$150,000 thousands, equivalent to R$ 821,805 on the issuance date. The Series A perpetual convertible preferred shares is a class of equity security that ranks senior to the common shares with respect to dividend rights or rights upon liquidation.

Each Series A perpetual convertible preferred share is entitled to a cash dividend of 6.5% per annum and is convertible, at the holder's discretion, into the Company's Class A common shares at an initial conversion price of US$25.35. The Company may require the conversion of any or all of the Series A perpetual convertible preferred shares at any time on or after the three-year anniversary of the original issuance date if certain conditions set forth in the certificate of designation are met (if for 20 out of 30 consecutive trading days prior, Afya's stock price is equal or above 150% of the conversion rate). The Company may also redeem any or all of the Series A perpetual convertible preferred shares for cash, shares of its common shares or a combination thereof at its election, at any time on or after the seven-year anniversary of the original issuance date as determined in the certificate of designation. On or after the five-year anniversary of the original issuance date, the holders of the Series A convertible perpetual preferred shares shall have the right to redeem all of the outstanding Series A convertible perpetual preferred shares for cash, the Company's common shares or a combination thereof (at the Company's election, subject to certain conditions) to be determined in the certificate of designation. Upon the occurrence of a change of control, the holders will have the right to redeem their Series A convertible perpetual preferred shares for cash at a price set forth in the certificate of designation.

The Series A convertible perpetual preferred shares will be entitled with the same voting rights of the common shares only when converted into it.

The Company determined that the Series A perpetual convertible preferred shares should be classified as financial liability at amortized cost upon their issuance since is redeemable primarily according to the decision of the holder and there is a contractual obligation to deliver assets (cash, shares of its common shares or a combination thereof) that could not be avoided by the Company in an event of redemption. The financial liability is denominated in Brazilian Reais and thus not subject to foreign exchange changes.

In addition, as the entire instrument is classified as a liability, the embedded put option to redeem the Series A perpetual convertible preferred shares for cash is an embedded derivative. The embedded derivative will not be treated separately once the exercise price of the option is closely related to the host contract.

The initial transaction costs that are directly attributable to the issuance of Series A perpetual convertible preferred shares were measured at fair value together with the financial liability on initial measurement. The transaction costs totaled R$13,030, including legal counsels and advisors.

(e) On December 16, 2022, Afya announced the closing of the issuance, through its wholly-owned subsidiary Afya Brazil, of 500,000 simple, non-convertible, unsecured debentures in a single series, each with a par value of R$1, totaling an aggregate amount of R$500.000, by means of a public distribution with restricted placement efforts in the Brazilian market, under the terms of the Brazilian Securities and Exchange Commission ("CVM") Rule No. 476. Afya expects to use the proceeds of the Offering for general corporate purposes, strengthening its cash position, and extending its debt maturity profile. The Debentures were issued with a maturity date of January 15, 2028, with the principal to be amortized in two equal installments payable on January 15, 2027 and January 15, 2028, corresponding to the fourth and fifth years of the transaction, respectively. The Debentures bear interest at 100% of the CDI rate (the average of interbank overnight rates in Brazil, based on 252 business days) plus 1.80% per year, payable semi-annually on January 15 and July 15 of each year, until the Maturity Date.

Expressed in thousands of Brazilian reais, unless otherwise stated

This transaction is subject to certain obligations including financial covenants. According to this offering, Afya shall maintain net debt (excluding Softbank transaction and lease liabilities) to adjusted EBITDA ratio below or equal to 3.0 x, at the end of each fiscal year, until maturity date. Adjusted EBITDA considers net income plus (i) income taxes expenses, (ii) net financial result (excluding interest expenses on lease liabilities), (iii) depreciation and amortization expenses (excluding right-of-use depreciation expenses), (iv) share-based compensation expenses, (v) share of income of associate, (vi) interest received and (vii) non-recurring expenses. As of December 31, 2022, the Company is compliant with all obligations set forth in the deed of issuance.

The transaction costs that are directly attributable to the issuance of debentures were measured at fair value together with the financial liability on initial measurement. The transaction costs totaled R$3,115, including legal counsels and advisors.

13.2.2 Leases

The Company has lease contracts for properties. The lease contracts generally have maturities in the lease terms between 5 and 30 years. There are no sublease or variable payments in-substance lease agreements in the period.

