GAEC Educação S.A. and subsidiaries

Parent Company and Consolidated
Financial Statements for the Year Ended
December 31, 2017 and
Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

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INDEPENDENT AUDITOR'S REPORT ON THE
PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders, Board of Directors and Management of GAEC Educação S.A.

Opinion

We have reviewed the parent company and consolidated financial statements of GAEC Educação S.A. ("Company"), comprising the statement of financial position as at December 31, 2017 and the respective statements of operations, comprehensive income, changes in equity and cash flows for the fiscal year then ended, including a summary of the main accounting practices and other notes.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the parent company and consolidated financial position of the Company on December 31, 2017, the parent company and consolidated performance of its operations and its parent company and consolidated cash flows for the year then ended, in conformity with the accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for our opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities, pursuant to these standards, are described in the section called "Auditors' Responsibility for the Audit of the Parent Company and Consolidated Financial Statements" below. We are independent of the Company and its subsidiaries, in compliance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants and the professional standards issued by the Brazilian Federal Accounting Council, and we have also fulfilled our other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

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

Evaluation of recoverability of goodwill of subsidiaries with recurring accounting losses

The Company recorded an amount of R$81,242 thousand under intangible assets related to goodwill paid in the acquisition of the subsidiary HSM do Brasil S.A., based on the expected future profitability of its business. In accordance with CPC 4 – Intangible Assets (equivalent to IAS 38 – Intangible Assets), the Company must annually evaluate the recoverability of goodwill, and, if necessary, record a provision for impairment. The process for evaluating this intangible asset's recoverability is complex and involves significant judgment by Management to determine the discount rate, projected revenue and the economic and financial evaluation model used. Given that the subsidiary's actual results have been lower than expected, this asset has been considered a key audit matter.

How our audit addressed this matter

The procedures used to obtain appropriate audit evidence were as follows: (i) attainment of an understanding of the internal controls adopted by Management to prepare projections and a recoverability analysis related to goodwill paid; (ii) participation of our specialists in the review of the methodology and procedures used by the Company's Management in its recoverability analysis; (iii) analysis of the mathematical consistency of the economic and financial evaluation model; (iv) assessment of the reasonableness of the assumptions used to project future results and the discount rate adopted; and (v) sensitivity analyses in the study prepared by the Company's Management to support the goodwill recognized in the financial statements.

We have also assessed the appropriateness of the content disclosed by Management in Note 13.2 to the financial statements.

Based on the audit procedures performed, we consider the impairment testing of goodwill and the respective disclosures to be appropriate in the context of the financial statements taken as a whole.

Other matters

Statement of value added

The parent company and consolidated statements of value added for the year ended December 31, 2017, which are the responsibility of the Company's management and are presented as supplementary information for IFRS purposes, were subject to audit procedures performed together with the audit of the Company's financial statements. In order to form our opinion, we have verified if these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in compliance with the criteria set forth in the Technical Pronouncement CPC 09 - "Statement of Value Added". In our opinion, these statements of value added were fairly prepared, in all material respects, in accordance with the criteria established in this Technical Pronouncement and are consistent with the parent company and consolidated financial statements taken as a whole.

Other information accompanying the parent company and consolidated financial statements and the independent auditor's report

The Company's Management is responsible for this and other information comprising the management report.

Our opinion on the parent company and consolidated financial statements does not cover the management report. Accordingly, we do not express any form of audit conclusion on this report.

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

Responsibilities of Management and those charged with Governance for the parent company and consolidated financial statements

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

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

The persons charged with governance at the Company are those responsible for overseeing the process of preparation of the parent company and consolidated financial statements.

Auditor's responsibility for the parent company and consolidated financial statements

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

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

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

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Group.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Belo Horizonte, March 19, 2018

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
CRC-2SP 011.609/O-8 F/MG

Gilberto Grandolpho
Accountant
CRC nº 1 SP 139572/O-5

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GAEC EDUCAÇÃO S.A. AND SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017
Amounts in thousands of Brazilian reais – R$

		Company		Consolidated	
ASSETS	Note	12/31/2017	12/31/2016	12/31/2017	12/31/2016
CURRENT ASSETS					
Cash and cash equivalents	6	2,992	8,663	33,918	39,568
Short-term investments	6	-	7,003	81,994	141,931
Trade receivables	7 and 29	26,940	12,205	246,893	195,710
Sundry advances	8	1,367	1,532	30,497	37,355
Dividends receivable		59,768	140,617	-	-
Recoverable taxes	9	3,048	3,630	8,998	11,154
Other current assets		1,078	56	7,712	8,324
Total current assets		95,193	173,706	410,012	434,042
NONCURRENT ASSETS					
Trade receivables	7	-	-	137	89,893
Sundry advances	8	-	-	11,599	12,449
Escrow deposits	21	46	34	47,387	36,292
Receivables from related parties	29	9,891	-	333	147
Recoverable taxes	9	7,586	1,279	16,150	6,001
Deferred income tax and social contribution	10	1,584	-	1,584	-
Other noncurrent assets		349	-	30,043	16,366
Investments	11	858,962	811,261	2,732	-
Property and equipment	12	6,771	5,248	246,119	223,530
Intangible assets	13	20,916	16,132	572,056	569,132
Total noncurrent assets		906,105	833,954	928,140	953,810
TOTAL ASSETS		1,001,298	1,007,660	1,338,152	1,387,852

		Company		Consolidated	
LIABILITIES AND EQUITY	Note	12/31/2017	12/31/2016	12/31/2017	12/31/2016
CURRENT LIABILITIES					
Trade payables	14	5,648	4,032	33,773	23,688
Borrowings and financing	15	36,238	99,824	52,512	124,126
Labor and related taxes	16	10,065	6,853	62,564	58,359
Taxes payable	17	1,261	1,058	17,485	14,772
Advances from clients	18	-	-	17,528	19,177
Taxes and contributions paid in installments	19	-	-	129	550
Notes payable	20	-	-	11,141	9,133
Dividends payable		20,244	4,967	20,244	4,967
Derivatives	30	4,941	13,061	4,941	13,061
Other current liabilities		900	202	1,150	456
Total current liabilities		79,297	129,997	221,467	268,289
NONCURRENT LIABILITIES					
Borrowings and financing	15	215,035	230,301	223,306	253,506
Debts with related parties	29	3,577	22	9	-
Notes payable	20	-	-	61,139	64,551
Taxes and contributions paid in installments	19	-	-	3,010	4,470
Deferred income tax and social contribution	10	-	-	38,441	52,180
Provision for labor, tax and civil risks	21	1,309	1,290	88,280	98,473
Derivatives	30	2,616	9,641	2,616	9,641
Other noncurrent liabilities		3,023	717	3,443	1,050
Total noncurrent liabilities		225,560	241,971	420,244	483,871
TOTAL LIABILITIES		304,857	371,968	641,711	752,160
EQUITY					
Capital stock	22	496,411	496,411	496,411	496,411
Capital reserve	22	6,618	6,533	6,618	6,533
Profit reserve	22	277,191	212,266	277,191	212,266
Treasury shares	22	(14,213)	(9,952)	(14,213)	(9,952)
Goodwill from capital transaction	22	(69,566)	(69,566)	(69,566)	(69,566)
Total equity		696,441	635,692	696,441	635,692
TOTAL EQUITY AND LIABILITIES		1,001,298	1,007,660	1,338,152	1,387,852

The notes are an integral part of the financial statements.

GAEC EDUCAÇÃO S.A. AND SUBSIDIARIES

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2017
Amounts in thousands of Brazilian reais – R$

		Company		Consolidated	
	Note	12/31/2017	12/31/2016	12/31/2017	12/31/2016
NET REVENUE	24	2,482	2,519	1,045,674	960,434
COST OF PRODUCTS AND SERVICES	25	(23,298)	(16,912)	(646,541)	(611,583)
GROSS INCOME (LOSS)		(20,816)	(14,393)	399,133	348,851
OPERATING INCOME (EXPENSES)					
Selling expenses	25	(2,218)	(1,839)	(84,210)	(75,394)
General and administrative expenses	25	(2,432)	(1,712)	(228,186)	(191,213)
Equity in the earnings (losses) of subsidiaries	11	123,474	87,569	(404)	-
Other operating income (expenses), net	25	6,295	(7,827)	(160)	(26,155)
		125,119	76,191	(312,960)	(292,762)
EARNINGS BEFORE FINANCIAL RESULT		104,303	61,798	86,173	56,089
Finance income (expenses), net	27	(37,928)	(40,953)	(37,854)	(36,771)
PROFIT (LOSS) BEFORE INCOME TAXES		66,375	20,845	48,319	19,318
Current and deferred income tax and social contribution	10	18,777	-	36,833	1,527
PROFIT (LOSS) FOR THE YEAR		85,152	20,845	85,152	20,845
PROFIT FOR THE YEAR ATTRIBUTABLE TO:					
Controlling interest		85,152	20,845	85,152	20,845
BASIC EARNINGS (LOSS) PER SHARE – R$	22	1.07	0.26		
DILUTED EARNINGS PER SHARE - R$	22	1.05	0.26		

The notes are an integral part of the financial statements.

GAEC EDUCAÇÃO S.A. AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2017
Amounts in thousands of Brazilian reais – R$

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
PROFIT (LOSS) FOR THE YEAR	85,152	20,845	85,152	20,845
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	85,152	20,845	85,152	20,845
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO				
Controlling interest	85,152	20,845	85,152	20,845

The notes are an integral part of the financial statements.

GAEC EDUCAÇÃO S.A. AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2017
Amounts in thousands of Brazilian reais – R$

					Profit reserves				
	Note	Capital stock	Capital reserve	Treasury shares	Legal reserve	Profit retention	Goodwill on capital transactions	Retained earnings	Company’s equity
BALANCES AS AT DECEMBER 31, 2015		496,411	1,231	(3,149)	13,378	203,813	(69,566)	-	642,118
Share-based compensation		-	5,302	-	-	-	-	-	5,302
Mandatory dividends		-	-	-	-	-	-	(4,951)	(4,951)
Legal reserve		-	-	-	1,042	-	-	(1,042)	-
Profit reserve		-	-	-	-	14,852	-	(14,852)	-
Acquisition of treasury shares	22.c	-	-	(27,622)	-	-	-	-	(27,622)
Cancellation of common shares		-	-	20,819	-	(20,819)	-	-	-
Profit (loss) for the year		-	-	-	-	-	-	20,845	20,845
BALANCES AS AT DECEMBER 31, 2016		496,411	6,533	(9,952)	14,420	197,846	(69,566)	-	635,692
Share-based compensation		-	85	-	-	-	-	-	85
Mandatory dividends		-	-	-	-	(7)	-	(20,223)	(20,230)
Legal reserve		-	-	-	4,258	-	-	(4,258)	-
Profit reserve		-	-	-	-	60,671	-	(60,671)	-
Time-barred dividends		-	-	-	-	3	-	-	3
Acquisition of treasury shares	22.c	-	-	(4,261)	-	-	-	-	(4,261)
Profit (loss) for the year		-	-	-	-	-	-	85,152	85,152
BALANCES AS AT DECEMBER 31, 2017		496,411	6,618	(14,213)	18,678	258,513	(69,566)	-	696,441

The notes are an integral part of the financial statements.

GAEC EDUCAÇÃO S.A. AND SUBSIDIARIES

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017
Amounts in thousands of Brazilian reais – R$

		Company		Consolidated	
	Note	12/31/2017	12/31/2016	12/31/2017	12/31/2016
CASH FLOW FROM OPERATING ACTIVITIES					
Profit for the year		85,152	20,845	85,152	20,845
Adjustments:					
Allowance for doubtful accounts	7/25	-	-	46,169	45,554
Restatement (reversal) of escrow deposits	21	(3)	3	(2,103)	(1,660)
Depreciation and amortization	12/13/25	8,076	4,816	51,294	42,121
Write-off of the residual value of property and equipment and intangible assets	12/13	91	102	425	4,477
Equity income	11	(123,475)	(87,571)	404	-
Investment loss		2	-	-	36
Loss on provision for impairment		-	10,300	-	19,000
Expenses with interest from loans, borrowings and tax installments		24,509	50,284	28,547	60,716
Recognition and restatement of the provision for labor, tax and civil risks	25	19	(599)	7,236	12,060
Present value adjustment expenses and restatement of notes	27	-	-	8,325	8,706
Revenue from adjustment to present value and FIES, Ampliar and Pravaler inflation adjustments		-	-	(6,166)	(16,338)
Restatement of loans to third parties		-	-	(1,799)	(1,128)
Share-based compensation		12	-	85	5,302
Fair value from derivatives		11,670	-	11,584	-
Write-off of inventory and net assets		-	-	1,194	-
Current and deferred income tax and social contribution	10	(18,777)	-	(36,833)	(1,527)
		(12,724)	(1,820)	193,514	198,164
Variation in operating assets and liabilities:					
Decrease (increase) in trade receivables		(14,735)	(3,925)	(1,430)	(5,750)
Decrease (increase) in sundry advances		165	(861)	7,709	(25,203)
Decrease (increase) in escrow deposits	21	(9)	5	(13,335)	(8,653)
Decrease (increase) in recoverable taxes and contributions		2,869	710	615	(339)
Decrease (increase) in other assets		(1,371)	-	(3,338)	1,951
(Decrease) increase in trade payables		1,616	717	10,085	439
(Decrease) increase in payroll and related taxes		4,211	(87)	7,846	6,104
(Decrease) increase in advances from clients		-	-	(1,649)	(4,000)
(Decrease) increase of taxes and contributions paid in installments		-	-	710	(474)
(Decrease) increase of provision for tax, civil and labor risks	21	-	(439)	(13,737)	(14,407)
(Decrease) increase in other liabilities		3,007	909	3,092	243
		(4,247)	(2,971)	(3,432)	(50,089)
Interest paid		(28,169)	(15,397)	(32,816)	(25,627)
Income tax and social contribution paid		-	-	(15)	(364)
Net cash (used in) generated by operating activities		(45,140)	(20,188)	157,251	122,084
CASH FLOW FROM INVESTING ACTIVITIES					
Loans with related parties					
Concessions		(10,741)	-	(4,028)	(135)
Received		850	-	3,842	-
Capital increase in subsidiary	11	(53,747)	(165,197)	(3,136)	-
Acquisition of subsidiaries net of cash acquired		(6)	-	-	(8,019)
Redemption (investment) of financial investments		8,802	157,348	75,225	40,695
Yields from financial investments		(1,799)	(10,869)	(15,288)	(23,361)
Acquisition of property and equipment	12	(3,641)	(4,026)	(53,589)	(38,397)
Acquisition of intangible assets	13	(11,673)	(6,237)	(19,513)	(13,227)
Dividends received		219,088	69,732	-	-
Net cash (used in) generated by investing activities		147,133	40,751	(16,487)	(42,444)
CASH FLOW FROM FINANCING ACTIVITIES					
Loans with related parties					
Funding		28,982	1,671	9	-
Amortizations		(25,427)	(1,649)	-	-
Borrowings and financing					
Funding		5,351	142,978	5,351	142,978
Amortizations		(77,793)	(94,849)	(100,381)	(143,395)
Gain (loss) on derivatives	27	(29,565)	(18,590)	(29,565)	(18,590)
Amortization of notes payable in the acquisition of subsidiaries		-	-	(12,616)	(3,673)
Treasury shares	23.c	(4,261)	(27,623)	(4,261)	(27,623)
Dividends paid		(4,951)	(15,249)	(4,951)	(15,249)
Net cash (used in) generated by financing activities		(107,664)	(13,311)	(146,414)	(65,552)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(5,671)	7,252	(5,650)	14,088
VARIATION OF CASH AND CASH EQUIVALENTS					
Cash and cash equivalents at the beginning of the year	6	8,663	1,411	39,568	25,480
Cash and cash equivalents at the end of the year	6	2,992	8,663	33,918	39,568
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(5,671)	7,252	(5,650)	14,088

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

GAEC EDUCAÇÃO S.A. AND SUBSIDIARIES

STATEMENT OF VALUE ADDED FOR THE YEAR ENDED DECEMBER 31, 2017
Amounts in thousands of Brazilian reais – R$

		Company		Consolidated	
	Note	12/31/2017	12/31/2016	12/31/2017	12/31/2016
REVENUE					
Revenue from products and services	24	2,775	2,819	1,074,448	982,258
Other revenue		831	131	10,413	10,237
Allowance for doubtful accounts	25	-	-	(46,169)	(45,554)
INPUTS ACQUIRED BY THIRD PARTIES					
Cost of products and services		(158)	(25)	(12,847)	(11,493)
Materials, electricity, outsourced services and other		(1,942)	(14,750)	(181,508)	(178,291)
GROSS VALUE ADDED		1,506	(11,825)	844,337	757,157
Depreciation and amortization	25	(8,078)	(4,814)	(51,297)	(42,121)
NET VALUE ADDED		(6,572)	(16,639)	793,040	715,036
VALUE ADDED RECEIVED IN TRANSFER					
Equity in the earnings (losses) of subsidiaries	11	123,474	87,569	(404)	-
Financial income	27	2,694	77,619	38,166	119,143
TOTAL VALUE ADDED TO DISTRIBUTE		119,596	148,549	830,802	834,179
VALUE ADDED DISTRIBUTION		119,596	148,549	830,802	834,179
Personnel					
Direct compensation		8,610	4,575	420,412	392,205
Share-based compensation		11	-	83	5,302
Benefits		436	956	26,163	23,456
Severance pay fund (FGTS)		588	351	47,700	41,962
Taxes and contributions					
Federal		(16,263)	3,115	68,506	99,295
State		-	-	704	697
Municipal		90	81	31,375	22,695
Value distributed to providers of capital					
Interest	27	40,622	118,572	76,020	155,914
Rent		350	54	74,686	71,808
Value distributed to shareholders		85,152	20,845	85,152	20,845
Dividends		20,223	4,951	20,223	4,951
Profit for the year		64,929	15,894	64,929	15,894

The notes are an integral part of the financial statements.

2017 MANAGEMENT REPORT

Dear shareholders,

We are very pleased to present our Management Report and Financial Statements for the fiscal year ended December 31, 2017 and the comparisons with 2016. The parent company financial statements are prepared in accordance with the Brazilian accounting practices, including the pronouncements issued by the Accounting Pronouncements Committee (CPC) and the rules issued by the Brazilian Securities and Exchange Commission. The consolidated financial statements have been prepared and are presented in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

About Ânima

Ânima is one of Brazil's largest private educational organizations, both in terms of revenue and number of enrolled students, according to Hoper Educação.

We are uniquely positioned with respect to other companies in the industry, including publicly-held education companies, meaning that we are able to combine scale with the provision of high quality teaching. We have 15 years of experience in Brazil's post-secondary sector.

