

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2020
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____.
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

Commission file number: 001-38673

Arco Platform Limited

(Exact name of Registrant as specified in its charter)

Not applicable

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

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Consolação, São Paulo – SP
01412-100, Brazil
+55 (11) 3047-2699

(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common shares, par value US\$0.00005 per share	ARCE	The NASDAQ Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

The number of outstanding shares as of December 31, 2020 was 30,186,715 Class A common shares and 27,400,848 Class B common shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes

No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of “large accelerated filer”, “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report:

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

 U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

 Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

ARCO PLATFORM LIMITED

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated or the context otherwise requires, all references in this annual report to “Arco” or the “Company,” “we,” “our,” “ours,” “us” or similar terms refer to Arco Platform Limited, together with its subsidiaries.

The term “Brazil” refers to the Federative Republic of Brazil and the phrase “Brazilian government” refers to the federal government of Brazil. “Central Bank” refers to the Brazilian Central Bank (*Banco Central do Brasil*). References in the annual report to “*real*,” “*reais*” or “RS” refer to the Brazilian *real*, the official currency of Brazil and references to “U.S. dollar,” “U.S. dollars” or “US\$” refer to U.S. dollars, the official currency of the United States.

All references to “IFRS” are to International Financial Reporting Standards, as issued by the IASB.

Financial Statements

Arco was incorporated on April 12, 2018, as a Cayman Islands exempted company with limited liability, duly registered with the Cayman Islands Registrar of Companies. Arco became the parent company of Arco Educação S.A., or Arco Brazil, through the completion of the initial public offering and the corporate reorganization described in note 1 of our consolidated financial statements.

We present in this annual report our audited consolidated financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018. Our financial statements are prepared in accordance with IFRS, as issued by the IASB.

We maintain our books and records in Brazilian *reais*, the presentation currency for our financial statements and also the functional currency of our operations in Brazil. Unless otherwise noted, our financial information presented herein as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018 is stated in Brazilian *reais*, our reporting currency. The consolidated financial information contained in this annual report is derived from our audited consolidated financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, together with the notes thereto. All references herein to “our financial statements,” “our audited consolidated financial information,” and “our audited consolidated financial statements” are to our consolidated financial statements included elsewhere in this annual report.

This financial information should be read in conjunction with “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements, including the notes thereto, included elsewhere in this annual report.

Our fiscal year ends on December 31. References in this annual report to a fiscal year, such as “fiscal year 2020,” relate to our fiscal year ended on December 31 of that calendar year.

Corporate Events

We are a Cayman Islands exempted company incorporated with limited liability on April 12, 2018. On October 29, 2019, we completed a follow-on public offering, consisting of 3,450,656 Class A common shares issued and sold by us, and 4,268,847 Class A common shares sold by certain selling shareholders. The public offering price was US\$43.00 per Class A common share. We received net proceeds of US\$143.9 million, after deducting US\$3.7 million in underwriting discounts and commissions. On November 26, 2019, an additional 661,112 Class A common shares were sold by General Atlantic Arco (Bermuda), L.P. following the exercise by the underwriters of their option to purchase additional shares.

On June 4, 2020, we completed a follow-on public offering, by which General Atlantic Arco (Bermuda), L.P. and Alfaco Holding Inc. sold an aggregate amount of 5,563,203 Class A common shares issued by us, at a public offering price of US\$47.70 per Class A common share. We did not receive any proceeds from the sale of Class A common shares by the selling shareholders in connection with this offering.

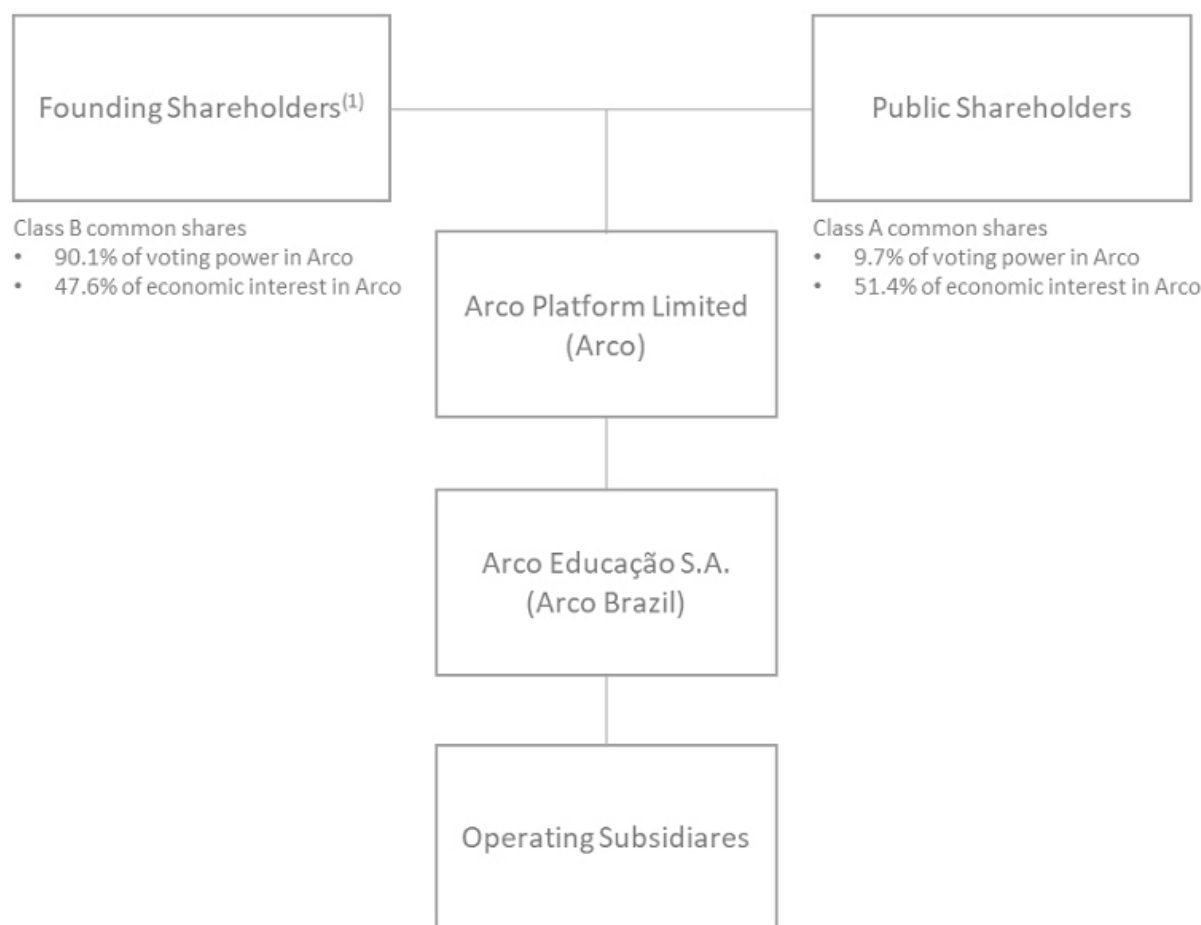
On September 8, 2020, we completed a follow-on public offering, consisting of 2,500,000 Class A common shares issued and sold by us. The public offering price was US\$44.80 per Class A common share. We received net proceeds of US\$109.8 million, after deducting US\$2.2 million in underwriting discounts and commissions.

On January 6, 2021, our Board of Directors approved a share repurchase program, or the Repurchase Program, to comply with management long-term incentive plan obligations. Pursuant to the Repurchase Program, we may repurchase up to 500,000 of our outstanding Class A common shares in the open market, based on prevailing market prices, or in privately negotiated transactions, over a period beginning on January 6, 2021 continuing until the earlier of the completion of the repurchase or January 6, 2023, depending upon market conditions. As of the date of this annual report, we had purchased an aggregate of 276,581 Class A common shares for a total of approximately US\$9.8 million under the Repurchase Program.

Furthermore, we are currently implementing certain additional changes to the organizational structure of certain of our operating subsidiaries in Brazil. This reorganization will be an internal corporate reorganization and is not expected to affect us on a consolidated basis.

Organizational Structure

The diagram below depicts our organizational structure as of the date of this annual report:



(1) Includes Class B common shares beneficially owned by our Founding Shareholders.

Financial Information in U.S. Dollars

Solely for the convenience of the reader, we have translated some of the *real* amounts included in this annual report from *reais* into U.S. dollars. You should not construe these translations as representations by us that the amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, we have translated *real* amounts into U.S. dollars using a rate of R\$5.197 to US\$1.00, the commercial selling rate for U.S. dollars as of December 31, 2020 as reported by the Central Bank. See “Item 3. Key Information—A. Selected financial data—Exchange Rates” for more detailed information regarding translation of *reais* into U.S. dollars and for historical exchange rates for the Brazilian *real*.

Special Note Regarding Non-GAAP Financial Measures

This annual report presents our Adjusted EBITDA, Adjusted Net Income and Free Cash Flow information for the convenience of investors. Adjusted EBITDA, Adjusted Net Income and Free Cash Flow are the key performance indicators used by us to measure financial operating performance. Our management believes that these Non-GAAP financial measures provide useful information to investors and shareholders. We also use these measures internally to establish budgets and operational goals to manage and monitor our business, evaluate our underlying historical performance and business strategies and to report our results to the board of directors.

We calculate Adjusted EBITDA as profit (loss) for the year plus/minus income taxes plus/minus finance result plus depreciation and amortization plus/minus share of (profit) loss of equity-accounted investees plus share-based compensation plan, restricted stock units and related payroll taxes (restricted stock units), plus M&A expenses, plus non-recurring expenses, which are related to legal services (mainly due to International School arbitration) and consulting expenses for Sarbanes-Oxley implementation, plus effects related to COVID-19 pandemic, which includes the revision of the Company’s estimated credit losses from its trade receivables based on expected increases in financial default and in unemployment rates in Brazil for the year.

We calculate Adjusted Net Income as profit (loss) for the year plus share-based compensation plan, restricted stock units and related payroll taxes (restricted stock units) plus amortization of intangible assets from business combinations (which refers to the amortization of the following intangible assets from business combinations: (i) rights on contracts, (ii) customer relationships, (iii) educational system, (iv) trademarks, (v) non-compete agreement and (vi) software resulting from acquisitions), plus/minus changes in fair value of derivative instruments (which refers to (i) changes in fair value of derivative instruments—finance income, plus (ii) changes in fair value of derivative instruments—finance costs), plus/minus changes in accounts payable to selling shareholders (which refers to changes in fair value of contingent consideration and accounts payable to selling shareholders—finance costs), plus share of loss of equity-accounted investees, plus foreign exchange effects on cash and cash equivalents, plus interest income (expenses), net (which refers to interest expenses related to accounts payable to selling shareholders from business combinations and investments in associates, net of interest income related to receivables from sale of subsidiary and loans to related parties), plus/minus changes in current and deferred tax recognized in statements of income applied to all adjustments to net income (which refers to tax effects of changes in deferred tax assets and liabilities recognized in profit or loss corresponding to financial instruments from acquisition of interests, tax benefit from tax deductible goodwill, share-based compensation and amortization of intangible assets), plus M&A expenses (which refers to non-recurring expenses related to the acquisitions of the year), plus non-recurring expenses, which are related to legal services (mainly due to International School arbitration) and consulting expenses for Sarbanes-Oxley implementation, plus effects related to COVID-19 pandemic, which includes the revision of the Company's estimated credit losses from its trade receivables based on expected increases in financial default and in unemployment rates in Brazil for the year.

We calculate Free Cash Flow as net cash flows from operating activities less acquisition of property and equipment less acquisition of intangible assets. We consider Free Cash Flow to be liquidity measures that provides useful information to management and investors about the amount of cash generated by operating activities and cash used for investments in property and equipment required to maintain and grow our business.

We understand that, although Adjusted EBITDA, Adjusted Net Income and Free Cash Flow are used by investors and securities analysts in their evaluation of companies, these measures have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results of operations as reported under IFRS. Additionally, our calculations of Adjusted EBITDA, Adjusted Net Income and Free Cash Flow may be different from the calculations used by other companies, including our competitors in the education services industry, and therefore, our measures may not be comparable to those of other companies.

For a reconciliation of our non-GAAP measures, see "Item 3. Key Information—A. Selected Financial and Other Information—Reconciliations for Non-GAAP Financial Measures."

Special Note Regarding ACV Bookings and Number of Enrolled Students

This annual report presents our Annual Contract Value bookings, or ACV Bookings, for the convenience of investors. ACV Bookings represents our partner schools' commitments to pay for our solutions offerings. We believe it is a meaningful indicator of demand for our platform and the market's response to it. We believe ACV Bookings is a helpful metric because it is designed to show amounts that we expect to be recognized as revenue for the 12-month period between October of one fiscal year through September of the following fiscal year. We deliver our educational materials to our partner schools for their convenience in the last calendar quarter of each year, so that our partner schools can prepare their classes in advance prior to the start of the following school year in January. As a result, our results of operations for the last quarter of a given fiscal year contain revenues relating to the following school year, which reflects the content that has been delivered prior to the start of the new fiscal year. Therefore, ACV Bookings conveys information that has predictive value for subsequent months, and which may not be as clearly conveyed or understood by simply analyzing our revenues in our income (loss), especially in view of our recent growth.

We define ACV Bookings as the revenue we would contractually expect to recognize from a partner school in each school year pursuant to the terms of our contract with such partner school, assuming no further additions or reductions in the number of enrolled students that will access our content at such partner school in such school year. ACV Booking is a non-accounting managerial operating metric and is not prepared in accordance with IFRS. We calculate ACV Bookings by multiplying the number of enrolled students at each partner school with the average ticket per student per year; the related number of enrolled students and average ticket per student per year are each calculated in accordance with the terms of each contract with the related partner school. Although our contracts with our partner schools are typically for three-year terms, we record one year of revenue under such contracts as ACV Bookings. For example, if a school enters into a three-year contract with us to provide our Core Curriculum solution to 100 students for a contractual fee of \$100 per student per year, we record \$10,000 as ACV Bookings, not \$30,000.

We measure our ACV Bookings monthly throughout the school year, starting in November of the preceding fiscal year. Pursuant to the terms of our contracts with our partner schools, they are required, by the end of November of each year, to provide us with an estimate of the number of enrolled students that will access our platform in the next school year. Since we allow our partner schools to make small adjustments to their estimates to account for late admissions and early dropouts, this number may fluctuate slightly until March 31, when it becomes more accurate. Accordingly, we believe this metric is most accurately reflected as of March 31 of each year, and in this annual report, we refer to our ACV Bookings as of March 31 in each year as our ACV Bookings.

However, following March 31 in a calendar year, our partner schools may experience additional admissions and/or additional dropouts up to September 30 of such year, which is the date on which the final amount of our ACV Bookings for the year becomes final, or our Delivered ACV Bookings. In prior years, the difference between our ACV Bookings and our Delivered ACV Bookings was not material, demonstrating the predictability of our business. However, during 2020 and as result of the impacts of the COVID-19 pandemic, our partner schools experienced atypical dropout rates from March 31, 2020 to September 30, 2020, and our ACV Bookings decreased from ACV Bookings of R\$1,005.7 million as of March 31, 2020, to Delivered ACV Bookings of R\$952.8 million as of September 30, 2020, plus R\$ 8.9 million of 2020 school year revenues booked in the fourth quarter of 2020, for a total Delivered ACV Bookings for the 2020 school year of R\$961.7 million. Consequentially, the dynamics mentioned above also impacted the number of enrolled students in our partner schools.

Following March 31 in a calendar year, our partner schools may experience additional admissions and/or additional dropouts up to September 30 of such year, which is the date on which the number of students for the year becomes final, or our Final Number of Enrolled Students. In prior years, the difference between the expected number of enrolled students as of March 31, or the Number of Enrolled Students, and the Final Number of Enrolled Students as of September 30 was not material, demonstrating the predictability of our business. However, during 2020 and as result of the impacts of the COVID-19 pandemic, our partner schools experienced atypical dropout rates from March 31, 2020 to September 30, 2020, and our number of students decreased from Number of Enrolled Students of 1,362,141 as of March 31, 2020, to Final Number of Students of 1,239,937 as of September 30, 2020.

Average ticket per student per year reflects the average price per student for the relevant school year and is presented to link this average price with the number of enrolled students in our partner schools, resulting in the ACV Bookings metric.

We understand that, although ACV Bookings may be used by investors and securities analysts in their evaluation of companies, it has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results of operations as reported under IFRS.

Market Share and Other Information

This annual report contains data related to economic conditions in the market in which we operate. The information contained in this annual report concerning economic conditions is based on publicly available information from third-party sources that we believe to be reasonable. Market data and certain industry forecast data used in this annual report were obtained from internal reports and studies, where appropriate, as well as estimates, market research, publicly available information (including information available from the United States Securities and Exchange Commission website) and industry publications. We obtained the information included in this annual report relating to the industry in which we operate, as well as the estimates concerning market shares, through internal research, public information and publications on the industry prepared by official public sources, such as the Central Bank, the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, the Brazilian Education Ministry (*Ministério da Educação*), or MEC, the National High School Exam (*Exame Nacional do Ensino Médio*), or ENEM, the National Index for Basic Education (*Índice de Desenvolvimento da Educação Básica*), or IDEB, the Brazilian National Institute for Educational Studies and Research (*Instituto Nacional de Estudos e Pesquisas Educacionais Anísio Teixeira*), or INEP, as well as private sources, such as Hoper Consultoria and Gismarket, consulting and research companies in the Brazilian education industry, and Getúlio Vargas Foundation (*Fundação Getúlio Vargas*), or FGV, among others.

Industry publications, governmental publications, and other market sources, including those referred to above, generally state that the information they include has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Except as disclosed in this annual report, none of the publications, reports or other published industry sources referred to in this annual report were commissioned by us or prepared at our request. Except as disclosed in this annual report, we have not sought or obtained the consent of any of these sources to include such market data in this annual report.

Rounding

We have made rounding adjustments to some of the figures included in this annual report. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains statements that constitute forward-looking statements. Many of the forward-looking statements contained in this annual report can be identified by the use of forward-looking words such as “anticipate,” “believe,” “could,” “expect,” “should,” “plan,” “intend,” “may,” “predict,” “continue,” “estimate” and “potential,” among others.

Forward-looking statements appear in a number of places in this annual report and include, but are not limited to, statements regarding our intent, belief or current expectations. Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. Such statements are subject to risks and uncertainties, and actual results may differ materially from those expressed or implied in the forward-looking statements due to various factors, including, but not limited to, those identified under the section entitled “Risk Factors” in this annual report. These risks and uncertainties include factors relating to:

- general economic, financial, political, demographic and business conditions in Brazil, as well as any other countries we may serve in the future and their impact on our business, including any impact from the COVID-19 pandemic;
- fluctuations in interest, inflation and exchange rates in Brazil and any other countries we may serve in the future;
- our ability to implement our business strategy;
- our ability to integrate and realize the anticipated benefits and synergies from mergers and acquisitions;
- our ability to adapt to technological changes in the educational sector;
- our ability to enhance our brands;
- our ability to obtain government authorizations on terms and conditions and within periods acceptable to us;
- our ability to continue attracting and retaining partner schools;
- our ability to maintain the academic quality of our programs;
- the availability of qualified personnel and the ability to retain such personnel;
- changes in the financial condition of the students enrolling in our partner schools or private schools in general and in the competitive conditions in the education industry, or changes in the financial condition of our partner schools in the primary and secondary education sector;
- our capitalization and level of indebtedness;
- the interests of our controlling shareholder;
- changes in government regulations applicable to the primary and secondary education industry in Brazil;
- government interventions in the primary or secondary education industry that affect the economic or tax regime, the collection of tuition fees or the regulatory framework applicable to primary and/or secondary educational institutions;
- a decline in the number of our partner schools or the amount of fees we can charge for our educational platform;
- our ability to compete and conduct our business in the future and adapt to changes in circumstances;
- the success of our marketing initiatives, including advertising and promotional efforts;
- our ability to develop new educational products, services and concepts;
- changes in consumer demands and preferences and technological advances, and our ability to innovate to respond to such changes;
- changes in labor, distribution and other operating costs;

- our compliance with, and changes to, government laws, regulations and tax matters that currently apply to us;
- other factors that may affect our financial condition, liquidity and results of operations; and
- other risk factors discussed under “Item 3. Key Information—D. Risk factors.”

Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

A. Directors and Senior Management

Not applicable.

B. Advisers

Not applicable.

C. Auditors

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

A. Offer Statistics

Not applicable.

B. Method and Expected Timetable

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

You should read the following selected financial data together with “Item 5. Operating and Financial Review and Prospects” and our Consolidated Financial Statements and the related notes appearing elsewhere in this annual report.

The summary balance sheet as of December 31, 2020 and 2019 and statement of operations for the years ended December 31, 2020, 2019 and 2018 have been derived from our audited consolidated financial statements included elsewhere in this annual report, prepared in accordance with IFRS, as issued by the IASB.

	For the Year Ended December 31,					
	2020	2020	2019	2018	2017	2016
	US\$ millions ⁽¹⁾			R\$ millions		
Statement of Operations Data						
Net revenue	192.7	1,001.7	572.8	381.0	244.4	159.3
Cost of sales	(42.5)	(221.1)	(117.3)	(80.7)	(58.5)	(41.3)
Gross profit	150.2	780.6	455.5	300.2	185.9	117.9
Selling expenses	(71.6)	(372.3)	(199.8)	(113.3)	(65.3)	(40.3)
General and administrative expenses	(52.1)	(270.6)	(191.4)	(129.8)	(48.9)	(32.7)
Other income (expenses), net	(0.4)	(2.2)	(6.2)	4.9	3.3	3.6
Operating profit	26.1	135.5	58.1	62.1	74.9	48.6
Finance income	8.7	45.2	72.0	36.6	12.5	47.2
Finance costs	(27.3)	(142.0)	(170.8)	(198.8)	(20.4)	(1.8)
Finance result	(18.6)	(96.8)	(98.8)	(162.2)	(7.9)	45.4
Share of loss of equity-accounted investees	0.1	0.4	(1.8)	(0.8)	(0.7)	(1.1)
Profit (loss) before income taxes	7.6	39.1	(42.5)	(100.9)	66.4	92.8
Income taxes—income (expense)	(4.3)	(22.3)	33.1	18.0	(22.7)	(18.4)
Current	(16.8)	(87.4)	(46.9)	(26.5)	(31.0)	(13.0)
Deferred	12.5	65.1	80.0	44.5	8.3	(5.5)
Profit (loss) for the year	3.3	16.8	(9.4)	(82.9)	43.6	74.4
Profit (loss) attributable to:						
Equity holders of the parent	3.3	16.8	(9.4)	(82.4)	44.3	75.1
Non-controlling interests	—	—	—	(0.5)	(0.6)	(0.7)

	For the Year Ended December 31,					2016
	2020	2020	2019	2018	2017	
	US\$ millions ⁽¹⁾			RS millions		
Basic earnings per share—RS (unless otherwise indicated)⁽²⁾						
Class A Common Shares	0.06	0.30	(0.18)	(1.64)	0.88	1.49
Class B Common Shares	0.06	0.30	(0.18)	(1.64)	0.88	1.49
Diluted earnings per share—RS (unless otherwise indicated)⁽³⁾						
Class A Common Shares	0.06	0.30	(0.18)	(1.64)	0.85	1.49
Class B Common Shares	0.06	0.30	(0.18)	(1.64)	0.85	1.49

(1) For convenience purposes only, amounts in *reais* as of December 31, 2020 have been translated to U.S. dollars using an exchange rate of R\$5.197 to US\$1.00, the commercial selling rate for U.S. dollars as of December 31, 2020 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See “—Exchange Rates” for further information about recent fluctuations in exchange rates.

(2) Calculated by dividing the profit (loss) attributable to the equity holders of the parent company by the weighted average number of common shares outstanding during the year.

(3) Calculated by dividing the profit (loss) attributable to the equity holders of the parent company by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all potential common shares with dilutive effects.

	As of December 31,				
	2020	2020	2019	2018	2017
	US\$ millions ⁽¹⁾		RS millions		
Balance Sheet Data:					
Assets					
Current assets					
Cash and cash equivalents	81.7	424.4	48.9	12.3	0.8
Financial investments	137.1	712.6	574.8	806.8	83.0
Trade receivables	79.9	415.3	329.4	136.6	94.9
Inventories	14.3	74.1	40.1	15.1	18.8
Recoverable taxes	3.7	19.3	15.6	11.2	5.1
Financial instruments from acquisition of interests	—	—	3.8	—	—
Related parties	1.9	10.0	1.3	—	—
Other assets	4.6	24.1	14.7	6.1	7.3
Total current assets	323.2	1,679.8	1,028.6	988.1	210.0
Non-current assets					
Financial instruments from acquisition of interests	—	—	32.2	26.6	12.5
Deferred income tax	45.6	236.9	156.7	99.5	5.9
Recoverable taxes	0.2	1.1	6.6	1.0	3.3
Financial investments	2.0	10.3	4.7	4.4	0.2
Related parties	2.0	10.5	14.8	1.2	1.3
Other assets	4.3	22.2	14.4	1.1	—
Investments and interests in other entities	1.9	9.7	48.6	11.9	12.7
Property and equipment	5.0	26.1	21.3	13.3	9.1
Right-of-use assets	5.8	30.0	21.6	—	—
Intangible assets	490.6	2,549.7	1,811.9	187.7	175.5
Total non-current assets	557.4	2,896.5	2,132.8	346.7	220.4
Total assets	880.6	4,576.3	3,161.4	1,334.9	430.4
Liabilities					
Current liabilities					
Trade payables	7.9	40.9	34.5	14.8	3.9
Labor and social obligations	16.4	85.1	68.5	15.9	8.7
Taxes and contributions payable	1.9	9.7	7.5	2.6	1.1
Income taxes payable	8.6	44.7	52.0	17.3	17.4

	As of December 31,				
	2020	2020	2019	2018	2017
	US\$ millions ⁽¹⁾		RS millions		
Advances from customers	4.4	23.1	25.6	6.0	5.9
Lease liabilities ⁽²⁾	2.4	12.7	6.8	—	—
Loans and financing	20.7	107.7	98.6	—	—
Accounts payable to selling shareholders	126.3	656.0	118.0	0.8	14.9
Other liabilities	0.1	0.4	0.6	0.4	5.5
Total current liabilities	188.7	980.3	412.1	57.9	69.7
Non-current liabilities					
Labor and social obligations	7.0	36.6	2.8	—	—
Lease liabilities ⁽²⁾	4.3	22.5	19.0	—	—
Loans and financing	39.1	203.4	—	—	—
Financial instruments from acquisition of interests	—	—	33.9	25.0	11.9
Provision for legal proceedings	0.3	1.4	0.3	0.1	—
Deferred income tax	—	—	—	1.4	0.1
Accounts payable to selling shareholders	217.6	1,130.5	1,098.3	180.6	43.1
Other liabilities	0.2	0.8	0.2	—	—
Total non-current liabilities	268.5	1,395.2	1,154.5	207.1	55.0
Total liabilities	457.2	2,375.5	1,566.6	265.0	124.7
Equity					
Share capital	—	—	—	—	55.9
Capital reserve	423.4	2,200.6	1,607.7	1,089.5	160.7
Earnings reserves	—	—	—	—	82.0
Share-based compensation reserve	15.5	80.8	84.5	67.4	7.1
Accumulated losses	(15.5)	(80.6)	(97.4)	(86.7)	—
Equity attributable to equity holders of the parent	423.4	2,200.8	1,594.8	1,070.2	305.6
Non-controlling interests	—	—	—	(0.3)	0.1
Total equity	423.4	2,200.8	1,594.8	1,069.9	305.7
Total liabilities and equity	880.6	4,576.3	3,161.4	1,334.9	430.4

(1) For convenience purposes only, amounts in *reais* as of December 31, 2020 have been translated to U.S. dollars using an exchange rate of R\$5.197 to US\$1.00, the commercial selling rate for U.S. dollars as of December 31, 2020 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See “—Exchange Rates” for further information about recent fluctuations in exchange rates.

(2) On January 1, 2019 the Company adopted the new pronouncement of IRFS 16, see note 2.5 to our audited consolidated financial statements.

Non-GAAP Financial Measures

Adjusted EBITDA, Adjusted Net Income and Free Cash Flow

	For the Year Ended December 31,				
	2020	2020	2019	2018	2017
	US\$ millions ⁽¹⁾		RS millions		
Adjusted EBITDA ⁽²⁾	73.3	381.1	209.4	142.0	91.1
Adjusted Net Income ⁽³⁾	42.4	220.3	169.6	112.3	66.6
Free Cash Flow ⁽⁴⁾	(2.9)	(15.2)	(61.7)	55.9	51.3

(1) For convenience purposes only, amounts in *reais* as of December 31, 2020 have been translated to U.S. dollars using an exchange rate of R\$5.197 to US\$1.00, the commercial selling rate for U.S. dollars as of December 31, 2020 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See “—Exchange Rates” for further information about recent fluctuations in exchange rates.

- (2) For a reconciliation between our Adjusted EBITDA and our profit for the year, see “—Reconciliations for Non-GAAP Financial Measures—Reconciliation between Adjusted EBITDA and Profit for the Year.”
- (3) For a reconciliation of our Adjusted Net Income, see “—Reconciliations for Non-GAAP Financial Measures—Reconciliation of Adjusted Net Income from Profit (Loss) for the Year.”
- (4) For a reconciliation of our Free Cash Flow, see “—Reconciliations for Non-GAAP Financial Measures—Reconciliation of Free Cash Flow from Net Cash Flows from Operating Activities.”

Operating Data

ACV Bookings

The following table set forth our Number of Enrolled Students, average ticket per student per year and ACV Bookings as of March 31, 2021, 2020, 2019 and 2018.

	As of March 31,				
	2021⁽¹⁾	2021⁽²⁾	2020⁽³⁾	2019⁽⁴⁾	2018⁽⁵⁾
	US\$ (except number of enrolled students)⁽¹⁾	R\$ (except number of enrolled students)	R\$ (except number of enrolled students)		
Number of Enrolled Students	n/a	1,785,576	1,362,141	498,553	405,814
Average ticket per student per year	125.4	651.6	738.4	884.3	793.8
ACV Bookings (in millions)⁽⁶⁾	223.9	1,163.4	1,005.8	440.9	322.1

(1) For convenience purposes only, amounts in *reais* as of March 31, 2021 have been translated to U.S. dollars using an exchange rate of R\$5.197 to US\$1.00, the commercial selling rate for U.S. dollars as of December 31, 2020 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See “Item 3. Key Information—A. Selected financial data—Exchange Rates” for further information about recent fluctuations in exchange rates.

(2) For the 2021 school year (which we define for purposes of ACV Bookings as the period starting in October 2020 and ending in September 2021).

(3) For the 2020 school year (which we define for purposes of ACV Bookings as the period starting in October 2019 and ending in September 2020). Includes the ACV Bookings of Positivo, which we acquired in November 2019.

(4) For the 2019 school year (which we define for purposes of ACV Bookings as the period starting in October 2018 and ending in September 2019).

(5) For the 2018 school year (which we define for purposes of ACV Bookings as the period starting in October 2017 and ending in September 2018).

(6) For further information on how we calculate ACV Bookings, see “Presentation of Financial and Other Information—Special Note Regarding ACV Bookings.”