The carrying amounts of right-of-use assets and lease liabilities as of December 31, 2022 and December 31, 2021 and the movements during the years are described below:

	Right-of-use assets	**Lease liabilities**
As of January 1, 2021	419,074	447,703
Additions	62,689	62,689
Remeasurement	95,962	95,962
Business combinations	139,514	139,514
Depreciation expense	(43,237)	-
Interest expense	-	67,212
Payments of lease liabilities	-	(87,751)
Write-off	(10,316)	(11,244)
As of December 31, 2021	**663,686**	**714,085**
Additions	42,250	42,250
Remeasurement	58,623	58,623
Depreciation expense	(54,684)	-
Interest expense	-	88,571
Payments of lease liabilities	-	(113,512)
Write-off (a)	(19,802)	(20,492)
As of December 31, 2022	**690,073**	**769,525**
As of December 31, 2021		
Current	-	24,955
Non-current	663,686	689,130
As of December 31, 2022		
Current	-	32,459
Non-current	690,073	737,066

(a) Refers to anticipated termination of real estate leasing contracts.

Expressed in thousands of Brazilian reais, unless otherwise stated

The Company recognized lease expense from short-term leases and low-value assets of R$12,153 for the year ended December 31, 2022 (R$11,229 and R$2,555 for the years ended December 31, 2021 and 2020, respectively).

13.2.3 Accounts payable to selling shareholders

	2022	2021
Acquisition of FASA (a)	-	41,581
Acquisition of IPEMED (b)	22,654	30,233
Acquisition of UniRedentor (c)	72,064	85,506
Acquisition of UniSãoLucas (d)	37,301	42,672
Acquisition of FCMPB (e)	111,755	149,175
Acquisition of Medicinae (f)	-	3,887
Acquisition of Medical Harbour (g)	4,053	6,801
Acquisition of Cliquefarma (h)	-	3,050
Acquisition of Shosp (i)	2,206	2,141
Acquisition of Unigranrio (j)	216,716	249,979
Acquisition of RXPRO (k)	1,781	10,245
Acquisition of Guaranhuns (l)	30,653	54,556
Acquisition of Além da Medicina (m)	11,996	-
Acquisition of CardioPapers (n)	7,979	-
Acquisition of Glic (o)	9,520	-
	528,678	**679,826**
Current	261,711	239,849
Non-current	266,967	439,977

	2022	2021	2020
Opening balance	679,826	518,240	300,237
Cash flows (i)	(261,188)	(192,681)	(134,518)
Acquisition of licenses (ii)	24,408	54,000	-
Interest	68,064	31,915	13,884
Reversals (iii)	(10,353)	-	-
Consideration to be transferred on business combinations	-	243,816	343,140
Consideration to be transferred on business combinations (Earn-outs)	27,921	24,536	-
Compensation of legal proceedings disbursement	-	-	(4,503)
Closing balance	**528,678**	**679,826**	**518,240**

(i) R$30,174 were paid as license addition regarding Garanhuns acquisition On March 18, 2022, Afya announced that MEC authorized the increase of 28 seats of Centro Universitário São Lucas, in Ji-Parana located in the state of Rondônia. The earn-out related to the seats approval is R$800 per seat, adjusted by the CDI rate from the closing until the payment date, of which 50% was paid in April 2022 and the remaining amount is payable in cash in two equal installments through 2024.
(ii) R$8,637 and R$1,716 of contingent consideration from the acquisition of RXPRO and Medicinae, respectively, was reduced, in connection with management's view of remote likelihood of achieving goals stablished at the terms of the earn-out.

(a) On April 3, 2019, Afya Brazil acquired 90% of FASA and R$ 39,695 was paid in April 2020, R$ 29,770 was paid in April, 2021, and R$ 29,770 was payable in April 2022; each installment adjusted by the IPCA rate + 4.1% per year.

(b) 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.

(c) On January 31, 2020, Afya Brazil acquired 100% of UniRedentor and 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 was deducted from the first installment paid in February 2021.

(d) On May 5, 2020, Afya Brazil acquired 100% of UniSL 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 was deducted from the first installment paid on May 5, 2021.

(e) On November 9, 2020, Afya Brazil acquired 100% of FCMPB and R$ 188,894 is payable in four installments through November 2024, adjusted by the CDI rate.

(f) On March 25, 2021, Afya Brazil acquired 100% of Medicinae and an earn-out (“contingent consideration”) of up of R$ 4,400 was payable in connection with product development goals for 2021 and revenue achievements for 2022. The remaining contingent consideration was reduced by R$1,716 because the goals for 2022 were not achieved.

(g) On April 8, 2021, Afya Brazil acquired 100% of Medical Harbour and an earn-out (“contingent consideration”) of R$ 9,000 is payable in relation to product development goals for 2021 and 2022 and revenue achievements for 2023. The contingent consideration of R$4,053 is based on the present value of the obligation considering the facts and circumstances at the acquisition date, and no relevant impacts were identified by management from the acquisition date.