We closed 2017 with approximately 91.2 thousand students enrolled in on-campus and distance-learning undergraduate, graduate, K12 and vocational programs in 30 units in the states of Minas Gerais, São Paulo, Santa Catarina, Paraná and Goiás, as follows:

- The UNA University Center, in Belo Horizonte, with six academic units, in addition to nine units in the cities of Betim, Contagem, Sete Lagoas, Pouso Alegre, Divinópolis, Bom Despacho, Nova Serrana and Uberlândia (with two units), all in the state of Minas Gerais, as well as one college in the city of Catalão, in the state of Goiás;

- Also in Belo Horizonte, the UniBH University Center, with three units;

- In the state of São Paulo, Universidade São Judas Tadeu, with two academic units in the city of São Paulo, and the Unimonte University Center, located in the city of Santos, on the state's south coast;

- In the state of Santa Catarina, the UniSociesc University Center, in the city of Joinville, with two academic units and another five units in the municipalities of

Itajaí, São Bento do Sul, Florianópolis, Blumenau and Balneário Camboriú, in addition to one University Center in the city of Curitiba, state of Paraná.

We believe that, by having traditional brands renowned for their quality and relationship with the community, we are on the right track to achieving our goal of Transforming the Country through Education. Our portfolio also includes HSM, one of the most renowned corporate education institutions in Brazil. We believe HSM is also the leader in the organization of major business management events in terms of participant numbers, with an audience mostly consisting of senior executives of large companies. The events organized by HSM in Brazil aim to stimulate the discussion of the issues at the forefront of global management, and include the participation of world-renowned speakers, such as Jim Collins, Ram Charan, Michael Porter and Philip Kotler. HSM, founded 30 years ago, also offers educational solutions, including in-company courses and HSM Performance, which combine unique methodology and monitoring to meet the needs of companies for developing their employees and leaders. HSM also has its own publishing house, which is responsible for publishing select management titles and HSM Management Magazine, as well as HSM Experience, our digital management content platform.

Message from Management

In many cultures and different countries, turning fifteen represents a rite of passage and a special moment of one's journey. It is the time of celebration of what has been lived up to that moment, it is also time to project the future and challenges that present themselves in a new way. In 2018, Ânima is celebrating its 15th anniversary, which has been very well lived. We are immensely proud of our trajectory and we have an even more optimistic view of what lies ahead, as you will be able to see further on in this report. We are going through a rite of passage, undergoing major changes in our company in favor of an increasingly efficient and competent management. At the same time, we are looking towards the future, making our strategic choices clear and strongly investing in growth and quality-driven differentiation.

Accordingly, 2017 has proven to be an important inflection point for Ânima. After a challenging period throughout the two previous years, we began to collect the results of a series of prioritized initiatives to consistently resume growth and recover margins. It has also been a year of focus on the integration of the institutions acquired throughout 2016 (UniSociesc, Una Bom Despacho and Una Uberlândia). We continue to make progress, maintaining our positioning through increasingly better academic results. While we are celebrating all these achievements, we are also aware that there is still a long way to go.

Our undergraduate student base is growing again. The creation of our commercial team is proving to be one of our most important achievements. We were able to resume intake growth (+8% in the first semester and +31% in the second semester) by combining tactical initiatives with our high quality positioning, while sustaining a robust average ticket growth (+5% in 2017 versus 2016). Throughout the year, we were also able to maintain our students engaged, as underlined by the year-on-year improvement in retention rates, differently from the overall trend in the educational sector. The efforts of our academic and student relations teams were very important in achieving these gains. Overall, our undergraduate student base resumed organic growth, anticipating improvements we were only expecting to happen in 2018. Finally, we continue making progress in building strong brands in all our regional units. The academic results of the last evaluation cycle disclosed by the Ministry of Education (MEC) placed Unimonte and UniBH on the same level as Una and São Judas. Both broke through the IGC 4 barrier and were placed among the best post-secondary institutions in the country, according to MEC's quality criteria.

Margin recovery and cash generation. As shown in the last few quarters, we have already initiated the process of margin recovery. We ended 2017 with an adjusted EBITDA of R$173.9 million and a margin of 16.7%, a 0.6pp gain versus 2016. The main drivers of improvement were higher faculty productivity and better utilization of our campuses, which led to a 2.5pp increase in our gross margin. It is important to mention that these improvements are not coming at the expense of cash conversion. We ended the year with free cash flow of R$116.3 million (+21% versus 2016). As a result, we see a gradual recovery in our ROIC already in 2017.

We were also able to make progress in the integration of the operations acquired in 2016, reducing the margin dilution effect caused by the consolidation of these operations in our results. Despite the considerable improvement, with combined operating income of R$26.8 million in these operations (versus R$3.2 million in 2016) and a margin of 15.2% of Net Revenue, we still have a lot of room for improvement before we reach the productivity levels of our more mature brands. Accordingly, these operations once again ended the year ahead of their respective business plans, sustaining our value creation track record related to inorganic growth.

It is worth noting that our margin growth would have been even more robust in the second half of the year if it were not for the acceleration of our organic growth process. We opened 8 units in the last 18 months (which are still in the maturation phase) and inaugurated another 7 units in February 2018 (with pre-operating expenses). While the first group began to record positive results in 2017 (albeit with lower operating margins than mature campuses), the second group represented an investment, concentrated in the last quarter of the year. Excluding this effect, the annual EBITDA would be R$177.3 million and margin of 17.5% (+1.1pp versus 2016). We see this as an important investment, which is still at an early stage, but with great potential for value creation in the medium term.

New growth cycle. We are optimistic about the challenges that lie ahead. The recent organization changes were implemented to improve the balance between conception and execution. The first results of faculty and students' engagement with the new academic model, Ânima's Learning Ecosystem (E2A), are positive. And we were able to adapt our organic growth plan (Q2A) in order to continue to make progress, despite the regulatory changes that affected the offering of blended programs in the short term. We will not slow down in the pursuit of **our mission to Transform the Country through Education!**

Operational Performance

Student Base

At the end of 2017, we had 91.2 thousand students in the post-secondary sector, including the acquisitions made in 2016, an increase of 0.4% over 4Q16. This base comprises 83.0 thousand undergraduate students, 4.6 thousand graduate students, 0.9 thousand K12 and vocational education students, and 2.8 thousand distance-learning students.

Student Financing

From the beginning of 2015, when the conditions of FIES changed drastically for the educational sector as a whole, our student base has been shrinking, and the government's FIES has become increasingly less important to us. We closed the year with 22.9 thousand students with FIES contracts (27.6% of the base) compared to 28.1 thousand students in the second half of 2016 (34.6% of the base).

In addition to the traditional *PraValer* products, in which the receivables' credit risk is fully transferred to Ideal Invest, we also have a type of financing in which students go through *PraValer*'s entire credit scoring process, but we decide to approve an additional number of students and, therefore, maintain the credit risk in our balance sheet. These private financing products together totaled 6.4 thousand students, 7.7% of the undergraduate base (only 1.2 thousand students of whom use our balance sheet), versus 5.5 thousand students (6.8% of the base) in the second semester of 2016.

Academic Quality

At the end of 2017, the Ministry of Education (MEC) disclosed the results of the evaluations of Brazilian education institutions carried out in 2016. The results obtained in the Enade, the Preliminary Course Concept (CPC) and the General Course Index (IGC) for 2016 confirm Ânima's outstanding quality positioning, as most of its programs and institutions received a grade of 4 (scale of 1 to 5).

The 2016 results underline the effectiveness of our academic model and our commitment to remaining focused on constantly improving the quality of the education we provide our students.

At Ânima, 50% of the programs received a grade of 4 and 5 in Enade 2016, compared to 10% in the other listed companies. As a result, Ânima has constantly recorded the highest quality standards in the Brazilian post-secondary sector, even when compared to public universities.

Ânima's outstanding quality positioning becomes clear when we compare the distribution of our programs in the three ranges with the other post-secondary institutions in Brazil. While 81% of our programs are in the CPC ranges 4 and 5, in other listed companies and private institutions, this percentage is a mere 18%. In this cycle, our percentage was also considerably higher than that of public institutions.

The main highlight from the last cycle of evaluation is related to the improvement of the IGC at UniBH and Unimonte, whose higher continuous indices enabled them to reach range 4 in both cases. In view of this new scenario, we can say – and celebrate! – that all our organic base institutions were in range 4 in the measurement period. It is worth noting that, currently, only 17% of all Brazilian institutions (private and public) are currently in this range. São Judas, which had already reached a continuous IGC of 4 in the previous cycle, recorded an even higher continuous indicator, being ranked in the top 7 best private universities in Brazil and in 3rd place in the state of São Paulo. In Minas Gerais, while Una maintained its IGC of 4, remains at the top of the ranking of private Universities and University Centers in the state, UniBH, now also with an IGC of 4, came in second place among Belo Horizonte private Universities and University Centers.

The new regulatory framework increases the importance of our academic results, as they enable us to continue with our organic growth process, in compliance with MEC requirements. With 13 out the 19 institutions of our portfolio with its institutional concept (CI) above 4 and a robust portfolio of programs with a CC higher than 4, we can benefit from the new fast-track pre-accreditation process for new face-to-face colleges, campuses or courses. That way, we are being able to keep the pace of our organic expansion plans (Q2A) despite the recent restrictions imposed on the offering of blended programs.

Financial Performance

Net Revenue

Net revenue totaled R$1,045.6 million in 2017, 8.8%, or R$85.2 million, higher than in 2016. Our average net ticket closed the year at R$906/month, impacted by an average increase in tuition fees (+9.0%) and gains in the program mix (+2.6%), partially offset by higher scholarships, discounts and taxes (-7.2%). Including the acquisitions, our annual average ticket was R$860/month.

Total Costs and Gross Profit

Costs of services totaled R$646.5 million in 2017, 5.7% up on 2016. As a result, gross profit came to R$399.1 million, with a gross margin of 38.2%, 1.8 p.p. down from 2016. Excluding the acquisitions, gross profit came to R$347.0 million in 2017, with a gross margin of 40.5% (+1.5 p.p. vs. 2016). This increase was mostly due to gains in faculty productivity and academic support (personnel costs). The other cost lines offset the negative impacts of higher discounts, scholarships and taxes.

Operating Expenses

Selling Expenses

Selling expenses totaled R$84.2 million in 2017 (+11.7% vs. 2016), representing 8.0% of net revenue (-0.2 p.p. vs. 2016). Our provision for doubtful accounts improved slightly as a percentage of net revenue (+0.3 p.p. vs. 2016), offset by higher marketing expenses (-0.5 p.p.), mainly due to expenses related to the opening of new units.

General and Administrative Expenses

General and Administrative expenses totaled R$228.2 million in 2017 (+19.3% vs. 2016) and represented 21.8% of Net Revenue (-1.9pp vs. 2016). This is mainly due to an increase in personnel expenses (-1.4pp), which is directly related to our elected prioritized areas. The investment in the commercial and student services areas already show positive results in both intakes and retention rates. We also reinforced the corporate academic area with dedicated staff and new technology services, in addition to our new data science team.

Other Operating Revenues (Expenses)

Other operating revenues (expenses) totaled -R$0.1 million in 2017, or -0.1% of net revenue (+2.7 p.p. vs. 2016). This growth was mostly due to the lower provision for risk, in addition to a gain of R$26.1 million related to other operating revenues compared with 2016.

Adjusted EBITDA (Unaudited)

Adjusted EBITDA totaled R$173.9 million in 2017 (+13.2% vs. 2016), with a margin of 16.7%, a 0.6 p.p. increase over 2016. Excluding non-recurring items and the result of fines and interest on tuition fees in the amounts of R$25.2 million and R$11.1 million, respectively, EBITDA totaled R$137.6 million in 2017. Non-recurring items comprise R$24.4 million related to restructuring expenses, R$3.0 million related to the adjustment of FIES accounts receivable (positive effect in 2017), R$1.2 million related to the provision for inventory losses, and R$2.5 million related to the 2017 Refis tax installment programs.

Financial Result

In 2017, the net financial result came to a negative R$37.9 million, versus a negative R$36.8 million in 2016. This variation is mainly due to lower income from financial investments and lower inflation adjustment of the FIES accounts receivable balance, in addition to an increase in expenses with interest subsidies for our students who participate in the *PraValer* private financing program.

Income Tax and Social Contribution

We continue benefiting from Prouni, which guarantees income tax and social contribution exemption for most of our business.

In 2017, deferred Income Tax and Social Contribution credits were used in the amount of R$ 36.8 million, being R$ 36.4 non-recurring. Of this total, R$ 17.3 million were used to prepay tax installments, based on government's tax regularization programs in 2017 (PRT - MP 766/2017 and PERT - MP 783/2017). Another R$ 13.8 million were related to deferred income tax assets to offset other income tax liabilities related to business combinations that had been previously recorded. In addition, we wrote off R$ 5.3 million in deferred tax liabilities after the corporate reorganization of subsidiaries executed in November 2017.

Net Income

We closed 2017 with an Net Income of R$85.1 million, with a margin of 8.1% (+6.0 p.p. vs. 2016).

Net Debt

We ended 2017 with cash and cash equivalents and financial investments of R$115.9 million, R$31.0 million less than at the end of September 2017. Loans and financing fell R$12.1 million from September 2017, mainly due to the amortization of bank loans.

Other short and long-term obligations, mainly represented by accounts payable related to the acquisitions, amounted to R$75.4 million. As a result, we closed 2017 with net debt of R$242.9 million, representing a leverage (net debt ÷ LTM adjusted EBITDA) of 1.4x.

Accounts Receivable and DSO

We ended 2017 with net accounts receivable of R$247.0 million. For management and DSO calculation purposes, we are adjusting accounts receivable by R$1.2 million, comprising the R$7.8 million adjustment recorded in 4Q15 less R$6.6 million in write-offs since then.

As a result, adjusted accounts receivable totaled R$248.3 million in 2017, a reduction of R$41.5 million compared with 2016.

We closed 2017 with DSO (Days of Sales Outstanding) of 86 days, representing a 21-day decline from the previous year. Breaking down our accounts receivable, we recorded a DSO of 149 days for FIES receivables, an annual reduction of 59 days. For non-FIES receivables, our DSO stood at 57 days in 2017, an increase of 5 days over 2016. In the other businesses line, we closed the year with a DSO of 96 days.

Investments (Capex)

In 2017, CAPEX totaled R$73.1 million, or 7.0% of net revenue, a 1.6pp increase compared with the 5.4% reported in 2016. This figure includes investments in maintenance and expansion of our academic units (around R$15 million of which allocated to new units), new academic labs and development of our educational systems and technological platform.

Dividend Distribution Policy

The Company's Bylaws guarantee shareholders minimum dividends corresponding to 25% of annual net income less the legal reserve. In 2017, these dividends totaled R$5.0 million regarding the fiscal year of 2016.

Relationship with Independent Auditors

Pursuant to CVM Instruction 381/03, we hereby report that Deloitte Touche Tohmatsu Auditores Independentes was engaged to provide the following services in 2017: audit of the financial statements in accordance with the Brazilian accounting practices and International Financial Reporting Standards ("IFRS") and review of the interim quarterly financial information in accordance with Brazilian and international standards for the review of interim financial information (NBC TR 2410 - Review of Interim Information Performed by the Independent Auditor of the Entity and ISRE 2410 - Review of Interim Financial Information Performed by the Independent

Auditor of the Entity, respectively). The fees related to these services totaled R$548 thousand.

Statement of the Executive Board

The Company's Executive Officers declare that they have reviewed, discussed and are in agreement with the financial statements and the opinions included in the independent auditor's report.

1. GENERAL INFORMATION

GAEC EDUCAÇÃO S.A. ("GAEC" or "Company"), with registered head office in the city of São Paulo, State of São Paulo, is a publicly held corporation registered at the Brazilian Securities, Commodities and Futures Exchange ("BMF&BOVESPA S.A."), under the ticker ANIM3 engaged in providing advisory, consulting and business administration services and holding interests in other entities holding direct and indirect interests in companies engaged in:

a) Management of education institutions and provision of assistance to education support activities.

b) Provision of K-12 and post-secondary education services, including free, undergraduate, graduation, masters, doctorate, university extension, specialization, and distance-learning courses, and research.

c) Organization of congresses, seminars, lectures, cultural events, publishing and printing of books, newspapers and other publications, and the provision of online information services, such as portals, content providers, and other media, video and TV program distribution.

d) Consultancy services in the area of technological innovation and technical testing and analysis, including calibration laboratory and testing of electrical equipment, measuring equipment, materials, founding and tooling.

The Extraordinary Shareholders' Meeting of February 22, 2018 approved the change of the Company's corporate name to ÂNIMA HOLDING S/A.

The Company's direct and indirect subsidiaries are summarized in Note 2.3.

The Extraordinary Shareholders' Meeting of August 31, 2017 changed the corporate name of the subsidiary Minas Gerais Educação ("MGE") to Brasil Educação S/A.

Corporate Restructuring

Merger

Universidade São Judas Tadeu - At the Extraordinary Shareholders' Meeting of November 1, 2017, the subsidiary Brasil Educação S.A. approved the merger of AMC Serviços Educacionais Ltda ("USJT") by its parent company Brasil Educação S.A. ("Brasil"), in order to simplify its corporate structure. As USJT was a wholly owned subsidiary of Brasil, there were no share exchanges. As a result, no new shares were issued and the capital stock remained unchanged. The net assets absorbed by Brasil totaled R$96,303.

Politécnico Participações - At the meeting of December 1, 2017, Instituto Politécnico de Ensino Ltda's partners approved the downstream merger of Politécnico Participações Ltda. As a result of the downstream merger, 99.90% of the interest in Instituto Politécnico de Ensino Ltda held by Politécnico Participações Ltda was replaced with the direct interest of 99.90% held by Posse Gestão Patrimonial S.A. in Instituto Politécnico de Ensino Ltda.

The shares of Instituto Politécnico de Ensino Ltda, held by Politécnico Participações Ltda, were cancelled and replaced with the shares held by Posse Gestão Patrimonial S.A., which will now hold all the shares of the capital stock of Instituto Politécnico de Ensino Ltda. The only asset of Politécnico Participações Ltda was its interest in Instituto Politécnico de Ensino Ltda. As a result, the equity of Politécnico Participações Ltda totaled R$0.00.

Spin-off followed by merger

BR Educação - At the Extraordinary Shareholders' Meeting of November 1, 2017, the spin-off of BR Educação Executiva S.A. was approved in order to simplify its corporate structure, with the transfer of the spun-off portions of its equity to HSM do Brasil S.A. and PGP Educação S.A.

BR Educação's equity at book value was appraised at forty-four million, four hundred and forty-six thousand reais (R$44,446) on October 31, 2017, as per the valuation report. The appraised net assets are presented as follows:

Current assets	5
Noncurrent assets	44,441
Equity	44,446
Net assets absorbed by HSM Brasil	27,394
Net assets absorbed by PGP Educação	17,052

HSM Brasil and PGP Educação shares held by BR Educação were replaced with an equal number of shares held by the Company.

BR Educação's net assets absorbed by PGP Educação, totaling R$17,052,000, resulted in a capital increase, with the issue of 42,631 additional shares, which increased the capital stock by R$12,313 and resulted in a capital reserve of R$4,738.

Shares issued by HSM Brasil and held by BR Educação were replaced with the same number shares, of equal value, held by the Company. Given that BR Educação's net assets were absorbed by HSM Brasil, HSM Brasil's capital stock increased by an amount equivalent to BR Educação's net assets absorbed by HSM Brasil, totaling R$27,394, with the issue of 68,487 additional shares, which increased the capital stock by R$2,739 and resulted in a capital reserve of R$24,655.