The Final Number of Enrolled Students as of September 30, 2020, was 1,239,937. Delivered ACV Bookings was R\$952.8 million as of September 30, 2020 plus R\$ 8.9 million of 2020 school year revenues booked in the fourth quarter of 2020, for a total Delivered ACV Bookings for the 2020 school year of R\$961.7 million.

As of March 31, 2021, our Number of Enrolled Students for 2021 was 1,785,576, our average ticket per student per year was R\$651.6 and our ACV Bookings was R\$1,163.4.

Reconciliations for Non-GAAP Financial Measures

The following tables set forth reconciliations of Adjusted EBITDA and Adjusted Net Income to our profit (loss) for the years ended December 31, 2020, 2019, 2018 and 2017, our most recent directly comparable financial measures calculated and presented in accordance with IFRS, as well as reconciliations between Free Cash Flow and net cash flows from operating activities for the years ended December 31, 2020, 2019, 2018 and 2017, our most recent directly comparable financial measures calculated and presented in accordance with IFRS. For further information on why our management chooses to use these non-GAAP financial measures, and on the limits of using these non-GAAP financial measures, please see “Presentation of Financial and Other Information—Special Note Regarding Non-GAAP Financial Measures.”

Reconciliation between Adjusted EBITDA and Profit for the Year

	For the Year Ended December 31,				
	2020	2020	2019	2018	2017
	US\$ millions ⁽¹⁾		R\$ millions		
Adjusted EBITDA Reconciliation					
Profit (loss) for the year	3.2	16.8	(9.4)	(82.9)	43.6
(+/-) Income taxes benefit (expense)	4.3	22.3	(33.1)	(18.0)	22.7
(+/-) Finance result	18.6	96.8	98.8	162.2	7.9
(+) Depreciation and amortization	24.5	127.5	48.3	19.6	14.3
(+) Share of loss of equity-accounted investees	(0.1)	(0.4)	1.8	0.8	0.7
(+) Share-based compensation plan	13.4	69.8	67.0	60.3	1.9
(+) M&A expenses ⁽²⁾	2.7	13.8	28.9	—	—
(+) Non-recurring expenses ⁽³⁾	3.8	19.5	7.1	—	—
(+) Effects related to COVID-19 pandemic ⁽⁴⁾	2.9	15.0	—	—	—
Adjusted EBITDA	73.3	381.1	209.4	142.0	91.1

(1) For convenience purposes only, amounts in *reais* for the year ended December 31, 2020 have been translated to U.S. dollars using an exchange rate of R\$5.197 to US\$1.00, the commercial selling rate for U.S. dollars as of December 31, 2020 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See “—Exchange Rates” for further information about recent fluctuations in exchange rates.

(2) M&A expenses corresponds to the non-recurring expenses related to the acquisitions of the year, such as consulting and legal services, which was recorded in the statement of operations by Arco of R\$13.8 million.

(3) Non-recurring expenses are related to legal services (mainly due to International School arbitration) and consulting expenses for Sarbanes-Oxley (SOX) implementation. The SOX expense amounted to R\$3.9 million, of which R\$3.1 million was considered as non-recurring in connection with the first year of SOX implementation.

(4) Expenses related to the COVID-19 pandemic, which include the revision of our estimated credit losses from its trade receivables based on expected increases in financial default and in unemployment rates in Brazil for the year ended 2020.

Reconciliation of Adjusted Net Income from Profit (Loss) for the Year

	For the Year Ended December 31,				
	2020	2020	2019	2018	2017
	US\$ millions ⁽¹⁾		R\$ millions		
Reconciliation of Adjusted Net Income					
Profit (loss) for the year	3.2	16.8	(9.4)	(82.9)	43.6
(+) Share-based compensation plan, restricted stock units and related payroll taxes (restricted stock units)	13.4	69.8	67.0	60.3	1.9
(+) Amortization of intangible assets from business combinations ⁽²⁾	14.6	76.1	23.1	11.8	9.6
(+/-) Changes in fair value of derivative instruments ⁽³⁾	(0.1)	(0.6)	(0.5)	(0.7)	6.7
(+/-) Changes in accounts payable to selling shareholders ⁽⁴⁾	3.9	20.3	89.4	130.4	—
(+) Share of loss of equity-accounted investees	(0.1)	(0.4)	1.8	0.8	0.7
(+) Foreign exchange effects on cash and cash equivalents	—	(0.2)	0.6	34.4	—
(+) Interest income (expenses), net ⁽⁵⁾	12.9	67.1	41.2	9.8	11.2
(+/-) Tax effects ⁽⁶⁾	(14.8)	(76.9)	(79.6)	(51.5)	(7.1)
(+) M&A expenses ⁽⁷⁾	2.7	13.8	28.9	—	—
(+) Non-recurring expenses ⁽⁸⁾	3.8	19.5	7.1	—	—
(+) Effects related to COVID-19 pandemic ⁽⁹⁾	2.9	15.0	—	—	—
Adjusted Net Income⁽¹⁰⁾	42.4	220.3	169.6	112.3	66.6

(1) For convenience purposes only, amounts in *reais* for the year ended December 31, 2020 have been translated to U.S. dollars using an exchange rate of R\$5.197 to US\$1.00, the commercial selling rate for U.S. dollars as of December 31, 2020 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See “—Exchange Rates” for further information about recent fluctuations in exchange rates.

- (2) Refers to the amortization of the following intangible assets from business combinations: (i) rights on contracts, (ii) customer relationships, (iii) educational system, (iv) trademarks, (v) non-compete agreement and (vi) software resulting from acquisitions. For further information, see note 14 to our audited consolidated financial statements.
- (3) Refers to (i) changes in fair value of derivative instruments—finance income, plus (ii) changes in fair value of derivative instruments—finance costs. For further information, see note 23 to our audited consolidated financial statements.
- (4) Refers to changes in fair value of contingent consideration and accounts payable to selling shareholders—finance costs. For further information, see note 17 to our audited consolidated financial statements.
- (5) Refers to interest expenses related to accounts payable to selling shareholders from business combinations and investments in associates, net of interest income related to receivables from sale of subsidiary and loans to related parties.
- (6) Refers to tax effects of current and deferred tax recognized in statements of income applied to all adjustments to net income (which refers to tax effects of changes in deferred tax assets and liabilities recognized in profit or loss corresponding to financial instruments from acquisition of interests, tax benefit from tax deductible goodwill, share-based compensation and amortization of intangible assets).
- (7) M&A expenses corresponds to the non-recurring expenses related to the acquisitions of the year, such as consulting and legal services, which was recorded in the statement of operations by Arco of R\$13.8 million.
- (8) Non-recurring expenses are related to legal services (mainly due to International School arbitration) and consulting expenses for Sarbanes-Oxley (SOX) implementation. The SOX expense amounted to R\$3.9 million, of which R\$3.1 million was considered as non-recurring in connection with the first year of SOX implementation.
- (9) Expenses related to the COVID-19 pandemic, which include the revision of our estimated credit losses from its trade receivables based on expected increases in financial default and in unemployment rates in Brazil for the year ended 2020.
- (10) Adjusted net income reflects the adjusted result of the business, excluding the effects of the special items described above.

Reconciliation of Free Cash Flow from Net Cash Flows from Operating Activities

	For the Year Ended December 31,				
	2020	2020	2019	2018	2017
	US\$ millions ⁽¹⁾	R\$ millions			
Reconciliation of Free Cash Flow					
Net cash flows generated from (used in) operating activities	17.8	92.4	(7.6)	92.1	62.7
Acquisition of property and equipment	(2.1)	(10.8)	(11.0)	(6.9)	(5.3)
Acquisition of intangible assets	(18.6)	(96.8)	(43.1)	(29.4)	(6.0)
Free Cash Flow	(2.9)	(15.2)	(61.7)	55.9	51.3

- (1) For convenience purposes only, amounts in *reais* for the year ended December 31, 2020 have been translated to U.S. dollars using an exchange rate of R\$5.197 to US\$1.00, the commercial selling rate for U.S. dollars as of December 31, 2020 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See “—Exchange Rates” for further information about recent fluctuations in exchange rates.

Exchange Rates

The Brazilian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures.

The real depreciated against the U.S. dollar from since mid-2011. The *real*/U.S. dollar exchange rate reported by the Central Bank was R\$3.8748 per U.S.\$1.00 on December 31, 2018, which reflected a 17.1% depreciation in the real against the U.S. dollar during 2018, primarily as a result of lower interest rates in Brazil, which reduced the volume of foreign currency deposited in Brazil in the “carry trade,” as well as uncertainty regarding the results of the Brazilian presidential elections held in October 2018. On December 31, 2019 and 2020, the period-end *real*/U.S. dollar exchange rate was R\$4.031 and R\$5.197, respectively, per U.S.\$1.00, which represented depreciation of 4.0% and 28.9%, respectively, during the corresponding years. There can be no assurance that the real will not depreciate or appreciate further against the U.S. dollar. During 2020, as a result of the COVID-19 pandemic and the resulting economic and political instability in Brazil, the real depreciated significantly against the U.S. dollar, and the *real*/U.S. dollar exchange rate was R\$5.197 per U.S.\$1.00 as of December 31, 2020, which represented a depreciation of 28.9% during the year.

The Central Bank has intervened occasionally in the foreign exchange market to attempt to control instability in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the real to float freely or will intervene in the exchange rate market by re-implementing a currency band system or otherwise. The real may depreciate or appreciate substantially against the U.S. dollar in the future. Furthermore, Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or there are serious reasons to foresee a serious imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that the Brazilian government will not place restrictions on remittances of foreign capital abroad in the future.

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates for the purchase of U.S. dollars expressed in Brazilian *reais* per U.S. dollar. The average rate is calculated by using the average of reported exchange rates by the Central Bank on each day during a monthly period and on the last day of each month during an annual period. As of December 31, 2020, the exchange rate for the selling *real*/dollar exchange rate was R\$5.197 to U.S.\$1.00, as reported by the Central Bank. The *real*/dollar exchange rate fluctuates and, therefore, the selling rate on March 31, 2020 may not be indicative of future exchange rates.

Year	Period-End	Average ⁽¹⁾	Low	High
2018	3.875	3.656	3.139	4.188
2019	4.031	3.946	3.652	4.260
2020	5.197	5.158	4.021	5.937

Month	Period-End	Average ⁽²⁾	Low	High
January 2021	5.476	5.356	5.163	5.509
February 2021	5.530	5.416	5.342	5.530
March 2021 (through March 30, 2021)	5.764	5.644	5.495	5.840

Source: Central Bank.

(1) Represents the average of the exchange rates on the closing of each business day during the year.

(2) Represents the average of the exchange rates on the closing of each business day during the month.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Summary of Risk Factors

An investment in our Class A common shares is subject to a number of risks, including risks relating to our business and industry, risks relating to Brazil and risks relating to our Class A common shares. The following list summarizes some, but not all, of these risks. Please read the information in the section entitled "Risk Factors" for a more thorough description of these and other risks.

Certain Risks Relating to Our Business and Industry

- *Our operations and results may be negatively impacted by the coronavirus (COVID-19) outbreak.* The initial measures of restrictions taken by Brazilian states and local authorities directly impacted the education industry by indefinitely postponing on-site school activities. Nonetheless, as education is an important and essential service, the private schools are conducting classes on a flexmodel, with classroom and virtual classes. Notwithstanding the above, the Company did not suspend its activities and, even with the return allowed by the authorities, most of its workforce continues to work remotely from home, except for some people from administrative teams and distribution centers' teams that are working on site in accordance with health and safety protocols and social distancing guidelines. Given the uncertainty around the extent and timing of the future spread of COVID-19, the imposition of additional protective measures, or the relaxation of existing protective measures, it is not possible to accurately predict COVID-19's general impact on the education industry or to reasonably estimate its impact on Arco's results of operations, cash flows or financial condition.

- *We face significant competition in each program we offer and each geographic region in which we operate. If we experience increasing consolidation in the K-12 school industry in Brazil or if we fail to compete efficiently, we may lose market share and our profitability may be adversely affected.* We compete directly with private education platform providers and indirectly with certain traditional educational content providers. Our competitors may begin to offer educational solutions similar to or better than those offered by us, have access to more funds, be more prestigious or well-regarded within the academic community, or charge lower fees. If we are unable to maintain our competitive position or otherwise respond to competitive pressures effectively, we may lose our market share, our profits may decrease, and we may be adversely affected.
- *We may not be able to update, improve or offer the content of our existing educational platform on a cost-effective basis.* Our educational platform is designed to offer a complete suite of turnkey curriculum solutions intended to prepare the primary and secondary education students at our partner schools to sit the ENEM (which is equivalent to the Gaokao in China and loosely comparable to the SAT in the United States), for entry into post-secondary educational institutions and which is also used by the MEC and the market to evaluate Brazilian public and private schools. If we do not adequately modify our educational platform in response to market demand, whether due to financial restrictions, technological changes or otherwise, our ability to attract new schools and retain partner schools may be impaired and we may be materially adversely affected.
- *Our business depends on the continued success of our brands, and if we fail to maintain and enhance the recognition of our brands, we may face difficulty increasing our network of partner schools, and our reputation and operating results may be harmed.* We believe that market awareness of our brands, SAS Plataforma de Educação, or SAS, SAE Digital S.A., or SAE, International School Serviços de Ensino, Treinamento, Editoração e Franqueadora S.A., or International School, Sistema Positivo de Ensino, or SPE, among others, has contributed significantly to the success of our business. If our marketing initiatives are not successful or become less effective, if we are unable to further enhance our brand recognition, or if we incur excessive marketing and promotion expenses, or if our brand image is negatively impacted by any negative publicity, we may not be able to attract new partner schools successfully or efficiently, and our business and results of operations may be materially and adversely affected. In addition, if any partner school using our educational platforms engages in unlawful activities or uses our educational platforms in an unauthorized manner, the general public may associate such school's behavior with our brand, generating negative publicity that may adversely affect our reputation.
- *If we continue to grow, we may not be able to appropriately manage the expansion of our business and staff, the increased complexity of our software and platforms, or grow in our addressable market.* We are currently experiencing a period of significant expansion and may face, as a result, certain expansion-related issues, such as cash flow management, corporate culture, IT integration and internal controls, among others. These issues and the significant amount of time spent on addressing them may result in the diversion of our management's attention from other business issues and opportunities. We cannot assure you that our current and planned platform and systems, procedures and controls, personnel and third-party relationships will be adequate to support our future operations. In addition, our continuous expansion places a significant strain on management and on our operational and financial resources, which strain is expected to continue. Our failure to manage growth effectively could seriously harm our business, results of operations and financial condition.
- *An increase in delays and/or defaults in the payment of amounts owed to us by partner schools may adversely affect our income and cash flow.* Because the historical information included elsewhere in this annual report may not be representative of our results as a consolidated company, investors may have limited financial information on which to evaluate us, their investment decision and our prior performance.

- *An increase in delays and/or defaults in the payment of tuition fees may adversely affect our income and cash flows.* We depend on the full and timely payment of the amounts owed to us by partner schools. Our partner schools may face financial difficulties, and in certain cases, insolvency or bankruptcy. An increase in payment delinquency or default by partner schools may have a material adverse effect on our cash flows and our business, including our ability to meet our obligations, and in certain circumstances, we may decide to terminate our contracts with such partner schools, increasing our attrition rates.

Certain Factors Relating to Brazil

- *The Brazilian federal government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement as well as Brazil's political, regulatory, legal and economic conditions could harm us and the price of our Class A common shares.* The Brazilian government's actions to control inflation and other policies and regulations have often involved, among other measures, increases or decreases in interest rates, changes in fiscal policies, wage and price controls, foreign exchange rate controls, blocking access to bank accounts, currency devaluations, capital controls and import and export restrictions. Uncertainty over whether the Brazilian federal government will implement reforms or changes in policy or regulation affecting these or other factors in the future may affect economic performance and contribute to economic uncertainty in Brazil, which may have an adverse effect on our activities and consequently our operating results and may also adversely affect the trading price of our Class A common shares.
- *Economic uncertainty and political instability in Brazil may harm us and the price of our Class A common shares.* Political crises have affected and continue to affect the confidence of investors and the general public which have historically resulted in economic deceleration and heightened volatility in the securities offered by companies with significant operations in Brazil.
- *Inflation and certain measures by the Brazilian government to curb inflation have historically harmed the Brazilian economy and Brazilian capital markets, and high levels of inflation in the future would harm our business and the price of our Class A common shares.* Inflation, policies adopted to curb inflationary pressures and uncertainties regarding possible future governmental intervention have contributed to economic uncertainty and heightened volatility in the Brazilian capital markets.
- *Exchange rate instability may have adverse effects on the Brazilian economy, us and the price of our Class A common shares.* The Brazilian government has implemented various economic plans and used various exchange rate policies, including sudden devaluations, periodic minidevaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. Depending on the circumstances, either devaluation or appreciation of the *real* relative to the U.S. dollar and other foreign currencies could restrict the growth of the Brazilian economy, as well as our business, results of operations and profitability.
- *Infrastructure and workforce deficiency in Brazil may impact economic growth and have a material adverse effect on us.* Growth is limited by inadequate infrastructure, including potential energy shortages and deficient transportation, logistics and telecommunication sectors, general strikes, the lack of a qualified labor force, and the lack of private and public investments in these areas, which limit productivity and efficiency.
- *Developments and the perceptions of risks in other countries, including other emerging markets, the United States and Europe, may harm the Brazilian economy and the price of our Class A common shares.* The market for securities offered by companies with significant operations in Brazil is influenced by economic and market conditions in Brazil and, to varying degrees, market conditions in other Latin American and emerging markets, as well as the United States, Europe and other countries. To the extent the conditions of the global markets or economy deteriorate, the business of companies with significant operations in Brazil may be harmed.

Certain Factors Relating to Our Class A Common Shares

- *The Founding Shareholders, our largest group of shareholders, own 100% of our outstanding Class B common shares, which represents 90.1% of the voting power of our issued share capital, and will control all matters requiring shareholder approval. This concentration of ownership and voting power limits your ability to influence corporate matters.* As long as the Founding Shareholders continue to beneficially own a sufficient number of Class B common shares, even if they beneficially own significantly less than 50% of our outstanding share capital, acting together, they will be able to effectively control our decisions. However, if our Class B common shares at any time represent less than 10% of the total number of shares in the capital of the Company outstanding, the Class B common shares then outstanding will automatically convert into Class A common shares.

- *Our Articles of Association contain anti-takeover provisions that may discourage a third-party from acquiring us and adversely affect the rights of holders of our Class A common shares.* Our Articles of Association contain certain provisions that could limit the ability of others to acquire our control, including a provision that grants authority to our board of directors to establish and issue from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series.
- *If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, the price of our Class A common shares and our trading volume could decline.* The trading market for our Class A common shares depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our Class A common shares or publish inaccurate or unfavorable research about our business, the price of our Class A common shares would likely decline.
- *We do not anticipate paying any cash dividends in the foreseeable future.* We currently intend to retain our future earnings, if any, for the foreseeable future, to fund the operation of our business and future growth. We do not intend to pay any dividends to holders of our Class A common shares. As a result, capital appreciation in the price of our Class A common shares, if any, will be your only source of gain on an investment in our Class A common shares.
- *Our dual class capital structure means our shares are not included in certain indices. We cannot predict the impact this may have on our share price.* Under the announced policies, our dual class capital structure is not eligible for inclusion in any of the FTSE Russell, S&P Dow Jones and MSCI indices and, as a result, mutual funds, exchange-traded funds and other investment vehicles that attempt to passively track these indices will not invest in our stock. It continues to be unclear what effect, if any, these policies will have on the valuations of publicly traded companies excluded from the indices, but in certain situations they may depress these valuations compared to those of other similar companies that are included. Exclusion from indices could make our Class A common shares less attractive to investors and, as a result, the market price of our Class A common shares could be adversely affected.
- *The dual class structure of our common stock has the effect of concentrating voting control with the Founding Shareholders; this will limit or preclude your ability to influence corporate matters.* Due to the ten-to-one voting ratio between our Class B and Class A common shares, the beneficial owners of our Class B common shares (composed of the Founding Shareholders) collectively will continue to control a majority of the combined voting power of our common shares and therefore be able to control all matters submitted to our shareholders so long as the total number of the issued and outstanding Class B common shares is at least 10% of the total number of shares outstanding. The fact that future transfers by holders of Class B common shares will generally result in those shares converting to Class A common shares, subject to limited exceptions as provided in the Articles of Association; as well as the ten-to-one voting ratio of our Class B common shares and Class A common shares, holders of our Class B common shares will in many situations continue to maintain control of all matters requiring shareholder approval. This concentrated control will limit or preclude your ability to influence corporate matters for the foreseeable future.

Certain Factors Relating to Our Business and Industry

Our operations and results may be negatively impacted by the coronavirus (COVID-19) outbreak.

Since December 2019, a novel strain of COVID-19 has spread in over 150 countries, including China, Italy, U.S. and Brazil. On March 11, 2020, the World Health Organization, revised the classification of COVID-19 from an epidemic (when a disease spreads through a specific community or region) to a pandemic, which according to World Health Organization's definition is when there is a worldwide spread of a new disease. The classification of the disease as a pandemic was motivated by the rapid increase in the number of cases and the number of affected countries on all continents, triggering measures by governments, companies and societies to contain the advances of COVID-19. The measures vary from country to country in quantity and degree of severity but in Brazil basically involve: (1) recommendations to adopt voluntary isolation (avoid going out on the streets, avoiding crowds, avoiding physical contact with other people, etc.); (2) internal restrictions regarding the movement of people; (3) closing of schools; (4) closing of public places (parks and leisure centers); (5) closures of shopping malls, bars and restaurants; (6) adoption of remote working practices (home office) by companies, whenever possible and permitted by their activities; (7) restriction and/or suspension of trade in non-essential goods and services in the context of COVID-19 (while supermarkets, drugstores, gas stations and other essential services remain available); (8) purchase restrictions for certain essential items to avoid scarcity; (9) interruption of production activities of consumer items not essential to combat the pandemic; (10) restriction on the delivery of products to homes other than essentials; (11) compulsory reduction of working hours; (12) cancellation of public events; and (13) other restrictive measures.

The initial measures of restrictions taken by Brazilian states and local authorities directly impacted the education industry by indefinitely postponing on-site school activities. Nonetheless, as education is an important and essential service, the private schools are conducting classes on a flex model, with classroom and virtual classes. In Brazil, the resumption of economic activity is occurring in stages, some activities are gradually being released, including presental classes in some cases and states with several security rules. The return is occurring differently in each Brazilian state, according to their particular situation.

Notwithstanding the above, the Company did not suspend its activities and, even with the return allowed by the authorities, most of its workforce continues to work remotely from home, except for some people from administrative teams and distribution centers' teams that are working on site in accordance with health and safety protocols and social distancing guidelines. In this scenario, the Company has made additional investments in IT and network infrastructure; incurred additional expenses for cleaning and disinfecting the installations; purchased alcohol and masks; funded COVID-19 tests and H1N1 flu vaccination campaigns with the objective of taking care of its employees, reducing the demand for care in health units and to facilitate the diagnosis of COVID-19. The Company also delivered chairs, computers, and work kits to its employees. Additionally, to support schools, since day 1, the Company has made available an integrated platform with daily live classes to all students, webinars, broadcast, and remote support to maintain student learning with the social distancing measures.

The measures discussed above, including travel restrictions, were put in place to safeguard the health and safety of our employees, customers, and suppliers, but have not limited the Company's ability to maintain its operations. In addition, these alternative working arrangements have not adversely affected financial reporting systems, internal control over financial reporting or disclosure controls and procedures.

Our content production continues according to the scheduled curriculum calendar and the current educational material has been delivered to the schools according to the school calendar for the year, enabling the Company to recognize the revenues on these products.

With respect to the Company's distribution and delivery capacity, which relies on third parties, the Company's principal vendors responsible for the printing of educational material did not raise any issues related to their ability to fulfill scheduled shipments or with respect to the incurrence of any significant additional expenses.

In January 2021, the COVID vaccine began to be applied to Brazilians. Vaccination started with the priority groups: health workers, the elderly, the disabled and indigenous villagers. Although there is no exact date for application to 100% of the population, expectations are for 2022. The future impact of the COVID-19 pandemic on an ongoing basis is still uncertain and will remain a factor in the analysis of key estimates and judgements used in preparing the Company's financial statements, especially given the rapid and unexpected changes the pandemic is posing to global and local economic environments.

Despite vaccination, in January 2021 we are facing a new wave of contamination from COVID-19. Given the uncertainty around the extent and timing of the future spread of COVID-19, the imposition of additional protective measures, or the relaxation of existing protective measures, it is not possible to accurately predict COVID-19's general impact on the education industry or to reasonably estimate its impact on Arco's results of operations, cash flows or financial condition, including, but not limited to:

- A decrease in the number of students, which may impact the expected amount of revenue.
- An increase in bad debts due to the current economic scenario.
- A change in the fair value of financial instruments.
- The renegotiation of loans and lease agreements to ensure the continued strength of the Company's financial position.

We face significant competition in each program we offer and each geographic region in which we operate. If we experience increasing consolidation in the K-12 school industry in Brazil or if we fail to compete efficiently, we may lose market share and our profitability may be adversely affected.

We compete directly with private education platform providers and indirectly with certain traditional educational content providers. Our competitors may begin to offer educational solutions similar to or better than those offered by us, have access to more funds, be more prestigious or well-regarded within the academic community, or charge lower fees. To compete effectively, we may be required to reduce our fees that we charge partner schools or increase our operating expenses to retain partner schools or attract new schools or to pursue new market opportunities. As a result, our revenues and profitability may decrease. We cannot assure you that a migration from traditional education content providers to education platform providers will be successful in the future, or that we will be able to compete successfully against our current or future competitors. Moreover, at present, there have been certain isolated cases of market consolidation in the private primary and secondary, or K-12, industry in Brazil. If such industry consolidation intensifies, a trend that has been and is currently taking place in the post-secondary education industry in the country, we may face increasing levels of competition in the markets in which we operate. If we are unable to maintain our competitive position or otherwise respond to competitive pressures effectively, we may lose our market share, our profits may decrease, and we may be adversely affected.

We may not be able to update, improve or offer the content of our existing educational platform on a cost-effective basis.

Our educational platform is designed to offer a complete suite of turnkey curriculum solutions intended to prepare the primary and secondary education students at our partner schools to sit the ENEM (which is equivalent to the Gaokao in China and loosely comparable to the SAT in the United States), for entry into post-secondary educational institutions and which is also used by the MEC and the market to evaluate Brazilian public and private schools. To differentiate ourselves and remain competitive, we must continually update our content and develop new educational solutions, including through the adoption of new technological tools to deliver our content. Updates to our current content and the development of new educational solutions may not be readily accepted by our partner schools, their students or by the market. Also, we may not be able to introduce new educational solutions at the same pace as our competitors or at the pace required by the market. If we do not adequately modify our educational platform in response to market demand, whether due to financial restrictions, technological changes or otherwise, our ability to attract new schools and retain partner schools may be impaired and we may be materially adversely affected.

Our business depends on the continued success of our brands, and if we fail to maintain and enhance the recognition of our brands, we may face difficulty increasing our network of partner schools, and our reputation and operating results may be harmed.

We believe that market awareness of our brands, SAS, SAE, International School, SPE, among others, has contributed significantly to the success of our business. Maintaining and enhancing our brands is critical to our efforts to increase our network of partner schools, which is in turn critical to our business. We rely heavily on the efforts of our sales force and our marketing channels, including online advertising, search engine marketing, social media and word-of-mouth. Failure to maintain and enhance the recognition of our brands could have a material and adverse effect on our business, operating results and financial condition. We have devoted significant resources to our brand promotion efforts and the training of our sales force in recent years, but we cannot assure you that these efforts will be successful. Our ability to attract new partner schools depends not only on investment in our brand, our marketing efforts and the success of our sales force, but also on the perceived value of our services versus competing alternatives among our client base. In addition, a failure by our clients to distinguish between our brands and the different content that they provide may result in a reduction in sales volume and revenue, margins or market share of one of our brands at the expense of the others. If our marketing initiatives are not successful or become less effective, if we are unable to further enhance our brand recognition, or if we incur excessive marketing and promotion expenses, or if our brand image is negatively impacted by any negative publicity, we may not be able to attract new partner schools successfully or efficiently, and our business and results of operations may be materially and adversely affected.

In addition, if any partner school using our educational platforms engages in unlawful activities or uses our educational platforms in an unauthorized manner, the general public may associate such school's behavior with our brand, generating negative publicity that may adversely affect our reputation.

If we continue to grow, we may not be able to appropriately manage the expansion of our business and staff, the increased complexity of our software and platforms, or grow in our addressable market.

We are currently experiencing a period of significant expansion and may face, as a result, certain expansion-related issues, such as cash flow management, corporate culture, IT integration and internal controls, among others. These issues and the significant amount of time spent on addressing them may result in the diversion of our management's attention from other business issues and opportunities. In addition, we believe that our corporate culture and values are critical to our success, and we have invested a significant amount of time and resources building them. If we fail to preserve our corporate culture and values, our ability to recruit, retain and develop personnel and to effectively implement our strategic plans may be harmed.

We must constantly update our software and platform, enhance and improve our billing and transaction and other business systems, and add and train new software designers and engineers, as well as other personnel to accommodate the increased use of our platform and the new solutions and features we regularly introduce. This process is time intensive and expensive and may lead to higher costs in the future. Furthermore, we may need to enter into relationships with various strategic partners, other online service providers and other third parties necessary to our business. The increased complexity of managing multiple commercial relationships could lead to execution problems that can affect current and future revenues, and operating margins.

We cannot assure you that our current and planned platform and systems, procedures and controls, personnel and third-party relationships will be adequate to support our future operations. In addition, our continuous expansion places a significant strain on management and on our operational and financial resources, which strain is expected to continue. Our failure to manage growth effectively could seriously harm our business, results of operations and financial condition.

An increase in delays and/or defaults in the payment of amounts owed to us by partner schools may adversely affect our income and cash flow.

We depend on the full and timely payment of the amounts owed to us by partner schools. Our partner schools may face financial difficulties, and in certain cases, insolvency or bankruptcy. An increase in payment delinquency or default by partner schools may have a material adverse effect on our cash flows and our business, including our ability to meet our obligations, and in certain circumstances, we may decide to terminate our contracts with such partner schools, increasing our attrition rates. Moreover, these risks may be aggravated during the COVID-19 pandemic, including due to an economic crisis resulting from the COVID-19 pandemic, which may, for example, increase the levels of delinquency or default. Our allowance for doubtful accounts expenses as a percentage of our net revenue was 3.5%, 3.0% and 2.5% for the years ended December 31, 2020, 2019 and 2018, respectively.

Our business is subject to seasonal fluctuations, which may cause our operating results to fluctuate from quarter-to-quarter and adversely impact our working capital and liquidity throughout the year, adversely affecting our business, financial condition and results of operations.

Our revenues and operating results normally fluctuate as a result of seasonal variations in our business, principally due to the number of months in a fiscal quarter that our partner schools are fully operational and serving students. Our main deliveries are shipped to partner schools in the last quarter of each year (typically in November and December), and in the first quarter of each subsequent year (typically in February and March). Furthermore, the materials we deliver in the fourth quarter are used by our partner schools for the following school year, and as such, our fourth quarter results reflect the growth in the number of our students from one school year to another, leading to generally higher revenues in our fourth quarter compared to the preceding quarters in each fiscal year. Consequently, in aggregate, the seasonality of our revenues has generally produced higher revenues in the first and fourth quarters of our fiscal year. In addition, we bill partner schools and collect the sales we charge them in the first half of each academic collections year, generally resulting in a higher cash position in the first half of each fiscal year relative to the second half of each fiscal year.