(h) On April 16, 2021, Afya Brazil acquired 100% of Cliquefarma and an earn-out (“contingent consideration”) of R$ 3,000, adjusted by the CDI rate, is payable in relation to product development. The contingent consideration was paid on May 2022.

(i) On May 13, 2021, Afya Brazil acquired 100% of Shosp and R$ 454 will be paid, and an earn-out (“contingent consideration”) of up to R$ 1,793 is payable in relation to product development. The contingent consideration of R$ 2,206 is based on the present value of the obligation considering the facts and circumstances at the acquisition date, and no relevant impacts were identified by management from the acquisition date.

(j) On August 4, 2021, Afya Brazil acquired 100% of Unigranrio. The adjusted aggregate purchase price is R$ 618,956 of which 60% was paid in cash on the transaction closing date, and 40% is payable in cash in four equal installments through 2022 to 2025, adjusted by the CDI rate.

(k) On October 01, 2021, Afya Brazil acquired 100% of RXPRO and an earn-out (“contingent consideration”) of up to R$ 21,000 is payable in relation to revenue achievements until 2024. The contingent consideration of R$1,781 is based on the present value of the obligation considering the facts and circumstances at the acquisition date, and no relevant impacts were identified by management from the acquisition date.

(l) On November 05, 2021, Afya Brazil concluded the acquisition of 100% of ITPAC Garanhuns 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.

(m) On March 4, 2022, Afya Brazil acquired 100% of Além da Medicina and an earn-out of up to R$19,200 is payable in connection with revenue target achievements and product development goals for 2023 and 2024. The contingent consideration of R$11,074 is based on the present value of the obligation considering the facts and circumstances at the acquisition date, and no relevant impacts were identified by management from the acquisition date. The purchase consideration was adjusted by R$763 in favor of the selling shareholders.

Expressed in thousands of Brazilian reais, unless otherwise stated

(n) On April 5, 2022, Afya Brazil acquired 100% of CardioPapers and an earn-out of up to R$15,000 is payable in connection with revenue target achievements and other goals regarding credentials in the market for 2023 and 2024. The contingent consideration of R$7,422 is based on the present value of the obligation considering the facts and circumstances at the acquisition date, and no relevant impacts were identified by management from the acquisition date. The purchase consideration was adjusted by R$333 in favor of Afya.

(o) On March 23, 2022, Afya Brazil acquired 100% of Glic and an earn-out of up to R$12,000 is payable in connection with revenue target achievements for 2023 and 2024 and product development goals. The contingent consideration of R$8,995 is based on the present value of the obligation considering the facts and circumstances at the acquisition date, and no relevant impacts were identified by management from the acquisition date.

13.2.4 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 of December 31, 2022, the notes payable of R$62,176 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 years ended December 31, 2022 and 2021:

	Notes payable
As of January 1, 2021	76,181
Payments (*)	(11,068)
Monetary indexation	7,613
As of December 31, 2021	**72,726**
Payments (*)	(15,008)
Monetary indexation	4,458
As of December 31, 2022	**62,176**
As of December 31, 2021	
Current liabilities	14,478
Non-current liabilities	58,248
As of December 31, 2022	
Current liabilities	62,176
Non-current liabilities	-

(*) The amounts have been included on the investing activities of the cash flow statement.

13.3 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:

Expressed in thousands of Brazilian reais, unless otherwise stated

	2022		2021	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Trade receivables (non-current)	42,568	42,568	27,442	27,442
Total	**42,568**	**42,568**	**27,442**	**27,442**
Financial liabilities				
Loans and financing	1,882,901	1,934,295	1,374,876	1,387,136
Lease liabilities	769,525	769,525	714,085	714,085
Accounts payable to selling shareholders	528,678	528,678	679,826	679,826
Notes payable	62,176	62,176	72,726	72,726
Total	**3,243,280**	**3,294,674**	**2,841,513**	**2,853,773**

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

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 of the end of the reporting period. The own non-performance risk at December 31, 2022 was assessed to be insignificant.

13.4 Financial instruments risk management objectives and policies

The Company's principal financial liabilities comprise loans and financing, lease liabilities, accounts payable to selling shareholders, notes payable, 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 and cash and cash equivalents.

The Company is exposed to market risk, credit risk and liquidity risk. The Company monitors market, credit and liquidity 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 with policies for managing each of these risks, which are summarized below.

13.4.1 Financial instruments risk management objectives and policies

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 of December 31, 2022.

(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, loans and financing, accounts payable to selling shareholders and notes payable, with floating interest rates.