Comparability

The income statement for the year ended December 31, 2016 does not include the full results of the investees Sociesc, FACEB, ACAD and Politécnico, which are being consolidated as of February 1, 2016, July 1, 2016, September 1, 2016, and October 3, 2016, respectively.

Therefore, the readers of this financial information should take this aspect into consideration.

2. PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Statement of compliance (with IFRSs and CPCs)

The parent company and consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB) and the accounting practices adopted in Brazil.

The accounting practices adopted in Brazil comprise the policies set out in Brazilian Corporate Law and the pronouncements, guidance, and interpretations issued by the Accounting Pronouncements Committee ("CPC"), and approved by the Federal Accounting Council ("CFC") and the Brazilian Securities and Exchange Commission ("CVM").

All significant information of the financial statements, and only this information, is being evidenced in the financial statements mentioned above and corresponds to information used by the Company's Management in the course of its duties.

2.2 Basis of preparation

The consolidated financial statements have been prepared based on the historical cost, except for certain financial instruments measured at their fair values. The historical cost is generally based on the fair value of the consideration paid in exchange for an asset on the acquisition date.

2.3 Basis of consolidation for investments in subsidiaries and joint venture

The consolidated financial statements include the financial statements of the Company and its subsidiaries. The subsidiaries are fully consolidated as of the date when control is transferred to the Group and it is interrupted when control ends.

For the years ended December 31, 2017 and 2016, the Company held the following direct and indirect subsidiaries and joint venture:

Subsidiary	Location (state)	Number of units	Equity interest % 12/31/2017	Equity interest % 12/31/2016
Direct subsidiaries				
Brasil Educação S.A. ("Brasil")	MG	17	100	100
Instituto Mineiro de Educação e Cultura Uni-BH S.A. ("IMEC")	MG	5	100	100
Instituto de Educação e Cultura Unimonte S.A. ("Unimonte")	SP	1	100	100
VC Network Educação S.A. ("VC Network")	SP	1	100	100
BR Educação Executiva S.A. ("BR Educação")	SP	1	-	100
Posse Gestão Patrimonial S.A. ("PGP Gestão")	MG	1	100	100
HSM do Brasil S.A. ("HSM Brasil")	SP	1	100	-
PGP Educação S.A. ("PGP Educação")	SP	1	100	-
Ânima Participações Ltda	SP	1	100	-
SOBEPE - Sociedade Brasileira Edu. Cult. Pesquisa S.A. ("SOBEPE")	SP	1	100	-
Indirect subsidiaries				
UNA Gestão Patrimonial S.A. ("UNA GP")	MG	1	100	100
HSM do Brasil S.A. ("HSM Brasil")	SP	1	-	100
PGP Educação S.A. ("PGP Educação")	SP	1	-	100
AMC Serviços Educacionais Ltda. ("USJT")	SP	2	-	100
Sociedade Educacional de Santa Catarina ("Sociesc")	SC	8	100	100
GKT Treinamento, Consultoria e Editora Ltda ("ACAD")	SP	1	100	100
FACEB Educacão Ltda ("FACEB")	MG	4	100	100
Politécnico Participações Ltda ("Politécnico")	MG	1	-	100
Instituto Politécnico de Ensino Ltda ("Politécnico")	MG	3	100	100
Instituto Ânima de Extensão Universitária	MG	1	100	-
Joint venture				
Le Cordon Bleu Anima Ltda ("LCB") (*)	SP	1	50	50
Associate				
Universidade Virtual Brasileira ("UVB")			10	10

(*) A joint venture is a joint agreement in which the parties that have joint control over the agreement have rights over the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control, applicable only when the decisions on relevant activities require the unanimous consent of the parties sharing the control. The associate's results, assets and liabilities are included in these consolidated financial statements under the equity method. The Company continues to use the equity method when an investment in an associate becomes an investment in a joint venture or when an investment in a joint venture becomes an investment in an associate.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, is the Board of Directors, which is also responsible for making Company's strategic decisions.

2.5 Functional and reporting currency

The line items included in the financial statements of each Company subsidiary are measured using the currency of the main economic environment in which the Company operates ("functional currency"). The financial statements are presented in reais - R$, which is the Company's functional currency and its presentation currency as well. All financial information presented has been rounded to the nearest thousand, unless otherwise stated.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Company in the preparation of the financial statements are as follows:

3.1 Cash and cash equivalents

These include amounts held as cash, bank accounts and highly-liquid short-term investments, whose original maturity does not exceed 90 days and are exposed to immaterial risk of change in fair value. They are recognized at cost plus income earned to the end of each reporting period, on a pro rata basis, which does not exceed their realizable values.

3.2 Short-term investments

These include the amounts held in fixed income investment funds and Bank Deposit Certificates (CDBs) with yield normally pegged to the CDI, which the Company does not intend to use in its operating activity. They are recognized at cost plus income earned to the end of each reporting period, on a pro rata basis, which does not exceed their realizable values.

3.3 Trade receivables

These are stated at the nominal values of the securities plus, when applicable, the earnings and monetary variations on a *pro rata temporis* basis, less the allowance for doubtful accounts, calculated in an amount considered sufficient by Management to cover eventual losses in the realization of the credits and the discount to present value adjustment, calculated based on the balance of long-term receivables and short-term receivables, when material.

3.4 Income tax and social contribution

Current income tax and social contribution for the year: recognized on an accrual basis and calculated individually for the Company and its subsidiaries in accordance with their tax regime and based on prevailing laws and effective rates of 15% for income tax, plus a surtax of 10% on taxable income exceeding R$240,000, and 9% on taxable income for social contribution. This calculation takes into consideration tax loss carryforwards, limited to 30% of taxable income.

The subsidiaries Brasil, IMEC, Unimonte, FACEB and Politécnico calculate income tax and social contribution also taking into account the criteria set out in Federal Revenue Service Regulatory Instruction 456, especially the University for All Program (PROUNI), and the operating profit generated by tax-exempt operations. Income tax and social contribution are calculated at the rates of 25% and 9%, respectively, levied on taxable income adjusted pursuant to specific legislation.

Current income tax and social contribution expenses are calculated using the laws and regulations enacted at the end of the reporting year, pursuant to Brazilian tax regulations.

Deferred taxes and contributions: these are recognized over temporary differences at the end of each year, between the balances of assets and liabilities in the related financial statements and tax bases.

- Deferred tax assets: the Company and its subsidiaries recognize the deferred tax and contribution assets over deductible temporary differences and tax loss carryforwards only if future taxable income is probably available and/or if deferred tax liabilities are recognized.
- Deferred tax liabilities: the Company and its subsidiaries recognize the deferred tax and contribution liabilities over temporary differences calculated on property revaluation and on the difference between the carrying amount and the fair value of assets allocated to the business combination.

3.5 Investments in the parent company financial statements

Represented by investments in subsidiaries, associates and joint venture, measured by the equity method, whose amounts are disclosed in Note 11. Other investments are recognized and carried at cost.

3.6 Property and equipment

These are stated at acquisition cost, less accumulated depreciation and impairment losses, when applicable, calculated on a straight-line basis, at the rates determined based on the useful lives of the assets, disclosed in Note 12.

The estimated useful lives and the depreciation methods are reviewed at the end of the reporting period, and the effects from any change in estimates are recorded prospectively.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or derecognition of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

3.7 Intangible assets

These are stated at acquisition or development cost, less accumulated amortization and impairment losses, when applicable. The amortization of intangible assets with finite useful lives is calculated on a straight-line basis, at rates based on the estimated useful lives of the assets, disclosed in Note 13. Intangible assets with indefinite useful lives consist of trademarks, patents, licenses and goodwill based on future earnings, which are not amortized and are instead annually tested for impairment.

An intangible asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss when the asset is derecognized.

Intangible assets acquired in a business combination - in the consolidated financial statements, intangible assets acquired in a business combination are recognized separately from goodwill and recorded at fair value on the acquisition date.

3.8 Provisions

Recognized for present obligations (legal or constructive) as a result of past events, when the amount of the obligation can be reliably estimated, and its settlement is probable.

The increase in the obligation as a result of the time elapsed is recognized as finance expenses.

The amount recognized as a provision is the best estimate of the outflows required to settle a present obligation at the end of each period, taking into account the risks and uncertainties surrounding the obligation.

3.9 Credits and debts with related parties

Correspond to rights and obligations contracted between the Company and its related parties, arising from loan operations, whose financial conditions are established between the Company and the related parties, as mentioned in Note 29.

3.10 Other current and noncurrent assets and liabilities

Stated at their realizable/settlement amounts and known or determinable amounts, plus interest or contractual charges incurred through the end of the reporting period.

3.11 Capital stock

Represented by common shares classified as equity.

Repurchased shares are classified as treasury shares and stated as a deduction of total equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Company’s own equity instruments. Any difference between the carrying amount and the consideration is recognized in capital reserves.

3.12 Funding cost of the issue of securities

Transaction costs incurred when raising funds through the issue of securities are booked, separately, as a net equity reduction account, less any tax effects.

3.13 Capital transactions

In the financial statements, the changes in the Group's equity interests in subsidiaries that do not result in the loss of control of the subsidiaries by the Group are recognized as capital transactions. The carrying amounts of the Parent Company's interests are adjusted to reflect the changes in their interests in the subsidiaries. The difference between the amount based on which non-controlling interests are adjusted and the fair values of amounts paid or received are recognized directly in equity and attributed to the owners of the Company.

3.14 Dividend distribution

The distribution of dividends to the Company's shareholders is recognized as a liability in its financial statements at the end of the reporting period, as set forth in the Company's bylaws. Any amounts in excess of the mandatory minimum dividend can only be accrued on the date they are approved at an Annual Shareholders' Meeting.

3.15 Share-based compensation

The Company and its subsidiaries have programs to encourage employees to acquire Company shares. If the employees retain the shares for the period set forth in the program, the Company will grant them 20% of the shares as a bonus for the shares acquired and held by employees. This program was initially offered in 2013 (already settled) and 2016. Agreements entered into with executives, subject to the achievement of financial, operational and other goals, are also classified as share-based compensation. See Note 29.2.

3.16 Basic and diluted earnings/losses per share

Basic earnings/losses per share are calculated by dividing the profit attributable to the Company's owners by the weighted average number of outstanding common shares. Diluted earnings/losses per share are calculated by means of the average number of shares outstanding, adjusted by instruments potentially convertible into shares, with diluting effect, in the reported years.

3.17 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, less any expected returns and/or trade discounts and other similar deductions. Revenue related to services rendered is only recognized when the services are provided to the customer. As a result, advance tuition payments are recorded under liabilities and recognized as revenue during the academic term.

Property lease revenue is only recognized when the leased line items are used by the customer, according to the underlying lease agreements. Revenue from the sale of products is recognized when the risks and benefits related to the ownership of the product are transferred. Revenue amount can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company and its subsidiaries.

3.18 Finance income and expenses

Finance income is recognized according to the period elapsed, under the effective interest method. When an impairment loss is recognized with regard to a receivable, the Company reduces the carrying amount to its recoverable amount, which corresponds to the estimated future cash flows, discounted at the original effective interest rate of the instrument. Subsequently, based on the time elapsed, interest is incorporated to trade receivables as a corresponding entry to finance income. This finance income is calculated at the same effective interest rate used to calculate the recoverable amount, i.e., the original rate of the receivables.

Finance expenses comprise interest expenses on loans, bank credit notes (CCBs), charges on taxes in installments, charges on student financing, and other financial liabilities, net of the discount to present value of provisions, and impairment losses recognized in financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are measured through profit or loss under the effective interest method.

Effective interest method:

The effective interest method is used to calculate the amortized cost of a debt instrument and allocate its interest income over the related period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that are an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the expected life of the debt instrument or, where appropriate, over a shorter period, to the net carrying amount on initial recognition date.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified at fair value through profit or loss.

3.19 Business combination

In the financial statements, business acquisitions are accounted for using the acquisition method. The consideration transferred to acquire a subsidiary is the fair value of the assets transferred, liabilities incurred, and equity instruments issued by the Company. Acquisition-related costs are recognized in profit or loss, as incurred. Identifiable assets acquired and liabilities assumed in a business combination are initially measured at their fair values on the acquisition date.

Goodwill is measured as the excess of the sum of consideration transferred of non-controlling interest in investee and the fair value of the acquirer’s interest previously held in investee (if any) over the net amounts on the acquisition date of assets acquired and identifiable assumed liabilities. If, after valuation, these values are higher than the transferred consideration, said excess is immediately recognized in profit or loss as a gain.

All intragroup transactions, balances and unrealized gains are eliminated. Unrealized losses are also eliminated, except when the transaction shows evidence of an impairment loss of the transferred asset. The subsidiaries’ accounting policies are changed, when necessary, to ensure their consistency with the accounting policies adopted by the Company.

Parent company financial statements

The Company applies to its parent company financial statements the criteria set out in Interpretation ICPC 09 (R1), which requires that any amount exceeding the acquisition cost over the Company's interest in the net fair value of the acquiree's assets, liabilities and contingent liabilities on the acquisition date be recognized as goodwill. Goodwill is added to the carrying amount of the investment. The Company's interests in the fair value of the identifiable assets, liabilities and contingent liabilities exceeding the acquisition cost, after revaluation, are immediately recognized in profit or loss.

3.20 Goodwill

Goodwill arising on a business combination is stated at cost on the date of the business combination, net of accumulated impairment loss, if any.

For impairment test purposes, goodwill is allocated to each one of the cash generating units of the Company and its subsidiaries (or groups of cash generating units) that will benefit from the business combination synergies.

The cash-generating unit in which goodwill is allocated is submitted to impairment test annually or when and if there is an indication that a cash-generating unit is impaired. If the recoverable amount of the cash-generating unit is lower than its carrying amount, the impairment loss is first allocated to reduce any goodwill amount and other assets of the cash-generating unit and subsequently to other unit's assets, proportionally to the carrying amount of each asset. Any impairment loss of goodwill is recognized in profit or loss. Impairment losses allocated to goodwill are not reversed in subsequent periods.

When the related cash-generating unit is sold, the amount corresponding to the goodwill is included in the calculation of the gains or losses on the sale.

3.21 Impairment

At the end of each year, the Company and its subsidiaries revise the carrying amount of their tangible and intangible assets to determine whether there is any objective evidence that these assets are impaired. If such indication exists, the recoverable amount of the asset is estimated in order to measure the amount of such loss, if any. When it is not possible to estimate the individual recoverable amount of an asset, the Company calculates the recoverable amount of the cash-generating unit of the asset. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment at least once a year and whenever there is any indication that the asset may be impaired.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. Estimated future cash flows are discounted to present value to determine the value in use at the pretax discount rate that reflects a current market assessment rate of the time value of money and the risks specific to the asset for which the future cash flow estimate was not adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognized in profit or loss.

When the impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) increases to the revised estimate of its recoverable value provided that it does not exceed the carrying amount that would have been obtained had no impairment losses been recognized for the asset (or cash-generating unit) in prior years. The reversal of an impairment loss is immediately recognized in profit or loss.

3.22 Present value adjustment

Assets and liabilities resulting from short- (if material) and long- term transactions, without yield or subject to: (i) fixed interest; (ii) interest rates clearly below market rates for similar transactions; and (iii) inflation adjustment only, with no interest, are adjusted at their present value based on market rates and their realization is recognized in profit or loss for the period.

3.23 Statement of value added ("DVA")

The purpose of this financial statement is to disclose the wealth created by the Company and its distribution over a certain reporting period, and is presented by the Company, as required by the Brazilian Corporate Law for publicly-held companies, as supplementary information to its parent company and consolidated financial statements, as this financial statement is not either prescribed nor required by IFRSs.

The statement of value added has been prepared using information obtained in the same accounting records used for the preparation of the financial statements and pursuant to the provisions of CPC 09 - Statement of Value Added.

3.24 Financial instruments

Are initially measured at fair value. The transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, where applicable, after initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

- Non-derivative financial assets: financial assets of the Company and its subsidiaries are classified at the time they are originated as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined on initial recognition.

The Company ceases to recognize a financial asset when the contractual rights to the asset's cash flows expire or when it transfers such rights to receiving contractual cash flows from a financial asset under a transaction that transfers substantially all the risks and rewards of ownership of the financial asset. Any interests created or retained by the Company in financial assets are recognized as an individual asset or liability.

The following is a summary of the significant accounting policies adopted to account for and disclose the Company's and its subsidiaries' financial assets:

(i) Loans and receivables - represented by non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After their initial measurement, these financial assets (including trade receivables, cash and cash equivalents, receivables from related parties, etc.) are measured at amortized cost using the effective interest method (effective interest rate), less impairment losses. The amortized cost is calculated considering any discount or premium on acquisition and fees or costs incurred. The amortization of the effective interest method is recognized in finance income item, in the income statement. Impairment losses are recognized in profit or loss for the year.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of the discount using the effective rate is immaterial.

- Non-derivative financial liabilities: the financial liabilities of the Company and its subsidiaries are classified on their initial recognition as other financial liabilities measured at amortized cost using the effective interest method. The Company's and its subsidiaries' financial liabilities include borrowings and financing, trade payables, and payables and debts with related parties, as described in Note 30.1.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

The following is a summary of the significant accounting policies adopted to account for and disclose the Company's and its subsidiaries' financial liabilities:

(i) Borrowings and financing - initially recognized when funds are received, net of transaction costs. At the end of the reporting period, they are carried at their initial recognition, less amortization of installments of principal, when applicable, plus the related charges incurred. Transaction costs are presented as a reduction of current and noncurrent liabilities, and are allocated to profit or loss over the same repayment, term of the financing from which they were originated based on the effective rate of each transaction.

  - Derivative financial instruments: derivatives are initially recognized at fair value on the contracting date. Any gains or losses are immediately recognized in profit or loss, unless the derivative instrument is designated and effective as a hedging instrument. The Company classified its swap agreements as fair value hedge, and the changes to the fair value of loans and swaps were recognized in profit or loss for the year.

  - Equity instruments: an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized when the funds are received, net of direct issue costs.

  The buyback of Company's own equity instruments is recognized and directly deducted from equity. No gain or loss is recognized in profit or loss due to the purchase, sale, issuance or cancellation of Company's equity instruments.

3.25 Accounting estimates

The preparation of the parent company and consolidated financial statements pursuant to IFRSs and CPC standards requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Underlying estimates and assumptions are constantly reviewed. The effects of revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The main assumptions related to the sources of estimate uncertainties in the future and other key sources of estimate uncertainties at the end of the reporting period involving the risk of material adjustments to the carrying amounts of assets and liabilities in the next year are discussed below.

- Estimated impairment of goodwill, trademarks and licensing: assets with indefinite lives, such as goodwill, trademarks and licenses, are not amortized and are instead annually tested for impairment to identify if they are impaired, using a methodology known as impairment test. Goodwill is recorded at cost less accumulated impairment losses. For the year ended December 31, 2017, there were no impairment losses on goodwill, trademarks and licensing. See Note 13.

- Provision for labor, tax and civil risks: the Company is a defendant in several judicial and administrative proceedings. Provisions are recognized for all lawsuits that represent probable losses. The chances of loss take into consideration available evidence, including the opinion of the Company’s in-house and outside legal counsels, the nature of the lawsuits, and past experience. Management believes that this provision is adequate and accurately presented in the financial statements. See Note 21.