A significant portion of our expenses are also seasonal. Due to the nature of our business cycle, we require significant working capital, typically in September or October of each year, to cover costs related to production and accumulation of inventory, selling and marketing expenses, and delivery of our teaching materials at the end of each fiscal year in preparation for the beginning of each school year. Therefore, such operating expenses are generally incurred in the period between September and December of each year.

Accordingly, we expect quarterly fluctuations in our revenues and operating results to continue. These fluctuations could result in volatility and adversely affect our liquidity and cash flows. As our business grows, these seasonal fluctuations may become more pronounced. As a result, we believe that sequential quarterly comparisons of our financial results may not provide an accurate assessment of our financial position.

Our working capital needs have increased and may continue to increase for the near future. We have historically relied on our cash flow generation to satisfy our working capital needs. We expect our working capital needs to increase as our business expands. If at some point in time we do not have sufficient working capital, we may not be able to pursue our growth strategy, respond to competitive pressures or fund key strategic initiatives, which may harm our business, financial condition and results of operations.

The sales cycle of our business may cause our operating results to fluctuate from quarter-to-quarter and adversely impact our working capital and liquidity from year to year, adversely affecting our business, financial condition, and results of operations.

Our platform has evolved into a complex solution. The adoption of our platform by partner schools requires us to first build a high level of trust and confidence in our solutions, which can only be achieved by demonstrating a proven track record of success and quality, while constantly monitoring client satisfaction and feedback.

We have a lead time (which we define as the period from the moment of first contact to the execution of a contract) for the acquisition of new partner schools, and we typically enter into contracts with new partner schools within one year from the moment of first contact, which requires a series of interactions and constant contact, including dedicated sessions for experimentation with our platform and testing, events aimed at target partner schools, product journeys and guided visits to our business units, and industry fair exhibits. Accordingly, we expect quarterly fluctuations in our cash flows. These fluctuations could result in annual volatility and adversely affect our liquidity. As our business grows or if our business stops growing and we lose clients, these fluctuations may become more pronounced.

We do not currently control some of our acquired technologies, which could adversely affect our ability to develop and commercialize our products.

We acquire interests in third parties for the expansion, development or commercialization of our products. To date, we have acquired a 14.48% interest in Bewater Ventures I GA FIP – Multiestratégia, or Bewater, a fund managed by Paraty Capital, which used the proceeds from our investment to subsequently make a minority investment in Grupo A, a company that provides educational solutions for higher education. Additionally, we have acquired a 30% interest in Inco Limited, a company that provides financial assistance to schools. We do not currently have a controlling interest in these companies and any disagreements or disputes with these or other companies where we have a minority interest could adversely affect our ability to develop and commercialize our products and in turn, our financial condition, and results of operations. The failure to continue any investment arrangement or to resolve disagreements with current or future companies where we have a minority interest could materially and adversely affect our ability to transact the business that is the subject of such investment arrangement, which would in turn negatively affect our financial condition and results of operations.

We may pursue strategic acquisitions or investments. The failure of an acquisition or investment to produce the anticipated results, or the inability to integrate an acquired company fully, could harm our business.

We are currently evaluating possible acquisition opportunities, and we may from time to time submit non-binding proposals or acquire or invest in complementary companies or businesses, as part of our strategy to expand our operations, including through acquisitions or investments that may be material in size and/or of strategic relevance. The success of an acquisition or investment will depend on our ability to make accurate assumptions regarding the valuation, operations, growth potential, integration and other factors related to that business. We cannot assure you that our acquisitions or investments will produce the results that we expect at the time we enter or complete a given transaction. Furthermore, acquisitions may result in difficulties integrating the acquired companies, and may result in the diversion of our capital and our management's attention from other business issues and opportunities. We may not be able to successfully integrate the operations that we acquire, including their personnel, financial systems, distribution or operating procedures. If we fail to integrate acquisitions successfully, our business could suffer. In addition, the expense of integrating any acquired business and their results of operations may harm our operating results. We may also require approval from Brazil's Administrative Council for Economic Defense (*Conselho Administrativo de Defesa Econômica*), or CADE, or other regulatory authorities, in order to conduct certain acquisitions or investments.

We may require additional funds to continue our expansion strategy. If we are unable to obtain adequate financing to complete any potential acquisition and implement our expansion plans, our growth strategy may be adversely affected.

If we lose key personnel our business, financial condition and results of operations may be adversely affected.

We are dependent upon the ability and experience of a number of our key personnel who have substantial experience with our operations. Many of our key personnel have worked for us for a significant amount of time or were recruited by us specifically due to their industry experience. It is possible that the loss of the services of one or a combination of our senior executives, certain members of our board of directors or key managers, including Ari de Sá Cavalcante Neto, our chief executive officer, director and founder, and Oto Brasil de Sá Cavalcante, our chairman, could have a material adverse effect on our business, financial condition, and results of operations. We currently do not carry any key man insurance.

The ability to attract, recruit, retain and develop qualified employees is critical to our success and growth.

In order for us to successfully compete and grow and increase the number of partner schools, we must attract, recruit, retain and develop the necessary personnel who can provide the required expertise across the entire spectrum of our high quality educational content needs, including with respect to sales and marketing. While a number of our key personnel have substantial experience with our operations, we must also develop succession plans capable of maintaining continuity in the midst of the inevitable unpredictability of human capital. However, the market for qualified personnel is competitive, and we may not succeed in recruiting additional personnel or may fail to effectively replace current personnel who depart with qualified or effective successors. We must continue to hire additional personnel to execute our strategic plans. Our effort to retain and develop personnel may also result in significant additional expenses, which could adversely affect our profitability. We cannot assure that qualified employees will continue to be employed or that we will be able to attract and retain qualified personnel in the future. In particular, we may not achieve anticipated revenue growth from expanding our sales and marketing teams if we are unable to attract, develop and retain qualified sales and marketing personnel in the future.

Failure to retain or attract key personnel could have a material adverse effect on our business, financial condition and results of operations.

Any increase in the attrition rates of students in our partner schools may adversely affect our results of operations.

We believe that the attrition rates at our partner schools are primarily related to the personal motivation and financial situation of their current and potential students, as well as to socioeconomic conditions in Brazil. Significant changes in projected student attrition rates and/or failure to re-enroll may affect the enrollment numbers of our partner schools, as well as their ability to recruit and enroll new students, each of which may have a material adverse effect on our projected revenues and our results of operations.

We may face restrictions and penalties under the Brazilian Consumer Protection Code in the future.

Brazil has a series of strict consumer protection laws, referred to collectively as the Consumer Protection Code (*Código de Defesa do Consumidor*). These laws apply to all companies in Brazil that supply products or services to Brazilian consumers. They include protection against misleading and deceptive advertising, protection against coercive or unfair business practices and protection in the formation and interpretation of contracts, usually in the form of civil liabilities and administrative penalties for violations. Although we are a business-to-business-to-consumer, or B2B2C, business, some consumers may allege that we are directly liable for any problems in our solution and try to assess us based upon the Consumer Protection Code.

These penalties are often levied by the Brazilian Consumer Protection Agencies (*Fundação de Proteção e Defesa do Consumidor*, or PROCONs), which oversee consumer issues on a district-by-district basis. Companies that operate across Brazil may face penalties from multiple PROCONs, as well as from the National Secretariat for Consumers (*Secretaria Nacional do Consumidor*, or SENACON). Companies may settle claims made by consumers via PROCONs by paying compensation for violations directly to consumers and through a mechanism that allows them to adjust their conduct, called a conduct adjustment agreement (*Termo de Ajustamento de Conduta*, or TAC).

Brazilian public prosecutors may also commence investigations of alleged violations of consumer rights and require companies to enter into TACs. Companies that violate TACs face potential enforcement proceedings and other potential penalties such as fines, as set forth in the relevant TAC. Brazilian public prosecutors may also file public civil actions against companies who violate consumer rights or competition rules, seeking strict adherence to the consumer protection laws and compensation for any damages to consumers. In certain cases, we may also face investigations and/or sanctions by the CADE, in the event our business practices are found to affect the competitiveness of the markets in which we operate or the consumers in such markets.

Our success depends on our ability to monitor and adapt to technological changes in the education sector and maintain a technological infrastructure that works adequately and without interruption.

Information technology is an essential factor of our growth given that we deliver content through an integrated online educational platform. Our information technology systems and tools may become obsolete or insufficient, or we may have difficulties in following and adapting to technological changes in the education sector. Moreover, our competitors may introduce better products or platforms. Our success depends on our ability to efficiently improve our platform while developing and introducing new features that are accepted by schools (including our partner schools) and their students.

Additionally, a failure to upgrade our technology, features, content, security infrastructure, network infrastructure, or other infrastructure associated with our platform could harm our business. Adverse consequences could include unanticipated disruptions, slower response times, bugs, degradation in levels of customer support, impaired quality of users' experiences of our educational platform and delays in reporting accurate financial information.

In addition, we face risks associated with unauthorized access to our systems, including by hackers and due to failures of our electronic security measures. These unauthorized entries into our systems can result in the theft of proprietary or sensitive information or cause interruptions in the operation of our systems. As a result, we may be forced to incur considerable expenses to protect our systems from electronic security breaches and to mitigate our exposure to technological problems and interruptions.

Our business depends on our information technology infrastructure functioning properly and without interruptions. Several problems regarding our information technology structure, such as viruses, hackers, system interruptions and other technical difficulties may have a material adverse effect on us and our business.

Regarding the aforementioned risks we implemented some of the best security practices currently used in the market. We used the NIST Cyber Security framework that provides practices, controls and technologies that enable our company to recover, identify, protect, detect, and respond to cybernetic risks.

Some of the best practices that we have today are: (i) assets controls and monitoring; (ii) malware infection risk monitoring; (iii) we developed an access model, and we can manage this access with automatized tools; (iv) event monitoring of our main technologies using a SIEM solution. This solution permits that we correlate events and identify possible threats or security incidents; (v) implemented a scheduled routine with infrastructure intrusion tests; (vi) monthly vulnerability analysis in our systems and fixes if required; (vii) created awareness programs for our employees; (viii) we are currently implementing other recommendations to increase our maturity level, some of them are: (a) implement security in our internal network infrastructure; (b) implement a risk management process and (c) build a disaster recovery plan to all critical environments.

Our revenue derives from the contract fees per student that we generate from the sales of our educational content to our partner schools. Any disruption in our relationship with our partner schools may materially adversely affect us.

Our network of partner schools to which we make available our educational platform and to which we supply the related educational materials comprises 6,119 partner schools as of March 31, 2021. Our net revenue was R\$1,001.7 million and R\$572.8 million for the years ended December 31, 2020 and 2019. We typically enter into contracts with our partner schools for three-year terms, which contemplate penalties ranging between 20% and 100% of the remaining total value of the contract in the event of termination. In addition, we also rely in part on existing partner school referrals to attract new partner schools. Accordingly, maintaining a good relationship with our partner schools and developing new relationships and expanding our network of partner schools are essential to the success of our business. We may also not be able to renew our contracts with our partner schools, including as a result of new leadership in our partner schools deciding to discontinue the use or expansion of our educational platform in their curriculum. Any deterioration in our relationship with our partner schools, and any early termination of, or a failure to renew, our contracts with our partner schools may harm our image, impair our ability to pursue our growth strategy, and materially adversely affect our business, our operating and financial results and our cash flows.

To support our growth and to help us retain our clients, we have a dedicated sales support team that provides pedagogical assistance to partner schools and helps them train students and teachers to fully engage with the features of our platform, in order to maximize their results from using our solutions. Our pedagogical support team also make visits and perform field work for these purposes, building rapport and strengthening our ties with our partner schools. If we fail to provide efficient and effective customer support, or to maintain our customer support standards as our business grows, our ability to maintain and grow our operations may be harmed and we may need to hire additional support personnel, which could harm our results of operations.

Increases in the price of certain inputs used to produce our printed educational materials and increases in the fees of our third-party printer providers may materially affect us.

Increases in the price of the inputs used for editing and publishing the materials related to our educational platform, particularly the price of paper, the cost of printing services and publishing, as well as increases in the fees of our third-party printer providers, which produce our printed educational materials, could adversely affect our results, if we are not able to fully pass these cost increases onto our partner schools.

Paper and postage prices are difficult to predict and control. Paper is a commodity, and its price may be impacted by fluctuations in foreign exchange rates and commodities prices, and can be subject to significant volatility. Our third-party printer providers have adjusted their fees to account for changes in prevailing market prices of their inputs, especially paper. Though we have historically been able to realize favorable pricing through volume discounts, particularly as a result of our significant recent growth, no assurance can be provided that we will be able to continue to realize favorable printing and publishing pricing. We cannot predict with certainty the magnitude of future price changes for paper, postage, and printing and publishing in general. Further, we may not be able to pass such increases on to our partner schools.

We may not be able to pass on increases in our costs by adjusting the contract fees we charge our partner schools.

Our primary source of income is the payments we receive from our partner schools in connection with the contract fees per student that we charge them to use our educational platform. For the year ended December 31, 2020, operation, sales, and corporate personnel expenses represented 30.8% and third-party services expenses represented 9.3% of our total costs and expenses for the period. Personnel costs are adjusted periodically using indices that reflect changes in inflation levels. Personnel costs are also adjusted annually as a result of customary annual employee salary adjustments in line with inflation. If we are not able to transfer any increases in our costs to partner schools by increasing the contract fees per student that we charge them, our operating results may be adversely affected.

Any changes in tax law, tax reforms, review of the tax treatment of our activities, including the loss or reduction in tax benefits on the sale of books (including digital content) may materially adversely affect us.

We currently benefit from tax Law No. 10,865/04, as amended by Law No. 11,033/04, which establishes a zero-rate for the social integration program tax (*Programa de Integração Social*, or PIS) and the social contribution on revenues tax (*Contribuição para o Financiamento da Seguridade Social*, or COFINS) on the sale of books. The sale of the books is also exempt by the Brazilian constitution from the Brazilian municipal services tax (*Imposto Sobre Serviços*, or ISS) and from the Brazilian tax on the circulation of goods, interstate and intercity transportation and communication services (*Imposto sobre Operações relativas à Circulação de Mercadorias e sobre Prestações de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação*, or ICMS). If the Brazilian government or any Brazilian state, municipality or tax authority decides to change, revoke or review the current tax treatment of our activities, or cancel or reduce the tax benefit applied on the sale of goods, including digital books and e-readers, and/or challenge it, and we are unable to pass any cost increase onto our partner schools, our results may be materially adversely affected.

As of the date of this annual report, there are several bills relating to tax reforms that are under review by the Brazilian Congress. The proposed tax reforms involve a comprehensive overhaul of the consumer tax system. One bill proposes to (i) extinguish three federal taxes, the federal tax on manufactured products (*Imposto sobre Produtos Industrializados*, or IPI), PIS and COFINS; (ii) create and apply ICMS at the state level and ISS at the municipal level; and (iii) create a new tax on transactions for goods and services (*Imposto sobre Operações com Bens e Serviços*, or IBS). Another bill proposes to create a social contribution tax on transactions for goods and services (*Contribuição Social sobre Operações com Bens e Serviços*, or CBS) at a 12% rate, which would substitute PIS and COFINS and revoke our zero-rate tax benefits for PIS and COFINS on the sale of books. Additional bills may be proposed in the context of such wide ranging tax reforms. Moreover, there are recent discussions concerning the potential imposition of new taxes, including new taxes on compulsory loans, taxes on large fortunes and a contribution on financial transactions, as well as discussions to repeal the income tax exemption applicable to the distribution of dividends.

The extent to which the tax reform will impact our financial results and operations will depend on future developments, which are still uncertain and cannot be predicted due to the early stage of the process. Based on future developments of the tax reform, it is possible that we may, in the future, be required to take actions or steps in relation to our business that could have a disruptive or a material and adverse effect on our business. A tax reform or any change in the laws and regulations that affect the taxes or tax incentives applicable to us may directly or indirectly adversely impact our business and results of operations.

If we are unable to maintain consistent educational quality throughout our partner schools' network, including the education materials we provide to our partner schools, we may be adversely affected.

The quality of our academic curricula is a key element of the quality of the educational platform we provide. We cannot assure that we will be able to develop academic curricula for our educational platform with the same levels of excellence as existing curricula and meeting the requirements of the National Common Core Curriculum (*Base Nacional Comum Curricular*), or the BNCC (established by Law No. 9,394 dated December 20, 1996), to which we are currently subject, or meeting the requirements of our partner schools. Deficiencies in the quality of academic curricula for our educational platform and changes in the requirements of the BNCC may have a material adverse effect on our business. To this date, we have implemented the mandatory requirements, but some modifications must be implemented in the following years to comply with BNCC requirements.

In addition, our partner schools and their students are regularly evaluated and graded by the State and Municipal Education Secretaries and MEC. If our partner schools' campuses, programs or students receive lower scores from the MEC than in previous years in any of their evaluations, including the IDEB and the ENEM, or if there is a decline in our partner schools students' acceptance rates at prestigious post-secondary schools, we may be adversely affected by perceptions of decreased educational quality of our educational platform, which may negatively affect our reputation and, consequently, our results of operations and financial condition.

We may become subject to various laws and regulations applicable to educational platform providers, and failure to meet such future laws and regulations could harm our business.

Currently, we may follow the requirements of the BNCC to elaborate our educational content, and we are not regulated by the MEC nor are we subject to any government regulations that are imposed by National Education Board (*Conselho Nacional de Educação*) the CNE, or by the Primary and Secondary Education Board (*Câmara de Educação Básica*), or CEB. Should we become subject to the supervision and regulation of the MEC or any other authority or any government laws and regulations imposed by the CNE or the CEB or any other authority, we may be required to meet certain legal and regulatory requirements that may be imposed on our operations, including, but not limited to, MEC accreditation or re-accreditation requirements for our educational platform, which may adversely affect us. We may be adversely affected by changes in the laws and regulations applicable to educational platform providers, particularly by changes that impose accreditation and re-accreditation requirements on educational platforms and impose certain academic requirements for educational platform courses and curricula. In addition, we may be materially adversely affected if we are unable to obtain these authorizations and accreditations in a timely manner or if we cannot introduce new features to our educational platform as quickly as our competitors.

The quality of the pedagogical content we deliver to our clients is significantly dependent upon the quality of our editors, publishers and purchased content.

The educational materials we provide are a combination of content developed by our internal production team and content purchased from certain publishers in our market. Our editorial team is responsible for producing our materials, working in conjunction with our EdTech team to implement additional features and technology delivery. Our content production process requires significant coordination among different teams as well as qualified personnel with appropriate skill sets to ensure the quality of our pedagogical content is maintained. We may not be able to retain, recruit or train qualified employees or obtain pedagogical content that meets our standards. Delays in the delivery of content purchased from authors may have a severe impact on our annual content creation schedule. Additionally, a shortage of qualified editors, employees, publishers or suitable purchased content or a decrease in the quality of produced or purchased content, whether actual or perceived, or a significant increase in the cost to engage or retain qualified personnel or acquire content, would have a material adverse effect on our business, financial condition, and results of operations.

We utilize third-party logistics service providers for the shipping of all our collections of printed teaching materials. The successful delivery of our materials to our clients depends upon effective execution by our logistics team and such service providers. Any material failure to execute properly for any reason, including damage or disruption to any service providers' facilities, would have an adverse effect on our business, financial condition, and results of operations.

The delivery of printed books to schools is a seasonal activity, with a cycle beginning with the creation and revision of content generally from April to July, the purchase of printing services from August to October, and delivery from November to January. We have expanded our operations rapidly since our inception. As our size increases, so does the size and complexity of our logistics operation.

There is a high volume of deliveries in November and December, requiring significant involvement in inventory/demand management and relationship and planning alongside the printers. In an industry where one of the most valued indicators by the schools is the timely delivery of printed materials, failure to meet deadlines, inadequate logistical planning, disruptions in distribution centers, deficient inventory management, and failure to meet client requirements may damage our reputation, increase returns of our materials or cause inventory losses and negatively impact our gross margins, results of operations and business.

Our inventory for our printed teaching materials is substantially located in warehouse facilities leased and operated by us and then delivered by a third-party shipping company that handles shipping of all physical learning materials. If our logistics service providers fail to meet their obligations to deliver teaching materials to partner schools in a timely manner, or if a material number of such deliveries are incomplete or contain assembly errors, our business and results of operations could be adversely affected. Furthermore, a natural disaster, fire, power interruption, work stoppage or other unanticipated catastrophic event, especially during the period from August through October when we are awaiting receipt of most of the curriculum materials for the school year and have not yet shipped such materials to partner schools, could significantly disrupt our ability to deliver our products and operate our business. If any of our material inventory items, warehouse facilities or distribution centers were to experience any significant damage, we would be unable to meet our contractual obligations and our business would suffer.

Failure to protect or enforce our intellectual property and other proprietary rights could adversely affect our business and financial condition and results of operations.

We rely and expect to continue to rely on a combination of trademark, copyright, patent and trade secret protection laws, as well as confidentiality and license agreements with our employees, consultants and third parties with whom we have relationships to protect our intellectual property and proprietary rights. As of December 31, 2020, we did not have issued patents or patent applications pending in or outside Brazil. We are party to numerous agreements with third-party authors with respect to educational content, for indefinite terms and several licensing agreements with illustrators for the images inserted in our products. We own 179 trademark registrations in Brazil, 2 in Argentina, 2 in Bolivia, 1 in Chile, 2 in Ecuador, 2 in Paraguay, 1 in Peru and 2 in Uruguay. As of December 31, 2020, we owned 136 registered domain names in Brazil. We also have 127 pending trademark applications in Brazil and Venezuela (125 in Brazil and 2 in Venezuela), as of December 31, 2020, and unregistered trademarks that we use to promote our brand. From time to time, we expect to file additional patent, copyright and trademark applications in Brazil and abroad. Nevertheless, these applications may not be approved or otherwise provide the full protection we seek. Any dismissal of our “Arco Educação”, “SAS”, “SAE”, “Escola da Inteligência” and “Positivo” trademarks applications may impact our business. Third parties may challenge any patents, copyrights, trademarks and other intellectual property and proprietary rights owned or held by us. Third parties may knowingly or unknowingly infringe, misappropriate, or otherwise violate our patents, copyrights, trademarks and other proprietary rights and we may not be able to prevent infringement, misappropriation or other violation without substantial expense to us.

Furthermore, we cannot guarantee that:

- our intellectual property and proprietary rights will provide competitive advantages to us;
- our competitors or others will not design around our intellectual property or proprietary rights;
- our ability to assert our intellectual property or proprietary rights against potential competitors or to settle current or future disputes will not be limited by our agreements with third parties;
- our intellectual property and proprietary rights will be enforced in jurisdictions where competition may be intense or where legal protection may be weak;
- any of the patents, trademarks, copyrights, trade secrets or other intellectual property or proprietary rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged or abandoned; or
- we will not lose the ability to assert our intellectual property or proprietary rights against or to license our intellectual property or proprietary rights to others and collect royalties or other payments.

If we pursue litigation to assert our intellectual property or proprietary rights, an adverse decision in any of these legal actions could limit our ability to assert our intellectual property or proprietary rights, limit the value of our intellectual property or proprietary rights or otherwise negatively impact our business, financial condition and results of operations. If the protection of our intellectual property and proprietary rights is inadequate to prevent use or misappropriation by third parties, the value of our brand and other intangible assets may be diminished, competitors may be able to mimic our service and methods of operations more effectively, the perception of our business and service to customers and potential customers may become confused in the marketplace and our ability to attract customers may be adversely affected.

We may in the future be subject to intellectual property claims, which are costly to defend and could harm our business, financial condition, and operating results.

Because of the large number of authors that participate in our publications, from time to time, third parties may allege in the future that we or our business infringes, misappropriates, or otherwise violates their intellectual property or proprietary rights, including with respect to our publications. Many companies, including various “non-practicing entities” or “patent trolls,” are devoting significant resources to developing or acquiring patents that could potentially affect many aspects of our business. There are numerous patents that broadly claim means and methods of conducting business on the internet. We have not exhaustively searched patents related to our technology. In addition, the publishing industry has been, and we expect in the future will continue to be, the target of counterfeiting and piracy. We may implement measures to protect against these potential liabilities that could require us to spend substantial resources. Any costs incurred because of liability or asserted liability relating to sales of unauthorized or counterfeit educational materials could harm our business, reputation and financial condition.

Third parties may initiate litigation against us without warning. Others may send us letters or other communications that make allegations without initiating litigation. We have in the past and may in the future receive such communications, which we assess on a case-by-case basis. We may elect not to respond to the communication if we believe it is without merit or we may attempt to resolve disputes out-of-court by electing to pay royalties or other fees for licenses. If we are forced to defend ourselves against intellectual property claims, whether they are with or without merit or are determined in our favor, we may face costly litigation, diversion of technical and management personnel, inability to use our current website or inability to market our service or merchandise our products. As a result of a dispute, we may have to develop non-infringing technology, including partially or fully revise any publication that infringes intellectual property rights, enter into licensing agreements, adjust our merchandising or marketing activities or take other action to resolve the claims. These actions, if required, may be unavailable on terms acceptable to us or may be costly or unavailable. If we are unable to obtain sufficient rights or develop non-infringing intellectual property or otherwise alter our business practices, as appropriate, on a timely basis, our reputation or brand, our business and our competitive position may be affected adversely, and we may be subject to an injunction or be required to pay or incur substantial damages and/or fees and/or royalties.

Certain of our services are provided using proprietary software and our software is mainly developed by our employees, who specifically assign to us their copyrights over the software in their employment agreements. Additionally, the applicable law establishes that employers shall have full title over rights relating to software developed by their employees. Nonetheless, we could be subject to lawsuits by former employees claiming ownership of proprietary software that were not specifically assigned to us in their respective employment agreements. As a result, we may be required to obtain licenses of such software, incurring costs relating to payments of royalties and/or damages and we may be forced to cease the use of such software. If we are unable to use certain of our proprietary software, this could have a material adverse effect on our business, financial condition and results of operations.

In addition, we use open-source software in connection with certain of our products and services. Companies that incorporate open-source software into their products have, from time to time, faced claims challenging the ownership of open-source software and/or compliance with open source license terms. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open-source software or noncompliance with open-source licensing terms. Some open-source software licenses require users who distribute or use open-source software as part of their software to publicly disclose all or part of the source code to such software and/or make available any derivative works of the open-source code on unfavorable terms or at no cost. Any requirement to disclose our proprietary source code or pay damages for breach of contract could have a material adverse effect on our business, financial condition, and results of operations.

We will be subject to risks related to non-compliance with the Brazilian General Data Protection Law (“LGPD”) and may be adversely affected by the application of penalties, including pecuniary sanctions. Additionally, failure to comply with data privacy regulations could result in reputational damage to our brands and adversely affect our business, financial and condition and results of operations.

On August 14, 2018, Law No. 13,709 of August 14, 2018 was enacted, as amended, or the General Personal Data Protection Law, which came fully into effect in August 2020 and will bring major changes to the personal data protection system in Brazil.

The LGPD establishes a new legal framework to be observed by individuals and legal entities, detailing rules for the collection, production, reception, classification, use, access, reproduction, transmission, distribution, processing, filing, storage, elimination, evaluation or information control, modification, communication, transfer, dissemination, or extraction of personal data and provides, among others, for the rights of the holders of personal data, the legal bases applicable to the protection of personal data, the requirements for obtaining consent, the obligations and penalties.

If we do not comply with the LGPD, we will be subject, in sole or cumulatively, to the administrative sanctions applicable by the National Data Protection Authority – ANPD of warning, obligation of disclosure of incident, blocking and/or elimination of personal data, a fine of up to 2% of its revenues (or of its group or conglomerate in Brazil) calculated in the most recent fiscal year, excluding taxes, up to the global amount of R\$50,000,000.00 per violation, and a daily fine, observing the global limit of R\$50,000,000.00.

Additionally, any perceived or actual unauthorized disclosure of personally identifiable information, whether through breach of our network by an unauthorized party, employee theft, misuse, or error or otherwise, could harm our reputation, impair our ability to attract and retain our customers, or subject us to claims or litigation arising from damages suffered by individuals.

Failure to protect the personal data processed by us, as well as failure to comply with the applicable legislation, may result in high fines, disclosure of the incident to the market, cancellation of existing contracts, temporary block and/or deletion of the personal data from our database, without eliminating the possibility of civil and criminal sanctions, which may adversely affect our reputation, financial condition and results of operations. In addition, we could incur significant costs in complying with relevant laws and regulations regarding the unauthorized disclosure of personal information, which may be affected by any changes to data privacy legislation at both the federal and state levels. See “Item 4. Information on The Company—B. Business Overview—Regulatory Overview—Data Protection.”

Cybersecurity incidents, including attacks on the infrastructure necessary to maintain our IT systems, may result in financial losses and damage to our reputation.

Cybersecurity incidents may result in the misappropriation of our information and/or customer information or in ineffective time on its servers or operations, which may affect us materially and adversely. Any losses of intellectual property, trade secrets or other sensitive business information or the interruption of its operations could adversely affect our financial results. Due to such risks, we have improved the monitoring of our infrastructure and systems, and seeking to implement the best practices regarding the development of IT systems.

We are susceptible to illegal or improper uses of our educational platform, which could expose us to additional liability and harm our business.

Our educational platform is susceptible to unauthorized use, copyright violations and unauthorized copying and distribution (whether by students, schools or otherwise), theft, employee fraud, and other similar breaches and violations. These occurrences may potentially harm our business and consequently negatively impact our results of operations. Additionally, we may be required to employ a significant amount of resources to combat such occurrences and identify those responsible.

Unfavorable decisions in our legal, arbitration or administrative proceedings may adversely affect us.

We are, and may be in the future, party to legal, arbitration and administrative investigations, inspections and proceedings arising in the ordinary course of our business or from extraordinary corporate, tax or regulatory events, involving our suppliers, commercial practices, students, faculty members, as well as environmental, competition, government agencies and tax authorities, particularly with respect to civil, tax and labor claims. We cannot guarantee that the results of these proceedings will be favorable to us or that we have made sufficient provisions for liabilities that may arise because of these or other proceedings. Even if we adequately address issues raised by any inspection conducted by an agency or successfully defend our case in an administrative proceeding or court action, we may have to set aside significant financial and management resources to settle issues raised by such proceedings or to those lawsuits or claims. Adverse decisions in material legal, arbitral or administrative proceedings, even if such proceedings are without merit, may adversely affect our reputation, results of operations and the price of our Class A common shares.

We depend on dividend distributions by our subsidiaries, and we may be adversely affected if the performance of our subsidiaries is not positive or if Brazil imposes legal restrictions on dividend distributions by subsidiaries.

We control several subsidiary companies in Brazil that carry out our business activities. Our ability to comply with our financial obligations and to pay future dividends, if any, to our shareholders depends on our ability to receive distributions from the companies we control, which in turn depends on the cash flow and profits of those companies. There is no guarantee that the cash flow and profits of our controlled companies will be sufficient for us to comply with our financial obligations and pay future dividends or interest on shareholders' equity, if any, to our shareholders, or that the Brazilian federal government will not impose legal restrictions or tax payments on dividend distributions by our subsidiaries.