Expressed in thousands of Brazilian reais, unless otherwise stated

Sensitivity analysis

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

	2022	Index – % per year	Base rate
Cash equivalents	1,011,126	99.21% of CDI	136,928
Debentures	(499,839)	CDI + 1.80%	(77,225)
Loans and financing	(518,134)	CDI + 1.90%	(80,570)
Loans and financing	(32,252)	CDI + 1.75%	(4,966)
Loans and financing	(8,418)	TJLP	(620)
Accounts payable to selling shareholders	(491,143)	CDI	(67,041)
Notes payable	(62,176)	IPCA	(3,600)
Net exposure			**(97,094)**

	Increase in basis points	
	+75	+150
Effect on profit before tax	(4,504)	(9,010)

	2021	Index – % per year	Base rate
Cash equivalents	636,847	100.38% CDI	5,844
Loans and financing	(510,972)	CDI + 1,62%	(55,032)
Loans and financing	(31,199)	CDI + 1,75%	(3,401)
Loans and financing	(10,145)	TJLP	(617)
Accounts payable to selling shareholders	(612,121)	CDI	(56,009)
Accounts payable to selling shareholders	(41,581)	IPCA + 4,1%	(1,708)
Notes payable	(72,726)	IPCA	(531)
Net exposure			**(111,454)**

	Increase in basis points	
	+75	+150
Effect on profit before tax	(4,814)	(9,628)

(ii) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of 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$24,447 as of December 31, 2022 (December 31, 2021: R$23,228).

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$5.2171 to U.S. dollar 1.00) as of December 31, 2022, with all other variables held constant.

	Exposure	+10%	-10%
As of December 31, 2022			
Cash equivalents	24,447	2,445	(2,445)

13.4.2 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.

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 7for additional information on the Company's trade receivables.

Credit risk from balances with banks and financial institutions is managed 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 statements of financial position on December 31, 2022 and December 31, 2021 is the carrying amounts of its financial assets.

13.4.3 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, 2022	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Trade payables	71,482	-	-	-	71,482
Loans and financing	287,741	788,190	1,237,599	-	2,313,530
Lease liabilities	117,506	234,688	219,127	1,139,771	1,711,092
Accounts payable to selling shareholders	282,481	339,281	-	-	621,762
Notes payable	62,176	-	-	-	62,176
Advances from customers	133,050	-	-	-	133,050
	954,436	**1,362,159**	**1,456,726**	**1,139,771**	**4,913,092**

Expressed in thousands of Brazilian reais, unless otherwise stated

As of December 31, 2021	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Trade payables	59,098	-	-	-	59,098
Loans and financing	217,903	585,686	948,503	1,212	1,753,304
Lease liabilities	103,003	211,894	204,744	1,108,555	1,628,196
Accounts payable to selling shareholders	246,059	445,066	88,989	-	780,114
Notes payable	15,644	74,306	-	-	89,950
Advances from customers	114,585	-	-	-	114,585
	756,292	**1,316,952**	**1,242,236**	**1,109,767**	**4,425,247**

13.5 Changes in liabilities arising from financing activities

	January 1, 2022	Payments	Additions	Interest	Business combinations	Other	December 31, 2022
Loans and financing	1,374,876	(118,378)	496,885	127,559	-	1,959	1,882,901
Lease liabilities	714,085	(113,512)	100,873	88,571	-	(20,492)	769,525
Dividends payable	-	(19,736)	19,736	-	-	-	-
Total	**2,088,961**	**(251,626)**	**617,494**	**216,130**	**-**	**(18,533)**	**2,652,426**

	January 1, 2021	Payments	Additions *	Interest	Business combinations	Other	December 31, 2021
Loans and financing	617,485	(158,076)	809,539	68,909	36,591	428	1,374,876
Lease liabilities	447,703	(87,751)	158,651	67,212	139,514	(11,244)	714,085
Dividends payable	-	(18,648)	18,648	-	-	-	-
Total	**1,065,188**	**(264,475)**	**986,838**	**136,121**	**176,105**	**(10,816)**	**2,088,961**

* The additions of loans and financing include proceeds from the SoftBank transaction of R$822,569, net of the transaction costs of R$13,030.

	January 1, 2020	Payments	Additions	Interest	Foreign exchange movement	Business combinations	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**

Expressed in thousands of Brazilian reais, unless otherwise stated

14 Fair value measurement

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities as of December 31, 2022 and December 31, 2021.