- Allowance for doubtful accounts: stated as a reduction of trade receivables and is recognized in an amount considered sufficient by Management to cover potential losses from trade receivables related to its activities, taking into account the involved risks. The Company recognizes the allowance for doubtful accounts on a monthly basis by analyzing monthly receivables and the respective breakdown by days in arrears. See Note 7.

4. ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

4.1 Changes to IFRSs and new interpretations required to be applied as of the current year.

For the year ended December 31, 2017, the Company and its subsidiaries applied amendments and new interpretations to IFRSs and CPCs issued by the IASB and the CPC, which are mandatory for accounting periods beginning on or after January 1, 2017.

I. IAS 7: The amendments require the Company to disclose the changes in liabilities resulting from financing activities, presenting the variations involving cash and non-cash transactions. The Company's liabilities representing financing activities comprised borrowings and financing (Note 15), debt with related parties (Note 29), treasury shares (Note 22) and dividends paid. The reconciliation between the opening and closing balances of these items is presented in Note 33. In line with the provisions on transition in the amendments, the Company did not disclose comparative information with the previous period.

II. IAS12: The amendments clarify how an entity should assess whether there will be sufficient future taxable income against which the deductible temporary differences may be used. The application of these changes had no impact on the parent company and consolidated financial statements, given that the Company and its subsidiaries already make this assessment.

4.2 New and revised standards and interpretations already issued but not yet adopted.

The Company's Management analyzed the new standards and amendments to IFRS or IFRIC interpretations that have been in effect as of January 1, 2018 and concluded that they have no impacts on the financial statements of the Company and its subsidiaries. Possible impacts of the new standards to come into in effect as of 2019 are still being analyzed.

IFRS 9(*)	Financial Instruments
IFRS 15(*)	Revenue from Contracts with Customers
IFRS 16	Leases
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 40	Transfers of Investment Property
Amendments to IFRS	Annual Improvements to IFRS Standards 2014-2016 Cycle

(*) The Company's Management analyzed the standards (IFRS 9 and IFRS 15) and did not identify any impacts on the financial statements for the year ended December 31, 2017.

5. BUSINESS COMBINATION

5.1 Acquisition of Sociedade Educacional de Santa Catarina (Sociesc)

5.1.1 Consideration transferred

"PGP Educação" will disburse R$52,500 for the business, to be settled in 180 equal and successive monthly installments, adjusted by the INPC on an annual basis, as of the date when the business was concluded (February 1, 2016), maturing on the 10th of each month. The present value of this transaction was R$28,727 on the date when it was executed at a discount rate of 17.5% p.a.

5.1.2 Assets acquired and liabilities recognized on the acquisition date

In the first quarter of 2017, the Company and its consultants reviewed the fair value calculation of the assets and liabilities, and, consequently, goodwill arising from the transaction. These amounts were adjusted in relation to the initial amounts that had been recorded in the second quarter of 2016.

	Carrying amount	Acquisition adjustments	Goodwill adjustments (i)	Fair value
Assets				
Cash and cash equivalents	5,542	-	-	5,542
Other current assets	17,183	-	(1,525)	15,658
Other noncurrent assets	12,450	-	-	12,450
Property and equipment	35,184	26,628	-	61,812
Intangible assets	1,890	31,558	-	33,448
Liabilities				
Other current liabilities	31,117	-	-	31,117
Other noncurrent liabilities	21,603	-	-	21,603
Deferred income tax and social contribution liabilities	-	39,370	-	39,370
Provision for labor, tax and civil risks	106,897	(57,607)	3,907	53,197
Net assets acquired	(87,368)	76,423	(5,432)	(16,377)

(i) Amounts referring to labor and civil contingencies and canceled tuition fees from Pronatec, which had not been recognized in the opening statement of financial position, but were recognized as goodwill adjustments in the period ended June 30, 2016.

5.1.3 Goodwill generated in the acquisition

	2/1/2016 Acquired value
Consideration to be transferred at the acquisition	28,727
(-) Fair value of net liabilities / (assets) identifiable	16,377
Goodwill generated in the acquisition	45,104

Sociesc's acquisition generated goodwill resulting from the consideration paid for the transaction, which included amounts related to future synergy gains, future revenue growth, future market development, certificate of technical capacity and workforce. These benefits are not recognized separately from goodwill because they do not meet the criteria for the recognition of identifiable intangible assets.

5.1.4 Net cash outflow in the acquisition of subsidiary

	2/1/2016
Consideration paid in cash	291
(-) Balances of cash and cash equivalents acquired	(5,542)
Net cash disbursement	(5,251)

The transaction was agreed upon based on an estimated net debt of R$30,000, which, in fact, totaled R$37,493 on the closing date. The difference will be reimbursed by the vendors, as agreed in the contract governing the transaction between the parties.

5.2 Acquisition of FACEB Educação Ltda. (FACEB)

5.2.1 Consideration transferred

"PGP Gestão" will disburse R$42,245 for the business, adjusted for the net cash position, R$16,245 of which was settled on the closing date of the transaction, i.e. July 1, 2016, and R$26,000 will be paid in 10 annual installments, adjusted for the simple average of the IGPM, IPCA and INPC monetary restatement indices, with the first installment maturing twelve (12) months after the closing date. The transaction also envisages earn-out payments of up to R$8,000 between 2018 and 2023, based on the achievement of financial and operating targets. The present value of this transaction is R$38,998 at the Selic rate.

5.2.2 Assets acquired and liabilities recognized on the acquisition date

In the second quarter of 2017, the Company and its consultants completed the fair value calculation of the assets and liabilities and, consequently, the goodwill arising from the transaction.

	Carrying amount	Acquisition adjustments	Goodwill adjustments (i)	Fair value
Assets				
Cash and cash equivalents	2,209	-	-	2,209
Other current assets	3,855	-	(260)	3,595
Other noncurrent assets	265	-	-	265
Property and equipment	3,346	-	-	3,346
Intangible assets	7,680	5,926	-	13,606
Liabilities				
Other current liabilities	9,876	-	-	9,876
Other noncurrent liabilities	473	-	-	473
Deferred income tax and social contribution liabilities	-	2,015	-	2,015
Net assets acquired	7,006	3,911	(260)	10,657

(i) Amounts referring to loss of tuition fees from years prior to the acquisition date not recognized in the opening statement of financial position, but recognized as goodwill adjustment in October 2016.

5.2.3 Goodwill generated in the acquisition

	7/1/2016 Acquired value
Consideration to be transferred at the acquisition	38,998
(-) Equity value of net liabilities / (assets) identifiable	(10,657)
(+) Additional consideration transferred due to the acquisition	380
Goodwill generated in the acquisition	28,721

Sociesc's acquisition generated goodwill resulting from the consideration paid for the transaction, which includes amounts related to future synergy gains, future revenue growth and workforce. These benefits are not recognized separately from goodwill because they do not meet the criteria for the recognition of identifiable intangible assets.

5.2.4 Net cash outflow in the acquisition of subsidiary

	7/1/2016
Consideration paid in cash	16,245
(-) Balances of cash and cash equivalents acquired	(2,209)
Net cash disbursement	14,036

5.3 Acquisition of GKT Treinamento, Consultoria e Editora Ltda (ACAD)

5.3.1 Consideration transferred

"HSM Brasil" disbursed R$30 for the business and assumed net debt of R$2,970 on the closing date of the transaction, i.e., September 1, 2016, which totaled R$3,150. The difference was reimbursed by the vendors on the closing date of the transaction, as agreed in the contract governing the transaction between the parties. The transaction also envisages earn-out payments of up to R$2,203 between 2018 and 2021, based on the achievement of financial and operating targets. The present value of this transaction is R$622 at a discount rate of 13.46% p.a.

5.3.2 Assets acquired and liabilities recognized on the acquisition date

In the third quarter of 2017, the Company and its consultants completed the fair value calculation of the assets and liabilities and, consequently, the goodwill arising from the transaction.

	Carrying amount	Acquisition adjustments	Goodwill adjustments (i)	Fair value
Assets				
Cash and cash equivalents	579	-	-	579
Other current assets	1,263	-	-	1,263
Property and equipment	386	-	-	386
Intangible assets	105	1,081	-	1,186
Liabilities				
Other current liabilities	4,087	-	27	4,114
Other noncurrent liabilities	554	-	-	554
Deferred income tax and social contribution liabilities	-	368	-	368
Net assets acquired	(2,308)	713	(27)	(1,622)

(i) Amount referring to the return of insurance on the loan previously settled, not recognized in the opening statement of financial position, but recognized as goodwill adjustment in October 2016.

5.3.3 Goodwill generated in the acquisition

	9/1/2016 Acquired value
Consideration to be transferred at the acquisition	662
(-) Equity value of net liabilities / (assets) identifiable	1,622
Goodwill generated in the acquisition	2,284

ACAD's acquisition generated goodwill resulting from the consideration paid for the transaction, which includes amounts related to future synergy gains, future revenue growth and workforce. These benefits are not recognized separately from goodwill because they do not meet the criteria for the recognition of identifiable intangible assets.

5.3.4 Net cash outflow in the acquisition of subsidiary

	9/1/2016
Consideration received in cash	(150)
(-) Balances of cash and cash equivalents acquired	(579)
Net cash disbursement	(729)

5.4 Acquisition of Politécnico Participações Ltda and Instituto Politécnico de Ensino Ltda.

5.4.1 Consideration transferred

"PGP Posse" will disburse R$19,132 for the business, adjusted for the net cash position on the closing date of the transaction, i.e., October 3, 2016, to be settled in 73 monthly installments, restated at 12% p.a. plus TR. The present value of this transaction is R$19,132, given that the transaction incurs market interest.

5.4.2 Assets acquired and liabilities recognized on the acquisition date

In the fourth quarter of 2017, the Company and its consultants reviewed the fair value calculation of the assets and liabilities and, consequently, the goodwill arising from the transaction. These amounts were adjusted in relation to the final amounts that had been recorded in the third quarter of 2017.

	Carrying amount	Acquisition adjustments	Fair value
Assets			
Cash and cash equivalents	37	-	37
Other current assets	2,525	-	2,525
Other noncurrent assets	77	-	77
Property and equipment	4,854	-	4,854
Intangible assets	82	2,436	2,518
Liabilities			
Other current liabilities	4,758	-	4,758
Other noncurrent liabilities	2,160	-	2,160
Deferred income tax and social contribution liabilities	-	828	828
Net assets acquired	657	1,608	2,265

5.4.3 Goodwill generated in the acquisition

	10/3/2016 Acquired value
Consideration to be transferred at the acquisition	19,132
(-) Equity value of net liabilities / (assets) identifiable	(2,265)
Goodwill generated in the acquisition	16,867

Politécnico's acquisition generated goodwill resulting from the consideration paid for the transaction, which includes amounts related to future synergy gains, future revenue growth and workforce. These benefits are not recognized separately from goodwill because they do not meet the criteria for the recognition of identifiable intangible assets.

5.4.4 Net cash outflow in the acquisition of subsidiary

	10/3/2016
Consideration paid in cash	-
(-) Balances of cash and cash equivalents acquired	(37)
Net cash disbursement (increase)	(37)

6. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Cash and banks	68	200	5,488	7,303
Short-term investments - Operations	2,924	8,463	28,430	32,265
Total cash and cash equivalents	2,992	8,663	33,918	39,568
Short-term investments - Investment	-	7,003	81,994	141,931
Total short-term investments	-	7,003	81,994	141,931

Short-term investments are classified as loans and receivables in the financial instruments category. These consist of Bank Deposit Certificates (CDBs), which yield between 81.01% and 104.00% of the CDI, and vary according to the amount of time these funds remain in the account, all highly liquid, and by exclusive investment funds for GAEC's companies, which yielded between 101.24% and 103.61% of the CDI in the last twelve months.

7. TRADE RECEIVABLES

	Consolidated	
	12/31/2017	12/31/2016
FIES - student loan (a)	144,997	207,819
Accounts receivable – tuition fees (b)	179,748	172,502
Financing (Ampliar and Pravaler) (c)	12,879	1,962
Events	9,017	2,995
Leases, services and other	13,276	12,898
Total	359,917	398,176
Allowance for doubtful accounts - Other trade receivables (d)	(92,324)	(96,450)
Allowance for doubtful accounts - FIES (e)	(20,563)	(16,123)
Total	(112,887)	(112,573)
Overall total trade receivables	247,030	285,603
Current assets	246,893	195,710
Noncurrent assets	137	89,893

The Company and its subsidiaries have the accounting policy of writing off notes past due for more than two years, even though they maintain their efforts to collect them.

(a) Refers to monthly tuitions financed under the government program FIES (Student Loan Fund) not yet received, net of the present value adjustment and commissions (FGEDUC and financial agent). The National Education Development Fund (FNDE) transfers these amounts via credits that are offset against federal taxes. These credits can also be repurchased by the Fund. On December 2015, the Company, through the Brazilian Association for the Development of Post-Secondary Education (ABRAES), entered into a judicial agreement in which the Ministry of Education (MEC) and the FNDE committed to transfer 100% of the due remaining balance in three installments adjusted by the inflation index: 25% of the balance until June 30, 2016, 25% until June 30, 2017 and 50% until June 30, 2018. The installments received comprise the amount of R$92,657. The present value adjustment was calculated based on trade receivables that comprises the agreement entered into, the coming due amounts of which adjusted to present value at the rate of 3.2% p.a. (free of risk), and is being reversed in proportion to the agreed balances and transfer dates.

(b) Refers to monthly tuition fees, negotiated amounts payable through payment slips, collection firms, post-dated checks, credit cards and returned checks.

(c) Refers to tuition fees financed through the Ampliar (directly managed by the Company) and Pravaler (managed by Ideal Invest) programs, net of the present value adjustment, in which students pay between 33% and 65% of the nominal tuition fee amount while they are studying and the remaining amount after graduation in a period of up to twice the time of their courses. Financing rates vary between 0% and 5% p.a., depending on the type of program chosen by the students, plus adjustments for inflation. The present value adjustment is calculated based on trade receivables adjusted to present value at the rate of 10.31% p.a. (average return on short-term investments).

(d) The Company and its subsidiaries recognized an allowance for doubtful accounts after analyzing the balance of trade receivables per portfolio and the aging list, and taking into account the history of default and the negotiations in progress and future estimates of receivables in a conservative scenario. Under such methodology, each default range per portfolio is assigned a percentage of likelihood of loss, which is recurrently accrued. The Company's management continually assesses the need to change the percentages of the allowance for losses in order to reflect the impact caused by Brazil's macroeconomic scenario.

(e) The Company's subsidiaries recognize an allowance for doubtful accounts for amounts under the FIES according to the likelihood of loss associated with the students included in the Program. Regarding agreements not covered by FGEDUC and the 10% of agreements covered by FGEDUC, we recognized an allowance of 6% over the financed amount, in which we estimate a 40% default rate in relation to the Company's 15% exposure to credit risk. The balances related to FGEDUC are directly deducted from revenue and accounts receivable (R$16,414 on December 31, 2017 and R$20,151 on December 31, 2016).

The aging list of trade receivables is as follows, which also includes the average percentages of the portfolios' estimated losses by aging level adopted in the Company's policy:

	Consolidated				
	12/31/2017				
	Receivables	Allowance for doubtful accounts	% Loss per default rate	Net receivables	% (*)
FIES					
Current	144,997	-	0.00%	144,997	58.70%
Loss of FIES credit	-	(20,563)	-	(20,563)	(8.32%)
Credit card	8,111	-	-	8,111	3.28%
Current	54,012	(8,837)	16.36%	45,175	18.29%
Past due:					
0 to 90 days	50,773	(12,199)	24.03%	38,574	15.62%
91 to 180 days	27,403	(11,867)	43.31%	15,536	6.29%
181 to 360 days	29,788	(18,991)	63.75%	10,797	4.37%
361 to 720 days	44,833	(40,430)	90.18%	4,403	1.78%
Total	359,917	(112,887)	31.36%	247,030	100%

(*) Refers to the percentage share of total accounts receivable per maturity term.

	Consolidated				
	12/31/2016				
	Receivables	Allowance for doubtful accounts	% Loss per default rate	Net receivables	% (*)
FIES					
Current	207,819	-	-	207,819	72.76%
Loss of FIES credit	-	(16,123)	-	(16,123)	(5.65%)
Credit card	3,463	-	-	3,463	1.21%
Pronatec	71	-	-	71	0.02%
Current	32,193	(3,949)	12.27%	28,244	9.89%
Past due:					
0 to 90 days	41,854	(8,344)	19.94%	33,510	11.73%
91 to 180 days	22,171	(7,977)	35.98%	14,194	4.97%
181 to 360 days	30,027	(19,813)	65.98%	10,214	3.59%
361 to 720 days	60,578	(56,367)	93.05%	4,211	1.48%
Total	398,176	(112,573)	28.27%	285,603	100%

(*) Refers to the percentage share of total accounts receivable per maturity term.

Changes in the allowance for doubtful accounts in the year were as follows:

	Consolidated	
	12/31/2017	12/31/2016
Opening balance	112,573	79,398
Allowance for doubtful accounts for the year	46,169	45,554
Business combination - Sociesc, FACEB and ACAD	-	11,914
Notes written off in the year (i)	(45,855)	(24,293)
Closing balance	112,887	112,573

(i) Refers to notes written off in the period, past due for more than two years.

8. SUNDRY ADVANCES

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Rent (a)	-	-	18,240	21,448
Trade payables	834	1,003	6,275	7,755
Employees	533	529	16,117	15,495
Prepayment - acquisition	-	-	1,076	4,576
Other	-	-	387	530
Total	1,367	1,532	42,095	49,804
Current assets	1,367	1,532	30,497	37,355
Noncurrent assets	-	-	11,599	12,449

(a) Refers to rent advances related to IMEC, Sociesc and Politécnico units.

9. RECOVERABLE TAXES AND CONTRIBUTIONS

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Withholding income tax (IRRF) (a)	3,238	4,710	10,653	10,672
Taxes on revenue (PIS/COFINS)/social contribution	105	194	3,382	2,672
Prepaid income tax (b)	-	-	2,071	2,125
Prepaid social contribution (b)	-	-	425	374
Other (c)	7,291	5	8,618	1,312
Total	10,634	4,909	25,149	17,155
Current assets	3,048	3,630	8,998	11,154
Noncurrent assets	7,586	1,279	16,150	6,001

(a) It mainly refers to withholding income tax on short-term investments.

(b) They mainly refer to amounts for offset related to prepaid 2000 and 2001 income tax and social contribution of UNA subsidiary, for which a tax return request was filed at the Brazilian Internal Revenue Service (IRS).

(c) It refers mainly to credits from negative balance of the 2012 and 2014 income and social contribution taxes recorded due to the cancelation of PERDCOMP for inclusion in the Tax Regularization Program (PRT) – MP 766 – IN 1687. See Note 19.