We and our subsidiaries may be held directly or indirectly responsible for labor claims resulting from the actions of third parties, including independent contractors and service providers.

To meet the needs of our partner schools and offer greater comfort and quality in all areas and aspects of our activities, we depend on service providers and suppliers for a variety of services. We may be adversely affected if these third-party service providers and suppliers do not meet their obligations under Brazilian labor laws. In particular, according to Brazilian law we may be liable to the employees of these service providers and suppliers for labor obligations of these service providers and suppliers and may also be fined by the relevant authorities. If we are held liable for such claims, we may be adversely affected.

We operate in markets that are dependent on Information Technology, or IT, systems, and technological change. Failure to maintain and support customer facing services, systems, and platforms, including addressing quality issues and execution on time of new products and enhancements, could negatively impact our revenues and reputation.

We use complex IT systems and products to support our businesses activities, including customer-facing systems, back-office processing, and infrastructure. We face several technological risks associated with online product service delivery, information technology security (including virus and cyber-attacks), e-commerce and Enterprise Resource Planning system (ERP) upgrades. Our plans and procedures to reduce risks of attacks on our system by unauthorized parties may not be successful. Thus, our businesses could be adversely affected if our systems and infrastructure experience a failure or interruption in the event of future attacks on our system by unauthorized parties.

We rely upon a third-party data center service provider to host certain aspects of our platform and content and any disruption to, or interference with, our use of such services, could impair our ability to deliver our platform, resulting in customer dissatisfaction, damaging our reputation, and harming our business.

We utilize data center hosting facilities from a global third-party service provider to make certain content available in our platform. Our operations depend, in part, on our provider's ability to protect its facilities against damage or interruption from natural disasters, power or telecommunications failures, criminal acts and similar events. The occurrence of spikes in user volume, traffic, natural disasters, acts of terrorism, vandalism or sabotage, or a decision to close a facility without adequate notice, or other unanticipated problems at our provider's facilities could result in lengthy interruptions in the availability of our platform, which would adversely affect our business.

Failure to prevent or detect a malicious cyber-attack on our systems and databases could result in a misappropriation of confidential information or access to highly sensitive information.

Cyber-attacks are becoming more sophisticated and pervasive. Across our business we hold large volumes of personally identifiable information including that of employees, schools, customers, students and parents and legal guardians. Individuals may try to gain unauthorized access to our data to misappropriate such information for potentially fraudulent purposes, and our security measures may fail to prevent such unauthorized access. A breach could result in a devastating impact on our reputation, financial condition, or student experience. In addition, if we were unable to prove that our systems are properly designed to detect an intrusion, we could be subject to severe penalties and loss of existing or future business. We have been monitoring our systems and made several security tests to identify our potential weakness in advance and implement the applicable security measures.

A material weakness in our internal control over financial reporting may be identified, and if we fail to establish and maintain proper and effective internal controls over financial reporting, our results of operations and our ability to operate our business may be harmed.

In connection with the audit of our consolidated financial statements, we and our independent registered public accounting firm may identify material weaknesses, which is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected on a timely basis. Our management has assessed the effectiveness of our internal control over financial reporting and has concluded that the Company maintained effective internal controls as of December 31, 2020. Management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of WPensar S.A. ("WPensar"), Studos Software Ltda. ("Studos"), Geekie Desenvolvimento de Softwares S.A. ("Geekie") and Escola de Inteligência Cursos Educacionais S.A. ("Escola de Inteligência"), which are included in the 2020 consolidated financial statements of the Company. Collectively, WPensar, Studos, Geekie and Escola de Inteligência constituted less than 10% of the Company's total assets as of December 31, 2020 and less than 5% of the Company's total revenues for the year ended December 31, 2020.

We are subject to the Sarbanes-Oxley Act, which requires, among other things, that we establish and maintain effective internal controls over financial reporting and disclosure controls and procedures. Testing of our internal controls may reveal deficiencies that are deemed to be material weaknesses or significant deficiencies and render our internal controls over financial reporting ineffective. If we are not able to comply with these requirements in a timely manner, or if we or our management identifies material weaknesses or significant deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our Class A common shares may decline and we may be subject to investigations or sanctions by the SEC, the Financial Industry Regulatory Authority, Inc., or FINRA, or other regulatory authorities.

The effectiveness of internal control over financial reporting as of December 31, 2020 was audited by Ernst & Young Auditores Independentes S.S., or EY, the independent registered public accounting firm that also audited our consolidated financial statements as of and for the year then ended. EY has issued an unqualified report on our internal control over financial reporting, which is included elsewhere in this annual report. EY's audit of the internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of WPensar, Studos, Geekie and Escola de Inteligência.

Certain Factors Relating to Brazil

The Brazilian federal government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement as well as Brazil's political, regulatory, legal and economic conditions could harm us and the price of our Class A common shares.

The Brazilian federal government frequently exercises significant influence over the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government's actions to control inflation and other policies and regulations have often involved, among other measures, increases or decreases in interest rates, changes in fiscal policies, wage and price controls, foreign exchange rate controls, blocking access to bank accounts, currency devaluations, capital controls and import and export restrictions. We have no control over and cannot predict what measures or policies the Brazilian government may take in the future, and how these can impact us and our business. We and the market price of our securities may be harmed by changes in Brazilian government policies, as well as general economic factors, including, without limitation:

- growth or downturn of the Brazilian economy;
- interest rates and monetary policies;
- exchange rates and currency fluctuations;
- inflation;
- liquidity of the domestic capital and lending markets;
- import and export controls;
- exchange controls and restrictions on remittances abroad and payments of dividends;

- modifications to laws and regulations according to political, social and economic interests;
- fiscal policy and changes in tax laws;
- economic, political and social instability, including general strikes and mass demonstrations;
- the regulatory framework governing the educational industry;
- labor and social security regulations;
- energy and water shortages and rationing;
- commodity prices, including prices of paper and ink;
- changes in demographics, in particular declining birth rates, which will result in a decrease in the number of enrolled students in primary and secondary education in the future; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian federal government will implement reforms or changes in policy or regulation affecting these or other factors in the future may affect economic performance and contribute to economic uncertainty in Brazil, which may have an adverse effect on our activities and consequently our operating results and may also adversely affect the trading price of our Class A common shares. Recent economic and political instability has led to a negative perception of the Brazilian economy and higher volatility in the Brazilian securities markets, which also may adversely affect us and our Class A common shares. See “Item 5. Operating and Financial Review and Prospects—A. Operating results—Brazilian Macroeconomic Environment.”

Economic uncertainty and political instability in Brazil may harm us and the price of our Class A common shares.

Brazil’s political environment has historically influenced, and continues to influence, the performance of the country’s economy. Political crises have affected and continue to affect the confidence of investors and the general public which have historically resulted in economic deceleration and heightened volatility in the securities offered by companies with significant operations in Brazil.

The recent economic instability in Brazil has contributed to a decline in market confidence in the Brazilian economy as well as to a deteriorating political environment. In addition, various ongoing investigations into allegations of money laundering and corruption being conducted by the Office of the Brazilian Federal Prosecutor, including the largest such investigation, known as “*Operação Lava Jato*,” have negatively impacted the Brazilian economy and political environment. The potential outcome of these investigations is uncertain, but they have already had an adverse impact on the image and reputation of the implicated companies, and on the general market perception of the Brazilian economy. We cannot predict whether the ongoing investigations will result in further political and economic instability, or if new allegations against government officials and/or executives of private companies will arise in the future.

A failure by the Brazilian government to implement necessary reforms may result in diminished confidence in the Brazilian government’s budgetary condition and fiscal stance, which could result in downgrades of Brazil’s sovereign foreign credit rating by credit rating agencies, negatively impact Brazil’s economy, and lead to further depreciation of the *real* and an increase in inflation and interest rates, which could adversely affect our business, financial condition and results of operations. In addition, the Brazilian government is incurring significant levels of debt to finance measures to combat the COVID-19 pandemic, which is expected to increase the Brazilian budget deficit. Any such new policies or changes to current policies, including measures to combat the COVID-19 pandemic, may have a material adverse impact on our business, results of operations, financial condition, and prospects.

Any of the above factors may create additional political uncertainty, which could harm the Brazilian economy and, consequently, our business and the price of our Class A common shares.

Inflation and certain measures by the Brazilian government to curb inflation have historically harmed the Brazilian economy and Brazilian capital markets, and high levels of inflation in the future would harm our business and the price of our Class A common shares.

In the past, Brazil has experienced extremely high rates of inflation. Inflation and some of the measures taken by the Brazilian government to curb inflation have had significant negative effects on the Brazilian economy generally. Inflation, policies adopted to curb inflationary pressures and uncertainties regarding possible future governmental intervention have contributed to economic uncertainty and heightened volatility in the Brazilian capital markets.

According to the National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), or IPCA, which is published by the IBGE, Brazilian inflation rates were 4.5%, 4.3% and 3.7% in 2020, 2019 and 2018, respectively. Brazil may experience high levels of inflation in the future and inflationary pressures may lead to the Brazilian government's intervening in the economy and introducing policies that could harm our business and the price of our Class A common shares. In the past, the Brazilian government's interventions included the maintenance of a restrictive monetary policy with high interest rates that restricted credit availability and reduced economic growth, causing volatility in interest rates. For example, the official interest rate in Brazil oscillated from 7.00% as of December 31, 2017 to 2.00% as of December 31, 2020, as established by the Monetary Policy Committee (*Comitê de Política Monetária do Banco Central do Brasil—COPOM*). Conversely, more lenient government and Central Bank policies and interest rate decreases have triggered and may continue to trigger increases in inflation, and, consequently, growth volatility and the need for sudden and significant interest rate increases, which could negatively affect us and increase our indebtedness.

Exchange rate instability may have adverse effects on the Brazilian economy, us and the price of our Class A common shares.

The Brazilian currency has been historically volatile and has been devalued frequently over the past three decades. Throughout this period, the Brazilian government has implemented various economic plans and used various exchange rate policies, including sudden devaluations, periodic minidevaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. Although long-term depreciation of the *real* is generally linked to the rate of inflation in Brazil, depreciation of the *real* occurring over shorter periods of time has resulted in significant variations in the exchange rate between the *real*, the U.S. dollar and other currencies. The *real*/U.S. dollar exchange rate reported by the Central Bank was R\$3.2591 per U.S. dollar on December 31, 2016, which reflected a 16.5% appreciation in the *real* against the U.S. dollar during 2016. The *real*/U.S. dollar exchange rate reported by the Central Bank was R\$3.308 per U.S. dollar on December 31, 2017, which reflected a 1.5% depreciation in the *real* against the U.S. dollar during 2017. The *real*/U.S. dollar exchange rate reported by the Central Bank was R\$3.8748 per U.S.\$1.00 on December 31, 2018, which reflected a 17.1% depreciation in the *real* against the U.S. dollar during 2018. The *real*/U.S. dollar exchange rate reported by the Central Bank was R\$4.031 per U.S.\$1.00 on December 31, 2019, which reflected a 4.0% depreciation in the *real* against the U.S. dollar during 2019. The *real*/U.S. dollar exchange rate reported by the Central Bank was R\$5.197 per U.S.\$1.00 on December 31, 2020, which reflected a 28.9% depreciation in the *real* against the U.S. dollar during 2020. There can be no assurance that the *real* will not again depreciate against the U.S. dollar or other currencies in the future.

A devaluation of the *real* relative to the U.S. dollar could create inflationary pressures in Brazil and cause the Brazilian government to, among other measures, increase interest rates. Any depreciation of the *real* may generally restrict access to the international capital markets. It would also reduce the U.S. dollar value of our results of operations. Restrictive macroeconomic policies could reduce the stability of the Brazilian economy and harm our results of operations and profitability. In addition, domestic and international reactions to restrictive economic policies could have a negative impact on the Brazilian economy. These policies and any reactions to them may harm us by curtailing access to foreign financial markets and prompting further government intervention. A devaluation of the *real* relative to the U.S. dollar may also, as in the context of the current economic slowdown, decrease consumer spending, increase deflationary pressures, and reduce economic growth.

On the other hand, an appreciation of the *real* relative to the U.S. dollar and other foreign currencies may deteriorate the Brazilian foreign exchange current accounts. We and certain of our suppliers purchase goods and services from countries outside Brazil, and thus changes in the value of the U.S. dollar compared to other currencies may affect the costs of goods and services that we purchase. Depending on the circumstances, either devaluation or appreciation of the *real* relative to the U.S. dollar and other foreign currencies could restrict the growth of the Brazilian economy, as well as our business, results of operations and profitability.

Infrastructure and workforce deficiency in Brazil may impact economic growth and have a material adverse effect on us.

Our performance depends on the overall health and growth of the Brazilian economy. Brazilian GDP growth has fluctuated over the past few years, with a growth of 1.3% in 2018 and 1.1% in 2019. In 2020, the Brazilian GDP contracted by 4.1%. Growth is limited by inadequate infrastructure, including potential energy shortages and deficient transportation, logistics and telecommunication sectors, general strikes, the lack of a qualified labor force, and the lack of private and public investments in these areas, which limit productivity and efficiency. Any of these factors could lead to labor market volatility and generally impact income, purchasing power and consumption levels, which could limit growth and ultimately have a material adverse effect on us.

Developments and the perceptions of risks in other countries, including other emerging markets, the United States and Europe, may harm the Brazilian economy and the price of our Class A common shares.

The market for securities offered by companies with significant operations in Brazil is influenced by economic and market conditions in Brazil and, to varying degrees, market conditions in other Latin American and emerging markets, as well as the United States, Europe and other countries. To the extent the conditions of the global markets or economy deteriorate, the business of companies with significant operations in Brazil may be harmed. The weakness in the global economy has been marked by, among other adverse factors, lower levels of consumer and corporate confidence, decreased business investment and consumer spending, increased unemployment, reduced income and asset values in many areas, reduction of China's growth rate, currency volatility and limited availability of credit and access to capital. Developments or economic conditions in other emerging market countries have at times significantly affected the availability of credit to companies with significant operations in Brazil and resulted in considerable outflows of funds from Brazil, decreasing the amount of foreign investments in Brazil.

Crises and political instability in other emerging market countries, the United States, Europe or other countries could decrease investor demand for securities offered by companies with significant operations in Brazil, such as our Class A common shares. Investors' sentiment in one country may cause capital markets in other countries to fluctuate, affecting the value of our Class A common shares, even if indirectly. The economic, political, and social instability in the United States, the trade war between the United States and China, crises in Europe and other countries, the consequences of United Kingdom's exit from the European Union, and global tensions, as well as economic or political crises in Latin America or other emerging markets including as a result of the COVID-19 pandemic, may significantly affect the perception of the risks inherent in investment in Brazil.

Additionally, on November 7, 2020, Joseph Biden won the presidential election in the United States and assumed office as the 46th President of the United States on January 20, 2021. The U.S. president has considerable influence, which may materially and adversely global economy and political stability. We cannot ensure that the Biden administration will adopt policies designed to promote macroeconomic stability, fiscal discipline, as well as domestic and foreign investment, which may materially and adversely impact the trading price of securities of Brazilian issuers, including our Class A common shares. Growing economic uncertainty and new of a potentially recessive economy in the United States may also create uncertainty in the Brazilian economy. These developments, as well as potential crises and forms of political instability arising therefrom or any other yet unforeseen development, may harm our business and the price of our Class A common shares.

Any further downgrading of Brazil's credit rating could reduce the trading price of our Class A common shares.

We may be harmed by investors' perceptions of risks related to Brazil's sovereign debt credit rating. Rating agencies regularly evaluate Brazil and its sovereign ratings, which are based on several factors including macroeconomic trends, fiscal and budgetary conditions, indebtedness metrics and the perspective of changes in any of these factors.

The rating agencies began to review Brazil's sovereign credit rating in September 2015. Subsequently, the three major rating agencies downgraded Brazil's investment-grade status:

- In 2015, Standard & Poor's initially downgraded Brazil's credit rating from BBB-negative to BB-positive and subsequently downgraded it again from BB-positive to BB, maintaining its negative outlook, citing a worse credit situation since the first downgrade. On January 11, 2018, Standard & Poor's further downgraded Brazil's credit rating from BB to BB-negative. The BB-negative rating was reaffirmed on February 7, 2019 with a stable outlook, which reflects the agency's expectations that the Brazilian government will be able to implement policies to gradually improve the fiscal deficit, as well as a mild economic recovery, given improvements in consumer confidence. In April 2020, Standard & Poor's revised the credit rating for Brazil to BB-negative with a stable outlook.
- In December 2015, Moody's reviewed and downgraded Brazil's issue and bond ratings from Baa3 to below investment grade, Ba2 with a negative outlook, citing the prospect of a further deterioration in Brazil's debt indicators, considering the low growth environment and the challenging political scenario. In April 2018, Moody's reaffirmed its Ba2 rating, but altered its outlook from "negative" to "stable," also supported by the projection that the Brazilian government would approve fiscal reforms and that economic growth in Brazil would resume gradually.
- In 2016, Fitch downgraded Brazil's sovereign credit rating to BB-positive with a negative outlook, citing the rapid expansion of the country's budget deficit and the worse-than-expected recession. In February 2018, Fitch downgraded Brazil's sovereign credit rating again to BB-negative, citing, among other reasons, fiscal deficits, the increasing burden of public debt and an inability to implement reforms that would structurally improve Brazil's public finances. The BB-negative rating was reaffirmed in May 2019. In May 2020, Fitch affirmed Brazil's long-term foreign currency issuer default rating at BB-negative and revised the rating outlook to negative, citing the deterioration of the Brazilian economic and fiscal scenarios and the worsening risks for both dimensions, given the renewed political uncertainty, in addition to the uncertainties about the duration and intensity of the COVID-19 pandemic.

Brazil's sovereign credit rating is currently rated below investment grade by the three main credit rating agencies. Consequently, the prices of securities offered by companies with significant operations in Brazil have been negatively affected.

The full consequences of a credit rating downgrade are inherently uncertain, as they depend upon numerous dynamic, complex, and inter-related factors and assumptions, including market conditions at the time of any downgrade. A prolongation or worsening of the current Brazilian recession and continued political uncertainty, among other factors, could lead to further ratings downgrades. We cannot assure you that the rating agencies will maintain their current ratings or outlooks, and such changes could increase our funding costs and adversely affect our results of operations. Any further downgrade of Brazil's sovereign credit ratings could heighten investors' perception of risk and, as a result, cause the trading price of our Class A common shares to decline.

Certain Factors Relating to Our Class A Common Shares

The Founding Shareholders, our largest group of shareholders, own 100% of our outstanding Class B common shares, which represents 90.1% of the voting power of our issued share capital, and will control all matters requiring shareholder approval. This concentration of ownership and voting power limits your ability to influence corporate matters.

As of December 31, 2020, Oto Brasil de Sá Cavalcante, Margarida Maria Porto Soares de Sá Cavalcante, Ari de Sá Cavalcante Neto, Mariana Magalhães de Sá Cavalcante, Patrícia Soares de Sá Cavalcante, Paula Soares de Sá Cavalcante and Luciana Soares de Sá Cavalcante Moraes, or the Founding Shareholders, control our company and do not hold any of our Class A common shares (except for Ari de Sá Cavalcante Neto, who held as of December 31, 2020 1.1% of the Class A common shares), but beneficially own 47.6% of our issued share capital through their beneficial ownership of all of our outstanding Class B common shares, and consequently, 90.1% of the combined voting power of our issued share capital. Our Class B common shares are entitled to 10 votes per share and our Class A common shares, which are publicly traded, are entitled to one vote per share. Our Class B common shares are convertible into an equivalent number of Class A common shares and generally convert into Class A common shares upon transfer subject to limited exceptions. As a result, the Founding Shareholders will control the outcome of all decisions at our shareholders' meetings and will be able to elect a majority of the members of our board of directors. They will also be able to direct our actions in areas such as business strategy, financing, distributions, acquisitions and dispositions of assets or businesses. For example, the Founding Shareholders may cause us to make acquisitions that increase the amount of our indebtedness or outstanding Class A common shares, sell revenue-generating assets or inhibit change of control transactions that benefit other shareholders. The Founding Shareholders' decisions on these matters may be contrary to your expectations or preferences, and they may take actions that could be contrary to your interests. They can prevent any other shareholders, including you, from blocking these actions. For further information regarding shareholdings in our company, see "Item 7. Major Shareholders and Related Party Transactions—A. Major shareholders."

As long as the Founding Shareholders continue to beneficially own a sufficient number of Class B common shares, even if they beneficially own significantly less than 50% of our outstanding share capital, acting together, they will be able to effectively control our decisions. For example, if our Class B common shares amounted to 15% of our outstanding common shares, beneficial owners of our Class B common shares (consisting of the Founding Shareholders), would collectively control 63.8% of the voting power of our outstanding common shares. If the Founding Shareholders sell or transfer any of their Class B common shares, they will generally convert automatically into Class A common shares, subject to limited exceptions, such as transfers to affiliates, to trustees for the holder or its affiliates and certain transfers to U.S. tax exempt organizations. The fact that any Class B common shares convert into Class A common shares if the Founding Shareholders sell or transfer them means that the Founding Shareholders will in many situations continue to control a majority of the combined voting power of our outstanding share capital, due to the voting rights of any Class B common shares that they retain. However, if our Class B common shares at any time represent less than 10% of the total number of shares in the capital of the Company outstanding, the Class B common shares then outstanding will automatically convert into Class A common shares. For a description of the dual class structure, see "Item 10. Additional Information—B. Memorandum and articles of association."

Our Articles of Association contain anti-takeover provisions that may discourage a third-party from acquiring us and adversely affect the rights of holders of our Class A common shares.

Our Articles of Association contain certain provisions that could limit the ability of others to acquire our control, including a provision that grants authority to our board of directors to establish and issue from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series. These provisions could have the effect of depriving our shareholders of the opportunity to sell their shares at a premium over the prevailing market price by discouraging third parties from seeking to obtain our control in a tender offer or similar transactions.

If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, the price of our Class A common shares and our trading volume could decline.

The trading market for our Class A common shares depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our Class A common shares or publish inaccurate or unfavorable research about our business, the price of our Class A common shares would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our Class A common shares could decrease, which might cause the price of our Class A common shares and trading volume to decline.

We do not anticipate paying any cash dividends in the foreseeable future.

We currently intend to retain our future earnings, if any, for the foreseeable future, to fund the operation of our business and future growth. We do not intend to pay any dividends to holders of our Class A common shares. As a result, capital appreciation in the price of our Class A common shares, if any, will be your only source of gain on an investment in our Class A common shares.

Our dual class capital structure means our shares are not included in certain indices. We cannot predict the impact this may have on our share price.

In 2017, FTSE Russell, S&P Dow Jones and MSCI announced changes to their eligibility criteria for inclusion of shares of public companies on certain indices to exclude companies with multiple classes of shares of common stock, such as ours, from being added to such indices. FTSE Russell announced plans to require new constituents of its indices to have at least five percent of their voting rights in the hands of public stockholders, whereas S&P Dow Jones announced that companies with multiple share classes, such as ours, will not be eligible for inclusion in the S&P 500, S&P MidCap 400 and S&P SmallCap 600, which together make up the S&P Composite 1500. MSCI also opened public consultations on their treatment of no-vote and multi-class structures and temporarily barred new multi-class listings from its ACWI Investable Market Index and U.S. Investable Market 2500 Index. However, in October 2018, MSCI announced its decision to include equity securities “with unequal voting structures” in its indices and to launch a new index that specifically includes voting rights in its eligibility criteria. We cannot assure you that other stock indices will not take a similar approach to FTSE Russell, S&P Dow Jones and MSCI in the future. Under the announced policies, our dual class capital structure is not eligible for inclusion in any of these indices and, as a result, mutual funds, exchange-traded funds and other investment vehicles that attempt to passively track these indices will not invest in our stock. It continues to be unclear what effect, if any, these policies will have on the valuations of publicly traded companies excluded from the indices, but in certain situations they may depress these valuations compared to those of other similar companies that are included. Exclusion from indices could make our Class A common shares less attractive to investors and, as a result, the market price of our Class A common shares could be adversely affected.

The dual class structure of our common stock has the effect of concentrating voting control with the Founding Shareholders; this will limit or preclude your ability to influence corporate matters.

Each Class A common share entitles its holder to one vote per share, and each Class B common share will entitle its holder to ten votes per share, so long as the total number of the issued and outstanding Class B common shares is at least 10% of the total number of shares outstanding. Due to the ten-to-one voting ratio between our Class B and Class A common shares, the beneficial owners of our Class B common shares (composed of the Founding Shareholders) collectively will continue to control a majority of the combined voting power of our common shares and therefore be able to control all matters submitted to our shareholders so long as the total number of the issued and outstanding Class B common shares is at least 10% of the total number of shares outstanding.

In addition, our Articles of Association provide that at any time when there are Class A common shares in issue, additional Class B common shares may only be issued pursuant to (1) a share split, subdivision of shares or similar transaction or where a dividend or other distribution is paid by the issue of shares or rights to acquire shares or following capitalization of profits, (2) a merger, consolidation, or other business combination involving the issuance of Class B common shares as full or partial consideration, or (3) an issuance of Class A common shares, whereby holders of the Class B common shares are entitled to purchase a number of Class B common shares that would allow them to maintain their proportional ownership interests in Arco (following an offer by us to each holder of Class B common shares to issue to such holder, upon the same economic terms and at the same price, such number of Class B common shares as would ensure that such holder may maintain a proportional ownership interest in Arco pursuant to our Articles of Association).

Future transfers by holders of Class B common shares will generally result in those shares converting to Class A common shares, subject to limited exceptions, such as certain transfers effected to permitted transferees or for estate planning or charitable purposes. The conversion of Class B common shares to Class A common shares will have the effect, over time, of increasing the relative voting power of those holders of Class B common shares who retain their shares in the long term.

In light of the above provisions relating to the issuance of additional Class B common shares, the fact that future transfers by holders of Class B common shares will generally result in those shares converting to Class A common shares, subject to limited exceptions as provided in the Articles of Association; as well as the ten-to-one voting ratio of our Class B common shares and Class A common shares, holders of our Class B common shares will in many situations continue to maintain control of all matters requiring shareholder approval. This concentrated control will limit or preclude your ability to influence corporate matters for the foreseeable future. For a description of our dual class structure, see “Item 10. Additional Information—B. Memorandum and articles of association—Voting Rights.”

We are a Cayman Islands exempted company with limited liability. The rights of our shareholders, including with respect to fiduciary duties and corporate opportunities, may be different from the rights of shareholders governed by the laws of U.S. jurisdictions.

We are a Cayman Islands exempted company with limited liability. Our corporate affairs are governed by our Articles of Association and by the laws of the Cayman Islands. The rights of shareholders and the responsibilities of members of our board of directors may be different from the rights of shareholders and responsibilities of directors in companies governed by the laws of U.S. jurisdictions. As a matter of Cayman Islands law, directors of a Cayman Islands company owe fiduciary duties to the company and separately a duty of care, diligence and skill to the company. Under Cayman Islands law, directors and officers owe the following fiduciary duties: (i) duty to act in good faith in what the director or officer believes to be in the best interests of the company as a whole; (ii) duty to exercise powers for the purposes for which those powers were conferred and not for a collateral purpose; (iii) directors should not properly fetter the exercise of future discretion; (iv) duty to exercise powers fairly as between different sections of shareholders; (v) duty to exercise independent judgment; and (vi) duty not to put themselves in a position in which there is a conflict between their duty to the company and their personal interests. Our Articles of Association have varied this last obligation by providing that a director must disclose the nature and extent of his or her interest in any contract or arrangement, and following such disclosure and subject to any separate requirement under applicable law or the listing rules of the Nasdaq, and unless disqualified by the chairman of the relevant meeting, such director may vote in respect of any transaction or arrangement in which he or she is interested and may be counted in the quorum at the meeting. Conversely, under Delaware corporate law, a director has a fiduciary duty to the corporation and its stockholders (made up of two components) and the director's duties prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. See “Item 16G Corporate Governance—Principal Differences between Cayman Islands and U.S. Corporate Law.”

As a foreign private issuer, we will have different disclosure and other requirements than U.S. domestic registrants.

As a foreign private issuer, we may be subject to different disclosure and other requirements than domestic U.S. registrants. For example, as a foreign private issuer, in the United States, we are not subject to the same disclosure requirements as a domestic U.S. registrant under the Exchange Act, including the requirements to prepare and issue quarterly reports on Form 10-Q or to file current reports on Form 8-K upon the occurrence of specified significant events, the proxy rules applicable to domestic U.S. registrants under Section 14 of the Exchange Act or the insider reporting and short-swing profit rules applicable to domestic U.S. registrants under Section 16 of the Exchange Act. In addition, we intend to rely on exemptions from certain U.S. rules which will permit us to follow Cayman Islands legal requirements rather than certain of the requirements that are applicable to U.S. domestic registrants.

We will follow Cayman Islands laws and regulations that are applicable to Cayman Islands companies. However, Cayman Islands laws and regulations applicable to Cayman Islands companies do not contain any provisions comparable to the U.S. proxy rules, the U.S. rules relating to the filing of reports on Form 10-Q or 8-K or the U.S. rules relating to liability for insiders who profit from trades made in a short period of time, as referred to above.

Furthermore, foreign private issuers are required to file their annual report on Form 20-F within 120 days after the end of each fiscal year, while U.S. domestic issuers that are accelerated filers are required to file their annual report on Form 10-K within 75 days after the end of each fiscal year. Foreign private issuers are also exempt from Regulation Fair Disclosure, aimed at preventing issuers from making selective disclosures of material information, although we will be subject to Cayman Islands laws and regulations having substantially the same effect as Regulation Fair Disclosure. As a result of the above, even though we are required to file reports on Form 6-K disclosing the limited information which we have made or are required to make public pursuant to Cayman Islands law, or are required to distribute to shareholders generally, and that is material to us, you may not receive information of the same type or amount that is required to be disclosed to shareholders of a U.S. company.

As a foreign private issuer, we are permitted to, and we will, rely on exemptions from certain Nasdaq corporate governance standards applicable to U.S. issuers, including the requirement that a majority of an issuer's directors consist of independent directors. This may afford less protection to holders of our Class A common shares.

Section 5605 of the Nasdaq equity rules requires listed companies to have, among other things, a majority of their board members be independent, and to have independent director oversight of executive compensation, nomination of directors and corporate governance matters. As a foreign private issuer, however, we are permitted to, and we will, follow home country practice in lieu of the above requirements. See "Item 16G Corporate Governance—Principal Differences between Cayman Islands and U.S. Corporate Law."

We may lose our foreign private issuer status which would then require us to comply with the Exchange Act's domestic reporting regime and cause us to incur significant legal, accounting and other expenses.

To maintain our current status as a foreign private issuer, either (a) more than 50% of our Class A common shares must be either directly or indirectly owned of record by non-residents of the United States or (b)(i) a majority of our executive officers or directors may not be U.S. citizens or residents, (ii) more than 50% of our assets cannot be located in the United States and (iii) our business must be administered principally outside the United States. If we lose this status, we would be required to comply with the Exchange Act reporting and other requirements applicable to U.S. domestic issuers, which are more detailed and extensive than the requirements for foreign private issuers. We may also be required to make changes in our corporate governance practices in accordance with various SEC and Nasdaq rules. The regulatory and compliance costs to us under U.S. securities laws if we are required to comply with the reporting requirements applicable to a U.S. domestic issuer may be significantly higher than the costs we will incur as a foreign private issuer.