		Fair value measurement		
	Total	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
December 31, 2022				
Assets for which fair values are disclosed				
Trade receivables (non-current)	42,568	-	42,568	-
Liabilities for which fair values are disclosed				
Loans and financing	(1,934,295)	-	(1,934,295)	-
Lease liabilities	(769,525)	-	(769,525)	-
Accounts payable to selling shareholders	(528,678)	-	(528,678)	-
Notes payable	(62,176)	-	(62,176)	-
December 31, 2021				
Assets for which fair values are disclosed				
Trade receivables (non-current)	27,442	-	27,442	-
Liabilities for which fair values are disclosed				
Loans and financing	(1,387,136)	-	(1,387,136)	-
Lease liabilities	(714,085)	-	(714,085)	-
Accounts payable to selling shareholders	(679,826)	-	(679,826)	-
Notes payable	(72,726)	-	(72,726)	-

There were no transfers between Levels during the period or year presented.

15 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 Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants.

In order to achieve this overall objective, the Company's capital management, among other things, aims to ensure that it meets financial covenants that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans or debentures. There have been no breaches of the financial covenants of any loans or debentures in the current and previous periods.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2022 and 2021.

Expressed in thousands of Brazilian reais, unless otherwise stated

16 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$24,248, R$ 25,587 and R$ 9,514 in the years ended December 31, 2022, 2021 and 2020, respectively.

b) Afya Limited share-based compensation plans

b.1) Stock options plan

The stock options plan approved on August 30, 2019, granted to senior executives and other employees of the Company, as a result of the IPO will govern the issuance of equity incentive awards with respect to Company's Class A common shares. 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.

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 valuated) 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 for in accordance with IFRS 2.

On July 8, 2022, the People and ESG Committee approved a change in the strike price of the current share-based compensation plan. All the tranches still to be vested had their strike price modified compared to the IPO price in Brazilian Reais (R$71.22), adjusted from the IPO date until the exercise date using the CDI rate, excluding dividends. The already vested tranches will remain on the previous settled strike price. This change was assessed as a modification by the Company and accounted for in accordance with IFRS 2.

As result of those modifications, 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 over the vesting period of the options.

The average incremental fair value, as result of the modification, was R$ 3.84 per stock 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$76	R$85 – R$126
Dividend yield (%)	0.0%	0.0%
Expected volatility (%)	48% - 59%	42% - 69%
Risk-free interest rate (%)	13% - 15%	5% - 13%
Expected life of stock options (years)	1 – 5	1 – 5
Share price at the measurement date	R$48	R$80 – R$145
Model used	Binomial	Binomial
Weighted average fair value at the measurement date	R$53.06	R$49.22

Expressed in thousands of Brazilian reais, unless otherwise stated

On May 18, 2022, July 11, 2022 and September 14, 2022, the Company granted 1,234,919 additional stock options, respectively:

	May 2022	July 2022	September 2022
Strike price at the measurement date	R$70	R$52	R$52
Dividend yield (%)	0.0%	0.0%	0.0%
Expected volatility (%)	48% - 60%	48% - 59%	48% - 58%
Risk-free interest rate (%)	12% - 13%	13% - 15%	12%
Expected life of stock options (years)	1 – 5	1 – 5	1 – 5
Share price at the measurement date	R$ 55.54	R$ 48.24	R$ 72.59
Model used	Binomial	Binomial	Binomial
Weighted average fair value at the measurement date	R$ 19.13	R$ 17.98	R$ 34.86

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

	Weighted average exercise price (in Reais)	Number of stock options		
		2022	2021	2020
Outstanding at January 1	92.33	3,086,728	2,510,983	2,364,214
Granted	53.02	1,234,919	1,170,000	477,220
Exercised	-	-	(442,669)	(56,092)
Forfeited	107.25	(365,749)	(60,000)	(274,359)
Expired	97.80	(226,611)	(91,586)	-
Outstanding at December 31	**79.47**	**3,729,287**	**3,086,728**	**2,510,983**
Exercisable	**97.65**	**1,133,774**	**542,061**	**-**

The share-based compensation expense recognized in general and administrative expenses in the statement of income for the year ended December 31, 2022 was R$ 27,242 (R$ 43,377 and R$32,610 in 2021 and 2020, respectively).

b.2) Restricted Stock Units (RSU) Program

On July 8, 2022, the Company approved the new Restricted Stock Units (RSU) program for employees. The participant's right to effectively receive ownership of the restricted shares will be conditioned on the participant's continuance as an employee or director in the business group from the grant date until vesting.

The executives will be entitled to these shares in a proportion of 10%, 20%, 30%, 40% each year.

In July 2022 and September 2022, 442,546 and 4,678 RSUs were granted, respectively, to Afya's executives, with vesting periods from May 2023 to May 2026. Fair values at grant date were R$48.24 and R$72.59, respectively.