10. CURRENT AND DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

10.1 Deferred income tax and social contribution

Assets - The Company and its subsidiaries hold income tax and social contribution on tax loss carryforwards. Recognition of deferred tax assets only occurs when it is reasonably certain that these credits will be realized. The parent company has income tax loss carryforwards amounting to R$144,169 (R$166,545 on December 31, 2016) and R$248,306 (R$274,827 on December 31, 2016) in consolidated, which can be carried forward indefinitely, on which no deferred tax assets were recognized.

In 2017, the Company used R$15,064 and R$2,272 to settle tax installment payments related to the Tax Regularization Program (PRT – MP 766 – IN 1,687) and the Special Tax Regularization Program (PERT – Law 13,496), respectively. See Note 19.

In addition to using tax credits to settle installment payments related to the PRT program mentioned above, on December 31, 2017, the Company recorded deferred income tax asset in the amount of R$13,793, of which R$4,625 on temporary differences and R$9,168 on income tax loss carryforwards, which was limited to 30% of the deferred income tax liability recorded.

The change of the deferred income tax asset balance for the year ended December 31, 2017 was as follows:

	Consolidated					
	Opening balance	Change				Closing balance
	12/31/2016	Recognition of tax credits	Offsetting of PRT installment payments	Offsetting of PERT installment payments	Offsetting of deferred income tax liability	12/31/2017
Income tax	-	22,889	(11,076)	(1,671)	(8,977)	1,165
Social contribution	-	8,240	(3,988)	(601)	(3,232)	419
Total	-	31,129	(15,064)	(2,272)	(12,209)	1,584

Liabilities - deferred income tax and social contribution refers to:

(i) Taxes and contributions calculated on the property revaluation made in 2007 and the property surplus value realized in 2009. For the year ended December 31, 2017, the balance totaled R$4,674 (R$4,714 as at December 31, 2016).

(ii) Taxes and contributions calculated on the difference between the carrying amount and the fair value of assets allocated to the business combination in the acquisition, which generated a deferred tax liability to be settled when the business is sold or in the realization of the allocated assets. In November 2017, following the merger of BR Educação, the Company wrote-off deferred tax credit liabilities in the amount of R$5,281, which was recorded as credit in the 2017 result. As at December 31, 2017, the deferred income tax liability balance totaled R$44,069 (R$47,466 as at December 31, 2016).

(iii) Taxes and contributions calculated on the portion of goodwill amortized for tax purposes, as of 2017. As at December 31, 2017, the balance totaled R$1,907 (zero in 2016).

(iv) On December 31, 2017, the deferred income tax liability balance is presented net of tax credits in the amount of R$12,209.

The change of the deferred income tax liability balance on December 31, 2017 was as follows:

	Consolidated					
	Opening balance	Change				Closing balance
	12/31/2016	Business combination	Effect (amortization)/recognition of deferred taxes on goodwill	Write-offs	Offsetting of deferred income tax asset	12/31/2017
Income tax	38,367	2,973	(214)	(3,883)	(8,977)	28,266
Social contribution	13,813	1,069	(77)	(1,398)	(3,232)	10,175
Total	52,180	4,042	(291)	(5,281)	(12,209)	38,441

The change of the deferred income tax liability balance on December 31, 2016 was as follows:

	Consolidated			
	Opening balance	Opening balance		Opening balance
	12/31/2015	Business combination	Effect on profit (loss)	12/31/2016
Income tax	11,264	28,336	(1,233)	38,367
Social contribution	4,056	10,201	(444)	13,813
Total	15,320	38,537	(1,677)	52,180

10.2 Effective Rate Reconciliation

Reconciliation of income tax and social contribution statutory and effective tax rates:

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Income before income tax and social contribution	66,375	20,845	48,319	19,318
Combined tax rate	34%	34%	34%	34%
Income tax and social contribution by combined tax rate	(22,568)	(7,087)	(16,428)	(6,568)
Adjustments to profit or loss:				
Equity income	41,981	29,773	(137)	-
Tax incentive - PROUNI	-	-	43,026	43,710
Unrecognized tax credits	(19,695)	(21,658)	(26,326)	(33,945)
Tax credits recognized in previous years	1,577	-	13,793	-
Tax credit used to settle installment payments (a)	17,193	-	17,336	-
Write-off of deferred taxes arising from business combinations (mergers)	-	-	5,281	-
Other additions and exclusions	289	(1,028)	288	(1,670)
				-
Calculated income tax and social contribution	18,777	-	36,833	1,527
Current income tax and social contribution for the year	-	-	132	(150)
Deferred income tax and social contribution for the year	18,777	-	36,701	1,677
Assets (a)	18,777	-	31,261	-
Liabilities	-	-	5,572	1,677

(a) The Company and its subsidiary Unimonte recognized deferred tax credits over tax loss carryforwards, which were used to settle installment payments related to the PRT and PERT programs, as described in Note 19.

11. INVESTMENTS

The investments in subsidiaries and joint venture are measured by the equity method of accounting, as shown below:

Subsidiaries:

	Company 12/31/2017			Company 12/31/2016		
	Investment	Equity income	Equity interest	Investment	Equity income	Equity interest
Assets:						
IMEC	100,845	84,506	100%	97,683	79,806	100%
Brasil Educação	479,954	44,244	100%	484,739	61,108	100%
BR Educação	-	(17,680)	-	75,368	(42,895)	100%
Unimonte	43,305	(2,682)	100%	40,245	(8,403)	100%
PGP Gestão	39,260	(4,364)	100%	25,822	(2,052)	100%
VC Network	82	5	100%	77	7	100%
HSM Brasil	64,792	13,315	100%	-	-	-
PGP Educação	62,207	6,542	100%	-	-	-
Ânima Participações	842	(4)	100%	-	-	-
SOBEPE	(2)	-	100%	-	-	-
Allocated fair value	29,919	(4)		52,301	(2)	
Goodwill	35,026	-		35,026	-	
Total	856,230	123,878		811,261	87,569	

Joint venture:

	Subsidiary and Consolidated 12/31/2017			Subsidiary and Consolidated 12/31/2016		
	Investment	Equity income	Equity interest	Investment	Equity income	Equity interest
Assets:						
LCB	2,732	(404)	50%	-	-	-
Total	2,732	(404)		-	-	
Total	858,962	123,474		811,261	87,569	

The number of shares/quotas is as follows:

	Number of shares/quotas held 12/31/2017	12/31/2016
Direct subsidiaries:		
IMEC	8,789,479	8,789,479
Brasil	4,586,219	4,532,699
VC Network	4,023,145	4,023,145
Unimonte	25,840,970	91,942,323
BR Educação	128,200,000	125,700,000
PGP Gestão	705,784	555,784
HSM Brasil	2,595,847	-
PGP Educação	431,891	-
Sobepe	1,100	1,100
Indirect subsidiaries:		
Una Gestão	32,564	32,564
HSM Brasil	-	2,489,860
PGP Educação	-	339,260
USJT	462,228	462,228
Sociesc	2	2
FACEB	30,000	30,000
ACAD	100,000	100,000
Politécnico Participações	10,000,000	10,000,000
Instituto Politécnico	14,883,417	1,098,417
Instituto Anima de Extensão Universitária	10,000	-
Anima Participações	848,347	-
Joint venture:		
LCB	3,135,800	3,135,800
Associate:		
UVB - Universidade Virtual Brasileira	-	-

The financial statements of the subsidiaries and joint venture are as follows:

	12/31/2017										
	Direct subsidiaries										Joint venture
	IMEC	Brasil	VC Network	Unimonte	PGP Gestão	BR Educação	(*) HSM Brasil	PGP Educação	Anima Partici-pações	SOBEPE	LCB
Statement of financial position											
Current assets	108,640	216,606	82	12,498	16,845	-	22,557	28,317	9	1	4,899
Noncurrent assets	79,195	379,967	-	47,722	74,381	-	83,824	191,589	840	-	999
Current liabilities	66,435	96,373	-	9,292	19,201	-	14,062	37,129	7	3	435
Noncurrent liabilities	20,556	20,246	-	7,623	33,220	-	6,783	120,570	-	-	-
(-) Joint interest	-	-	-	-	-	-	-	-	-	-	2,731
Controlling shareholders' equity	100,845	479,954	82	43,305	39,260	-	85,536	62,207	842	(2)	2,732
Profit (loss)											
Net revenue	241,802	519,119	-	50,248	58,818	-	27,319	20,287	-	-	-
Cost of services	(122,692)	(336,180)	-	(32,277)	(32,993)	-	(13,865)	(20,836)	-	-	(10)
Operating expenses	(42,549)	(143,391)	-	(18,686)	(26,230)	(17,680)	(5,311)	(3,301)	(3)	-	(1,198)
Finance income (expenses)	7,945	5,821	5	(2,151)	(5,572)	-	(73)	(547)	(1)	-	400
Deferred/current income tax and social contribution	-	(1,125)	-	184	1,613	-	5,245	10,939	-	-	-
Joint interest	-	-	-	-	-	-	-	-	-	-	404
Profit (loss) for the year	84,506	44,244	5	(2,682)	(4,364)	(17,680)	13,315	6,542	(4)	-	(404)

(*) The equity of HSM Brasil includes the allocated goodwill amounting to R$20,744, as shown in the breakdown of the Parent Company's investment table in the columns of allocated fair value.

	Company													
	IMEC	Brasil	VC Network	Unimonte	PGP Gestão	HSM Brasil	PGP Educação	BR Educação	Anima Partic.	SOBEPE	LCB	Allocated fair value	Goodwill	Total
Closing balance at December 31, 2015	81,199	447,822	70	42,648	7	-	-	47,610	-	-	-	52,303	45,326	716,985
Capital increase	13,600	52,370	-	6,000	27,867	-	-	65,360	-	-	-	-	-	165,197
Equity in the earnings (losses) of subsidiaries	79,806	61,108	7	(8,403)	(2,052)	-	-	(42,895)	-	-	-	(2)	-	87,569
Capital reserve	-	9	-	-	-	-	-	5,293	-	-	-	-	-	5,302
Provision for impairment	-	-	-	-	-	-	-	-	-	-	-	-	(10,300)	(10,300)
Dividend distribution	(76,922)	(76,570)	-	-	-	-	-	-	-	-	-	-	-	(153,492)
Closing balance at December 31, 2016	97,683	484,739	77	40,245	25,822	-	-	75,368	-	-	-	52,301	35,026	811,261
Additions	-	-	-	-	-	-	-	-	6	(2)	-	-	-	4
Capital increase	-	7,802	-	5,739	17,802	1,020	3,350	22,700	840		3,136	-	-	62,389
Equity in the earnings (losses) of subsidiaries	84,506	44,244	5	(2,682)	(4,364)	13,315	6,542	(17,680)	(4)	-	(404)	(4)	-	123,474
Capital reserve	2	62	-	3	-	2	(8)	12	-	-	-	-	-	73
Reallocation of goodwill and fair value	-	-	-	-	-	-	-	22,378	-	-	-	(22,378)	-	-
Dividend distribution	(80,306)	(56,893)	-	-	-	-	-	-	-	-	-	-	-	(137,199)
Interest on equity	(1,040)	-	-	-	-	-	-	-	-	-	-	-	-	(1,040)
Transfer	-	-	-	-	-	50,455	52,323	(102,778)	-	-	-	-	-	-
Closing balance at December 31, 2017	100,845	479,954	82	43,305	39,260	64,792	62,207	-	842	(2)	2,732	29,919	35,026	858,962

12. PROPERTY AND EQUIPMENT

		Company			
		12/31/2017			12/31/2016
	Annual depreciation rates	Acquisition cost	Accumulated depreciation	Net P&E	Net P&E
Computers and peripherals	20%	3,531	(2,204)	1,327	2,150
Leasehold improvements	10%	4,285	(614)	3,671	1,844
Furniture and fixtures	10%	1,512	(384)	1,128	683
Machinery and equipment	10%	624	(164)	460	261
Other	10% and 20%	504	(386)	118	161
Construction in progress	-	67	-	67	149
Total		10,523	(3,752)	6,771	5,248

		Consolidated			
		12/31/2017			12/31/2016
	Annual depreciation rates	Acquisition cost	Accumulated depreciation	Net P&E	Net P&E
Leasehold improvements	2,86% to 10%	109,530	(35,903)	73,627	63,363
Buildings	1,43% to 4%	48,734	(6,079)	42,655	46,738
Land	-	28,396	-	28,396	28,396
Machinery and equipment	10%	74,024	(50,051)	23,973	22,136
Library and video library	10%	42,772	(22,522)	20,250	19,443
Furniture and fixtures	10%	49,153	(31,476)	17,677	15,401
Computers and peripherals	20%	52,151	(39,581)	12,570	12,887
Other	10% and 20%	35,284	(18,530)	16,754	10,976
Construction in progress	-	10,217	-	10,217	4,190
Total		450,261	(204,142)	246,119	223,530

Below, the changes in property and equipment of the Parent Company and Consolidated:

	Company					
	Net balance on 12/31/2016	Additions	Depreciation	Write-offs	Reclassification	Net balance on 12/31/2017
Computers and peripherals	2,150	731	(714)	(840)	-	1,327
Leasehold improvements	1,844	-	(307)	-	2,134	3,671
Furniture and fixtures	683	568	(123)	-	-	1,128
Machinery and equipment	261	249	(52)	-	2	460
Other	161	39	(82)	-	-	118
Construction in progress	149	2,054	-	-	(2,136)	67
Total	5,248	3,641	(1,278)	(840)	-	6,771

	Company						
	Net balance on 12/31/2015	Additions	Write-offs	Depreciation	Transfer	Reclassification	Net balance on 12/31/2016
Computers and peripherals	1,382	1,285	(37)	(584)	-	104	2,150
Leasehold improvements	1,434	-	(57)	(155)	81	541	1,844
Furniture and fixtures	583	225	-	(80)	-	(45)	683
Machinery and equipment	321	70	-	(32)	-	(98)	261
Other	181	18	-	(77)	-	39	161
Construction in progress	-	2,428	(8)	-	(1,730)	(541)	149
Total	3,901	4,026	(102)	(928)	(1,649)	-	5,248

	Consolidated							
	Net balance on 12/31/2016	Additions	Business combination (iii)	Write-offs	Depreciation	Transfer	Reclassification	Net balance on 12/31/2017
Leasehold improvements (i)	63,363	-	-	(6)	(9,210)	29	19,451	73,627
Buildings	46,738	-	(2,800)	-	(1,283)	-	-	42,655
Land	28,396	-	-	-	-	-	-	28,396
Machinery and equipment	22,136	5,830	-	(44)	(4,062)	70	43	23,973
Library and video library	19,443	3,665	-	(12)	(2,842)	2	(6)	20,250
Furniture and fixtures	15,401	5,065	-	(19)	(2,832)	62	-	17,677
Computers and peripherals	12,887	4,959	-	(101)	(5,014)	(161)	-	12,570
Other	10,976	8,486	-	-	(2,705)	(3)	-	16,754
Construction in progress (ii)	4,190	25,584	-	(32)	-	(37)	(19,488)	10,217
Total	223,530	53,589	(2,800)	(214)	(27,948)	(38)	-	246,119

	Consolidated							
	Net balance on 12/31/2015	Additions	Business combination (iii)	Write-offs	Depreciation	Transfer	Reclassification	Net balance on 12/31/2016
Leasehold improvements (i)	55,451	225	6,791	(3,977)	(7,661)	(1,394)	13,928	63,363
Buildings	12,655	-	36,618	-	(1,386)	(366)	(783)	46,738
Land	13,110	-	15,282	-	-	4	-	28,396
Machinery and equipment	20,231	2,937	3,755	(70)	(3,902)	108	(923)	22,136
Library and video library	14,025	5,102	2,827	(39)	(2,452)	(10)	(10)	19,443
Furniture and fixtures	13,100	2,049	2,760	(23)	(2,605)	249	(129)	15,401
Computers and peripherals	10,510	2,363	3,418	(65)	(4,782)	781	662	12,887
Other	6,876	4,732	1,206	(179)	(2,152)	87	406	10,976
Construction in progress (ii)	-	20,989	541	(79)	-	(4,110)	(13,151)	4,190
Total	145,958	38,397	73,198	(4,432)	(24,940)	(4,651)	-	223,530

(i) Expenses with leasehold improvements mainly refer to campus improvements in the Company's subsidiaries in order to expand their facilities and give more comfort to students.

(ii) Construction in progress mainly refers to the disbursements made by the Company's subsidiaries to build and expand its units. The amounts will be transferred to leasehold improvements and start to be depreciated after the completion of the construction works.

(iii) Additions shown in this column refer to additions arising from the adjustment of the business combination from the acquisition of Sociesc.

12.1. Assets pledged as collateral

The Company and its subsidiaries have pledged property and equipment items as collateral in lawsuits. The Group's pledged assets amount approximately to R$71,051 (R$75,134 on December 31, 2016) in such lawsuits.

13. INTANGIBLE ASSETS

		Company			
		12/31/2017			12/31/2016
	Annual amortization rates	Acquisition cost	Accumulated amortization	amortization rates	Acquisition cost
Software	20%	36,507	(15,591)	20,916	16,132
Total		36,507	(15,591)	20,916	16,132

	Annual amortization rates	Consolidated 31/12/2017 Acquisition cost	Accumulated amortization	Net intangible assets	31/12/2016 Net intangible assets
Goodwill (a)		318,616	-	318,616	330,844
Trademarks and patents (b)		143,116	-	143,116	143,116
Licenses (c)		67,421	-	67,421	55,595
Customer portfolio (d)	22% to 60%	39,772	(34,136)	5,636	10,450
Non-competition agreement	12%	2,098	(370)	1,728	-
Mailing list	38%	533	(533)	-	-
Total		571,556	(35,039)	536,517	540,005
Software	20%	62,529	(35,655)	26,874	22,770
Other	10% to 33%	20,660	(11,995)	8,665	6,357
Total		83,189	(47,650)	35,539	29,127
Total intangible assets		654,745	(82,689)	572,056	569,132

(a) Refers to the goodwill paid upon the acquisition of IMEC, HSM Brasil, PGP Educação, USJT, Sociesc, FACEB, ACAD and Politécnico, which have not been allocated in identified assets, as per valuation report. Pursuant to the criteria set forth by ICPC 09 (R2), goodwill recognized by the Parent Company must be reclassified to intangible assets in the consolidated financial statements.

(b) Refers to the amounts paid for the acquisition of the trademarks “UNA”, “UNI-BH”, “HSM”, “USJT” and “SOCIESC”, whose Operating License (certificate granted by the Ministry of Education that authorizes higher education institutions to operate) is held by the Company through its investees.

(c) Refers to a portion of licenses paid in the acquisition of USJT, Sociesc, FACEB and Politécnico, whose Operating License is held by the Company through its investees.

(d) Refers to the amount of the customer portfolio paid upon to the acquisition of IMEC, HSM, USJT, Sociesc, FACEB, ACAD and Politécnico, and the acquisition of the Operating License of UNA Betim.