Our shareholders may face difficulties in protecting their interests because we are a Cayman Islands exempted company.

Our corporate affairs are governed by our Articles of Association, by the Companies Act (As Revised) of the Cayman Islands and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under the laws of the Cayman Islands are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. Therefore, you may have more difficulty protecting your interests than would shareholders of a corporation incorporated in a jurisdiction in the United States, due to the comparatively less formal nature of Cayman Islands law in this area.

While Cayman Islands law allows a dissenting shareholder to express the shareholder's view that a court sanctioned reorganization of a Cayman Islands company would not provide fair value for the shareholder's shares, Cayman Islands statutory law does not specifically provide for shareholder appraisal rights in connection with a court sanctioned reorganization (by way of a scheme of arrangement). This may make it more difficult for you to assess the value of any consideration you may receive in a merger or consolidation (by way of a scheme of arrangement) or to require that the acquirer gives you additional consideration if you believe the consideration offered is insufficient. However, Cayman Islands statutory law provides a mechanism for a dissenting shareholder in a merger or consolidation to apply to the Grand Court of the Cayman Islands for a determination of the fair value of the dissenter's shares if it is not possible for the company and the dissenter to agree on a fair price within the time limits prescribed.

Shareholders of Cayman Islands exempted companies (such as us) have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders. Our directors have discretion under our Articles of Association to determine whether, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

United States civil liabilities and certain judgments obtained against us by our shareholders may not be enforceable.

We are a Cayman Islands exempted company and substantially all our assets are located outside of the United States. In addition, the majority of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons is located outside of the United States. As a result, it may be difficult to effect service of process within the United States upon these persons. It may also be difficult to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors who are not resident in the United States and the substantial majority of whose assets are located outside of the United States. Further, it is unclear if original actions predicated on civil liabilities based solely upon U.S. federal securities laws are enforceable in courts outside the United States, including in the Cayman Islands and Brazil. Courts of the Cayman Islands may not, in an original action in the Cayman Islands, recognize or enforce judgments of U.S. courts predicated upon the civil liability provisions of the securities laws of the United States or any state of the United States on the grounds that such provisions are penal in nature. Although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, courts of the Cayman Islands will recognize and enforce a foreign judgment of a court of competent jurisdiction if such judgment is final, for a liquidated sum, provided it is not in respect of taxes or a fine or penalty, is not inconsistent with a Cayman Islands' judgment in respect of the same matters, and was not obtained in a manner which is contrary to the public policy of the Cayman Islands. In addition, a Cayman Islands court may stay proceedings if concurrent proceedings are being brought elsewhere.

Judgments of Brazilian courts to enforce our obligations with respect to our Class A common shares may be payable only in reais.

Most of our assets are in Brazil. If proceedings are brought in the courts of Brazil seeking to enforce our obligations in respect of our Class A common shares, we may not be required to discharge our obligations in a currency other than the *real*. Under Brazilian exchange control laws, an obligation in Brazil to pay amounts denominated in a currency other than the *real* may only be satisfied in Brazilian currency at the exchange rate, as determined by the Central Bank, in effect on the date the judgment is obtained, and such amounts are then adjusted to reflect exchange rate variations through the effective payment date. The then-prevailing exchange rate may not afford non-Brazilian investors with full compensation for any claim arising out of or related to our obligations under the Class A common shares.

The Economic Substance Act of the Cayman Islands may affect our operations.

The Cayman Islands has recently enacted the International Tax Co-operation (Economic Substance) Act (As Revised), or the Cayman Economic Substance Act. We are required to comply with the Cayman Economic Substance Act. As we are a Cayman Islands company, compliance obligations include filing annual notifications for the Company, which need to state whether we are carrying out any relevant activities and if so, whether we have satisfied economic substance tests to the extent required under the Cayman Economic Substance Act. As it is a new regime, it is anticipated that the Cayman Economic Substance Act will evolve and be subject to further clarification and amendments. We may need to allocate additional resources to keep updated with these developments and may have to make changes to our operations in order to comply with all requirements under the Cayman Economic Substance Act. Failure to satisfy these requirements may subject us to penalties under the Cayman Economic Substance Act.

Our Class A common shares may not be a suitable investment for all investors, as investment in our Class A common shares presents risks and the possibility of financial losses.

The investment in our Class A common shares is subject to risks. Investors who wish to invest in our Class A common shares are thus subject to asset losses, including loss of the entire value of their investment, as well as other risks, including those related to our Class A common shares, us, the sector in which we operate, our shareholders and the general macroeconomic environment in Brazil, among other risks.

Each potential investor in our Class A common shares must therefore determine the suitability of that investment considering its own circumstances. Each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of our Class A common shares, the merits and risks of investing in our Class A common shares and the information contained in this annual report;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in our Class A common shares and the impact our Class A common shares will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in our Class A common shares;
- understand thoroughly the terms of our Class A common shares and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We were founded in 2004. However, our history goes back to 1941, when the grandfather of our CEO and founder, Ari de Sá Cavalcante Neto, acquired a small school in downtown Fortaleza. Over decades, the school grew into a large educational group with several branches providing K-12 education to 6,500 students becoming recognized for its quality nationally and for successfully preparing students for the most rigorous national and international college admission exams for admission into institutions such as Massachusetts Institute of Technology, Stanford University and Princeton University, and national and international science competitions such as the International Physics Olympiad (IPhO), the International Mathematical Olympiad (IMO) and the International Chemistry Olympiad (IChO).

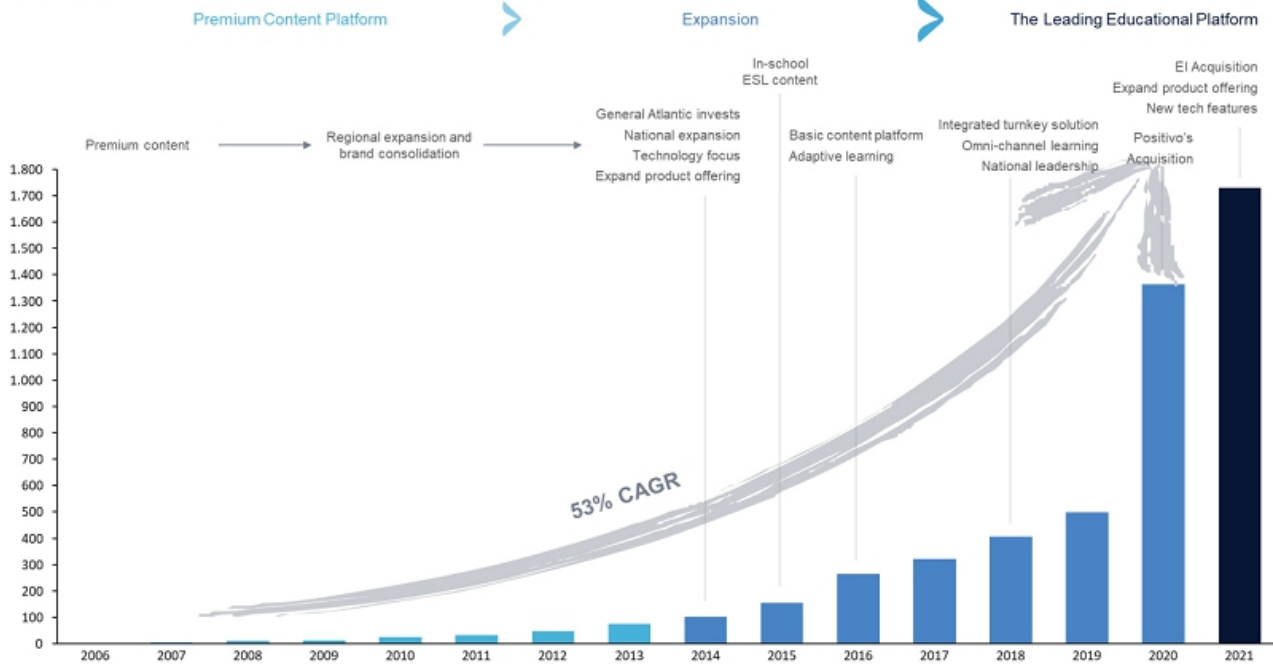
Colégio Ari de Sá developed a proprietary educational methodology aimed at improving student academic performance. The methodology is based on instilling discipline and a culture of hard work, stimulating students to develop a study routine and to demonstrate a proactive and considerate attitude toward their learning habits.

In 2004, our CEO and founder, Ari de Sá Cavalcante Neto, decided to start an independent company exclusively focused on content and technology for K-12 schools, SAS. The SAS method was created with the aim of offering it as a solution to private schools across Brazil. Our system uses technology as a powerful tool to promote improvements in student performance. This is achieved, in part, by allowing students to prepare for class in advance by using our platform's video lessons, homework tools and daily class reviews, as well as our practical workbooks with class-specific content, homework and performance reports. The SAS method is based on the concept of personalized and adaptive learning, aimed at providing tailored education to each student according to his or her individual needs, with concentration on the main areas in need of improvement, which manifests in higher levels of academic achievement.

Since 2015, we have been investing in technology and our printed methodology has evolved into an educational platform capable of delivering its curriculum content in both printed and digital format. It has also evolved into a robust omni-channel platform, capable of delivering the entire K-12 curriculum in both printed and digital format, with *lecturettes* featuring expert, on-screen teachers and tailored assignments and assessments to engage students and ensure subject-area mastery across all grades.

With this integrated approach, students can track their progress and performance, teachers have access to real-time data to evaluate students and personalize their teaching, and school administrators have access to their school's performance both on absolute and comparative terms.

of students ('000)
All content solutions



With an asset-light and highly scalable business model that emphasizes operating efficiency and profitability, we were able to grow the number of students served at a 53% CAGR since 2006, reaching a total of 1,785,576 students served in 2021, combining organic growth, strategic investments, and acquisitions to grow our K-12 education exposure. These initiatives have helped us identify new business potential to enhance our overall growth prospects, such as education technological features (WPensar and EEM Licenciamento de Programas Educacionais S.A., or EEM, Studos), supplemental instruction content (International School, PES, Nave à Vela Editora e Comercializadora de Materiais Educacionais S.A., or NAV, Escola da Inteligência Cursos Educacionais S.A., or EI and NLP Soluções Educacionais Ltda., or Pleno), digital-native content platform (Geekie), and a B2C online test prep solution (Me Salva! Cursos e Consultoria S.A., or Me Salva!).

On September 25, 2018, the registration statement on Form F-1 (File No 333-7007) relating to our initial public offering of our class A common shares was declared effective by the SEC. On September 25, 2018, we commenced our initial public offering. On September 28, 2018, we closed our initial public offering, pursuant to which we issued and sold 12,777,777 Class A common shares for an aggregate price of U.S.\$223,611,098 (R\$895.2 million).

On October 29, 2019, we completed a follow-on public offering, consisting of 3,450,656 Class A common shares issued and sold by us, and 4,268,847 Class A common shares sold by certain selling shareholders. The public offering price was US\$43.00 per Class A common share. We received net proceeds of US\$143.9 million, after deducting US\$3.7 million in underwriting discounts and commissions. On November 26, 2019, an additional 661,112 Class A common shares were sold by General Atlantic Arco (Bermuda), L.P. following the exercise by the underwriters of their option to purchase additional shares.

On June 4, 2020, we completed a follow-on public offering, by which General Atlantic Arco (Bermuda), L.P. and Alfaco Holding Inc. sold an aggregate amount of 5,563,203 Class A common shares issued by us, at a public offering price of US\$47.70 per Class A common share. We did not receive any proceeds from the sale of Class A common shares by the selling shareholders in connection with this offering.

On September 8, 2020, we completed a follow-on public offering, consisting of 2,500,000 Class A common shares issued and sold by us. The public offering price was US\$44.80 per Class A common share. We received net proceeds of US\$109.8 million, after deducting US\$2.2 million in underwriting discounts and commissions.

On January 6, 2021, our Board of Directors approved the Repurchase Program to comply with management long-term incentive plan obligations. Pursuant to the Repurchase Program, we may repurchase up to 500,000 of our outstanding Class A common shares in the open market, based on prevailing market prices, or in privately negotiated transactions, over a period beginning on January 6, 2021 continuing until the earlier of the completion of the repurchase or January 6, 2023, depending upon market conditions. As of the date of this annual report, we had purchased an aggregate of 276,581 Class A common shares for a total of approximately US\$9.8 million under the Repurchase Program.

Following a decade of growth, and our initial public offering in 2018, we are excited about the future and how technological advances can impact education. We believe that students are increasingly looking for modern, dynamic and client oriented educational platforms and that our tech-enabled approach is positioned to deliver a variety of content and provide a new learning experience that is more effective, personal, engaging, and enjoyable.

Acquisitions and Investments

Acquisition of Me Salva!

On March 10, 2021, we acquired 100% of the equity interest of Me Salva!, an online educational solution that prepares students to be admitted to the Brazilian universities, through recorded and live classes, comprehensive exercises, essay writing tools, assessment tests, 1-on-1 tutoring and personalized study plans.

According to the transaction agreements, 60% of the company's interest was transferred on the signing date for a total amount of R\$27.6 million, and the remaining 40% will be transferred in 2025, in an amount equal to the multiple of the net revenues of Me Salva!

Acquisition of COC and Dom Bosco learning systems

On March 6, 2021, we entered into a definitive agreement with Pearson Education do Brasil Ltda. ("Pearson") to acquire 100 % interest in P2D Educação Ltda., owner of COC and Dom Bosco learning systems, for the total amount of R\$920 million. 80% of the purchase price will be paid on closing, and (ii) the remaining 20% of the purchase price will be paid on the first anniversary of the closing date, as adjusted. The transaction also includes an agreement with Pearson to distribute some supplemental educational solutions for K-12 schools in Brazil.

This transaction is subject to customary closing conditions, including Brazilian antitrust approval.

Investment in Isaac

On January 25, 2021, we entered into a Series B Ordinary Shares Purchase Agreement, among other ancillary and transactional documents, with INCO Limited, or INCO, the controlling entity of OISA Tecnologia e Serviços Ltda., or OISA (a company indirectly controlled by David Peixoto dos Santos), pursuant to which we acquired 8,571,427 series B ordinary shares, equivalent to 30% of the total stock capital of INCO, for a total amount of R\$25,000,000. INCO Limited provides financial assistance to private schools.

Acquisition of Escola da Inteligência

On December 2, 2020, we closed the acquisition of Escola da Inteligência, the leading solution in social-emotional learning (SEL) in Brazil, which was approved by CADE, with no conditions, on the same date. This transaction broadens our supplemental market presence by adding a strong brand to its portfolio. We believe there is a favorable market trend for SEL, pushed forward by the COVID-19 pandemic, and that Escola da Inteligência is well positioned to capture this demand outside and within our school base.

The acquisition involves only the private sector business of Escola da Inteligência and under the terms of transaction, we acquired 100% of Escola da Ingeligência's shares, which will be officially transferred in two phases, of which 60% was acquired for R\$288 million, with R\$200 million paid at closing and the remaining R\$88 million in the second quarter of 2021. The amount due for the remaining 40% of Escola da Inteligência's shares will be calculated considering 6 times the 2023 ACV booking value and will be paid in the second quarter of 2023. The remaining shares will be transferred to us on the day of such payment. For further information, see note 4d to our audited consolidated financial statements.

Acquisition of Studos

On September 21, 2020, we acquired 100.0% of the outstanding shares and voting rights of Studos, a leading provider of adaptive solutions. For further information, see note 4b to our audited consolidated financial statements. This acquisition is part of our strategy to acquire technology companies that increase the value of our learning systems to partner schools and parents, improve student's academic performance and enable teachers to thrive.

Investment in Bewater Ventures I GA

On July 24, 2020, we acquired a 14.48% interest in Bewater Ventures I GA, a fund legally managed by Paraty Capital, through the purchase of 9,670 Class B quotas for R\$9.7 million. The fund's main goal is the minority investment in Grupo A, a company that provides educational solutions for higher education, which happened subsequently to our investment. For further information, see note 11 to our audited consolidated financial statements.

Acquisition of Positivo Soluções Didáticas

On November 1, 2019, we closed the acquisition of Positivo, one of the largest K-12 content providers to private schools in Brazil, and other companies of the Positivo Group (as defined below), or Positivo Acquisition. Positivo is part of a group founded in 1972 in Curitiba by a group of teachers as a preparatory course focused on admission exams to universities in the state of Paraná, or Positivo Group. The preparatory course reached 2,300 enrolled students in the first year of operation and its success led the group to quickly open new schools for all K-12 grades under the brand *Colégio Positivo*. In a short period of time, the proprietary content and methodology developed and used by *Colégio Positivo* schools achieved significant recognition among teachers, parents and students. The high-quality content and its dynamic approach led to the foundation of Positivo in 1979, allowing the Positivo brand to expand far beyond the reach of *Colégio Positivo*, being adopted by third-party schools in several cities of the state of Paraná and other Brazilian states.

With over 40 years of brand legacy, Positivo evolved to become a leading content providing platform that transforms the lives of many students of private schools across all Brazilian states. This is a vibrant ecosystem with several opportunities to effectively address the needs of parents, students, teachers and school owners. Positivo is focused on building long-term relationships with partner schools and this approach is an important factor to its success, proven by the fact that more than 50% of its client base has over ten years of relationship.

This carve-out acquisition encompassed only the private school learning systems and did not include the other assets of the Positivo Group, such as the public school learning system, the printing company, the *Universidade Positivo* post-secondary education business, and the *Colégio Positivo* proprietary schools.

The agreed purchase price was R\$1,684.8 million (equity value), of which (i) 50% was paid in cash on the transaction closing date, and (ii) the remaining 50% will be paid in four installments as follows: (1) 10% per year to be paid in cash in each of 2021 and 2022, and (2) 15% per year to be paid in cash in each of 2023 and 2024, all as adjusted by the CDI rate (Brazilian interest rates).

The Positivo Acquisition allowed us to increase our student base twofold, reaching over 1.2 million students in 2019. In addition, it allowed us to accelerate our growth with the same B2B2C business model, with predictable subscription-based revenue, high operating leverage and cash flow conversion while remaining asset-light. By adding complementary assets, Positivo also enables us to broaden our product offerings and expand our footprint. Positivo comprises two different brands with reciprocal business profiles: (i) *Sistema de Ensino Positivo*, or SPE, an educational solution consisting of content, technology and services provided to private schools serving upper-middle-income students; and (ii) *Conquista Solução Educacional*, or Conquista, which is focused on private schools serving lower-middle income students. Together, SPE and Conquista enhance our Core Curriculum offering, allowing us to reach a larger base of schools at different price points. In addition, Positivo also owns Positivo English Solution, or PES, an affordably priced second language-offering that enhances our Supplemental Solutions.

Positivo has a strong presence in the South and Southeast regions of Brazil, with relatively low geographic overlap with our student base. The acquisition will also allow us to add opportunities through our scale and technology, strengthening our capacity to invest in high quality content and technology and enabling us to enhance our student base experience and academic outcomes through technology improvements and our cross-selling capabilities.

Acquisition of EEM

On June 4, 2019, we closed the acquisition of EEM, or the EEM Acquisition, an app developer that enhances communication between schools and parents by providing chat-based interactions, location-based identifications, Net Promoter Scores, or NPS, tool to assess parent's satisfaction and pilot project related to payments. The EEM Acquisition provided us with new capabilities that further increases our value proposition to partner schools, parents and students, and also allowed us to access EEM's network of schools. The purchase consideration transferred was R\$18.3 million. The amount of R\$16.1 million was paid on the closing date, the amount of R\$0.3 million was paid on June 29, 2019, and the deferred payment in the amount of R\$1.9 million, which has been retained for a period of two years as guarantee for the payment of any contingent liabilities, will be released in accordance with the provisions of the agreement. Any remaining balance will be transferred to the former owners of the acquired entity. For further information, see note 17c to our audited consolidated financial statements.

Acquisition of NAV

In May 2019, we acquired a 13.2% interest in the share capital of NAV, a developer of competence-based learning content present in more than 50 schools and reaching 16,000 students, according to NAV's website, for the total subscription price of R\$4.2 million, hereinafter referred to as the NAV Acquisition. Pursuant to the investment and share purchase agreement, we have agreed to acquire the remaining 86.8% of the outstanding share capital of NAV in three tranches. We acquired: (i) Tranche 1, corresponding to 37.8% of the outstanding share capital of NAV, on October 29, 2019, for the amount of R\$21.1 million, and (ii) Tranche 2 and Tranche 3, corresponding to 24% and 25% of the outstanding share capital of NAV, respectively, on February 15, 2021, for the total amount of R\$22.6 million. By anticipating the payment of Tranche 3, NAV became our wholly owned subsidiary on February 25, 2021.

NAV enhances our Supplemental Solutions offering and the cross-selling capacity of our Core Curriculum offering through a competence-based curriculum to address 21st century skills. The EEM Acquisition and NAV Acquisition provide us with new capabilities that further increases our value proposition to partner schools, parents and students, and also allows us to access each acquisition's network of schools. Through projects, problem solving and technology, NAV helps students develop transferable skills, such as critical and creative thinking, and communication skills.

Acquisition of Geekie

In December 2016, we acquired a 6.54% interest in Geekie, an entity that provides technology for adaptive assessment and learning products and engages in the production, development and licensing of software tailored to the specific requirements of education sector customers. On July 3, 2018, we acquired an additional 1.51% interest in the share capital of Geekie, increasing our total interest to 8.05%.

On September 20, 2019, we acquired an additional 0.96% interest in the share capital of Geekie through a capital increase of R\$1.2 million. On October 14, 2019, we acquired an additional 1.92% interest in the share capital of Geekie through a capital increase of R\$2.5 million, increasing our total interest to 10.92%. In addition, on October 25, 2019, we acquired an additional 18.44% interest in the share capital of Geekie from a minority shareholder for the amount of R\$21.9 million, increasing our total interest to 29.36%. On November 15, 2019, we acquired an additional 1.17% interest in the share capital of Geekie through a capital increase of R\$2.0 million, increasing our total interest to 30.53%. In December 2019, we acquired an additional 7.00% interest in the share capital of Geekie through a capital increase of R\$4.3 million and the purchase of minority shareholders for R\$5.8 million increasing our total interest to 37.53% as of December 31, 2019. On March 4, 2020, we acquired an additional 10.51% interest in Geekie's share capital from minority shareholders for R\$12.7 increasing our total interest to 48.04%. On July 6, 2020, we acquired an additional 4.62% interest in Geekie's share capital from minority shareholders for R\$5.8 million, increasing our total interest to 52.67%. On September 21, 2020, we acquired an additional 1.76% interest in the share capital of Geekie through a capital increase of R\$4,500 increasing its total interest to 54.43%. On November 11, 2020, we acquired an additional 1.64% interest in Geekie's share capital through a capital increase of R\$4,500 increasing our total interest to 56.06%. On January 20, 2021, we acquired an additional 1.36% interest in Geekie's share capital through a capital increase of R\$4,000, increasing our total interest to 57.42%.

On November 27, 2020, we entered into a new shareholders' agreement with the other Geekie's shareholders, by which we acquired control of Geekie and started to consolidate Geekie in our financial statements as our subsidiary. We expect to acquire the remaining 42.58% interest in Geekie's share capital in June 2022, for the amount to be calculated considering the ACV of Geekie or Arco for 2022 and the company's debts, whichever results on the highest amount to be received by the sellers, and the net revenue of Geekie products as of January 2023, which will be payable in June 2022 and January 2023. For further information, see note 4c to our audited consolidated financial statements.

Acquisition of SAE

In June 2016, we acquired a 70% interest in the share capital of SAE. In October 2017, we acquired the remaining 30% in the share capital of SAE. We currently hold a 100% interest in the share capital of SAE. The investment in SAE added a new platform for the Company's Core segment with a different pedagogical approach and different pricing point. This acquisition enabled the Company to serve a broader range of schools, allowing us to maximize our market reach and penetration. Thus, with the SAE solution, the Company started to offer a basic subscription solution focused on upper middle income private schools.

Acquisition of International School

In December 2015 and January 2017, our subsidiary PSD Educação S.A. (formerly known as EAS Educação S.A. (until 2020) and SAS Educação S.A. (until 2017)), or PSD Brazil, acquired 40% and 11.48% interests, respectively, in the share capital of International School from Mr. Ulisses Borges Cardinot, pursuant to an investment and other covenants agreement (*Contrato de Investimento e Outras Avenças*) dated December 21, 2015 (as amended on January 28, 2016 and January 23, 2017), or the Investment Agreement. Mr. Cardinot is currently the chief executive officer of International School pursuant to a shareholders' agreement between Mr. Cardinot and PSD Brazil.

The Investment Agreement contains certain contractual arrangements for the acquisition by PSD Brazil of the remaining 48.52% interest in the share capital of International School held by Mr. Cardinot, or the Remaining Interest, divided in two steps: (1) 25% of the share capital between January 1, 2020 and April 30, 2020 at a purchase price equal to the product of 30% and 10 times the accounting EBITDA of International School for the 2019 school year (twelve-month period between October and September) (subject to certain adjustments); and (2) 23.52% of the share capital between January 1, 2021 and April 30, 2021 at a purchase price equal to the product of 30% and 10 times the accounting EBITDA (as defined in the Investment Agreement) of International School for the 2020 school year (subject to certain adjustments). In addition, Mr. Cardinot may elect to allocate up to 50% of the total purchase price to subscribe for PSD Brazil shares (which would be valued at the product of 30% and 10 times the accounting EBITDA of PSD Brazil (subject to certain adjustments) for the applicable school year).

Pursuant to the Investment Agreement, upon the approval of an initial public offering of PSD Brazil (1) certain contractual arrangements for the acquisition by PSD Brazil of the Remaining Interest are accelerated; and (2) Mr. Cardinot's option to allocate up to 50% of the total purchase price to subscribe for PSD Brazil shares must be exercised by Mr. Cardinot at the shareholder meeting approving an initial public offering by PSD Brazil. We recognized a financial liability as of December 31, 2020 in the amount of R\$355.0 million, which represented the present value of the estimated amount payable to Mr. Cardinot. This financial liability may vary in subsequent financial periods and depending on the final basis for calculation of the purchase price of the Remaining Interest and it will be updated accordingly in our financial statements for future financial periods. See "Item 8. Financial Information—A. Consolidated statements and other financial information—Legal Proceedings." for more information on this matter.

Acquisition of Content Providers

In April 2015, we acquired a 99.99% interest in Editora e Livraria Alegre POA Ltda., a content provider to upper- and middle-income private schools in Brazil. In June 2015, we acquired a 99.99% interest in Material Didático Desterro Ltda., a content provider to upper- and middle-income private schools in Brazil. In September 2017, we acquired a 100% interest in NS Educação Ltda., or NS Educação. NS Educação is an educational content provider to middle class private schools in Brazil.

Acquisition of WPensar

In April 2015, we acquired a 25% interest in WPensar, a company that develops and licenses school management systems software. On September 21, 2020, we acquired the remaining 75.0% interest in WPensar and we started to consolidate it as our wholly owned subsidiary. For further information, see note 4a to our audited consolidated financial statements.

Corporate Information

Our principal executive offices are located at Rua Augusta 2840, 9th floor, suite 91, Consolação, São Paulo – SP, 01412-100, Brazil. Our telephone number at this address is +55 (11) 3047-2699.

The SEC maintains an internet website that contains reports and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov. Investors should contact us for any inquiries through the address and telephone number of our principal executive office. Our principal website is www.arcoeducacao.com.br. The information contained in, or accessible through, our website is not incorporated into this annual report.

B. Business Overview

Our mission is to transform the way students learn by delivering high-quality education at scale through technology to K-12 schools and students.

We provide a complete pedagogical system with technology-enabled features to deliver educational content to private schools and students in Brazil. Our turnkey curriculum solutions provide educational content in both printed and digital formats delivered through our platform to improve the learning process.

We have an asset-light, highly scalable business model that emphasizes operational efficiency and profitability. In our B2B2C model, we operate through long-term service contracts with private schools. These contracts generally have initial terms that average three years, pursuant to which we provide educational content in printed and digital format to private schools. Our revenue is driven by the number of enrolled students at each customer using the solutions and the agreed-upon price per student per year, all in accordance with the terms and conditions set forth in each contract. As a result, we benefit from high visibility in our net revenue and operating margin, which we calculate by dividing our operating profit by net revenue over a given period. Our annual retention rate was 93% in 2020, 93% in 2019 and 95% in 2018, which makes our recurring revenue base highly stable.

Our network in our B2B2C model as of March 31, 2021 consisted of 6,119 partner schools compared to 5,414 schools as of March 31, 2020, 1,464 schools as of March 31, 2019 and 1,140 schools as of March 31, 2018, representing annual growth rates of 13.0%, 269.8% and 28.4%, respectively.

We had 1,785,576 Number of Enrolled Students across all Brazilian states as of March 31, 2021, compared to Final Number of Enrolled Students of 1,239,937 as of September 30, 2020 (or 1,362,141 Number of Enrolled Students as of March 31, 2020), 498,553 as of March 31, 2019 and 405,814 as of March 31, 2018, representing annual growth rates of 44.1%, 173.2% and 22.9%, respectively. In prior years, the difference between our Number of Enrolled Students and our Final Number of Enrolled Students was not material. However, during 2020 and as result of the impacts of the COVID-19 pandemic, our partner schools experienced atypical dropout rates from March 31, 2020 to September 30, 2020. For further information, see “Presentation of Financial and Other Information—Special Note Regarding ACV Bookings.”

Our B2B2C business model has allowed us to grow and achieve profitability since our founding. Our net revenue totaled R\$1,001.7 million, R\$572.8 million and R\$381.0 million in 2020, 2019 and 2018, respectively, representing annual growth rates of 74.9% and 50.3% in 2020 and 2019, respectively. We generated operating profit of R\$135.5 million, R\$58.1 million and R\$62.1 million in 2020, 2019 and 2018, respectively. We had a profit of R\$16.8 million in 2020, a loss of R\$9.4 million in 2019 and a loss of R\$82.9 million in 2018, respectively. Our partner school base is highly diversified, which reduces our dependence on a concentrated number of large clients. Our 10 largest clients represented only 2.6%, 5.6% and 9.6% of our ACV Bookings in 2020, 2019 and 2018, respectively.

ACV Bookings for the supplemental solution totaled R\$250.7 million for the 2021 school year, resulting in a 1% ACV market share of the total addressable market, which includes after-school education and the potential market for private K-12 learning systems and textbooks in Brazil, based on EY-Parthenon’s assessment of the private K-12 learning systems market. In addressing the core solutions market, Arco’s ACV Bookings for the 2021 school year of R\$912.7 million result in an 14% core solutions market share, which considers the potential market for private K-12 learning systems and textbooks in Brazil, based on EY-Parthenon’s assessment of the private K-12 learning systems market.

We believe that the quality of our platform, together with the credibility of our client base and the strong reputation of our brand, has driven our significant growth, allowing us to expand our footprint quickly and efficiently in Brazil since our founding. According to the 2019 results for the principal national standardized test for university entrance in Brazil, the ENEM, four of our partner schools ranked in the top 10 best schools in Brazil. Furthermore, our schools were among the top 10 in 24 out of 27 Brazilian states according to the ENEM of 2019.