The Company accounts for the RSU plan as an equity-settled plan, except for the portion of labor and social securities obligations.

Total RSU expense recognized in general and administrative expenses in the statement of income for the year ended December 31, 2022 amount R$4,032. Social charges amount R$2,167 on social obligations liabilities as of December 31, 2022.

Expressed in thousands of Brazilian reais, unless otherwise stated

17 Equity

a) Share capital

As of December 31, 2022, the Company's share capital was R$ 17 (R$ 17 as of December 31, 2021) represented by 93,722,831 shares comprised by 47,920,068 class A common shares and 45,802,763 class B common shares (93,722,831 shares comprised by 47,920,068 class A common shares and 45,802,763 class B common shares as of December 31, 2020). As of December 31, 2022 and 2021, the Company's authorized capital was US$ 50 thousand.

b) Dividends

In the year ended December 31, 2022 CCSI and IESVAP approved the payment of dividends of R$66,828, which R$47,092 was distributed to Afya and R$19,736 to non-controlling shareholders.

c) Buy-back program

On December 23, 2020, the Company announced that its Board of Directors approved a share buy-back 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, 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 Company completed the acquisition of the approved shares repurchase under this buy-back program.

On October 27, 2021, the Company's board of directors approved a new share repurchase program. Afya may repurchase up to 1,383,108 of its outstanding Class A common shares in the open market, based on prevailing market prices, beginning on October 28, 2021, until the earlier of the completion of the repurchase or December 31, 2022, depending upon market conditions. The Company completed the acquisition of the approved shares repurchase under this buy-back program.

On January 27, 2022, the Company's board of directors approved a new share repurchase program. Afya may repurchase up to 1,874,457 of its outstanding Class A common shares in the open market, based on prevailing market prices, beginning on January 27, 2022, until the earlier of the completion of the repurchase or December 31, 2022, depending upon market conditions. The Company completed the acquisition of the approved shares repurchase under this buy-back program.

During the year ended December 31, 2022, the Company's cash outflow was R$152,317 (R$213,722 during the year ended on December 31, 2021).

The following table illustrates the number and movements in treasury shares during the year ended December 31, 2022 and 2021 (no treasury shares were repurchased in 2020):

	Number of shares	Average price (in Brazilian Reais)
Outstanding at January 1, 2021	-	-
Repurchased	2,142,051	119.99
Transferred from exercise of stock options	(442,669)	124.26
Transferred from shares contribution	(44,455)	111.94
Outstanding at December 31, 2021	**1,654,927**	**92.23**
Repurchased	2,131,358	71.46
Outstanding at December 31, 2022	**3,786,285**	**80.54**

Expressed in thousands of Brazilian reais, unless otherwise stated

18 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 shares outstanding during the period.

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 period plus the weighted average number of shares that would be issued on conversion of all potential shares with dilutive effects.

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 and restricted share unit plans in the category of potentially dilutive shares.

Softbank's series A perpetual convertible preferred shares are antidilutive as of December 31, 2022 and 2021 and are not included on diluted earnings per share.

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

	2022	2021	2020
Numerator			
Net income attributable to equity holders of the parent	373,569	223,326	292,075
Denominator			
Weighted average number of outstanding shares	90,335,037	93,291,480	92,683,848
Effects of dilution from stock options and restricted share units	329,085	811,818	951,920
Weighted average number of outstanding shares adjusted for the effect of dilution	90,664,122	94,103,298	93,635,768
Basic earnings per share (R$)	4.14	2.39	3.15
Diluted earnings per share (R$)	4.12	2.37	3.12

19 Revenue

	2022	2021	2020
Tuition fees	2,827,567	2,124,589	1,388,735
Other	213,040	167,441	99,817
Deductions			
Granted discounts	(241,404)	(229,254)	(89,017)
Early payment discounts	(92,234)	(49,879)	(29,299)
Returns	(45,402)	(42,373)	(11,437)
Taxes	(107,004)	(74,232)	(49,629)
PROUNI	(225,506)	(176,921)	(107,979)
Revenue from contracts with customers	**2,329,057**	**1,719,371**	**1,201,191**
Timing of revenue recognition of net revenue from contracts with customers			
Tuition, digital content and app subscription fees - Transferred over time	2,273,578	1,640,889	1,128,558
Other - Transferred at a point in time	55,479	78,482	72,633

Expressed in thousands of Brazilian reais, unless otherwise stated

The Company`s revenue 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 revenue from under graduation degrees under the PROUNI program.