Changes in the Parent Company are as follows:

	Company Net balance on 12/31/2016	Additions	Write-offs	Amortization	Net balance on 12/31/2017
Software	16,132	11,673	(91)	(6,798)	20,916
Total	16,132	11,673	(91)	(6,798)	20,916

	Company Net balance on 12/31/2015	Additions	Amortization	Transfer	Net balance on 12/31/2016
Software	12,132	6,237	(3,886)	1,649	16,132
Total	12,132	6,237	(3,886)	1,649	16,132

Changes in the consolidated are as follows:

	Consolidated						
	Net balance on 12/31/2016	Additions	Write-offs	Transfers	Amortization	Business combination (ii)	Net balance on 12/31/2017
Goodwill	330,844	-	-	(7,263)	-	(4,965)	318,616
Trademarks and patents	143,116	-	-	-	-	-	143,116
Licenses	55,595	-	-	7,263	-	4,563	67,421
Customer portfolio	10,450	-	-	-	(10,048)	5,234	5,636
Non-competition agreement	-	-	-	-	(370)	2,098	1,728
Software	22,770	13,341	(148)	-	(9,089)	-	26,874
Other	6,357	6,172	(63)	38	(3,839)	-	8,665
Total	569,132	19,513	(211)	38	(23,346)	6,930	572,056

	Consolidated								
	Net balance on 12/31/2015	Additions	Write-offs	Transfers (i)	Reclassification	Amortization	Impairment	Business combination (ii)	Net balance on 12/31/2016
Goodwill	244,642	-	-	-	-	-	(19,000)	105,202	330,844
Trademarks and patents	121,956	-	-	-	-	-	-	21,160	143,116
Licenses	54,600	-	-	-	-	-	-	995	55,595
Customer portfolio	12,384	-	-	-	-	(8,887)	-	6,953	10,450
Software	16,109	8,409	(21)	2,473	(6)	(6,028)	-	1,834	22,770
Other	2,913	4,818	(24)	251	6	(2,266)	-	659	6,357
Total	452,604	13,227	(45)	2,724	-	(17,181)	(19,000)	136,803	569,132

(i) Transfers from construction in progress for presentation purposes.

(ii) Additions shown in this column refer to additions arising from the adjustment of the business combination from the acquisition of Sociesc, FACEB, ACAD and Politécnico.

13.1 Intangible assets identified in acquisitions

Part of the goodwill paid on the acquisition of subsidiaries was allocated to identifiable intangible assets with finite and indefinite useful lives, after an analysis of the acquired assets and the calculation of the future earnings projection, as follows:

	IMEC	USTJ	HSM	SOCIESC	FACEB	ACAD	Politécnico	OTHER	TOTAL
Amortizable intangible assets:									
Customer portfolio	-	2,450	-	-	1,918	884	384	-	5,636
Non-competition agreement	-	-	-	-	1,728	-	-	-	1,728
Mailing list	-	-	-	-	-	-	-	-	-
Total	-	2,450	-	-	3,646	884	384	-	7,364
Non-amortizable intangible assets:									
Trademarks and patents	24,380	34,900	59,872	21,160	-	-	-	2,804	143,116
Licenses	-	54,600	-	3,787	7,255	-	1,779	-	67,421
Goodwill	29,825	174,445	21,370	45,104	28,721	2,283	16,867	1	318,616
Total	54,205	263,945	81,242	70,051	35,976	2,283	18,646	2,805	529,153
Overall Total	54,205	266,395	81,242	70,051	39,622	3,167	19,030	2,805	536,517

13.2 Allocation of non-amortizable intangible assets to the Cash-Generating Units

Goodwill, licenses trademarks and patents were allocated, for impairment-testing purposes, to the cash-generating units (“CGUs”), identified according to the operating segment, as detailed below:

	Consolidated	
	12/31/2017	12/31/2016
Education	445,628	444,690
Other businesses	83,525	84,865

529,153	529,555

As at December 31, 2017, goodwill, trademarks and licenses were tested for impairment:

(i) We estimated the recoverable value of the Education cash-generating unit based on the value in use calculation, using cash flow projections based on the five-year financial budget approved by Management, which was based on the Company's financial history, in addition to the 14% annual discount rate, which was based on bibliographic assumptions and weighted by market assumptions. The calculation considers a five-year projection of a specific flow, adding a perpetuity value with growth of 4.5% p.a. Annual inflation was estimated at 4%. Management believes that no reasonably possible change to the key assumptions, on which the recoverable value is based, would cause the total carrying amount to exceed the total recoverable value of the cash-generating unit.

The main assumptions used when calculating the value in use of this cash-generating unit were:

- Revenue growth of 8.4% p.a. between 2018 and 2022 based on a business plan that considers: a) mature campuses, whose courses are more consolidated and, consequently, have space constraints and conservative growth prospects; b) maturing campuses, which have already received initial investments and are in the expansion phase; c) newly created campuses, which have more aggressive growth estimates according to our business plan and market expectations.
- Expense growth at 6.5% p.a., considering future economies of scale from maturation, according to the scenarios mentioned above, based on the structure of each unit. As a result, the gross margin will increase from 42.9% in 2017 to 50.7% in 2022 and the operating margin will grow from 29.2% in 2017 to 36.3% in 2022, which Management believes to be feasible.

(ii) The recoverable value of the Other Businesses cash-generating unit was determined based on the value in use calculation, using cash flow projections based on the five-year financial budget approved by Management and an annual discount rate of 14.7%, based on calculations supported by bibliographic assumptions. Explicit projections were made for the nine-year period between 2018 and 2026. The residual amount after the seventh year was calculated based on the perpetuity concept (Gordon model) and the perpetuity growth rate was adjusted in accordance with the long-term growth prospects for the economy and the business. This rate was estimated at 5.3%, representing long-term IPCA inflation and half the estimated real GDP growth.

The main assumptions used when calculating the value in use of this cash-generating unit were:

- Revenue growth of 9.9% p.a. between 2018 and 2026 based on a business plan that considers: a) moderate growth in our business unit related to events; b) expansion with market share gains and consolidation of our corporate education business unit, also covering middle management, which used to be served by ACAD; and c) expansion and consolidation of our digital business unit related to content curation, taking full advantage of the materials developed in events, HSM Magazine's news articles and books published by HSM.
- Expense growth at 7.4% p.a., considering future economies of scale from the maturation of activities and economies of scale from the absorption of

ACAD's activities. As a result, the gross margin will increase from 49.7% in 2017 to 59.5% in 2026 and the operating margin will grow from -10.2% in 2017 to 23.3% in 2026, which Management believes to be feasible, given the scenarios and market outlook.

The Group's Management did not identify any evidence that justified the need for recoverability on December 31, 2017.

14. TRADE PAYABLES

Consisting basically of leases, payables to IT vendors, service providers, suppliers of consumables, and infrastructure builders. Outstanding balance in the Parent Company and on a consolidated basis for the year ended December 31, 2017 is R$5,648 (R$4,032 as at December 31, 2016) and R$33,773 (R$23,688 as at December 31, 2016), respectively.

15. BORROWINGS AND FINANCING

	Company					
	12/31/2017			12/31/2016		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Local currency						
HSBC	1,077	-	1,077	4,329	1,073	5,402
Santander	6,144	24,827	30,971	14,375	18,401	32,776
Caixa Geral	627	-	627	2,508	625	3,133
IFC	3,637	139,080	142,717	6,245	139,080	145,325
Other borrowings	417	9,061	9,478	344	3,987	4,331
Foreign currency						
HSBC – Credit Facility 4131	-	-	-	47,335	-	47,335
Itaú – Credit Facility 4131	24,336	42,067	66,403	24,688	67,135	91,823
Total	36,238	215,035	251,273	99,824	230,301	330,125

	Consolidated					
	12/31/2017			12/31/2016		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Local currency						
Banco do Brasil	5,478	5,455	10,933	6,090	10,909	16,999
HSBC	7,173	1,644	8,817	17,178	7,560	24,738
Santander	9,552	24,827	34,379	18,345	21,797	40,142
Caixa Geral	627	-	627	2,508	625	3,133
IFC	3,637	139,080	142,717	6,245	139,080	145,325
Other borrowings	1,709	10,233	11,942	1,737	6,400	8,137
Foreign currency						
HSBC – Credit Facility 4131	-	-	-	47,335	-	47,335
Itaú – Credit Facility 4131	24,336	42,067	66,403	24,688	67,135	91,823
Total	52,512	223,306	275,818	124,126	253,506	377,632

The main contractual conditions are as follows:

	Consolidated				
	Guarantees	Average interest rates (annual)	Index	Start date	End date
Working capital domestic currency	25% to 100% of receivables from students and cross-guarantee with group companies	1.80% to 3.59%	CDI	10/28/2010	5/29/2023
Working capital foreign currency	Promissory notes and cross-guarantee with group companies	2.78%	USD(*)	8/26/2015	8/26/2020
IFC	Fiduciary sale of quotas and receivables of Brasil Educação (USJT); guarantees of all subsidiaries; specific permanence commitment of five officers and one shareholder with a minimum interest of 25% of the capital stock on the contracting date.	1.49%	CDI	5/12/2016	3/15/2024
Other borrowings	Bank surety and cross-guarantee with group companies / 100% of the goods acquired through financing / 30% of student receivables	7.00% to 20.02%	-	11/5/2014	1/15/2026
Other borrowings	100% of the assets acquired with financing	12.00% to 15.90%	TR	10/28/2009	10/28/2019
Other borrowings	100% of the assets acquired with financing	3.5% to 5.50%	TJLP	3/23/2011	12/15/2023

(*) The Company manages its exchange rate volatility risk through swap instruments, as described in Note 30.1 item (c), which details the rates and indices of borrowings taken out for working capital in foreign currency alleviated by the CDI swap plus fixed rates of 2.40% p.a.

Borrowings and financing refer basically to working capital used to finance the operations of the Company and its subsidiaries.

The Company and its subsidiaries have certain borrowings and financing containing restrictive covenants defined contractually on December 31, 2017, as follows:

Restrictive Covenant	Required ratio
Current ratio (i)	> 1.2
Net financial debt/EBITDA (ii)	> 2.75
EBITDA/Net finance expenses (iii)	> 1.3

(i) Current ratio = current assets divided by current liabilities.

(ii) Net financial debt = sum of the balances of borrowings and financing less cash and cash equivalents and short-term investments.

(iii) EBITDA = Earnings before interest, income taxes, depreciation, and amortization.

Some agreements provide for specific EBITDA calculation criteria with some variations to this formula.

The above-mentioned analyses are quarterly and, in the year ended December 31, 2017, the Company and its subsidiaries complied with all said restrictive covenants.

The maturities of amounts recognized in noncurrent liabilities for the years ended December 31, 2017 and 2016 are as follows:

	Company		Consolidated	
	12/31/2017		12/31/2017	
	Payment schedule	Face value	Payment schedule	Face value
2019	57,508	77,572	65,589	98,216
2020	48,998	66,683	49,056	77,512
2021	32,172	43,913	32,216	52,518
After 2021	76,357	94,117	76,445	137,704
Total	215,035	282,285	223,306	365,950

	Company		Consolidated	
	12/31/2016		12/31/2016	
	Payment schedule	Face value	Payment schedule	Face value
2018	29,860	66,278	45,222	86,022
2019	53,690	86,035	61,342	94,183
2020	47,491	72,103	47,550	71,445
After 2020	99,260	142,848	99,392	139,996
Total	230,301	367,264	253,506	391,646

16. PAYROLL AND RELATED TAXES

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Payroll	2,706	1,883	16,781	18,603
Accrued vacation pay	5,815	3,913	31,583	25,408
Social security tax (INSS)	1,058	712	9,982	10,246
Severance pay fund (FGTS)	392	262	3,444	3,363
Other	94	83	774	739
Total	10,065	6,853	62,564	58,359

17. TAXES PAYABLE

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Withholding income tax (IRRF)	1,063	874	12,141	11,762
ISS	40	49	4,042	1,895
Taxes on revenues (PIS and COFINS)	102	121	706	635
Other	56	14	596	480
Total	1,261	1,058	17,485	14,772

18. ADVANCES FROM CUSTOMERS

Consolidated

	12/31/2017	12/31/2016
Advances from students (a)	8,352	12,902
Customer prebilling (b)	4,734	2,644
Research projects (c)	3,121	2,393
Other	1,321	1,238
Total	17,528	19,177

(a) Refer to prepaid enrollment fees and monthly tuitions, which will be recognized in profit or loss on an accrual basis and the Pravaler receivables, student loans awarded entered into between students and financial company Ideal Invest S.A., under terms that stipulate that a student can extend the payment maturity and pay the double amount thus reducing the monthly installment. The loan agreement is renewed semiannually between Ideal Invest S.A. and the student who loses the financial bidding with the school to have a link only with Pravaler. Every time a service is engaged and a loan is renewed, Pravaler prepays approximately 90% of the student's payable financed for the six-month period to the Company's subsidiaries, which record these receipts on an accrual basis as the service is provided.

(b) Refer mainly to prepayments of services related to the organization of trade shows, congresses, and exhibitions to be provided after receiving. Revenue from this type of payment is recognized when the services are provided.

(c) Refer to funds from agreements entered into between government companies and Brasil, UNIMONTE, IMEC and Politécnico to cover the costs incurred on the performance of research, development, and scientific and technology qualification projects. These advances are recognized as these project costs are incurred and are broken down as follows:

	Consolidated	
	12/31/2017	12/31/2016
CEMIG	1,531	1,217
FAPEMIG	494	394
British embassy	405	405
Petrocoque	151	151
Apexbrasil	468	157
Settaport	50	50
Other	22	19
Overall Total	3,121	2,393

19. TAXES IN INSTALLMENTS

	Consolidated	
	12/31/2017	12/31/2016
FGTS (a)	2,718	2,802
ORDINARY - RFB (Brazilian Federal Revenue Office)	84	1,607
REFIS IV	283	367
Other installments	54	244
Total	3,139	5,020

	Consolidated	
	12/31/2017	12/31/2016
Current liabilities	129	550
Noncurrent liabilities	3,010	4,470

(a) Severance pay fund (FGTS): Refer to severance pay fund (FGTS) installments of the subsidiaries Unimonte and IMEC with Caixa Econômica Federal. As of July 2015, Unimonte now collects the remaining amounts through escrow deposit, since the subsidiary is waiting for Caixa Econômica Federal to send the list of employees who still have FGTS amounts to be deposited.

In May 2017, the Company and its subsidiary Brasil used debts recovered from the cancelation of PERDCOMP and INSS debts (notified and legally questioned) in the PRT installment plan (Tax Regularization Program – MP 766 – IN 1687), which allowed settling the alleged debt as follows: 80% of the balance was offset with accumulated tax loss carryforwards from the Company or from companies from the same economic group, declared until December 31, 2015, and 20% of the balance was paid in cash. The accounting effect on the Company's installment payments was an increase in recoverable assets, due to the cancellation of PERDCOMP and inclusion of debts in the installment payment program. In the subsidiary Brasil, R$3,073 was recorded in the provision for risks in profit or loss and R$4,018 was written-off from the provision for risks in liabilities.

In October 2017, the subsidiaries Unimonte, Politécnico and USJT filed requests for installment payments under the Special Tax Regularization Program (PERT - Law 13,496), respectively related to the following items: (i) the installment payment of alleged debits with the Brazilian Internal Revenue Service; (ii) the installment payment of social security charges under Law 11,941; and (iii) discontinuance of administrative proceedings related to PERDCOMPS. The installment payment program allowed settling the amounts that were being discussed in administrative proceedings as follows: 5% of the debt was paid in cash, with a reduction in fines and interest, and the remainder was settled with accumulated tax loss carryforwards from the subsidiaries themselves or from companies from the same economic group, declared until December 31, 2015. For the subsidiaries Unimonte and Politécnico, R$518 was recorded as income from fines and interest in the financial result and R$920 was written-off from the installment payment line, since they derive from debits already paid under other programs. There was no impact on USJT's result, given that the amounts were related to vendors' debt. The R$2,370 paid was reimbursed by the vendors.

For installment payments under the PRT and PERT programs, none of the above companies had a payable balance, given that the outstanding balance was settled with tax loss carryforwards. Credits from income and social contribution taxes on tax losses are recorded in the income and social contribution taxes account in the Company's net income, given that no deferred taxes were recorded for these tax credits.

Below, a summary of installment payments:

Installment Payment Program	Entity	Total debt	Reduced fines and interest	Settlement in cash	Settlement with tax loss carryforwards
PRT	GAEC	11,739	-	(2,348)	(9,391)
PRT	Brasil	7,091	-	(1,418)	(5,673)
PERT	Unimonte	438	(272)	(23)	(143)
PERT	Politécnico	1,000	(246)	(754)	-
PERT	USJT	4,829	(2,459)	(241)	(2,129)
Total		25,097	(2,977)	(4,784)	(17,336)

20. NOTES PAYABLE

	Consolidated	
	12/31/2017	12/31/2016
Acquisition of Sociesc	32,391	31,839
Acquisition of FACEB	21,959	22,653
Acquisition of Politécnico	17,013	17,692
Acquisition of ACAD	917	1,500
Total	72,280	73,684
Current liabilities	11,141	9,133
Noncurrent liabilities	61,139	64,551

	Consolidated	
	12/31/2017	12/31/2016
2018	-	11,556
2019	9,788	9,171
2020	9,342	9,041
2021	8,550	10,024
After 2021	33,459	24,759
Total	61,139	64,551

Refer to Note 5 for further details.

21. ESCROW DEPOSITS AND PROVISION FOR TAX, CIVIL AND LABOR RISKS

Management monitors the progress of lawsuits and, based on the opinion of its in-house and external legal counsels and in-company policies, a provision is recognized for the lawsuits whose likelihood of loss is considered as probable, including principal and charges.

Some lawsuits prior to the acquisition of certain subsidiaries are guaranteed by agreements with the vendors, who will reimburse these amounts if the Company and its subsidiaries are required to make any payments related to these lawsuits. These amounts include the provision for risks of R$8,622, of which R$8,399 is related to labor claims and R$223 to civil proceedings.

	Provision for risks			
	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Labor provisions (a)	1,309	1,290	35,829	31,912
Tax provisions (b)	-	-	49,304	56,000
Civil provisions (c)	-	-	3,147	10,561
Total	1,309	1,290	88,280	98,473

The changes in the Parent Company's provisions were as follows:

	12/31/2016	Reversal	Restatement	12/31/2017
Labor (a)	1,290	(69)	88	1,309
Total	1,290	(69)	88	1,309

	12/31/2015	Reversal	Payments	Restatement	12/31/2016
Labor (a)	2,328	(714)	(439)	115	1,290
Total	2,328	(714)	(439)	115	1,290

The changes in the consolidated provisions were as follows:

	12/31/2016	Business combination (d)	Additions	Payments	Restatement	Reclassification	Offsetting of escrow deposits	Offsetting (e)	Vendors' contingencies		12/31/2017
Labor (a)	31,912	-	1,156	(4,808)	497		502	(1,829)	-	8,399	35,829
Tax (b)	56,000	(2,800)	3,192	(1,415)	-			-	(5,673)		49,304
Civil (c)	10,561	-	2,391	(7,514)	-		-	(2,514)	-	223	3,147
Total	98,473	(2,800)	6,739	(13,737)	497		502	(4,343)	(5,673)	8,622	88,280

	12/31/2015	Business combination (d)	Addition/ Reversal	Payments	Restatement	Reclassification	Offsetting of escrow deposits	12/31/2016
Labor (a)	43,844	2,709	(1,985)	(12,870)	1,274	1,034	(2,094)	31,912
Tax (b)	200	51,900	4,142	(242)	-	-	-	56,000
Civil (c)	2,048	1,860	8,629	(1,295)	-	-	(681)	10,561
Total	46,092	56,469	10,786	(14,407)	1,274	1,034	(2,775)	98,473

(a) Labor provisions are recognized based on the individual analysis of the lawsuits, of the claims made in each lawsuit, and an updated analysis of the previous court rulings, and refer mainly to claimed overtime, salary equalization, reversal of salary reductions, and payroll taxes, at administrative and court levels, by employees, former employees, service providers or public authorities, and the interpretation of the labor law to discuss whether or not there is an employment relationship with such service providers.