In March 2021, Arco started serving students directly through the acquisition of Me Salva!, a B2C test prep player. The online solution offers recorded and live video classes, comprehensive exercises, essay writing tools, assessment tests, 1-on-1 tutoring and personalized study plans. Despite currently representing only a small and immaterial part of our business, this vertical allows Arco to tap a large and underserved market of students from public schools, that lack quality education at affordable prices. We also plan to reinforce our Supplemental portfolio by offering schools a solution on the test prep and tutoring vertical, developed on top of Me Salva!’s know-how and digital offering, allowing them to better prepare their students for the ENEM.

Context

The 21st century has been characterized by rapid and accelerating technological innovation, with students at the forefront of the adoption of new technologies. We believe that we can deliver a more effective, personal, engaging, and enjoyable learning experience for students by combining high quality proprietary content and software applications in our simple, integrated, and personalized educational platform. We aim to move beyond traditional educational models used by schools by empowering educators, school administrators and students to achieve their highest potential through our educational platform.

We founded our company with the aim of creating high quality products that simplify learning and make the education process more efficient. Traditionally, school administrators required a multitude of vendors for developing content, engaging in teacher training, and commercializing and managing K-12 education. Simultaneously, students acquired educational content through textbooks from various publishers across retail channels. Our platform aims to replace this multitude of third-party educational providers with a streamlined, one-stop solution that delivers high quality education at scale.

Our Core Curriculum and Supplemental Solutions enable students, teachers, and school administrators to have access to engaging and easy-to-use resources that propel academic success and meet students' diverse learning needs. Pairing our printed and digital curriculum with real-time data and teacher-led learning allows us to personalize learning at the individual level, improving both individual student and aggregate school performance.

We develop our educational content using a model based on extensive research and performance-based standards. We combine printed and digital content with online *lecturettes* featuring expert, on-screen teachers and tailored assignments and assessments to engage students and help them master their subject areas. With this integrated approach, students can track their progress and performance, teachers can access real-time data to evaluate students and personalize their teaching and school administrators can better manage their school's performance both on absolute and comparative terms.

The increase in internet penetration and the rapid increase in the use of mobile devices and cloud-based services is broadening access to educational content and services and expanding the potential reach of educational institutions. Our platform does not require our partner schools to make any significant capital expenditures or setup investments and is compatible with most mainstream computing platforms (including tablets and mobile phones). Our solutions are designed to be highly interactive and enjoyable, which we believe results in enhanced educational outcomes when compared to traditional models.

Underlying Trends

We believe that the strength of our business and growth prospects is supported by strong underlying market and industry trends, including:

Demand for quality education is driving a shift from public to private K-12 education

A wide gap in the quality of education exists between public and private K-12 institutions in Brazil, and within the private school market itself. Test performance is significantly better in private primary and secondary education, as illustrated by the average quality index differential of the primary and IDEB. As of December 31, 2019, private K-12 education schools had an average education quality index score 39% higher than that of public primary and secondary schools across all school years according to the IDEB quality index differential. As a result, over the last ten years, student enrollments in private K-12 institutions have increased 16.3%, from 7.6 million in 2010 to 8.8 million in 2020.

Technological innovation is driving enhancements in private K-12 education

A survey conducted by FGV revealed that the number of smartphones in Brazil in June 2020 reached 234 million, or approximately 2 smartphone devices per Brazilian. Brazil is a mass adopter of disruptive technological innovations in several areas, and it is among the five largest markets for Waze[®], the digital traffic map application for Android[®] and iOS[®], with São Paulo serving as its largest city in terms of number of users, according to an April 2019 article in *Época Negócios*, a Brazilian financial magazine. Brazil is also the second-largest market in the world for Instagram[®] in terms of number of users according to a May 2019 article in *Exame*, a Brazilian business magazine, and one of the most popular destinations for Airbnb[®], with Rio de Janeiro ranking fifth behind Moscow, New York City, Paris and London, according to an August 2018 article in *Época Negócios*.

We believe that this digital transition can provide significant benefits, and opportunities for, education service and content providers, such as:

- revenue diversification, by means of technological developments in education platforms, such as new tools or capabilities, may be sold for different purposes and to different consumers;
- customization enabled by technology and tied to a soft adaptation, which allows for distribution to different customers and a scaling by companies that offer different solutions; and
- margin gains, given a lower cost per student and a larger consumer base that is accessible through technological developments.

Technology has created opportunities to make learning more affordable, accessible, flexible, personal and effective. Classroom instruction and delivery models are changing and are likely to have a substantial impact on the industry.

As a result of the COVID-19 outbreak, which was declared a pandemic by the World Health Organization in March 2020, state and local authorities in Brazil suspended school operations. On-site school activities were postponed, forcing schools to teach classes remotely. Although schools have historically been late adopters of technology and resistant to change, the impacts of the COVID-19 pandemic led them to turn to technology to continue offering their students educational content and pedagogical support. We are uniquely positioned, offering daily classes to students of all grades as well as content for schools and teachers, having produced and broadcast more than 37,000 videos and generating 42 million views in 2020.

As part of our sales strategy during the COVID-19 outbreak, we have unbundled part of our solutions throughout 2020, allowing approximately 400 schools to use the trial versions of our products.

Importance of K-12 performance in university admissions processes

The best higher education institutions in Brazil are public, with a highly competitive admissions process based largely on challenging standardized admissions exams. According to the World University Rankings 2020 published by Times Higher Education (THE), 45 out of the 52 top-ranked universities in Brazil were public as of September 2020. In recent years, competition for admission into public universities has increased, a trend driven both by greater student demand and a decrease in the number of available seats. In 2012, there were on average 11 applicants per available seat in public universities, as compared to 14 applicants in 2016, according to Oliver Wyman, while the number of public university seats decreased by 6.3% from 2012 to 2016. As a result of this competition, parents are increasingly focused on schools that over-perform in the standardized university admissions tests. According to a 2017 study by the Brazilian Institute of Public Opinions and Statistics (*Instituto Brasileiro de Opinião Pública e Estatística*), or IBOPE, education is the number one spending priority for Brazilian families. Our solution is designed to enhance our students' ability to perform on these exams.

Expansion of school hours and after-school programs including, but not limited to, English as a Second Language, or ESL, bilingual programs and 21st century skills programs

The increased focus on education has led to an increase in the length of the average school day. After-school education, comprising of tutoring, language courses, 21st century skills, such as critical thinking, leadership, collaboration and communication skills, and robotics, among other extracurricular activities, is also becoming more popular, offering a variety of training and learning programs in which students can participate according to their personal interests and preferences. Language courses are among the most popular after-school activities and represent an area with significant room for growth, primarily as a result of:

- the increasing relevance of languages, especially English, in a globalized context;
- the low English proficiency level in Brazil; and
- the emphasis in language classes currently offered by K-12 schools on reading and written communication, despite the fact that the labor market relies more heavily on oral communication (which also creates a market for bilingual schools).

For many parents, after-school education is considered a lifeline that helps them work without worry and balance their schedules, given (i) that Brazil has one of the highest average working hours per week in the world, and (ii) the increased participation of women in the workforce. In addition, an increase in disposable income has increased demand for private education and after-school programs, and parent expectations for their children's education are high considering the strong competition to gain admission into top public universities. Accordingly, after-school education represents a growing opportunity for private institutions, with an addressable market of R\$18.7 billion compared to R\$6.5 billion of potential market for private K-12 learning systems and textbooks in Brazil, based on EY-Parthenon's assessment of the private K-12 learning systems market as of October 2019. This is especially the case given the wide variety of supplemental solutions that can be offered to students during after-school hours.

Obsolescence of traditional content distribution models

We believe that traditional content distribution models are becoming obsolete. Traditional educational publishers are almost exclusively focused on physical textbooks, which they sell through retailers rather than directly to schools. These traditional suppliers have limited capability to develop and offer integrated digital solutions to schools, teachers, and students, and typically rely on third-party authors, illustrators and graphic designers to develop new content. In contrast, because of our robust technology backbone, use of data and strong relationships with teachers and administrators, we can offer a comprehensive solution and content that is continuously updated and improved.

Limited and unintegrated product offering

Due to the lack of turnkey education solutions, school administrators often rely on a multitude of third-party vendors for K-12 educational content, teacher training, student testing, management, and communication tools.

Traditional education providers have struggled to develop mission critical education platforms for several reasons, including the significant costs associated with the development of content and technologies, as well as the lack of extensive in-house technological expertise. In addition, developing a comprehensive and effective methodology is difficult to achieve since it requires many years of proven educational experience and a successful track record.

We can replace a multitude of third-party educational vendors with a streamlined and consolidated solution, offering a one-stop shop that delivers enhanced learning across the educational spectrum.

Our Market Opportunity

According to EY-Parthenon's assessment of the private K-12 learning systems market, the existing addressable market in Brazil for core curriculum solutions and supplemental solutions totals approximately R\$25.2 billion in sales revenues as of October 2019, of which we currently capture approximately 5% based on our ACV Bookings as of March 31, 2021. We can address this market by launching new solutions and entering new categories.

Our B2B2C model benefits from structural differences in our market, when compared to the education markets in the United States and Europe. Private schools in Brazil are generally for-profit institutions, and the private education market in Brazil is large and highly fragmented, primarily a result of lower overall levels of government funding for K-12 public education. As of December 31, 2020, approximately 8.8 million students were enrolled in approximately 38,800 private schools (22.1% of the total number of K-12 students in Brazil), according to the INEP and the IBGE. In addition, the national curriculum set by the Ministry of Education requires standardized content across Brazilian schools, which helps create demand for a unified curriculum. Finally, teachers' unions in Brazil are relatively less influential than their counterparts in the United States and Europe, where such unions often serve as obstacles to the adoption of innovations.

We believe that the challenges inherent in the traditional content distribution model, coupled with increasing demand for modern content and integrated value-added services, present a unique market opportunity for our business. By providing an affordable, modern, and efficient platform, we believe that we can continue to disrupt the Brazilian education market and increase our penetration into current and new markets.

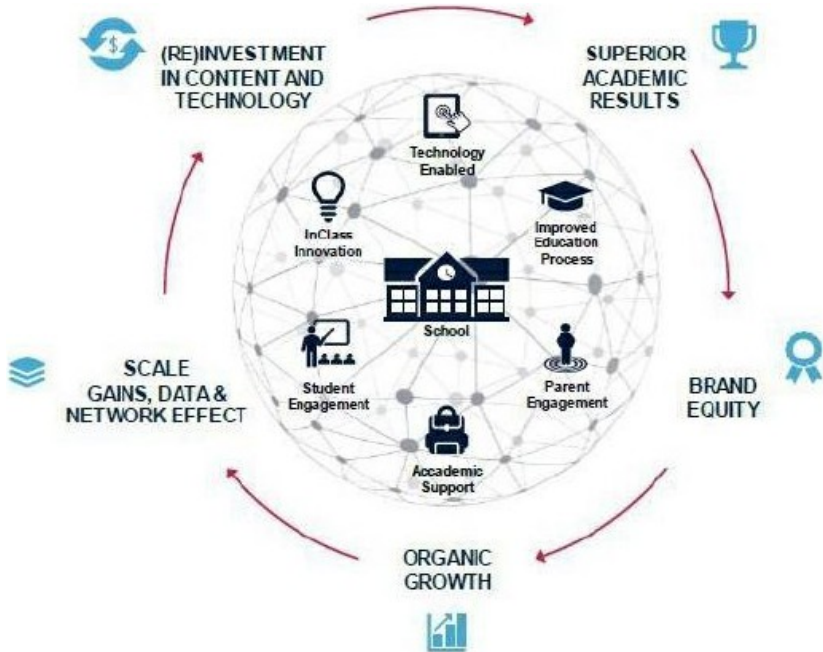
As for our B2C model, we benefit from the intense competition for higher education admission driving demand for test prep, as the best universities in Brazil are public (and costs are subsidized by the government) and offer a leap in earnings potential for students. As a result, parents and students demonstrate unmet needs and willingness to pay for access to top quality content, individualized learning, and convenience. The K-12 tutoring, and test prep markets are very fragmented and currently mostly offline, while we observe an increasingly preferred for online due to cost, quality and convenience. Additionally, COVID-19 pandemic to further accelerates the habit-change and conversion from offline to online.

The Arco Way

Quality, a key component for the success in the K-12 market, is always at the center of our decisions and it has been the gear of our virtuous cycle over the years.

As we continuously invest in quality and customer support, we assist our schools to achieve higher academic results. This is illustrated by the ENEM strong results of our partner schools, one of the main metrics to measure education quality in Brazil. According to the 2019 results of the ENEM exam, (i) four of the 10 top schools in the Brazilian national school rankings use our solutions; (ii) partner schools ranked among the top 10 in 23 out of 27 Brazilian states; and (iii) 51 of our partner schools ranked among the top ten schools in their respective states. The strong results achieved by our partner schools improve our brand equity, help build our reputation and consequently, tends to contribute to our healthy, sustainable organic growth.

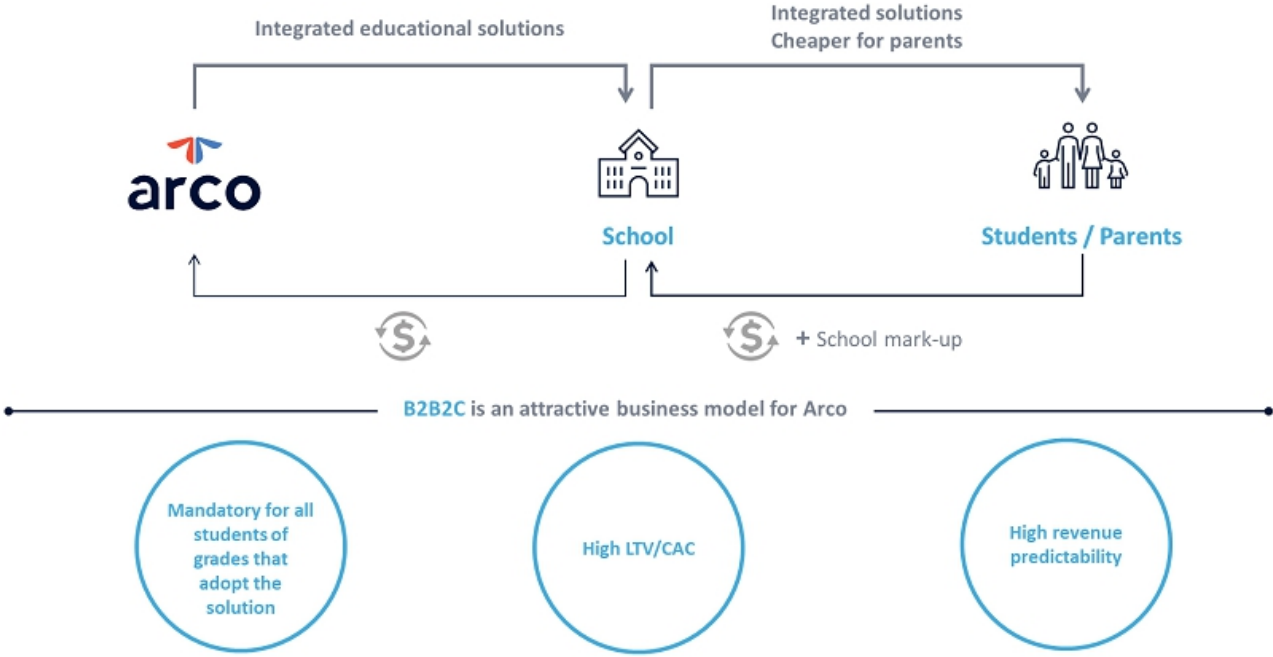
As we grow and add new partner schools, our network becomes a powerful source of leads generation and data. In addition, the increased scale allows us to reinvest in content, quality, and service, contributing to the positive loop.



Our Business Model

Our B2B2C model is financially aligned with our partner schools. Our revenues consist of wholesale content fees paid by our partner schools annually on a per-student, per-year basis. On average, partner schools charge students’ parents an incremental markup on top of our wholesale fees, ensuring that their incentives are aligned with ours. Accordingly, we provide a supplemental revenue stream to our partner schools through our B2B2C model, which is a feature that the traditional education model does not employ. Once schools adopt our platform for a particular class year, access to, and payment for, our platform becomes mandatory for all enrolled students in each class year, and such payments are charged as a supplement to tuition. Typically, we revise our contract fees annually, in line with our price-setting policies, which are usually above published inflation indices, to account for improvements in our platform and for changes in our cost and expenses structure.

The following chart illustrates our business-to-business-to-consumer model:



Our B2B2C model has long-term contracts with private schools, high retention rates and high financial predictability. Our three-year standard contract provides a revenue stream with long-term cash flow visibility. We have a lead time (which we define as the period from the moment of first contact to the execution of a contract) for the acquisition of new partner schools, and we typically enter into contracts with new partner schools within one year from the moment of first contact. Once our content is adopted, switching costs (which are the costs that schools incur as a result of switching to our platform) and time associated with updating the teaching curriculum for each class year work to our advantage. A portion of our historical average 5.0% annual attrition rate is attributable to the early termination or suspension of performance by us, at our option, of contracts with certain partner schools as a result of their failure to timely pay our contract fees.

Our B2B2C model is asset-light and scalable business model, with high operating leverage and limited capex requirements. By outsourcing distribution activities to third parties and developing standard solutions, we have an asset-light and scalable business model that enables us to quickly expand our customer base with low associated expenses and capital expenditures, including 100% digital marketing and remote negotiation processes with our customers. This allows us to increasingly expand our margins as we grow the

number of students we serve, while generating cash to fund the development of new products and features, as well as identify acquisitions and strategic investments.

Our platform on the B2B2C model is difficult to replicate. We have continuously developed our platforms since our founding, with the benefit of over 50 years of an evolving educational methodology and a dedicated team of education specialists focused on developing and improving our Core Curriculum and Supplemental Solutions materials. Accordingly, we believe that the depth of our educational content and the technological experience necessary to develop our products makes our platform difficult to replicate.

Our B2C model is 100% subscription-based and has attractive unit economics. Our revenues consist of retail content fees paid by students upon subscribing for one of our plans. Despite shorter-term when compared to our B2B2C model, customer acquisition cost is also reduced, leading to profitable unit economics.

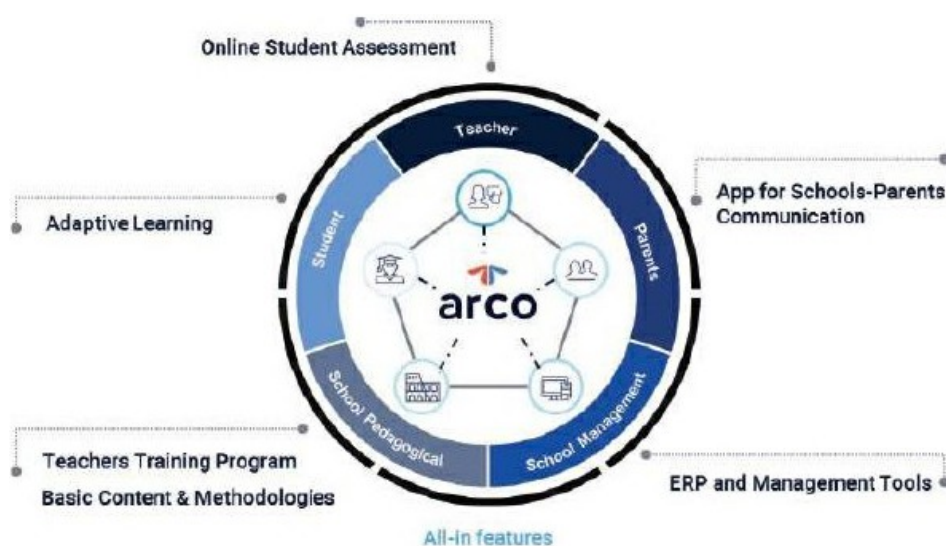
Our Solutions

In the education sector, we believe that quality is fundamental. Our platform on the B2B2C model was developed with the benefit of over 50 years of an evolving educational methodology and robust track record of academic results. Our track record of high-performing educational outcomes motivated us to create a digital, technology-driven product that could deliver high quality education at scale.

Additionally, Positivo is the pioneer in the learning system segment in Brazil and has served the K-12 private school market for more than 40 years. The pedagogical methodology developed inside the *Colégio Positivo* schools was transformed into a comprehensive educational solution that quickly expanded to other schools in Brazil. Over time, Positivo expanded its product offering to address different profiles of schools and increase its addressable market.

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We provide a complete suite of turnkey curriculum solutions and technology-enabled features to help our students, teachers, partner schools and parents, targeting our students' educational success.



Our turnkey educational platform solutions comprise core K-12 curricula, as well as supplemental instructional content currently focused on English as a second language.

Benefits Across Our Educational Platform

We deliver the following benefits to all the stakeholders engaged in the learning process:

- **Students:** We deliver a personalized, multimedia learning experience, in an omni-channel format. Students can access content in various formats, including digital, video, print and other audiovisual media aligned with the daily curriculum of their classes. Our platform provides real-time feedback to students on areas for improvement and benchmarking relative to their peers, which enables us to simultaneously ensure that education is provided on an individual basis, and that our content is complete, up-to-date, and readily available.
- **Teachers:** We offer a range of tools to help improve teacher efficiency and learning outcomes. We provide teaching plans for each class, digital content for classroom review, pre-made class videos, a test builder platform and homework correction automation tools. In addition, teachers can access students' performance reports and identify which students are having difficulties in progressing in a given class at any time.
- **Administrators:** We provide a supplemental revenue stream to our partner schools. In addition, our platform provides back office administrative support, alongside data and analytics to support decision-making processes. Administrators receive student reports and can analyze student participation rates, detailed individual performance, an overview by area of knowledge and their schools' national ranking. They are also able to benchmark teacher performance to optimize the effectiveness of their teaching staff.
- **Parents:** Our software brings parents closer to the education process, through an informal communication channel and the opportunity to closely monitor and engage with their children's performance and development.

Our Products

We believe that innovation is an important part of our success. As a technology company in the education sector, we believe that our dynamic and adaptive nature is essential to our continued growth. Our product offerings comprise two main segments that operate in concert: (i) Core Curriculum; and (ii) Supplemental Solutions.

Our Core Curriculum comprises high quality content solutions that are designed to address the Ministry of Education's national K-12 curriculum requirements through a personalized and interactive learning experience. Students access content in various formats, such as digital, video, print and other audiovisual media that are aligned with the daily curriculum of their classes. Our Core Curriculum offering serves a broad range of price points, allowing us to maximize our market reach and penetration. It is offered in four different versions, consisting of (i) SAS, a premium solution focused on high-income private schools, (ii) SAE, a basic solution focused on upper-middle income private schools; (iii) SPE, an educational solution consisting of content, technology and services provided to upper-middle-income class private schools and focused on student outcomes and long-term relationships with partner schools, proven by the strong results achieved in national exams, (iv) Conquista, a solution focused on lower-middle-income private schools, and (v) Geekie, a digital-native content platform.

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Our Core brands share certain key attributes, such as:

- *Online homework assessment:* An extensive questions and problem-solving activities database that provides additional teacher-led instructional content to help meet individual student or small student group needs. Assessments enable thorough, customized evaluations of student performance over a single lesson, over the course of a topic, or throughout the entire academic year.
- *Adaptive learning:* A personalized instruction and assessment tool delivered through our exam management portal to help students prepare for and take exams. The user-friendly reporting and ongoing progress monitoring features enable educators to pinpoint student needs down to the sub-skill level, while providing real-time feedback at the class level, school and national level. The platform also enables teachers to generate exams based on a given class profile, using a database containing a broad range of questions.
- *Interactive learning:* Leveraging the combined abilities of our pedagogical and EdTech teams, we have created augmented reality and video features throughout our materials, allowing students to point their digital devices at certain sections in our materials to view educational animations or recorded videos that provide further information on the topic in question, contributing to a more interactive and engaging learning experience.
- *Students and teachers web portal:* An online environment aggregating relevant content for students and teachers by grade in the form of digital classes, exam database, assessment templates, teachers' guides and lesson plans, exams and textbooks' problem solving in addition to articles and general educational-related tips.
- *In-app communication:* A responsive, simple and user-friendly communication tool for partner schools, students and parents, giving them access to exam results and problem solving, video classes, student grades, as well as the school calendar and attendance records.
- *Support to partner schools:* Back-office management, educational consulting services, training programs for teachers to assess and improve the quality of their teaching methods and marketing advisory services.

As part of our Core Curriculum, we offer complementary support services to partner schools consisting of:

- *Back office management tools:* HR tools with financial, student recruiting and administrative features.
- *Educational consulting services to partner schools:* Personalized support to ensure complete understanding and appropriate implementation of our learning platform. This includes constant support to partner schools throughout the school year in connection with educational practices, administrative, human resources and financial aspects, development of customized students' assessment models, organization of education congresses and pedagogical meetings, as well as parents and students counselling.
- *Training programs for teachers and school administrators:* A suite of materials to allow partner schools and teachers to assess the quality of their teaching methods and how they can improve them. This includes local, regional and national educational congresses, forums, seminars and lectures, in addition to training sessions.
- *School marketing advisory:* A comprehensive range of marketing and communication materials, events and support, including marketing brochures and recruitment campaigns.

Our Supplemental Solutions comprise additional value-added content for which partner schools can opt-in as an addition to our Core Curriculum. We have a Supplemental Solutions market share of 1%, calculated by dividing Arco's Supplementary Solutions ACV Bookings for the 2021 school year by the total addressable market for Supplemental Solutions, which consists of English as a Second Language (ESL) bilingual programs (International School and PES) and 21st century skills programs (Pleno, Escola da Inteligência and NAV), based on EY-Parthenon's assessment of the private K-12 learning systems market.

Currently, our primary Supplemental Solutions offering is an ESL bilingual program, first offered in 2015 following our acquisition of an interest in International School. International School provides students with an internationally oriented education, in a multicultural environment, based on a curriculum like the International Baccalaureate or Cambridge International Examinations. We intend to add non-core supplemental educational modules to our Supplemental Solutions portfolio over time.

Upon the acquisition of Positivo in 2019, our Supplemental Solution also offers the PES, a bilingual program with an approach that promotes integrated learning of content and language, in partnership with Cambridge University Press. The program consists of 2-5 weekly hours of English classes with several tools to develop the skills needed to communicate well. PES also provides teachers' training and pedagogical support to its partner schools. PES was launched in 2015 and has a strong cross-sell potential within our Core Solution partner schools' network and to expand to schools that have not yet adopted our solution.

In 2019, we started investing in the development of a social-emotional supplemental solution called Pleno, developed to meet schools' demand for a product that goes beyond the student's cognitive development. Through the same B2B2C business model and integrated with the K-12 curriculum, Pleno helps students to develop competencies and skills, such as self and social-awareness, design thinking and entrepreneurship.

In February 2021, we concluded the acquisition of NAV, a developer of competence-based learning content, enhancing our Supplemental Solutions offering through a competence-based curriculum to address 21st century skills, which is in our portfolio since May 2019. Through projects, problem solving and technology, NAV helps students develop transferable skills, such as critical and creative thinking, and communication skills.

In December 2020, we concluded the acquisition of Escola da Inteligência, the leading solution in social-emotional learning (SEL) in Brazil, based on a proprietary methodology and great reputation in the K-12 market.

Finally, in 2021, we acquired Me Salva!, a B2C digital test prep solution, allowing Arco to start delivering high quality education to public sector students at affordable prices.

The key attributes of our Supplemental Solutions are:

- *Proprietary applications:* Two complementary applications providing content and English-based games that form part of students' school year collections, including a communications tool for partner schools, students and parents.
- *Robotics:* Pioneering activities that enable students to build and program their own Lego[®] robots as a way to maximize learning beyond the classroom experience.
- *Combination of concrete materials and animations:* Print and digital textbooks combined with interactive animations, educational videos and exercises.
- *Crowdsourced education:* Collaborative and versatile platform for classrooms that allows students to collaborate in project building and problem solving.

Our Team and Culture

We have a strong corporate culture, and we encourage our employees to actively adopt it. We believe in:

- customer first focus;
- ethics, respect and humility;
- excellence and a willingness to learn;
- meritocracy, discipline and an execution mindset; and
- cost focus, with a school owner's mindset.

Technology

We believe that the use of technology is fundamental to achieving our goal of placing each student at the center of the educational experience. In our view, technology is a mean to delivering content through several formats and devices, creating a connection between each student and our common curriculum through a unique and comprehensive pedagogical approach.

Our application programming interfaces, or APIs, provide a standardized way to provision, manage, engage, and deliver content to students, faculty and administrators. The APIs manage authentication and access for our entire technology stack and is designed to manage and interface with new technologies as they are introduced.

All our APIs, applications, and application components are designed from the ground up to produce significant, readable and interpretable data. Log monitoring allows us to proactively identify and mitigate potential capacity, performance, and security issues, while advanced analytics on student usage data provides the company with powerful insights to evaluate course content, communicate new technology releases and improve user experience and engagement.

To implement our innovative vision, we have a specialized in-house EdTech team comprised of engineers, software engineers, software developers, product owners, user experience and user interface designers, data scientists and digital content developers, who are responsible for envisioning and creating the ideal digital presentation of our materials within our platform, bringing the work of our pedagogical and content teams to life. Our core technology platform is fully developed and customized by our in-house EdTech team.

Following the best frameworks in digital product development, we offer a buy-and-build solution from the customer standpoint, as users and customers can influence product evolution and participate in early stages of new-product conception.

Additionally, through “Positivo On,” a platform we have developed internally, we provide video classes, personalized learning tracks, e-books, among others, and assessments are fully integrated with the pedagogical curriculum with the objective of creating an omni-channel solution to deliver digital content and transform the way students learn. “Positivo On” has a web version as well as applications for both Android and iOS.

The main drivers of our technology strategy are:

- Connectivity—connecting content and stakeholders in a seamless way;
- Omni-channel—full access to our content, anywhere, anytime, across devices;
- Empowerment—ability to identify individual needs and build a personalized learning experience;
- User Centered—intuitive design so users can quickly adapt and fully use features to their advantage;
- Management—data and analytics to support educators’ decision-making; and
- Data Analytics—monitor and assess student performance, engagement, and the impact of our solutions.

What Sets Us Apart

We believe that we have the following business strengths that allow us to disrupt the private K-12 education market:

Disruptive approach to traditional school model

Instead of simply delivering content as a product through textbooks, we provide an education solution through a technology-based platform. We believe that our platform is cutting-edge, modern, dynamic and client oriented. We offer a multi-channel experience, combining proprietary content and software that would otherwise require the purchase of multiple, non-integrated solutions.

According to internal studies, we believe that the parents of students enrolled at our partner schools enjoy significant savings since our content solutions are less expensive than a traditional collection of textbooks, mainly because we can avoid incremental costs associated with a traditional retail distribution chain by primarily selling directly to our partner schools, as well as certain incremental costs relating to content production. In contrast, the sale of traditional textbooks often requires publishers to pay authors’ royalties for each book sold, and traditional textbooks are frequently marketed as penned by specific authors, each of which generally entails higher total royalty costs, whereas we generally acquire rights to content from a large pool of available authors, without variable payments relating to royalties. Furthermore, we deliver a supplemental revenue stream for our partner schools.

As of December 31, 2020, partner schools charged parents an incremental markup on our wholesale per student prices.