The following table presents statements of income for the Company's operating segments for the years ended December 31, 2022, 2021 and 2020:

Revenue by segment	Undergrad	Continuing Education	Digital Services	Elimination (inter-segment transactions)	2022
Types of services or goods	**2,037,889**	**108,806**	**189,984**	**(7,622)**	**2,329,057**
Tuition fees	2,023,128	108,648	-	-	2,131,776
Other	14,761	158	189,984	(7,622)	197,281
Timing of revenue recognition	**2,037,889**	**108,806**	**189,984**	**(7,622)**	**2,329,057**
Transferred over time	2,024,373	108,806	145,939	(5,540)	2,273,578
Transferred at a point in time	13,516	**-**	44,045	(2,082)	55,479

Revenue by segment	Undergrad	Continuing Education	Digital Services	Elimination (inter-segment transactions)	2021
Types of services or goods	**1,498,408**	**72,983**	**151,958**	**(3,978)**	**1,719,371**
Tuition fees	1,486,111	72,983	-	-	1,559,094
Other	12,297	-	151,958	(3,978)	160,277
Timing of revenue recognition	**1,498,408**	**72,983**	**151,958**	**(3,978)**	**1,719,371**
Transferred over time	1,486,111	72,983	81,795	-	1,640,889
Transferred at a point in time	12,297	-	70,163	(3,978)	78,482

Revenue by segment	Undergrad	Continuing Education	Digital Services	Elimination (inter-segment transactions)	2020
Types of services or goods	**1,002,461**	**107,197**	**93,152**	**(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**	**107,197**	**93,152**	**(1,619)**	**1,201,191**
Transferred over time	997,055	107,197	24,306	-	1,128,558
Transferred at a point in time	5,406	-	68,846	(1,619)	72,633

Expressed in thousands of Brazilian reais, unless otherwise stated

20 Expenses and costs by nature

	2022	2021	2020
Cost of services	(859,552)	(652,300)	(434,654)
General and administrative expenses	(798,153)	(622,615)	(402,855)
Total	**(1,657,705)**	**(1,274,915)**	**(837,509)**
Payroll	(880,664)	(677,564)	(446,473)
Hospital and medical agreements	(66,065)	(37,449)	(37,988)
Depreciation and amortization	(206,220)	(154,220)	(108,744)
Lease expenses	(12,153)	(11,229)	(2,555)
Utilities	(17,682)	(10,643)	(5,892)
Maintenance	(76,475)	(47,141)	(20,746)
Share-based compensation	(31,274)	(43,377)	(32,610)
Tax expenses	(10,518)	(7,997)	(5,326)
Pedagogical services	(48,084)	(47,881)	(24,037)
Sales and marketing	(48,217)	(39,506)	(18,361)
Allowance for doubtful accounts	(42,708)	(47,819)	(32,081)
Travel expenses	(14,003)	(7,542)	(4,550)
Consulting fees	(35,326)	(38,818)	(31,276)
Other	(168,316)	(103,729)	(66,870)
Total	**(1,657,705)**	**(1,274,915)**	**(837,509)**

21 Finance result

	2022	2021	2020
Income from financial investments	67,810	35,773	24,479
Changes in fair value of derivative instruments	-	-	20,739
Interest received	27,197	23,040	11,876
Other	7,035	5,753	5,196
Finance income	**102,042**	**64,566**	**62,290**
Interest expense	(200,081)	(108,437)	(25,543)
Interest expense on lease liabilities	(88,571)	(67,212)	(44,458)
Financial discounts granted	(24,092)	(23,193)	(8,081)
Bank fees	(8,623)	(7,878)	(6,333)
Foreign exchange loss, net	(852)	(17,973)	(4,613)
IOF taxes (taxes on financial transactions)	(178)	(3,306)	(1,661)
Other	(27,496)	(15,797)	(7,580)
Finance expenses	**(349,893)**	**(243,796)**	**(98,269)**
Finance result	**(247,851)**	**(179,230)**	**(35,979)**

Expressed in thousands of Brazilian reais, unless otherwise stated

22 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, 2022, 2021 and 2020:

	2022	2021	2020
Income before income taxes	428,433	273,462	335,054
Combined statutory income taxes rate - %	34%	34%	34%
Income taxes at statutory rates	(145,667)	(92,977)	(113,918)
Reconciliation adjustments:			
Tax effect on loss from an entity not subject to taxation	(32,859)	(37,794)	(8,474)
PROUNI - Fiscal Incentive (a)	270,062	194,830	120,851
Unrecognized deferred tax assets	(117,377)	(86,233)	(41,319)
Presumed profit income tax regime effect (b)	(1,549)	(7,066)	(2,640)
Permanent adjustments	(12,226)	(6,232)	2,567
Other	3,939	4,293	15,866
Income taxes expense – current	**(35,677)**	**(31,179)**	**(27,067)**
Effective rate	8.33%	11.40%	8.08%

(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 effect of the presumed profit of certain 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, 2022, the Company had accumulated unrecognized deferred income tax assets on temporary differences and tax losses in the amount of R$778,080 (tax-basis) (R$ 432,226 (tax-basis) as of December 31, 2021) 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.