(b) The provisions for labor litigation risks refer mainly to the risks of lawsuits filed by tax authorities regarding discussions and interpretations of prevailing tax legislation, at the administrative and court levels. In the acquisition of Sociesc, the Company assumed the discussion of tax liabilities arising from the tax authorities' challenge of Sociesc's tax exemption status. In the opinion of the legal advisors, there is a "possible" risk of loss inherent in the case, which under normal circumstances would not require provisioning. However, in accordance with paragraphs 23 and 56 of CPC 15, which govern the assessment of contingencies in business combinations, this claim has been adjusted to fair value, in the amount of R$49,100, and will be recorded at the same amount, unless in the opinion of the legal advisors the risk of loss increases to "probable" and the estimated amount rises, or unless there is a final and unappealable decision in favor of Sociesc. In these cases, respectively, the provision will be increased or reversed.

(c) The civil provisions refer mainly to lawsuits filed by former students, in relation to the disagreement with contractual clauses, in relation to collection, indemnities, amongst other issues.

(d) In the first quarter of 2017, the Company and its advisors reviewed the fair value calculation of the assets and liabilities, generating a R$2,800 reduction after the valuation was completed.

(e) Offsetting related to the adhesion to the Tax Regularization Program (PRT – MP 766 – IN 1687).

Lawsuits classified as possible losses:

	Consolidated	
	12/31/2017	12/31/2016
Labor	22,056	9,015
Tax	157,929	150,946
Civil	25,015	11,632
Total	205,000	171,593

There are also certain possible lawsuits prior to the acquisition that have the same guarantees mentioned in the provisioned contingencies. Possible contingencies totaled R$8,307, of which R$7,940 related to labor claims and R$367 to civil proceedings.

The escrow deposits are disclosed in non-current assets and, similarly to the provision for labor, tax, and civil risks, are adjusted by the official indices established for their adjustment.

	Escrow deposits			
	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Labor (a)	46	34	12,672	11,521
Tax (b)	-	-	20,107	16,590
Civil (c)	-	-	14,608	8,181

Total	46	34	47,387	36,292

Changes in the consolidated escrow deposits were as follows:

	12/31/2016	Additions	Redemption	Contingency set-off	Restatement	12/31/2017
Labor	11,521	3,214	(602)	(1,829)	368	12,672
Tax	16,590	2,066	-	-	1,451	20,107
Civil	8,181	8,694	(37)	(2,514)	284	14,608
Total	36,292	13,974	(639)	(4,343)	2,103	47,387

	12/31/2015	Additions	Business combination	Write-offs	Contingency set-off	Restatement	Reallocation	12/31/2016
Labor	10,699	3,889	548	(2,012)	(2,094)	195	296	11,521
Tax	10,264	4,741	-	-	-	1,585	-	16,590
Civil	6,952	3,106	291	(1,071)	(681)	(120)	(296)	8,181
Total	27,915	11,736	839	(3,083)	(2,775)	1,660	-	36,292

22. EQUITY

a) Capital stock

Subscribed and paid-in capital on December 31, 2017 and 2016 was represented by 80,944,571 registered common shares without par value, both corresponding to R$496,411, which is broken down as follows:

	Common Shares	
	12/31/2017	12/31/2016
Total outstanding shares	79,756,582	80,027,482
Treasury shares	1,187,989	917,089
Overall total shares	80,944,571	80,944,571

b) Capital reserves

For the year ended December 31, 2017, the capital reserve balance totaled R$6,618 (R$6,533 as at December 31, 2016). The balance mainly refers to the constitution of share-based compensation, as described in Note 29.2.

c) Treasury shares

In 2017, the Company repurchased 270,900 common shares totaling R$4,261 at an average cost of R$15.73 (2,565,000 common shares totaling R$27,622 at an average cost of R$10.77 in 2016) to maximize the generation of value to shareholders, as approved by the Board of Directors on December 18, 2015.

At December 31, 2017, the balance of treasury shares was 1,187,989 common shares totaling R$14,213 (917,089 common shares totaling R$9,952 at December 31, 2016).

d) Profit reserve

(i) Legal reserve

The Company must allocate 5% of its annual net income up to the limit of 20% of the capital stock to the legal reserve; this is optional when the sum of the legal reserve and the capital reserve exceed 30% of the capital stock. For the year ended December 31, 2017, the balance of the legal reserve totaled R$18,678 (R$14,420 as at December 31, 2016).

(ii) Retained earnings reserve

It is represented by net income not distributed after the constitution of the legal reserve and mandatory minimum dividends. Pursuant to Bylaws, these amounts await authorization of the Shareholders' Meeting to be allocated. For the year ended December 31, 2017, the balance of the retained earnings reserve totaled R$258,513 (R$197,846 as at December 31, 2016).

e) Dividends

In accordance with the Company's Bylaws, every year shareholders are guaranteed minimum mandatory dividends, equivalent to 25% of profit for the year, after deducting the legal reserve. In the year ended December 31, 2017, the Company recorded the amount of R$20,224 (R$4,951 as at December 31, 2016) to be ratified by the Annual Shareholders' Meeting.

f) Goodwill from capital transaction

In December 2012, the Company acquired shares from its subsidiaries held by minority shareholders, through a stock purchase agreement. The difference between the amount paid and the equity value of the shares (goodwill) of the transaction above was recognized in equity.

g) Earnings per share

As prescribed by IAS 33 (equivalent to CPC 41), the Company must calculate basic earnings or loss per share attributable to its controlling shareholders and, if disclosed, the profit or loss resulting from continuing operations attributable to these holders of common shares.

(i) Basic earnings per share:

Basic earnings per share are calculated by dividing the profit attributable to the Company's shareholders by the weighted average of common shares outstanding during the year, less common shares bought back by the Company and held as treasury shares, if any.

	Company	
	12/31/2017	12/31/2016
Profit (loss) for the year	85,152	20,845
Weighted average of common shares (in thousands)	79,882	80,400
Basic earnings per common share – R$	1.07	0.26

(ii) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of outstanding common shares to assume conversion of all potential dilutive common shares. In the year ended December 31, 2017, the Company had only one instrument with dilutive effect, related to the bonus agreement of up to 900,000 Company shares, subject to the achievement of targets, as described in Note 28.

	Company	
	12/31/2017	12/31/2016
Earnings for the year attributable to controlling shareholders	85,152	20,845
Weighted average number of shares	79,882	80,400
Weighted average number of shares (in thousands) - diluted	900	835
Weighted average number of common shares for diluted earnings per share - thousands	80,782	81,235
Diluted earnings per share - R$	1.05	0.26

23. UNIVERSITY FOR ALL PROGRAM (ProUNI)

The Program is focused on granting scholarships to undergraduate and specific graduate students with monthly household income per capita that does not exceed three minimum wages.

Thus, by signing the adhesion agreement and in compliance with Law 11,096, of January 13, 2005 and Decree 5,493, of July 18, 2005, the Company's subsidiaries offer full and partial scholarships according to the selection criteria established by the PROUNI legislation, benefiting from the income tax, social contribution, COFINS and PIS exemptions, as prescribed by Article 8 of Law 11,096/2005. This exemption refers only to taxes levied on profit and revenue earned on higher education activities, namely graduate degrees. This exemption is renewed semiannually through the digital signature of an adhesion agreement entered into with the MEC.

The number of scholarships awarded in the years ended December 31, 2017 and 2016 is consistent with PROUNI rules related to the minimum number of students per place, as prescribed by Law 12431, of June 24, 2011.

24. NET REVENUE FROM PRODUCTS AND SERVICES

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Gross revenue from products and services	2,775	2,819	1,299,447	1,037,660
Net revenue - FIES	-	-	335,921	367,656
Discounts on monthly tuitions	-	-	(535,462)	(398,674)
Taxes on revenue	(293)	(300)	(28,770)	(21,824)
Commissions (a)	-	-	(27,974)	(27,812)
Present value adjustment	-	-	2,512	3,428
Net revenue	2,482	2,519	1,045,674	960,434

(a) Refers to FIES (FGEDUC and financial agent), Pravaler and distance-learning financing commissions.

The discounts on monthly tuitions consist mainly of discounts granted by the Company's subsidiaries, as shown below:

	Consolidated	
	12/31/2017	12/31/2016
PROUNI gratuity	(241,216)	(214,174)
Scholarships and discounts	(267,504)	(154,718)
Graduate degrees	(3,966)	(3,989)
Arrangements with companies	(8,068)	(4,987)
Refunding, rebates and other	(14,708)	(20,806)
Total	(535,462)	(398,674)

25. INCOME AND (EXPENSES) BY NATURE

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Advertising and publicity	(2,218)	(1,839)	(38,041)	(29,840)
Allowance for doubtful accounts (Note 7)	-	-	(46,169)	(45,554)
Taxes and fees	(280)	(1,860)	(2,953)	(4,714)
Provision for labor, tax, and civil risks (Note 21)	(19)	599	(7,236)	(12,060)
Other operating income	6,593	3,733	3,019	4,442
Revenue from lease of rooms and stores	-	-	7,005	5,176
Personnel expenses (a)	(11,653)	(7,505)	(584,525)	(543,226)
Outsourced services expenses (b)	(3,167)	(4,498)	(66,253)	(59,147)
Expenses on leases and occupancy	(392)	(95)	(95,713)	(92,671)
Depreciation expenses (Note 12)	(1,278)	(928)	(27,948)	(24,940)
Amortization expenses (Note 13)	(6,798)	(3,886)	(23,346)	(17,181)
Provision for impairment	-	(10,300)	-	(19,000)
Maintenance	(333)	(227)	(16,994)	(14,108)
Commuting	(1,274)	(1,031)	(15,479)	(9,649)
Other costs	(834)	(453)	(44,464)	(41,873)
Total	(21,653)	(28,290)	(959,097)	(904,345)
Classified as:				
Cost of products and services	(23,298)	(16,912)	(651,445)	(611,583)
Selling expenses	(2,218)	(1,839)	(84,210)	(75,394)
General and administrative expenses	(2,432)	(1,712)	(223,282)	(191,213)
Other operating income (expenses), net	6,295	(7,827)	(160)	(26,155)

(a) The amount recognized as personnel expenses includes payroll and related taxes.

(b) The amount recognized as outside services refers mainly to consulting, information technology, security, and outsourced labor.

The amounts of materials, power, outsourced services and other expenses disclosed in the Statement of Value Added, are stated above in lines: outsourced services, maintenance, commuting, occupancy and other expenses.

26. SEGMENT REPORTING

The Company's Management elected to organize the Group based on the two different services provided, as follows:

a) Education - Activity performed by the subsidiaries Brasil, IMEC, UNA, Unimonte, PGP Educação, Sociesc, FACEB and Politécnico, which are engaged in the provision of education services by offering elementary school and high school courses, college degrees and professional specialization courses, including undergraduate, graduate, masters, doctorate, and extension degrees, in addition to Pronatec, both formal and distance education.

b) Other Businesses - Activity performed by the subsidiaries HSM do Brasil, Brasil and Sociesc focused on the development of corporate leaders and companies through congresses, forums, seminars, specialization courses, in-company courses, publishing books and magazines specifically focused on management and business, preparatory courses for the Brazilian Bar exam, consultancy services in the area of technological innovation and technical testing and analysis, including a calibration laboratory and testing of electrical equipment, measuring equipment, materials, founding and tooling.

The Company believes that the allocation of expenses through apportionment among the operating segments does not produce any additional benefit to the business analysis and management and, therefore, said expenses are not allocated. The Company does not analyze reports on the equity amounts per segment.

	12/31/2017			
	Consolidated			
	Education	Other Businesses	Unallocated amount	Total
NET REVENUE	984,806	60,815	-	1,045,621
COST OF PRODUCTS AND SERVICES	(615,529)	(35,882)	-	(651,411)
GROSS PROFIT	369,277	24,933	-	394,210
OPERATING INCOME (EXPENSES)				
Selling expenses	(77,388)	(4,669)	-	(82,057)
General and administrative expenses	(101,006)	(27,202)	-	(128,208)
Equity in the earnings (losses) of subsidiaries	-	(404)	-	(404)
Corporate	-	-	(97,239)	(97,239)
Other operating income (expenses)	(220)	91	-	(129)
EARNINGS BEFORE FINANCE INCOME (EXPENSES)	190,663	(7,251)	(97,239)	86,173
Finance income (expenses)	9,079	(671)	-	8,408
Corporate finance income (expenses)	-	-	(46,262)	(46,262)
PROFIT (LOSS) BEFORE INCOME TAXES	199,742	(7,922)	(143,501)	48,319
Current and deferred income tax and social contribution	1,301	5,921	29,611	36,833
PROFIT (LOSS) FOR THE YEAR	201,043	(2,001)	(113,890)	85,152

	12/31/2016			
	Consolidated			
	Education	Other Businesses	Unallocated amount	Total
NET REVENUE	914,124	46,310	-	960,434
COST OF SERVICES RENDERED	(579,639)	(31,944)	-	(611,583)
GROSS PROFIT	334,485	14,366	-	348,851
OPERATING INCOME (EXPENSES)				
Selling expenses	(70,682)	(2,727)	-	(73,409)
General and administrative expenses	(114,267)	(16,088)	-	(130,355)
Corporate	-	-	(64,370)	(64,370)
Other operating expenses	(5,261)	(19,366)	(1)	(24,628)
EARNINGS BEFORE FINANCE INCOME (EXPENSES)	144,275	(23,815)	(64,371)	56,089
Finance income (expenses)	7,709	(1,214)	(2,313)	4,182
Corporate finance income (expenses)	-	-	(40,953)	(40,953)
PROFIT (LOSS) BEFORE INCOME TAXES	151,984	(25,029)	(107,637)	19,318
Current and deferred income tax and social contribution	1,525	3	(1)	1,527
PROFIT (LOSS) FOR THE YEAR	153,509	(25,026)	(107,638)	20,845

The unallocated amount is basically related to the group’s administrative activities performed by GAEC.

27. FINANCE INCOME (EXPENSES), NET

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Finance income:				
Income from short-term investments	1,618	10,331	14,394	22,790
Income from monthly tuition interest rates	-	-	11,116	10,987
Exchange gain variation	1	8	132	155
Currency variation on loans	799	45,520	799	45,520
Realized gains on derivatives	-	2,406	-	2,406
Monetary restatement	247	751	7,848	15,813
Discounts	29	13	2,067	1,684
Other	-	-	1,810	1,198
Total	2,694	59,029	38,166	100,553
Finance expenses:				
Loan interest expense	(24,509)	(50,283)	(28,782)	(60,487)
Interest from Pravaler financing	-	-	(18,178)	(13,415)
Financial discounts granted to students	-	-	(3,117)	(2,541)
Expenses with derivatives	(12,470)	(47,926)	(12,470)	(47,926)
Exchange loss variation	(8)	(7)	(502)	(130)
Present value adjustment expenses and restatement of notes	-	-	(8,325)	(8,706)
Banking expenses	(308)	(1,597)	(344)	(1,806)
Other	(3,327)	(169)	(4,302)	(2,313)
Total	(40,622)	(99,982)	(76,020)	(137,324)
Finance income (expenses)	(37,928)	(40,953)	(37,854)	(36,771)

28. EMPLOYEE BENEFITS

Variable compensation – The Company and its subsidiaries Brasil, IMEC, Unimonte and USJT have the Compostella program, designed to offer variable compensation to Management provided that the entity meets its overall goals and each manager achieves his or her individual goals. This benefit was not paid for the years ended December 31, 2017 and 2016.

Food benefit - The Company and its subsidiaries offer two alternative types of benefit to their employees: a meal card or a food card, except for Unimonte, which only grants food cards, and Sociesc, which only grants meal cards. In the year ended December 31, 2017, the expenses incurred on this benefit came to R$9,342 (R$8,353 in the year ended December 31, 2016).

Health and dental insurance plan - The Company and its subsidiaries offer a health and dental insurance plan to its employees with co-payment requirements, according to the criteria established in their policy. In the year ended December 31, 2017, the expenses incurred on this benefit came to R$9,753 (R$8,648 in the year ended December 31, 2016).

Scholarships – The Company and its subsidiaries offer to all their employees scholarships ranging from 50% to 100%, depending on the salary bracket, course selected and academic performance and can be transferred to an employee's dependent in turn. In addition, spouses and offspring are entitled to a 50% scholarship and the Anima Community (other employee family members), are entitled to a 30% scholarship. In the year ended December 31, 2017, scholarships totaling R$23,231 were awarded to employees and their dependents (R$19,938 in the year ended December 31, 2016).

Day care center benefit – Sociesc offers its employees with children up to one year old, who attend a private day care center, up to 50% of the minimum wage. USJT offers its employees 100% of day care center benefits.

Transportation allowance – Sociesc offers its corporate officers and unit directors monthly transportation allowance and a fuel and toll card.

Funeral assistance – Sociesc offers its employees funeral assistance if a member of the staff dies, in which case children over 14 years old have the right to payment of funeral expenses and indemnity of R$5, while children younger than 14 are entitled to funeral expenses alone, up to a maximum amount of R$5.

Private pension plan – Sociesc provides its employees a private pension plan, contracted with Bradesco, contributing up to 70% of the cost, with a maximum of 10% of the employee's salary in the case of those with salaries exceeding R$7, and 100% for employees earning less than R$7. In the year ended December 31, 2017, the expenses incurred on this benefit came to R$325 (R$704 in the year ended December 31, 2016).

Life insurance: HSM Brasil offers life insurance to its employees without salary discounts or coinsurance.

As at December 31, 2017, the Company and its subsidiaries did not offer any post-employment defined benefit plan.

29. RELATED-PARTY TRANSACTIONS

	Company									
	12/31/2017					12/31/2016				
	Assets		Liabilities		Profit (loss)	Assets		Liabilities		Profit (loss)
	Trade receivables	Loans	Trade payables	Loans	Revenues	Trade receivables		Trade payables	Loans	Revenues
Brasil	13,634	-	589		-	2,062	4,672	380	-	2,095
IMEC	3,910	-	452		-	-	3,219	292	-	-
USJT	-	-	-		-	-	2,832	91	-	-
Unimonte	3,857	-	406		3,577	713	1,270	258	22	724
SOCIESC	-	9,576	-		-	-	-	-	-	-
Instituto Anima	-	315	-		-	-	-	-	-	-
FACEB	2,954	-	-		-	-	-	-	-	-
Politécnico	1,717	-	-		-	-	-	-	-	-
HSM Brasil	834	-	246		-	-	144	73	-	-
Other	34	-	70		-	-	68	70	-	-
Total	26,940	9,891	1,763		3,577	2,775	12,205	1,164	22	2,819

	Consolidated							
	12/31/2017				12/31/2016			
	Assets		Liabilities	Profit (loss)	Assets		Liabilities	Profit (loss)
	Trade receivables	Loan	Trade payables	Expenses	Trade receivables	Loan	Trade payables	Expenses
Santa Antonieta Gestão Patrimonial (a)	-	-	310	3,685	-	-	-	3,482
Instituto Anima	-	333	-	-	32	147	-	-
Virtual	36	-	-	-	36	-	-	-
Total	36	333	310	3,685	68	147	-	3,482

(a) Refers to the rent of the Aimorés Campus used by Brasil.