Strong combination of content development team and technology to develop a best-in-class learning experience

As of December 31, 2020, we had a dedicated team of 900 technology and content development employees focused on developing and improving our Core Curriculum and Supplemental Solutions materials. They achieve this by leveraging feedback from our (i) highly qualified base of over 1544 experienced educational authors in Brazil on the quality of materials we produce, and (ii) network of partner schools and teachers on the impact of our materials on student performance. The advanced state of our platform reflects a process of evolution spanning over a decade, making it difficult to replicate.

Widespread positive customer satisfaction and strong academic outcomes

Our customer satisfaction is driven by our ability to meaningfully improve the performance of our partner schools' enrolled students on the ENEM, a prerequisite for entrance into almost all higher education undergraduate institutions in Brazil. According to the 2019 results of the ENEM exam:

- four of the 10 top schools in the Brazilian national school rankings use our solutions;
- our schools are among the top 10 in 2 out of 27 Brazilian states; and
- 51 of our partner schools are ranked among the top ten schools in their respective states.

Strong brand equity and aligned incentives resulting in high retention rates

We prioritize quality by employing a “white glove” service model across our business, with clear financial incentives (in the form of bonuses) to our sales force that drive long-term relationships with our partner schools. Educational performance is one of the main drivers of school growth, and the success of our partner schools is a critical part of our value proposition. Due to the quality of our academic outcomes, we rarely lose clients. In addition, we have historically been highly effective in increasing contract values, achieving an annual retention rate of 93% in 2020, 93% in 2019 and 95% in 2018.

Attractive financial model with a high level of visibility and predictability

We have cash flow visibility given our long-term contracts with partner schools. Initial contract terms generally average three years, with high switching costs resulting in a customer churn of approximately 7% in 2020. In addition, we benefit from increasing enrollments across partner schools as our relationships mature and deployments increase, leading to revenue growth and increased operating margins, which contribute to the predictability of our business.

Founder-led and experienced management, innovation-driven culture

Our culture flows from our founder and CEO's family, who have specialized in education for over 50 years. Our founder and CEO, Mr. Ari de Sá Cavalcante Neto, has brought his family's successful school formula to scale by creating a leading educational platform. We strive to innovate and instill in our professionals a passion for serving all our stakeholders and seeking impactful next-generation solutions for private K-12 education.

As of December 31, 2020, the average age of our employees was 32 and 56% of our employees were women. Also, we offer a long-term incentive plan for key employees and apply meritocratic methods to engage them, recognize their value and maintain their motivation.

Our Growth Strategies

We aim to continue driving rapid, profitable growth and to generate greater shareholder value by implementing the following strategic initiatives:

Deepen relationships with our existing customer base

We intend to increase student enrollments within our existing partner schools at a minimum marginal cost as we see major opportunities for increased penetration through:

- Increasing the number of class years that adopt our Core Curriculum at each partner school. As of March 31, 2021, our upselling potential would increase our student enrollments by 28%, translating to approximately 480,000 students; and
- Cross-selling our Supplemental Solutions to currently enrolled class years at our partner schools. As of March 31, 2021, only 11% of our client base used both our Core Curriculum and at least one Supplemental Solution, thus representing a cross-sell opportunity of over 1,000,000 students.

Expand our partner school base

The private education sector in Brazil is very fragmented, with no relevant concentration in one or few providers. As Arco solutions penetrate this market and the performance of partner schools using our educational platform becomes more widespread and widely known, our sales efforts will benefit from the referrals generated by current school base.

Add new Supplemental Solutions

We consistently review potential opportunities to provide additional after-school educational solutions that we may integrate into our Supplemental Solutions. We plan to enforce a disciplined approach to growth by using market validation techniques to assess the likelihood of our partner schools adopting our solutions, as well as their potential spending. We will also aim to ensure that any new vertical fits within our proven business strategy, through a careful assessment of available alternatives, such as the number and size of potential adjacent market opportunities, and their relative risk and return.

Continue to innovate and extend our technological leadership

Innovation is a cornerstone of our culture. As such, we employ significant efforts and resources to ensure the constant development and improvement of our portfolio of solutions. We have also invested in a select group of education technology startups to bring new ideas and solutions into our ecosystem. These initiatives have helped us identify new business potential to enhance our overall growth prospects, such as education technological features (WPensar, EEM and Studos), supplemental instruction content (International School, PES, NAV, Pleno, and Escola da Inteligência), digital-native content platform (Geekie), and B2C online test prep solution (Me Salva!)

We intend to increase the functionality of our platform and continue our investment in the development and acquisition of new applications that extend our technological leadership. We also intend to continue to improve and update our print and digital content based on the real-time feedback we receive from our partner schools.

Continue to pursue M&A opportunities

We plan to continue pursuing acquisitions that are complementary to, or that will help us diversify, our business. We intend to maintain a disciplined approach towards evaluating possible targets and integrating acquisitions into our business model. Our preferred acquisition targets are core or supplemental educational platform providers that engage in delivering high quality K-12 educational content through software-based platforms pursuant to B2B2C and B2C business models. We are currently evaluating possible acquisition opportunities and submit non-binding proposals from time to time.

We believe that we have developed a strong capability and track record of identifying, negotiating, and integrating acquisitions. Moreover, we have developed a systematic model that enables us to integrate our acquired businesses in a timely and efficient manner. Since 2011, we have successfully acquired or invested in 19 solutions. Our acquisition strategy is focused on expanding our operations into new regions within Brazil and adding new products and technologies to accelerate our pace of innovation and broaden our footprint.

We have already executed several strategic transactions since our initial public offering. These acquisitions have a strong fit with our business and have been executed based on three main pillars: (i) boost growth, accelerating the expansion of our partner school base; (ii) increase cross-sell opportunities, extending our product offering; and (iii) enhance the client experience, adding value-add tech features. See “Item 4.A. History and development of the company—Acquisitions and Investments.”

Marketing and Sales

Our platform has evolved into a complex solution. The adoption of our platform by partner schools requires us to first build trust and confidence in our solutions, which can only be achieved by engaging them with our solutions and demonstrating a proven track record of success and quality, while constantly monitoring client satisfaction and feedback.

We have a non-traditional sales approach, which is structured around a practice we refer to as “Educational Consulting,” which reflects both our core value of ensuring that education is our first priority, as well as the unique sales dynamics associated with our industry.

We have a lead time (which we define as the period from the moment of first contact to the execution of a contract) for the acquisition of new partner schools, and we typically enter into contracts with new partner schools within one year from the moment of first contact, which requires a series of interactions and constant contact, to build a trust-based relationship with target and partner schools. Our sales strategy is based on creating touch points to highlight the quality of our solutions. We aim to achieve this with dedicated sessions for experimenting and testing with our platform. We also hold several specialized events aimed at target and partner schools, product journeys and guided visits to our units, and participate in industry fairs.

The success of our sales process requires uniquely qualified professionals, who must not only have an academic background, but are also sales oriented. We invest a significant amount of time and resources to recruit and train our sales force, averaging approximately 150 hours of training per year per person. After the initial training and exposure to our Educational Consulting environment, each professional begins working by shadowing an experienced consultant. It takes approximately a year of shadowing before each new professional can work individually on our behalf. In 2020, we had over 6,500 applicants for our consultant positions. Currently, we employ more than 799 sales and marketing professionals. Our consultants’ incentives are also aligned with our long-term goals and are tied to our profitability, as a significant portion of their annual compensation is variable and is paid out to them annually in the form of a bonus provided certain targets are met.

To improve and optimize our partner school acquisition process, we structured a market intelligence division, which focuses on mapping and segmenting our target markets to support and focus our sales strategies, as well as providing our sales consultants with industry knowledge and high-level market analysis and insights. Our market intelligence division has access to a significant volume of data, is continuously undertaking industry research and analysis and receives regular feedback from, and is in regular contact with, our consultants deployed in the field.

Additionally, we promote specialized events that are aimed to retain current partner schools. The most relevant event is Positivo’s Course Program that provides teacher’s training, workshops of recent trends in education and lectures from highly specialized and trained pedagogical professionals. In 2020, the Course Program reached 9,739 teachers, addressing approximately 80% of SPE’s partner schools.

In addition, we work in conjunction with a branding agency, which assists us in developing and strengthening our brands, increasing their national awareness, and building our institutional image. Our brand portfolio is structured to reflect our value proposition and leverage our marketing and sales strategy. A study conducted by *Expertise* as of January 2019 showed that the Positivo brand is the most recognizable among parents, teachers, and school events.

Furthermore, we have a loyalty program aimed at strengthening the relationship with partner schools and increasing the length of the contract. The loyalty program allows SPE to offer more personalized consulting services from our pedagogical experts, literature materials to complement the school’s curriculum, cooperative media, and other products or services, to increase a contract’s profitability.

Our Customer Service and Support

We believe that the best way to ensure the loyalty of our customers is to maintain a healthy, long-term relationship with our partner schools. We aim to achieve this through our customer engagement and support service, which supports partner schools in the implementation and integration of our educational solutions into their systems, as well as help them identify and achieve their pedagogical, business and management objectives, including legal, finance and marketing. Our customer service and support comes in a variety of forms such as on-site visits, remote assistance, workshops and events for partner schools. We assign independent and dedicated client-centric customer support teams to each of our solutions. Customer service and support is comprised of two departments which are focused on developing partner school relationships and are available to address any post-implementation issues that may arise: (1) pedagogical consulting, and (2) customer service:

Pedagogical Consulting

Our pedagogical consulting department is responsible for the pedagogical supervision and educational development of our partner schools. It aims to ensure that our educational platform is being used efficiently, and to actively assist our partner schools in improving the learning experience of their students and helping them develop the necessary skills inside and outside the classroom. It also leverages a dedicated management team to train and support our partner schools in maximizing their supplemental revenue streams.

Our pedagogical consulting team activities with partner schools include:

- implementing pedagogical methodologies in connection with our educational platform and associated educational materials, making pedagogical recommendations, understanding school communities, and coordinating lesson planning;
- periodic in-person meetings and coordinated site visits to evaluate the educational process, assisting partner school owners and faculty members to develop learning and interaction projects through the use of educational media content and new technologies, and conducting lectures for parents and students;
- continuous online or on-site training for teachers and school coordinators; and
- developing educational evaluation models tailored to each partner school's profile and needs, and training school owners and managers to use the school owner/manager specific features of our educational platform.

Customer Support

Our customer support department provides day-to-day customer and administrative support to our partner schools in connection with our educational platform by e-mail and/or by telephone. Our customer support department interacts with our pedagogical consulting department when necessary to minimize the risk of miscommunication and ensure a unified approach to customer satisfaction.

Our Geographic Presence

We believe our platform can be adopted by virtually any private K-12 school in Brazil. We believe that our product offering addresses Core and Supplemental curriculum needs for all Brazilian schools. As of March 31, 2021, our network consisted of 6,119 unique partner schools and 1,785,576 Number of Enrolled Students across all Brazilian states and in 1,670 cities, comprising students from kindergarten to high school. Our national presence has consistently expanded over the last five years, through both organic and non-organic growth and our largest client accounted for only 0.5% of our ACV Bookings.

Our Clients

We provide a complete pedagogical system with technology-enabled features to deliver educational content to K-12 schools in Brazil. Our turnkey curriculum solutions provide educational content in both printed and digital formats delivered through our platform to improve the learning process. Our network as of March 31, 2021 consisted of 6,119 partner schools. Our partner school base is highly diversified, which reduces our dependence on a concentrated number of large clients. Our 10 largest clients represented only 2.6%, 5.6% and 9.6% of our Delivered ACV Bookings in 2020, 2019 and 2018, respectively. Even though our partner schools pay for our solutions, we view students, parents, teachers, school management and teachers as our customers.

Our Competition

We compete with traditional publishers and textbook providers, other providers of core curriculum solutions, as well as with online education platforms. Factors influencing competition in this industry may include price, overall education experience and track record, industry experience and reputation, content quality, availability of technology, faculty, facilities, location and program offerings, among others.

Most traditional publishers and textbook providers are typically focused exclusively on physical textbooks. They do not produce their own content, do not update their content frequently, and do not have developed digital platforms. Furthermore, we believe that traditional publishers and textbook providers whose strategy it is to develop education solutions similar to ours do not possess the content development expertise, brand awareness, or the track record to sell such solutions directly to schools.

Other core curriculum solutions providers offer primarily printed content and a limited amount of digital content. Other online platforms that offer education solutions through digital channels face difficulties to efficiently integrate solutions for schools, parents, students, and teachers. We believe our proprietary content is engaging to students, teachers, and parents, as illustrated by our ability to persuade schools to switch from other products to our products.

We seek to differentiate ourselves from our competitors primarily on the basis of our simple, integrated and personalized educational platform. We believe the following factors are critical to success in the private K-12 education in Brazil:

- (1) level of a solution's effectiveness, personalization, engagement and enjoyment;
- (2) quality of the user experience and customer service;
- (3) breadth and depth of features and functionalities;
- (4) brand recognition and academic outcomes; and
- (5) overall cost of education solutions.

Seasonality

Our revenues and operating results normally fluctuate because of seasonal variations in our business. For further information on seasonal variations in our business, please see "Item 5. Operating and Financial Review and Prospects—A. Operating results—Revenue Recognition and Seasonality."

Legal Proceedings

See "Item 8. Financial Information—A. Consolidated statements and other financial information—Legal Proceedings."

Regulatory Overview

The Brazilian constitution establishes education as a right of all citizens, the provision of which is a duty of the state and the family. Accordingly, the government is required to provide all Brazilian citizens with access to free primary education that requires compulsory attendance. Private investment in education is permitted so long as entities providing education services comply with the applicable rules and regulations.

The Brazilian education system is organized as a cooperation regime among federal, state, and municipal governments. The federal government is required to organize and coordinate the federal education system in order to guarantee equal opportunity and quality of education throughout Brazil. Brazilian states and the Brazilian Federal District are required to focus on primary and secondary education, while municipalities are responsible for providing preschool and primary education, and each is responsible for establishing and implementing the relevant rules and regulations for each educational stage the subject of its focus, including monitoring and evaluation, and the issuance of all relevant authorizations, recognitions, and qualifications for each such educational stage.

Law No. 9,394/1996, or National Education Guidelines Law (*Lei de Diretrizes e Bases da Educação Nacional*), or LDB, establishes the guidelines for the provision of education services in Brazil and sets forth the federal government's duty to: (1) coordinate the national education system; (2) prepare the National Education Plan; (3) provide financial assistance to the states, the Federal District and municipalities; and (4) define, in cooperation with other federal entities, the responsibilities and guidelines for primary and secondary education.

In addition, the federal government, through Law No. 13,005 of June 25, 2014, implemented the National Education Plan (*Plano Nacional de Educação*), or PNE, with a duration of ten years from the date of its publication. The PNE established objectives for primary and secondary education that must be met by the Brazilian federal system. Some of these objectives are: (1) the universalization of preschool education, with a target to enroll at least 50% of all children up to three years of age in schools by 2024; (2) the universalization of primary education, with a target to enroll at least 95% of children between the ages of six and 14 in schools by 2024; (3) the universalization of secondary education, with a target to enroll at least 85% of adolescents between the ages of 15 and 17 in schools by 2024; (4) to ensure that all children learn the Portuguese alphabet by the third year of primary education; (5) to make available full-time education in at least 50% of public schools; (6) to improve the quality of primary education as evaluated by the IDEB; (7) to ensure that all students are literate by the time they are 15 years old; (8) to make available at 25% of primary and secondary education to young adults and adults; and (9) to increase enrollment in professional studies to three times the current enrollment rate. Accordingly, each of the federal, state and municipal governments was required to prepare a ten-year education plan and establish policies, guidelines and objectives applicable to the segment of the Brazilian education system over which it is responsible. In addition, these objectives act as guidelines for the private education sector.

Primary and Secondary Education

Primary and secondary education in Brazil is equivalent to K-12 education in the United States, and consists of elementary school, junior high and high school, which are regulated by the LDB and the PNE.

The LDB regulates a nationwide, common core curriculum, the number of teaching hours, the minimum classroom attendance and grade advancement. States, municipalities, and educational institutions can pass rules and regulations according to specific regional and local requirements, such as differences in curricula and calendar, grade advancement and issuance of academic documentation for primary and secondary education students.

The PNE establishes ten-year targets for all the levels and stages of education, mandating that states and municipalities create and establish similar plans compatible with such national targets. It is incumbent upon the Primary and Secondary Education Secretariat (*Secretaria de Educação Básica*), or SEB, under the supervision of the MEC, to monitor compliance with the PNE by states and municipalities. This inspection and monitoring include guidance and rules for assessing the primary and secondary education stages.

Under the federal constitution and the LDB, access to primary and secondary education is a right of all children from the ages of four to 17. Following amendments to Law No. 11,274 on February 6, 2006, the duration of primary and secondary education was extended from a period of eight years to a period of nine years. Among the purposes of primary education are: (1) development of the capacity to learn, including basic abilities in reading, writing and arithmetic; (2) comprehension of the natural and social environment, the political system, technology, arts and social values; (3) development of the capacity to acquire new knowledge and abilities and the formation of attitudes and values; and (4) strengthening family ties, social cohesion and mutual tolerance. Assessment of primary education is coordinated by the state legislation of each individual state, on a case-by-case basis.

Secondary education is designed to fulfill the government's duty to progressively complete the formation of the citizen, seeking universalization of scope and coverage. Secondary education is conducted for a period of not less than three years and seeks: (1) the consolidation and deepening of the knowledge acquired in primary education; (2) the basic preparation of the person being educated for work and to be able to adapt within the labor market or pursue further education; (3) the improvement of the student as a person, including ethical formation and the development of intellectual autonomy and critical thinking; and (4) the comprehension of the scientific and technological bases of the productive processes, relating theory to practice in each discipline. Assessment of secondary education is conducted on a national scale and coordinated by the MEC.

Regulatory Bodies

The main regulatory bodies of the Brazilian education system are:

- the MEC;
- the National Education and Research Institute (Instituto Nacional de Estudos e Pesquisas Educacionais Anísio Teixeira), or INEP;
- the CNE;
- the CEB;
- the Higher Education Board (*Câmara de Educação Superior*), or CES;
- State and Municipal Secretaries (*Secretarias Estaduais de Educação* and *Secretarias Municipais de Educação*, respectively); and
- State and Municipal Councils of Education (*Conselhos Estaduais de Educação* and *Conselhos Municipais de Educação*, respectively).

The MEC is Brazil's highest governmental body for education. It formulates and evaluates Brazilian national education policy, ensuring the quality of education and compliance with education regulations. The INEP is a related federal entity responsible for evaluating educational institutions in Brazil, as well as conducting research to provide a reliable database for public use.

The MEC is assisted by the CNE, which is the entity with regulatory power and deliberative authority to ensure national education improvement. The CNE is comprised of the CEB, which is the federal agency responsible for the regulation of the K-12 education system, and the CES, which is the federal agency responsible for the post-secondary education system. Both regulatory bodies are composed of 12 members appointed by the President of Brazil.

States and municipalities are responsible for regulating K-12 education. State Secretaries of Education (*Secretarias Estaduais de Educação*) are assisted by the State Councils of Education (*Conselhos Estaduais de Educação*) and are the main regulatory bodies for primary and secondary school education. The Municipal Secretaries of Education (*Secretarias Municipais de Educação*) are assisted by the Municipal Councils of Education (*Conselhos Municipais de Educação*) and are the main regulatory bodies of preschool education.

The LDB grants power to states and municipalities to authorize, accredit and supervise primary and secondary education institutions. This is achieved through each governmental entity's respective Department of Education.

Regulations Applicable to the Company's Activities

The Company is not directly regulated by the MEC nor any other regulatory agency. However, our educational platform and related educational materials seek to comply with the LDB and the guidelines established by the BNCC. In addition, our partner schools are K-12 education providers and are directly regulated by the educational authorities explained above and must comply with their regulations.

The BNCC is a set of guidelines that provides a curriculum specifying the core skills and knowledge required to be taught as part of primary and secondary education in Brazil and each school has the autonomy to elaborate or adapt their curricula and pedagogical projects according to such guidelines. The BNCC guidelines were established following overall poor student performance levels achieved while the predecessor education guidelines were in effect. Several indicators suggest that the predecessor guidelines were failing in several ways, leading the MEC to initiate discussions relating to a new method based upon a comparison between Brazil and other countries' results, which formed the basis for developing the BNCC. The LDB and the BNCC establish what subject matters shall be taught for each level of education (early childhood education, primary education and secondary education), and we are constantly working on our content to ensure that they comply with these guidelines, as well as with our partner schools' demands.

As provided by the LDB and the BNCC, early childhood education should enable children to live in society, to play, to participate, to explore, to express themselves, and to know themselves. Primary education, in turn, shall offer the following subject matters: (i) Portuguese; (ii) Arts; (iii) Mathematics; (iv) Geography; (v) History; (vi) Religious Studies; (vii) English; (viii) Science and (ix) Physical Education. Also, according to the current BNCC, approved by Ruling No. 1,210, 2018, secondary education shall offer curricula covering the following subjects (i) Portuguese; (ii) Arts; (iii) Mathematics; (iv) Geography; (v) History; (vi) Physics; (vii); Chemistry; (viii) Biology; (ix) English, (x) Science, (xi) Sociology; (xii) Philosophy; and (xiii) Physical Education. As our partner schools are private and have the autonomy to establish their pedagogical projects, there are no other guidelines relevant to the materials provided.

While following the BNCC is still required of every school in the country, there are opportunities to provide content solutions and after-school solutions to improve and adapt to the new status quo in Brazil's education market.

Syndicates

Teachers and professors may contribute to the Brazilian Teacher's Union (*Sindicato dos Professores*), as they work as registered employees under the CLT (Labor Laws Consolidation) regime. The syndicate contribution may be deducted once a year by employers directly from the employee's payroll in an amount equal to one working day's salary, subject to the express authorization of such employee. Such syndicate contribution does not imply syndicate association.

Data Protection

Cybersecurity has become a top priority for regulators around the world, and in Brazil it is no different. Having come into effect in September 2020, the Brazilian Data Protection Law (Law No. 13,709/18 or Lei Geral de Proteção de Dados), or LGPD, is a comprehensive personal data protection law establishing general principles and obligations that apply across multiple economic sectors and contractual relationships.

The LGPD applies to individuals or legal entities, private or government entities, who processes personal data in Brazil or collects personal data in Brazil or, further, when the processing activities have the purpose of offering or supplying goods or services to data subjects located in Brazil. The LGPD establishes detailed rules for processing personal data, which includes the collection, use, transfer and storage of personal data and will affect all economic sectors, including the relationship between clients and suppliers of goods and services, employees and employers and other relationships in which personal data is collected, whether in a digital or physical environment.

Pursuant to the LGPD, security breaches that may result in significant risk or damage to personal data must be reported to the National Data Protection Authority (Autoridade Nacional de Proteção de Dados), or ANPD, the data protection regulatory body, within a reasonable time period. The notice to the ANPD must include: (a) a description of the nature of the personal data affected by the breach; (b) the affected data subjects; (c) the technical and security measures adopted; (d) the risks related to the breach; (e) the reasons for any delays in reporting the breach, if applicable; and (f) the measures adopted to revert or mitigate the effects of the damage caused by the breach. Moreover, the ANPD could establish other obligations related to data protection that are not described above.

Law No. 14,010, of June 10, 2020, amended certain provisions of the LGPD, and postponed the administrative sanctions effectiveness to August 2021. However, LGPD allows private right of action, so we are still subject to individual claims for violations of LGPD. The penalties and fines for non-compliance with the LGPD include: (1) warnings, with the imposition of a deadline for the adoption of corrective measures; (2) a daily fine, up to a maximum amount of R\$50.0 million per violation; (3) the restriction of access to the personal data to which the violation relates up to a six-month period, that can be extended for the same period, until the processing activities are compliant with the regulation, and in case of repetition of the violation, temporary block and/or deletion of the related personal data, partial or complete prohibition of processing activities; and (4) a fine of up to 2% of gross sales of the company or a group of companies or a maximum amount of R\$50 million per violation.

The Company has started implementing the LGPD requirements on January 2020. During 2020, we have implemented training for the company's employees and our partners schools, made interviews with the areas that have more contact with personal data, identified the risks we were exposed, implemented our Privacy Policy and prepared privacy warnings to the Company's subsidiaries as well as established flows for data sharing with third parties. Additionally, all agreements with employees and partners schools were updated to establish the new requirements of the LGPD and the Privacy Policy was made available to all employees. Furthermore, the Company has created a Privacy Committee and indicated its DPO.

C. Organizational Structure

We are a Cayman Islands exempted company incorporated with limited liability on April 12, 2018. Arco became the holding company of Arco Educação S.A. and its operating subsidiaries, including PSD Educação S.A., which provides educational content from basic to secondary education (or K-12 curriculum).

The table below is a list of the Company's subsidiaries, joint ventures, and associated companies as of December 31, 2020:

Name	Principal Activities	Country	Investment Type	Direct and Indirect Interest (%)		
				2020	2019	2018
Arco Educação S.A.	Holding	Brazil	Subsidiary	100.0	100.0	100.0
PSD Educação S.A.	Educational content	Brazil	Subsidiary	100.0	100.0	100.0
Arco Ventures S.A.	Educational content	Brazil	Subsidiary	100.0	100.0	100.0
Barra Américas Editora Ltda.	Educational content	Brazil	Subsidiary	100.0	100.0	100.0
Distribuidora de Material Didático Desterro Ltda.	Educational content	Brazil	Subsidiary	100.0	100.0	100.0
Novagaúcha Editora e Livraria Ltda.	Educational content	Brazil	Subsidiary	—	—	100.0
SAS Sistema de Ensino Ltda.	Educational content	Brazil	Subsidiary	100.0	100.0	100.0
SAS Livrarias Ltda.	Educational content	Brazil	Subsidiary	100.0	100.0	100.0
SAE Digital S.A.	Educational content	Brazil	Subsidiary	100.0	100.0	100.0
Escola de Aplicação São José dos Campos Ltda.	Educational services	Brazil	Subsidiary	—	—	69.6
International School Serviços de Ensino, Treinamento e Editoração, Franqueadora S.A.	Educational content	Brazil	Subsidiary	51.5	51.5	51.5
NS Ventures Participações Ltda.	Educational content	Brazil	Subsidiary	—	—	100.0
NS Educação Ltda.	Educational content	Brazil	Subsidiary	—	—	100.0
Nave à Vela Ltda.	Educational content	Brazil	Subsidiary	51.00	51.0	—
EEM Licenciamento de Programas Educacionais Ltda.	Educational technology	Brazil	Subsidiary	100.0	100.0	—
NLP Soluções Educacionais Ltda.	Educational content	Brazil	Subsidiary	100.0	100.0	—
Bewater Ventures	Private equity	Brazil	Investee	14.48	—	—
WPensar S.A.	Educational technology	Brazil	Subsidiary	100.0	25.0	25.0
Geekie Desenvolvimento de Softwares S.A.	Educational technology	Brazil	Subsidiary	56.06*	37.5	8.05

Name	Principal Activities	Country	Investment Type	Direct and Indirect Interest (%)		
				2020	2019	2018
Studos Software Ltda.	Educational content	Brazil	Subsidiary	100.0	—	—
Escola de Inteligência Cursos Educacionais S.A.	Educational content	Brazil	Subsidiary	60.0	—	—

* Until Dec/20 we had effectively paid for a 56.06% interest in Geekie, but were already entitled to own 57.42%.

For more details about our organizational structure please see “Presentation of Financial and Other Information—Organizational Structure” and refer to notes 1 and 2.2 to our audited consolidated financial statements.

On January 1, 2020, Osterreich Investimentos - Participações Societárias S.A., Mendel Investimentos - Participações Societárias S.A., Torino Investimentos - Participações Societárias S.A., Remare Investimentos - Participações Societárias S.A. and Fahe Investimentos - Participações Societárias S.A. merged into Positivo and became extinct. As a result of the merger, all the contracts, rights and obligations of the now-extinct companies were transferred to Positivo.

On August 1, 2020, Positivo and Piá, merged into PSD and became extinct. As a result of the merger, all the contracts, rights and obligations of Positivo and Piá were transferred to PSD.

On January 1st, 2021, Arco Ventures S.A., merged into PSD and, therefore, became extinct. Due to the merger, all contracts, rights, and obligations from Arco Ventures were transferred to PSD.

D. Property, Plant and Equipment

Properties

Our corporate headquarters, which houses our sales, marketing, and business operations, is located in São Paulo at Rua Augusta and comprises over 4,426 square meters under 3 leases, which expire in 2023. We also lease 5,869 square meters in Fortaleza for our product development, sales, and business operations under a lease that expires in 2025. Additionally, we lease 13,858 square meters in Curitiba, which houses Positivo’s sales, marketing, and business operations, under a lease that expires on July 31, 2022. Also, in the city of Curitiba we lease a building that houses SAED Digital business operations, such lease agreement expires on October 2022. We have offices in several other locations and believe our facilities are sufficient for our current needs.

In addition to our corporate headquarters and as of December 31, 2020, we leased operational, sales, distribution, and administrative facilities in Cajamar, São José, Curitiba, Diadema, Florianópolis, Porto Alegre, Recife, Salvador, Guarulhos, Fortaleza and Simões Filho. As of December 31, 2020, we had a services agreement with a data center service provider for the provision of data services to us from its data centers located globally, which is automatically renewed and may be terminated upon requested by the parties, and two cloud storage agreements, one of which can be terminated at our discretion with 30 days’ notice to the service provider and the other which the expiration date may vary on each purchase order. We believe that our facilities are suitable and adequate for our business as presently conducted, however, we periodically review our facility requirements and may acquire new space to meet the needs of our business or consolidate and dispose of facilities that are no longer required.

Intellectual Property

Most of our services are provided using proprietary software developed by third parties and by our employees. We rely on a combination of industrial property, copyright, and software laws, as well as employee and third-party non-disclosure, confidentiality and other types of contractual arrangements to protect, establish, maintain and enforce our intellectual property rights, including with respect to our proprietary rights related to our products and services. Nevertheless, we may hold restricted rights over certain software developed either by third parties or by our current or former employees and, occasionally, may be subject to lawsuits filed by said third parties or employees to claim ownership over each software. In addition, we license technology from third parties, and do not hold or own licenses regarding certain software employed in the business. However, we have not received any legal notices related to such non-licensed software and are employing measures to obtain pending licenses.

As of December 31, 2020, we own 179 trademark registrations in Brazil, 2 in Argentina, 2 in Bolivia, 1 in Chile, 2 in Ecuador, 2 in Paraguay, 1 in Peru, and 2 in Uruguay. As of December 31, 2020, we owned 136 registered domain names in Brazil. We also have 127 of pending trademark applications in Brazil and Venezuela (125 in Brazil and 2 in Venezuela), as of December 31, 2020. We have several registered copyrights, most notably copyrights for text formatting, critical reading, books, drafting, text editing and review, reformulation, book updates, content coordination, illustrations and diagramming.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the notes thereto as well as the information presented under “Item 3. Key Information—A. Selected financial data.” The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements because of various factors, including those set forth in “Item 3. Key Information—D. Risk factors.”

A. Operating Results

We provide a complete pedagogical system with technology-enabled features to deliver educational content to private schools in Brazil.