Expressed in thousands of Brazilian reais, unless otherwise stated

23 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, civil and taxes proceedings whose likelihood of loss is assessed as probable are as follows:

	Labor	Civil	Taxes (i)	Total
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**
Business combinations	16,597	6,017	57,638	80,252
Additions *	5,418	5,101	14,225	24,744
Reversals	(1,044)	(1,470)	(7,334)	(9,848)
Balances as of December 31, 2021	**25,490**	**22,928**	**99,869**	**148,287**
Additions	2,300	7,911	63,698	73,909
Reversals	(5,306)	(6,175)	(14,861)	(26,342)
Balances as of December 31, 2022	**22,484**	**24,664**	**148,706**	**195,854**

* The amount of R$ 4,232 is related to tax legal proceedings attributed to the selling shareholders (R$9,940 for the year ended December 31, 2020). The same amount was recorded as indemnification assets in the statement of financial position in other assets.

(i) During the year ended December 31, 2022, R$48,333 of tax contingencies were added with a corresponding increase of goodwill (Unigranrio as disclosed in note 12) and indemnification assets.

The principal labor proceedings to which we are a party were filed by former employees or service providers seeking enforcement of labor rights allegedly not provided by us. The judicial proceedings relate to employment bonds (judicial proceedings filed by former service providers), overtime, premiums for hazardous workplace conditions, statutory severance, fines for severance payment delays, and compensation for workplace-related accidents.

The civil claims to which we are a party generally relate to consumer claims, including those related to student complaints.

The tax claims to which the Company is party are mostly tax foreclosures filed by Brazilian federal and municipal tax authorities.

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:

	2022	2021
Labor	13,914	5,098
Civil	59,603	56,501
Taxes and social security	4,931	4,459
Total	**78,448**	**66,058**

Expressed in thousands of Brazilian reais, unless otherwise stated

The Company has judicial deposits, related to taxes, civil and labor proceedings, recorded in other assets (non-current) in the amount of R$12,693 as of December 31, 2022 (December 31, 2021: R$ 18,825).

Under the terms of the Share Purchase and Sale Agreements ("Agreements") between the Company and the selling shareholders of certain 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$145,300 (December 31, 2021: R$ 135,355) is presented in non-current other assets.

24 Non-cash transactions

During the years ended December 31, 2022, 2021 and 2020, the Company carried out non-cash transactions which are not reflected in the statement of cash flows. The main non-cash transactions are as follows:

	2022	2021	2020
Issuance of shares for acquisition of Pebmed	-	-	17,531
Issuance of shares for acquisition of iClinic	-	71,500	-
Issuance of shares for acquisition of Cliquefarma	-	3,000	-
Issuance of shares for acquisition of RXPRO	-	5,112	-
Provision for legal proceedings with corresponding indemnification assets	48,333	4,232	9,940
Additions and remeasurements of right-of-use assets and lease liabilities	100,873	158,651	98,904

25 Subsequent events

Acquisition of UNIT Alagoas and FITS Jaboatão dos Guararapes

On January 2, 2023, Afya Brazil announced the closing of the acquisition of 100% of the total share capital of Sociedade Educacional e Cultural Sergipe DelRey Ltda. (“DelRey”), which encompasses the operations of Centro Universitário Tiradentes Alagoas (“UNIT Alagoas”) and Faculdade Tiradentes Jaboatão dos Guararapes (“FITS Jaboatão dos Guararapes”). The transaction does not enclose the “UNIT” and “FITS” brands, which will be licensed for Afya during the first year of operation.

The aggregate purchase price was R$825,000 before the deduction of Net Debt. It will be paid as follows: R$575,000 in cash on the transaction closing date and R$250,000 in three annual installments, respectively, of R$150,000, R$50,000, and R$50,000, adjusted by the Brazilian interest rate (SELIC).

There is a contingent payment related to 84 additional seats subject to approval. If the Ministry of Education approves those seats until December 31, 2024, it will result in a potential additional payment of R$1,250 per seat in UNIT Alagoas. The additional payment will be adjusted by the Brazilian inflation rate (IPCA) between the closing date and the date of its effective payment.

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. Transaction costs to date amounted to R$11,860. Any goodwill generated in the transaction is not expected to be deductible for tax purposes.

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