29.1 Key management personnel compensation

Key management personnel include the Company’s officers and board members.

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Short-term benefits	4,068	3,649	11,290	11,186
Long-term benefits	-	-	-	5,288

29.2 Share-based compensation

In order to maintain Sociesc’s main executive, the Company entered into a share bonus agreement subject to the achievement of certain financial, operational, academic performance and people management goals for the next five years as of 2016, which may result in bonuses of up to 900,000 Company shares (ANIM3).

The shares granted will be settled with equity instruments (Company shares) only, and the Company is under no obligation to change settlement to payment in cash.

The fair value of the shares granted was recognized as an expense, in the “personnel expenses” line, with a counter-entry in equity, in the “capital reserve” line.

30. FINANCIAL INSTRUMENTS

30.1 Financial risk management:

In the normal course of its operations, the Company and its subsidiaries are exposed to the following risks related to their financial instruments:

(a) Liquidity risk – is the risk that the Company and its subsidiaries are exposed to of lacking the necessary funds to settle their obligations on their respective maturity dates.

The Company and its subsidiaries manage the liquidity risk by maintaining proper reserves, bank and other credit facilities to raise new borrowings that they consider appropriate, based on the continuous monitoring of budgeted and actual cash flows, and the combination of the maturity profiles of financial assets and liabilities.

The table below shows the financial liabilities of the Company and its subsidiaries.

	Consolidated			
	Less than 1 year	Between 1 and 2 years	Over 2 years	Total
At December 31, 2017:				
Borrowings and financing (Note 15)	52,512	114,645	108,661	275,818
Derivatives (Note 30.1 C)	4,941	2,616	-	7,557
Trade payables (Note 14)	33,773	-	-	33,773
Notes payable (Note 20)	11,141	19,130	42,009	72,280
At December 31, 2016:				
Borrowings and financing (Note 15)	124,126	106,564	146,942	377,632
Derivatives (Note 30.1 C)	13,061	-	9,641	22,702
Trade payables (Note 14)	23,688	-	-	23,688
Notes payable (Note 20)	9,133	20,728	43,823	73,684

(b) Credit risk – is the risk that the Company and its subsidiaries are exposed to of non-compliance by their counterparties with an obligation regarding a financial instrument or a customer agreement, thus resulting in financial losses. The Company recognizes an allowance for doubtful accounts considered sufficient by Management to cover possible losses.

(i) Trade receivables: The Company and its subsidiaries' sales policy is closely related to the level of credit risk that they are willing to assume in the ordinary course of their businesses, limited to Federal Government rules (Law 9,870/99, which provides for total school annual tuitions). Enrollment for the next school year is blocked whenever a student is in default with the institution, encouraging the student to negotiate his or her debt. The diversification of its receivables portfolio and the selectivity of students, as well as monitoring of payment terms, are procedures adopted to minimize any default on the collection of receivables.

In 2016, the Company offered financing through the Ampliar and Pravaler programs (note 7), in which students pay between 33% and 65% of the tuition fee during the course and the remaining amount after graduation in a period of up to twice the time of their courses. For this portfolio, the Company adopted more conservative loss percentages, with a provision of 40% for receivables not yet due and a provision of 100% for receivables 90 days overdue.

(ii) Financial instruments: The Company restricts its exposure to credit risks related to banks and short-term investments by investing through prime financial institutions, based on the rating awarded by Fitch Ratings, and in accordance with previously established limits.

The carrying amount of the financial assets represents the maximum credit exposure. The maximum exposure to credit risk on the reporting dates was:

		Company		Consolidated	
	Notes	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Cash and cash equivalents	6	2,992	8,663	33,918	39,568
Short-term investments	6	-	7,003	81,994	141,931
Trade receivables	7	26,940	12,205	247,030	285,603
Sundry advances	8	1,367	1,532	42,096	49,804
Receivables from related parties	29	9,891	-	333	147
Total		41,190	29,403	405,371	517,053

(c) Market risk - it is the risk that the Company and its subsidiaries have that the fair value or future cash flows of a certain financial instrument will fluctuate because of changes in interest rates, inflation adjustment and exchange rate indices.

(i) Foreign exchange risk - The Company and its subsidiaries use derivative financial instruments, recorded in the statement of financial position and in the income statement, in order to manage market risks arising from the mismatch between currencies and indices. Derivative transactions are carried out in accordance with the Company's annual business plan previously approved by the Board of Directors.

The Company took US dollar-denominated loans and contracted a swap to ensure the US dollar quote, aiming at mitigating the foreign exchange variation risk. This transaction meets the criteria for hedge accounting and was designated as fair value hedge. As of the date the transaction was carried out and in the year ended December 31, 2017, the effectiveness of hedging the fair value exposure to the exchange rate variations came to 99%. We recorded a R$1,951 adjustment to the loan together with the fair value of the exchange rate swap and both were recognized in profit or loss.

Also, our subsidiary HSM acquired NDFs (non-deliverable forwards) in US dollars, whose hedged item refers to the highly likely hiring of service providers in foreign currency. This derivative transaction is recorded in the statement of financial position of the Company's subsidiary at its fair value and the respective gains or losses are immediately recognized in the financial income (expenses). All such transactions for the year ended December 31, 2017 were settled.

These derivative operations have the following amounts and conditions:

Company and Consolidated							
Contracting date	Maturity date	Pegged amount (USD thousand)	Amount (R$ thousand)	Contracted quote	Fair value adjustment (R$ thousand)	Closing quote	Swap Rate
8/28/2015	8/26/2020	20,599	68,353	3.5600	7,557	2.788% p.a.	CDI + 1.00% p.a.
Total		20,599	68,353		7,557		
Current liabilities					4,941		
Noncurrent liabilities					2,616		
					7,557		

The Company's Management permanently monitors the derivative financial instruments contracted.

(ii) Interest rate risk - the Company has borrowings and financing denominated in local currency subject to interest rates linked to indices (mainly the CDI). The risk related to these liabilities is linked to the possibility of changes in interest rates.

The Company does not have any contract to hedge against this type of exposure; however, it continually monitors market interest rates to assess the need to enter into hedging transactions against the risk of volatility in these rates.

Interest rates in current and non-current liabilities are as follows:

		Consolidated	
	Note	12/31/2017	12/31/2016
Short-term investments:			
Interbank deposit rate - CDI	6	(81,994)	(141,931)
Borrowings and financing:			
Interbank deposit rate - CDI	15	260,399	361,992
Derivatives	30.1	7,557	22,702
TJLP and TR	15	2,313	3,485
Other (i)	15	13,106	12,155
Notes payable:			
INPC	20	33,308	33,339
INPC/IGPM/IPCA Average	20	21,959	22,653
TR	20	17,013	17,692
Total		245,231	299,822

(i) Borrowings and financing with no index.

30.2 Capital management

The Company and its subsidiaries manage their capital to ensure their going concern and, at the same time, maximize return to all stakeholders or parties involved in their operations, by optimizing the debt and equity balance.

Management reviews the Company's and its subsidiaries' capital structure on a regular basis. Management considers the cost of capital, asset liquidity, the risks associated to each class of equity, and the debt-to-equity ratio in a consolidated way by adopting a financial leverage ratio.

The table below shows the financial leverage ratios:

		Company		Consolidated	
	Note	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Borrowings and financing	15	251,273	330,125	275,818	377,632
Derivatives	30.1	7,557	22,702	7,557	22,702
Cash and cash equivalents	6	(2,992)	(8,663)	(33,918)	(39,568)
Short-term investments	6	-	(7,003)	(81,994)	(141,931)
Net debt (cash)		255,838	337,161	167,463	218,835
Equity	22	683,353	635,692	683,353	635,692
Financial leverage ratio		37%	53%	25%	34%

30.3 Fair value measurements recognized in the statement of financial position and/or disclosed:

(a) Fair value versus carrying amount

It was identified that in the transactions involving financial instruments the carrying amounts and the fair values of borrowings and financing are different because such borrowings and financing have extended maturities.

The fair values of borrowings and financing were calculated by projecting the future cash flows of borrowings and financing using the interest rates agreed for each transaction (Note 15), subsequently discounted to present value using the average funding rates incurred at the end of each year, which are in conformity with the rates used by the market on each date and in each type of funding. The discount rate used in financial liabilities on December 31, 2017 was 9.16% (15.82% on December 31, 2016).

The estimated fair values are as follows:

		Company			
		12/31/2017		12/31/2016	
	Note	Fair value	Carrying amount	Fair value	Carrying amount
Net financial liabilities					
Borrowings and financing	15	253,754	251,273	330,077	330,125
Derivatives	30.1	7,557	7,557	22,702	22,702
Total		261,311	258,830	352,779	352,827

		Consolidated			
		12/31/2017		12/31/2016	
	Note	Fair value	Carrying amount	Fair value	Carrying amount
Net financial liabilities					
Borrowings and financing	15	279,912	275,818	372,776	377,632
Derivatives	30.1	7,557	7,557	22,702	22,702
Notes payable	20	72,280	72,280	73,684	73,684
Total		360,274	355,655	469,162	474,018

(b) Fair value hierarchy

For the years ended December 31, 2017 and 2016, the Company and its subsidiaries adopted Level 2 for derivatives and all borrowings and financing and notes payable.

30.4 Credit quality of financial assets:

The credit quality of financial assets can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Trade receivables				
Counterparties without external credit rating	26,940	12,205	247,030	285,603
	26,940	12,205	247,030	285,603

	Company		Consolidated	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Cash at bank and short-term bank deposits (i) AAA	25	77	1,740	2,300
Financial investments (i) AAA	2,924	-	107,832	173,020
Cash at bank and short-term bank deposits (i) AA+	36	119	3,600	4,884
Financial investments (i) AA+	-	15,466	2,592	1,176
	2,985	15,662	115,764	181,380

(i) "National rating" assigned by risk rating agency Fitch Ratings.

The residual balance of "cash and cash equivalents" of the statement of financial position is cash on hand.

31. SENSITIVITY ANALYSIS

The following is the sensitivity analysis table of the financial instruments that might produce material losses for the Company and its subsidiaries, shown in scenario 1 (indices used: CDI – 6.89%, INPC – 2.07%, IPCA – 2.95%, IGPM – (0.53%), TJLP – 7.00% and TR – 0.60%), taking into account a 12-month time horizon. Additionally, two other scenarios are provided, therefore showing a 25% and 50% stress at the risk variable considered, respectively.

	Company 12/31/2017					
				Effect on profit (loss)		
	Index	Risk	Amount	Scenario 1	Scenario 2 (25%)	Scenario 3 (50%)
Short-term investments	CDI	CDI increase	(2,924)	(201)	(252)	(302)
Borrowings and financing (domestic currency)	CDI	CDI increase	184,870	12,738	15,922	19,106
Borrowings and financing (foreign currency)	CDI	CDI increase	66,403	4,575	5,719	6,863
Derivatives	CDI	CDI increase	7,557	521	651	781
Net exposure - loss			255,906	17,633	22,040	26,448

	Consolidated 12/31/2017					
				Effect on profit (loss)		
	Index	Risk	Amount	Scenario 1	Scenario 2 (25%)	Scenario 3 (50%)
Short-term investments	CDI	CDI increase	(110,424)	(7,608)	(9,510)	(11,412)
Borrowings and financing (domestic currency)	CDI	CDI increase	193,996	13,366	16,708	20,049
Borrowings and financing (domestic currency)	TJLP and TR	Average increase	2,313	88	110	132
Borrowings and financing (foreign currency)	CDI	CDI increase	66,403	4,575	5,719	6,863
Derivatives	CDI	CDI increase	7,557	521	651	781
Notes payable	INPC	INPC increase	33,308	689	862	1,034
Notes payable	INPC/IGPM/IPCA Average	Average increase	21,959	329	411	493
Notes payable	TR	TR increase	17,013	102	128	153
Net exposure - loss			232,125	12,062	15,079	18,093

For the year ended December 31, 2017, we carried out a sensitivity analysis considering the "indices increase" scenario, given that this is the scenario that would most negatively impact the Company in the current period considering that we have more borrowings than investments.

Gains and losses on these transactions are consistent with the policies and strategies designed by the Management of the Company and its subsidiaries.

The rates used for the projections described above were based on the CDI - estimate disclosed by Cetip, INPC, IPCA, IGPM disclosed by the Brazilian Institute of Geography and Statistics (IBGE), TJLP disclosed by the IDG and TR disclosed by the Brazilian Central Bank (BACEN), deemed by Management as independent external and reliable sources.

No sensitivity analysis was carried out on the US dollar variation impact, given that the Company's Management contracted hedging instruments in an amount deemed to be sufficient to minimize the impacts from the exchange variation.

32. INSURANCE

The Company and its subsidiaries have the policy of obtaining insurance coverage considering the type of its operations, risks involved and advice from insurance brokers. All insurance policies were obtained with Brazilian insurers.

On December 31, 2017, the Company had insurance policies, which cover, but not limited to, fire, floods, occupational accidents, electrical damages, riots, window breaking, electronic equipment, robbery, lightening, explosions, windstorms, and vehicle and plane crashes.

33. STATEMENTS OF CASH FLOWS - MAIN NON-CASH TRANSACTIONS

For the correct analysis of the statements of cash flows for the year ended December 31, 2017, it is necessary to appraise the transactions below, which did not affect cash:

a) On January 31, 2017, the Company reviewed the fair value calculation of Sociesc's assets and liabilities, acquired in a business combination, generating a non-cash effect regarding the supplement of this allocation, totaling R$1,616;

b) In May 2017, the Company canceled a number of PERDCOMPs, recovering tax debts that were included in the PRT installment plan, totaling R$8,594;

c) In May 2017, the subsidiary Brasil included in the PRT installment plan INSS debts that were notified and legally questioned, totaling R$5,246, for which a provision was created;

d) In June 2017, the Company calculated the fair value of Faceb's assets and liabilities, generating a non-cash effect of R$2,240;

e) In August 2017, the Company reviewed the fair value of ACAD's assets and liabilities, generating a non-cash effect of R$1,339;

f) In October 2017, the Company reviewed the fair value of Politécnico's assets and liabilities, generating a non-cash effect of R$2,006;

g) In October 2017, the Company paid in capital with property and equipment items in its subsidiary Anima Participações Ltda, generating a non-cash effect of R$840;

h) In the year ended December 31, 2017, the amount of R$4,343 was offset from contingency and escrow deposit accounts, thus reducing both balances with no effect on cash;

i) The Company recorded tax credit using accumulated tax loss carryforwards declared until December 31, 2015, totaling R$17,193. The Company used a portion of these credits to increase capital in the subsidiary Brasil, in the amount of R$7,803;

j) The Company and its subsidiaries Brasil, Unimonte, Politécnico and USJT used the tax credits to settle the remaining balances paid in installments through the PRT and PERT plans, as described in Note 19.

Below, the changes in financing activities of the Parent Company and Consolidated:

	Company						
			Non-cash variations				
	Balance as at 12/31/2016	Cash Flow	Exchange rate	Fair value	Interest	Time-barred mandatory dividends	Balance as at 12/31/2017
Debt with related parties	22	3,555	-	-	-	-	3,577
Borrowings and financing	330,125	(100,611)	(799)	(1,951)	24,509	-	251,273
Derivatives	22,702	(29,565)	799	13,621	-	-	7,557
Dividends payable	4,967	(4,951)	-	-	-	16,151	16,167
Treasury shares	9,952	4,261	-	-	-	-	14,213

	Consolidated							
			Non-cash variations					
	Balance as at 12/31/2016	Cash Flow	Exchange rate	Fair value	Interest	Time-barred mandatory dividends	Business combination	Balance as at 12/31/2017
Debt with related parties	-	9	-	-	-	-	-	9
Borrowings and financing	377,632	(127,846)	(799)	(1,951)	28,782	-	-	275,818
Notes payable	73,684	(12,616)			8,325	-	2,887	69,393
Derivatives	22,702	(29,565)	799	13,621	-	-	-	7,557
Dividends payable	4,967	(4,951)	-	-	-	16,151	-	16,167
Treasury shares	9,952	4,261	-	-	-	-	-	14,213

34. EVENTS AFTER THE REPORTING PERIOD

34.1 Corporate Restructuring

On January 1, 2018, the subsidiaries HSM Brasil and ACAD signed a protocol and justification of merger, thereby approving the dissolution of ACAD, whose assets, rights and liabilities were transferred to HSM Brasil. Given that ACAD was a wholly owned subsidiary of HSM Brasil, there were no share exchanges, no new shares were issued by HSM Brasil and its capital stock remained unchanged.

On January 1, 2018, the subsidiaries PGP Gestão and PGP Educação approved the change in Sociesc's legal nature to a limited liability partnership and in its corporate name to Sociedade Educacional de Santa Catarina-Sociesc SS Ltda, with a capital stock of R$20,000. On February 22, 2018, Sociesc became a corporation and changed its name to Sociedade Educacional de Santa Catarina-Sociesc S/A.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for disclosure by the Board of Directors on March 19, 2018.

BOARD OF EXECUTIVE OFFICERS

DANIEL FACCINI CASTANHO
Chief Executive Officer

GABRIEL RALSTON CORREA RIBEIRO
Chief Financial Officer

TECHNICAL MANAGER

MARY AFONSO MOUSINHO
Accountant
CRC/MG 088.391/O-8

2018 CAPITAL BUDGET

Pursuant to article 196 of Law 6,404, the purpose of this Capital Budget is to plan the sources and allocation of funds to meet the Company's capital needs during 2018, with a proposed amount of two hundred and seventy-eight million, one hundred and fifty-seven thousand reais (R$278,157,000.00). It will be submitted for the approval of the Shareholders' Meeting and comprises the following sources and application of funds:

Planned Capital Application:

Short-term loans and financing	41,179,000.00
Short-term loans and financing in the subsidiaries	16,274,000.00
Amount payable for the acquisition of subsidiaries	11,141,000.00
Cash needs of subsidiaries due to the additional term granted to the Federal Government for the payment of Fies	92,563,000.00
Investments in expansion and maintenance	93,000,000.00
Investment in the expansion of the *Mais Médicos* program	24,000,000.00
	278,157,000.00

Planned Sources of Funds:

- Retained earnings totaling two hundred and fifty-eight million, five hundred and thirteen thousand reais (R$258,513,000.00), as follows:

Retained earnings for the year	60,671,000.00
Retained earnings from previous years	197,846,000.00
(-) Dividends from previous years paid in the year	(4,000.00)
	258,513,000.00

- Third-party capital totaling nineteen million, six hundred and forty-four thousand reais (R$19,644,000.00).

Term: Up to one year.