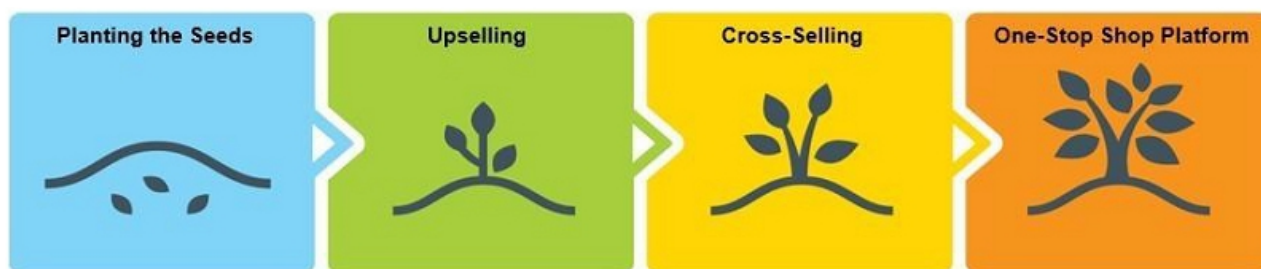
We founded our company with the aim of creating high quality products that simplify learning and make the education process more efficient. Traditionally, school administrators required a multitude of vendors for content development, training, commercializing, and managing K-12 education. Simultaneously, students acquired educational content through textbooks from various publishers across retail channels. Our platform aims to replace this multitude of third-party educational providers with a streamlined, one-stop solution that delivers high quality education at scale.

We believe the success of our platform, together with the quality of our client base and the popularity of our brand, has driven our significant growth, allowing us to expand our footprint quickly and efficiently in Brazil.

We provide a complete suite of turnkey curriculum solutions and technology-enabled features to help our students, teachers, partner schools and parents, targeting our students’ educational success. Our turnkey educational platform solutions consist of core K-12 curricula, as well as supplemental instructional content currently focused on English as a second language.

As of March 31, 2021, we had 6,119 unique partner schools. These schools are spread across 1,670 cities located across all the states of Brazil. Our partner schools base is highly diversified, which reduces our dependence on major accounts.

Our Growth

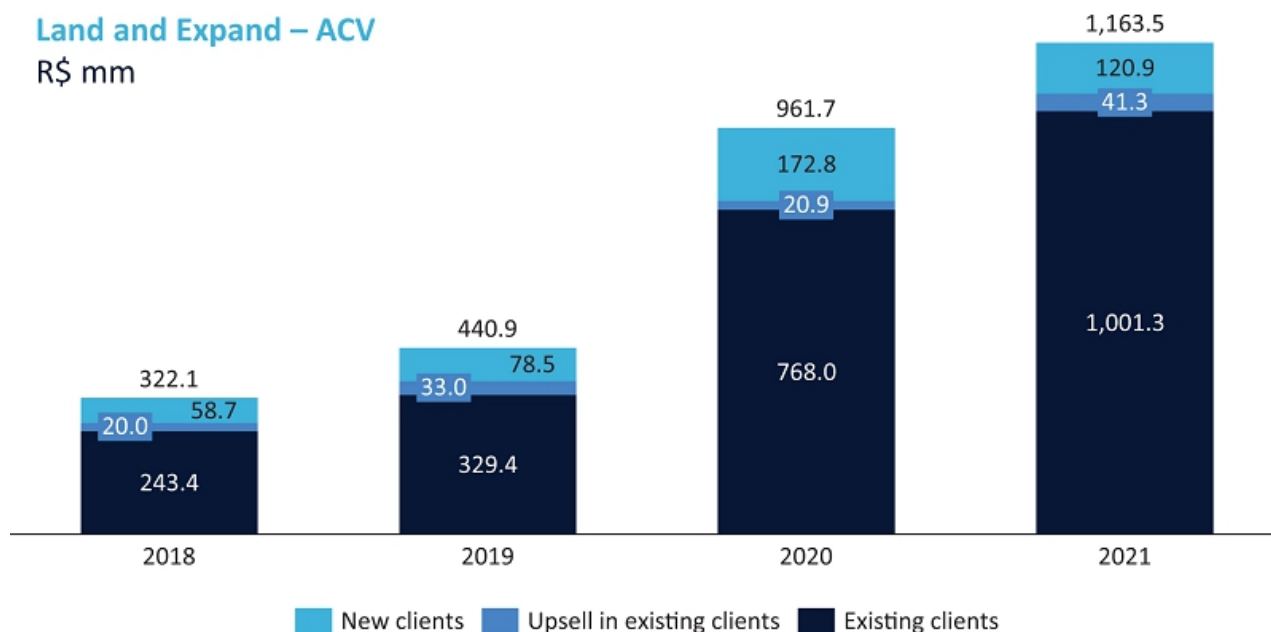


Our revenue growth has been driven by:

- **Expansion of our partner school base:** The increase in the number of partner schools using our educational platform. Through a sophisticated sales process with our highly skilled sales team, we build relationships with partner schools and plant seeds for new features and products.

- **Deepening of relationships with our existing customer base:**The increase in the number of enrolled students we serve in our partner schools, through (i) the increase in the number of class years that adopt our Core Curriculum solutions (upselling), and (ii) cross-selling our Supplemental Solutions.
- **Price increases:**The annual adjustments of our contract fees, in line with our price-setting policies which are usually above published inflation indices, to account for changes in our cost and expenses' structure and for improvements in our platform.
- **M&A:**The acquisition of complementary businesses has helped us expand our operations regionally and nationally, and add new products and technologies. This allows us to become a one-stop shop platform, which we believe further strengthens our stickiness and improves our value proposition.

The strength of our partner school base and our ability to expand sales are demonstrated in the increasing portion of our ACV Bookings derived from existing clients and up sell in existing clients, representing a 32.2% growth when comparing ACV Bookings of March 31, 2021 and Delivered ACV Bookings for 2020 school year (Delivered ACV Bookings of R\$952.8 million as of September 30, 2020, plus R\$ 8.9 million of 2020 school year revenues booked in the fourth quarter of 2020, for a total Delivered ACV Bookings for the 2020 school year of R\$961.7 million); 117.9% growth when comparing Delivered ACV Bookings for 2020 school year and ACV Bookings of March 31, 2021; and 37.6% growth when comparing ACV Bookings of March 31, 2019 and ACV Bookings of March 31, 2021.



Another indicator of demand for our platform is our annualized cohort analysis. We define a cohort as the amount spent by all our partner schools on our platform over each 12-month period. We calculate the total contractual fees payable by our partner schools in each cohort as of the end of each academic year, or the yearly contract fee amount. These amounts increase because of (i) increases in the total number of enrolled students at our partner schools served by our platform, and (ii) annual adjustments of our contract fees. These amounts decrease when customers terminate their contracts, downgrade their contracts to a lower price point, or if there is a decrease in the number of enrolled students at our partner schools.

Revenue Recognition and Seasonality

Prior to the adoption of IFRS 15, revenue was recognized when the significant risks and rewards of ownership were transferred to the customer, recovery of the consideration was probable, the associated costs and possible return of educational content could be estimated reliably, there was no continuing management involvement with the educational content and the amount of revenue could be measured reliably. Upon the adoption of IFRS 15, revenue is recognized when the performance obligation is satisfied. We recognize our revenue when we deliver our content to our partner schools in printed format or via access to our digital platform. The technology is provided solely to optimize the use of our educational content. Our printed materials can be used independently of the technology we provide, as the content of both our printed materials and online materials is substantially the same.

We generate substantially all our revenue from contracts that have an average term of three years, pursuant to which we provide educational content in printed and digital format to partner schools. Our revenue is driven by the number of enrolled students at each partner school using our solutions and the agreed price per student per year, all in accordance with the terms and conditions set forth in each contract. Each contract contemplates penalties ranging between 20% and 100% of the remaining total value of the contract in the event of termination, and the content already delivered by us through the termination date is not returned to us by the partner school.

Our partner schools pay us our fees directly, and pass that cost on to their enrolled students' parents, who in turn are charged through a mandatory supplement to school tuition, in lieu of paying for textbooks from several vendors. Most of our partner schools charge parents an incremental markup from which we do not earn any additional revenue on top of our wholesale prices.

Pursuant to the terms of our contracts with our partner schools, they are required, by the end of November of each year, to provide us with an estimate of the number of enrolled students that will access our content in the next school year (which typically starts in February of the following year). Since we allow our partner schools to make small adjustments to their estimates to account for late admissions and dropouts, this number may fluctuate slightly until March 31, when it becomes more accurate.

We typically deliver our Core Curriculum content four times each year in March, June, August and December and our Supplemental Solutions content twice each year in June and December, typically two to three months prior to the start of each school quarter. This allows our partner schools and their teachers to prepare classes in advance of each school quarter. Because we recognize revenue at the moment of delivery of our educational content, our fourth quarter results reflect the growth in the number of our students from one school year to another. Consequently, we generally produce higher revenues in the fourth quarter of our fiscal year compared to the preceding quarters.

In addition, we bill partner schools and collect the sales we charge them in the first half of each academic collections year, generally resulting in a higher cash position in the first half of each fiscal year relative to the second half of each fiscal year.

Accordingly, we expect quarterly fluctuations in our revenues and operating results to continue. These fluctuations could result in volatility and adversely affect our liquidity and cash flows. As our business grows, these seasonal fluctuations may become more pronounced. As a result, we believe that sequential quarterly comparisons of our financial results may not provide an accurate assessment of our financial position.

A significant portion of our expenses is also seasonal. Due to the nature of our business cycle, we require significant working capital, typically in September and/or October of each year, to cover costs related to production and accumulation of inventory, selling and marketing expenses, and delivery of our teaching materials at the end of each fiscal year in preparation for the beginning of each school year. Therefore, such operating expenses are generally incurred in the period between September and December of each year.

Key Business Metrics

We review the following key metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions:

Enrolled Students

The number of enrolled students is the primary operational metric our management reviews. It represents the total number of students at our partner schools served by our platform during a given school year. Although our primary customers are the partner schools we attract to our base, our revenues are determined by the number of students enrolled in our partner schools.

We typically have high visibility of the number of students we will serve before the school year starts, typically by the end of November. Since we allow our partner schools to make small adjustments to their estimates to account for late admissions and early dropouts, this number may fluctuate slightly until March 31, when it becomes more accurate. Accordingly, we believe this metric is most accurately reflected as of March 31 of each year.

However, following March 31 in a calendar year, our partner schools may experience additional admissions and/or additional dropouts up to September 30 of such year, which is the date on which the number of students for the year becomes final, or Final Number of Students. In prior years, the difference between the Number of Enrolled Students as of March 31 and the Final Number of Students as of September 30 was not material. However, during 2020 and as result of the impacts of the COVID-19 pandemic, our partner schools experienced atypical dropout rates from March 31, 2020 to September 30, 2020, and our number of students decreased from Number of Enrolled Students of 1,362,141 as of March 31, 2020, to Final Number of Enrolled Students of 1,239,937 as of September 30, 2020.

As of March 31, 2021, we had 1,785,576 Number of Enrolled Students, compared to the Final Number of Enrolled Students of 1,239,937 as of September 30, 2020 (and 1,362,141 Number of Enrolled Students as of March 31, 2020) and 498,553 and 405,814 Number of Enrolled Students as of March 31, 2019 and 2018, respectively, representing a CAGR of 63.9%.

In our Core Curriculum segment, we had Number of Enrolled Students of 1,270,463 as of March 31, 2021, compared to Final Number of Enrolled Students of 1,032,029 as of September 30, 2020 (and 1,131,691 Number of Enrolled Students as of March 31, 2020), and 413,678 and 363,824 Number of Enrolled Students as of March 31, 2019 and 2018, respectively, representing a CAGR of 51.7%. In our Supplemental Solutions segment, which we began consolidating in our financial statements in 2017, we had Number of Enrolled Students of 515,113 as of March 31, 2021, compared to Final Number of Enrolled Students of 207,368 as of September 30, 2020 (and 230,450 Number of Enrolled Students as of March 31, 2020), and 84,875 and 41,990 Final Number of Enrolled Students as of March 31, 2019 and 2018, respectively.

The following table sets forth the number of enrolled students at our partner schools as of the dates indicated.

	As of March 31,			
	2021	2020	2019	2018
Number of Enrolled Students	1,785,576	1,362,141	498,553	405,814

ACV Bookings

ACV Bookings is an operating metric and represents our partner schools' commitment to pay for our solutions offerings. We believe that they are a meaningful indicator of demand for our platform and the market's response to it.

We define ACV Bookings as the revenue we would contractually expect to recognize from a partner school in each school year pursuant to the terms of our contract with such partner school, assuming no further additions or reductions in the number of enrolled students that will access our content at such partner school in such school year. ACV Bookings is a non-accounting managerial operating metric and is not prepared in accordance with IFRS. We calculate ACV Bookings by multiplying the number of enrolled students at each partner school with the average ticket per student per year, all in accordance with the terms of our contract with such partner school. Although our contracts with our partner schools are typically for three-year terms, we record one year of revenue under such contracts as ACV Bookings. For example, if a school enters into a three-year contract with us to provide our Core Curriculum solution to 100 students for a contractual fee of \$100 per student per year, we record \$10,000 as ACV Bookings, not \$30,000.

We measure our ACV Bookings monthly throughout the school year, starting in November of the preceding fiscal year. Pursuant to the terms of our contracts with our partner schools, they are required, by the end of November of each year, to provide us with an estimate of the number of enrolled students that will access our platform in the next school year. Since we allow our partner schools to make small adjustments to their estimates to account for late admissions and early dropouts, this number may fluctuate slightly until March 31, when it becomes more accurate. Accordingly, we believe this metric is most accurately reflected as of March 31 of each year, and in this annual report, we refer to our ACV Bookings as of March 31 in each year as our ACV Bookings.

However, following March 31 in a calendar year, our partner schools may experience additional admissions and/or additional dropouts up to September 30 of such year, which is the date on which the final amount of our ACV Bookings for the year becomes final, or our Delivered ACV Bookings. In prior years, the difference between our ACV Bookings and our Delivered ACV Bookings was not material, demonstrating the predictability of our business. However, during 2020 and as result of the impacts of the COVID-19 pandemic, our partner schools experienced atypical dropout rates from March 31, 2020 to September 30, 2020, and our ACV Bookings decreased from ACV Bookings of R\$1,005.7 million as of March 31, 2020, to Delivered ACV Bookings of R\$952.8 million as of September 30, 2020 plus R\$ 8.9 million of 2020 school year booked in the fourth quarter of 2020, for a total Delivered ACV Bookings for the 2020 school year of R\$961.7 million. Consequentially, the dynamics mentioned above also impacted the number of enrolled students in our partner schools.

Following March 31 in a calendar year, our partner schools may experience additional admissions and/or additional dropouts up to September 30 of such year, which is the date on which the number of students for the year becomes final, or our Final Number of Enrolled Students. In prior years, the difference between the Number of Enrolled Students as of March 31 and the Final Number of Enrolled Students as of September 30 was not material, demonstrating the predictability of our business. However, during 2020 and as result of the impacts of the COVID-19 pandemic, our partner schools experienced atypical dropout rates from March 31, 2020 to September 30, 2020, and our number of students decreased from Number of Enrolled Students of 1,362,141 as of March 31, 2020, to Final Number of Students of 1,239,937 as of September 30, 2020.

The following table set forth our Number of Enrolled Students, average ticket per student per year and ACV Bookings as of March 31, 2021, 2020, 2019 and 2018.

	As of March 31,				
	2021 ⁽¹⁾	2021 ⁽²⁾	2020 ⁽³⁾	2019 ⁽⁴⁾	2018 ⁽⁵⁾
	US\$ (except number of enrolled students) ⁽¹⁾	R\$ (except number of enrolled students)	R\$ (except number of enrolled students)		
Number of Enrolled Students	n/a	1,785,576	1,362,141	498,553	405,814
Average ticket per student per year	125.4	651.5	738.4	884.3	793.8
ACV Bookings (in millions)	223.9	1,163.4	1,005.8	440.9	322.1

(1) For convenience purposes only, amounts in *reais* as of March 31, 2021 have been translated to U.S. dollars using an exchange rate of R\$5.197 to US\$1.00, the commercial selling rate for U.S. dollars as of December 31, 2020 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See “Item 3. Key Information—A. Selected financial data—Exchange Rates” for further information about recent fluctuations in exchange rates.

(2) For the 2021 school year (which we define for purposes of ACV Bookings as the period starting in October 2020 and ending in September 2021).

(3) For the 2020 school year (which we define for purposes of ACV Bookings as the period starting in October 2019 and ending in September 2020). Includes the ACV Bookings of Positivo, which we acquired in November 2019.

(4) For the 2019 school year (which we define for purposes of ACV Bookings as the period starting in October 2018 and ending in September 2019).

(5) For the 2018 school year (which we define for purposes of ACV Bookings as the period starting in October 2017 and ending in September 2018).

The Final Number of Enrolled Students as of September 30, 2020, was 1,239,937, Delivered ACV Bookings was R\$952.8 million as of September 30, 2020 plus R\$ 8.9 million of 2020 school year revenues booked in the fourth quarter of 2020, for a total Delivered ACV Bookings for the 2020 school year of R\$961.7 million.

As of March 31, 2021, our Number of Enrolled Students was 1,785,576, our average ticket per student per year was R\$651.5 and our ACV Bookings were R\$1,163.4 million.

The following table sets forth the approximate number of enrolled students and ACV Bookings for our supplemental segment for the periods presented.

	As of March 31,				
	2021 ⁽¹⁾	2021 ⁽²⁾	2020 ⁽³⁾	2019 ⁽⁴⁾	2018 ⁽⁵⁾
	US\$ (except number of enrolled students) ⁽¹⁾	R\$ (except number of enrolled students)	R\$ (except number of enrolled students)		
Number of Enrolled Students	n/a	515,113	230,450	84,875	42,000
ACV Bookings (in millions)	48.2	250.7	202.2	100.4	45.0

(1) For convenience purposes only, amounts in *reais* as of March 31, 2021 have been translated to U.S. dollars using an exchange rate of R\$5.197 to US\$1.00, the commercial selling rate for U.S. dollars as of December 31, 2020 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See “Item 3. Key Information—A. Selected financial data—Exchange Rates” for further information about recent fluctuations in exchange rates.

(2) For the 2021 school year (which we define for purposes of ACV Bookings as the period starting in October 2020 and ending in September 2021).

(3) For the 2020 school year (which we define for purposes of ACV Bookings as the period starting in October 2019 and ending in September 2020).

(4) For the 2019 school year (which we define for purposes of ACV Bookings as the period starting in October 2018 and ending in September 2019).

(5) For the 2018 school year (which we define for purposes of ACV Bookings as the period starting in October 2017 and ending in September 2018).

For our supplemental segment, the Final Number of Enrolled Students was 207,368 and the Delivered ACV Bookings was R\$172.0 million as of September 30, 2020.

For our supplemental segment, as of March 31, 2021, the approximate number of enrolled students was 515,113 and ACV Bookings were approximately R\$250.7 million.

Brazilian Macroeconomic Environment

We believe that our results of operations and financial performance are and will continue to be affected by the following macroeconomic trends and factors:

All our operations are located in Brazil. As a result, our revenues and profitability are affected by political and economic developments in Brazil and the effect that these factors have on the availability of credit, disposable income, employment rates and average wages in Brazil. Our operations, and the industry in general, are particularly sensitive to changes in economic conditions.

Brazil is the largest economy in Latin America, as measured by gross domestic product, or GDP. The following table shows data for real GDP, inflation and interest rates in Brazil and the U.S. dollar/*real* exchange rate at the dates and for the periods indicated.

	For the Year Ended December 31,		
	2020	2019	2018
Real growth (contraction) in gross domestic product	-4.1%	1.1%	1.3%
Inflation (IGP-M) ⁽¹⁾	23.1%	7.3%	7.5%
Inflation (IPCA) ⁽²⁾	4.5%	4.3%	3.7%
Long-term interest rates—TJLP (average) ⁽³⁾	4.9%	6.2%	6.7%
CDI interest rate ⁽⁴⁾	2.8%	6.0%	6.5%
Period-end exchange rate—reais per US\$1.00	R\$ 5.197	4.031	3.875
Average exchange rate—reais per US\$1.00 ⁽⁵⁾	R\$ 5.158	3.946	3.656
Appreciation (depreciation) of the real vs. US\$ in the period ⁽⁶⁾	(28.9)%	(4.0)%	(17.1)%
Unemployment rate ⁽⁷⁾	13.5%	11.9%	12.3%

Source: FGV, IBGE, Central Bank and B3.

(1) Inflation (IGP-M) is the general market price index measured by the FGV.

(2) Inflation (IPCA) is a broad consumer price index measured by the IBGE.

(3) TJLP is the Brazilian long-term interest rate (average of monthly rates for the period).

(4) The CDI (*certificado de depósito interbancário*) interest rate is an average of interbank overnight rates in Brazil, average during the corresponding period.

(5) Average of the exchange rate on each business day of the year.

(6) Comparing the US\$ closing selling exchange rate as reported by the Central Bank at the end of the period's last day with the day immediately prior to the first day of the period discussed.

(7) Average unemployment rate for year as measured by the IBGE.

For the years ended December 31, 2020, 2019 and 2018, we have been able to offset the inflation effects by adjusting the contractual fees per student that we charge our partner schools above the IPCA rate. Our financial performance is also tied to fluctuations in interest rates, such as the CDI rate, because such fluctuations affect the value of our financial investments.

Printer Costs; Raw Materials

We outsource the printing and binding of our educational materials. Printer costs are one of our principal costs; printer fees are impacted by changes in the price of paper, one of the principal raw materials required to produce our educational materials. The cost of paper is generally impacted by fluctuations in the U.S. dollar/real exchange rate, and is also impacted by inflation, but not necessarily linked to a specific inflation index. Such changes in prices are reflected as inflation adjustments in the fees charged by our third-party printers, which produce our printed materials. To the extent we cannot offset the impact of printer costs by adjusting the contractual fees per student that we charge our partner schools, our margins may be negatively affected.

Critical Accounting Estimates and Judgments

Our consolidated financial statements are prepared in conformity with IFRS. In preparing our audited consolidated financial statements, we make assumptions, judgments and estimates that can have a significant impact on amounts reported in our consolidated financial statements. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. We regularly reevaluate our assumptions, judgments, and estimates. Our significant accounting policies are described in note 2 to our audited consolidated financial statements. We believe that the following critical accounting policies are more affected by the significant judgments and estimates used in the preparation of our consolidated financial statements:

Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or cash generating unit (“CGU”) or group of CGU exceeds its recoverable amount, defined as the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on data available from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow model (“DCF” model). The cash flows are derived from the budget for the next five years and do not include restructuring activities to which we have not yet committed or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as to expected future cash-inflows and the growth rate used for extrapolation purposes. We have determined that our operating segment is the cash generating unit. These estimates are most relevant to goodwill that are recognized by us. The key assumptions used to determine the recoverable amount for the different operating segments, including a sensitivity analysis, are disclosed and further explained in note 14 to our audited consolidated financial statements.

Inventory reserve

We recognize a provision for disposal of inventory considering materials from previous collections not sold and a prospective model to estimate the forecast of obsolescence of products from current collections. The applied model considers the historical data of non-realization of products to obtain the expected loss percentages. Any significant changes between the observed losses compared to the historical loss pattern impacts the expected loss percentages estimated by us. See note 8 to our audited consolidated financial statements for further information.

Provisions for Expected Credit Losses of Trade Receivables and Contract Assets

We use a provision matrix to calculate expected credit losses, or ECLs, for trade receivables and contract assets. The provision rates are based on days past due for customer. The provision matrix is initially based on our historical observed default rates. We calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. Our historical credit loss experience and forecast of economic conditions may also not be representative of customer’s actual default in the future. The information about the ECLs on our trade receivables and contract assets is disclosed in note 7 to our audited consolidated financial statements.

Share-based payment

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity-settled transactions, we use the Black & Scholes model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 18 to our audited consolidated financial statements.

Taxes

Deferred tax assets are recognized for deductible temporary differences and unused tax credits from net operating losses carryforward to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. Further details on taxes are disclosed in note 24 to our audited consolidated financial statements.

Fair Value Measurement of Financial Instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs into these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required to estimate fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See note 26 to our audited consolidated financial statements for further information.

Contingent consideration, resulting from business combinations, is valued at fair value as of the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured at each reporting date. This determination of fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor. Any contingent consideration is classified as financial instruments from acquisition of interests. For further information, see notes 6, 16 and 26 to our audited consolidated financial statements.

Recent Accounting Pronouncements

New Standards, Interpretations and Amendments Adopted in 2020

We applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The nature and effect of the changes because of adoption of this new accounting standard is described below. Several other amendments and interpretations were applied by us for the first time in 2020, but they do not have an impact on our consolidated financial statements. We have not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments did not have an impact on our consolidated financial statements for the business combinations entered into during the year, but may impact future periods should we enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on our consolidated financial statements as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on our consolidated financial statements, nor is there expected to be any future impact on us.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on our consolidated financial statements.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

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

The amendment applies to annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. This amendment had an impact of R\$350 on the consolidated financial statements of the Company due to the discounts obtained.

Components of Our Results of Operations

The following is a summary of the principal line items comprising our statements of income (loss).

Net revenue

We generate substantially all our revenue from contracts that have a standard term of three years, pursuant to which we provide educational content in printed and digital format to partner schools.

Our revenue is driven by the number of enrolled students at each partner school using our solutions and the agreed price per student per year, all in accordance with the terms and conditions set forth in each contract. We recognize our revenue when we make our content available to our partner schools in printed format or via access to our digital platform. We typically deliver our Core Curriculum content four times each year in March, June, August and December and our Supplemental Solutions content twice each year in June and December, usually two to three months prior to the start of each school quarter. This allows our partner schools and their teachers to prepare classes in advance of each school quarter.

Cost of Sales

Cost of sales primarily consists of expenses related to the production and delivery of our content and technology, which are mainly composed of printing costs, employee-related costs, and the purchase of long-term intellectual property assets such as educational content produced by third-party authors, as well as inventory write-off costs.

We intend to continue to invest additional resources in our content development and technology platform. The timing of these expenses will affect our cost of sales in the affected periods. Also, we may launch new products that require additional resources and can affect our cost of sales.

Expenses

We classify our operating expenses as selling expenses, general and administrative expenses, and other expenses. The largest component of our operating expenses is employee and labor-related expenses, which includes salaries and bonuses, employee benefit expenses and contractor costs. We allocate expenses such as information technology infrastructure costs related to our operations and rent and occupancy charges in each expense category based on employee headcount in that category.

- *Selling Expenses.* Selling expenses consist primarily of the personnel expenses of our sales and marketing and customer support employees, including commissions and incentives, travel and travel-related expenses, benefits, marketing programs, including lead generation, costs of our education-related conferences and other miscellaneous expenses, as well as intangible assets amortization expenses. We expect that our selling expenses will increase as we increase the size of our sales and marketing teams and potentially increase the number of conferences and events that we organize.
- *General and Administrative Expenses.* General and administrative expenses consist of personnel expenses and related expenses, including executive, finance, legal, human resources, recruiting, employee-related information technology, administrative personnel, payroll, and benefits. They also consist of expenses in connection with professional fees for external legal, accounting, and other consulting services, intangible assets amortization expenses, as well as other miscellaneous expenses. We expect general and administrative expenses to increase on an absolute *real* basis but decrease as a percentage of total revenue as we focus on processes, systems and controls that will enable our internal support functions to grow concurrently with the growth of our business. We also anticipate increases to general and administrative expenses as we incur the expenses of compliance associated with being a publicly traded company, including legal, audit and consulting fees.

We allocate share-based payment expense to general and administrative expenses. These share-based expenses represent granted restricted shares and granted share options to selected employees we consider to be key executives. We recognize our share-based payments as an expense in the statement of income based on their fair value over the vesting period. These charges have been significant in the past, and we expect that they will increase as we hire more employees and seek to retain existing employees.

Other Income (Expenses), Net

Our other income (expenses), net, line item consists mainly of miscellaneous income and/or expense items.

Finance Result

Our finance result includes finance income and finance costs.

Finance income includes mainly income from cash equivalents and financial investments, changes in fair value of derivative instruments from business combinations and acquisition of interest in associates and joint ventures. Finance costs consist mainly of changes in fair value of derivatives instruments, changes in accounts payable to selling shareholders, interest expenses in acquisition of investment, interest expenses on loans and financing, interest expenses in lease liabilities and other financial discounts.

Income Taxes

Income taxes include current and deferred income taxes. Deferred tax expenses are mainly related to tax losses carryforward, provisions for bonuses, inventories reserve, allowance for doubtful accounts, share-based compensation plan, intangible amortization and derivatives from acquisition of interests and business combinations.

Results of Operations

Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

The following table sets forth our consolidated statements of income (loss) for the years ended December 31, 2020 and 2019:

	For the Year Ended December 31,		
	2020	2019	Variation
	(in R\$ millions, except for percentages)		
Statement of Income Data:			
Net revenue	1,001.7	572.8	74.9%
Core ⁽¹⁾	841.1	433.3	94.1%
Supplemental ⁽¹⁾	160.6	139.5	15.1%
Cost of sales	(221.1)	(117.3)	88.5%
Gross profit	780.6	455.5	71.4%
Selling expenses	(372.3)	(199.8)	86.3%

	For the Year Ended December 31,		
	2020	2019	Variation
	(in R\$ millions, except for percentages)		
General and administrative expenses	(270.6)	(191.4)	41.4%
Other income (expenses), net	(2.2)	(6.2)	-62.9%
Operating profit	135.5	58.1	133.2%
Finance income	45.2	72.0	-37.2%
Finance costs	(142.0)	(170.8)	-16.9%
Finance result	(96.8)	(98.8)	-2.0%
Share of profit (loss) of equity-accounted investees	0.4	(1.8)	-122.2%
Profit (loss) before income taxes	39.1	(42.5)	-192.0%
Income taxes—income (expense)	(22.3)	33.1	-167.4%
Current	(87.4)	(46.9)	86.4%
Deferred	65.1	80.0	-18.6%
Profit (loss) for the year	16.8	(9.4)	-278.7%
Profit (loss) attributable to:			
Equity holders of the parent	16.8	(9.4)	-278.7%
Non-controlling interests	—	—	—

(1) Our operating segments consist of our Core segment and our Supplemental segment. For further information, see note 25 to our audited consolidated financial statements.

Net Revenue

Net revenue for the year ended December 31, 2020 was R\$1,001.7 million, an increase of R\$428.9 million, or 74.9%, from R\$572.8 million for the year ended December 31, 2019.

This increase was primarily attributable to:

- (i) the acquisition of Positivo on November 1, 2019, which contributed 710,705 students to our total student base, with an average ticket per student per year of R\$579.0 at the time of the acquisition;
- (ii) in the first three quarters of 2020, the positive impact of our organic growth through the addition of new partner schools and an increase in up-sales of our solutions, which resulted in a 30.7% increase in the total number of students enrolled at our partner schools (excluding Positivo), to the Final Number of Enrolled Students of 1,239,937 as of September 30, 2020, from Number of Enrolled Students of 498,553 students as of March 31, 2019;
- (iii) in the fourth quarter of 2020, the positive impact of our organic growth through the addition of new partner schools and an increase in up-sales of our solutions, which resulted in a 44.1% increase in the Number of Enrolled Students for 2021 at our partner schools to 1,785,576 as of March 31, 2021 from the Final Number of Enrolled Students of 1,239,937 as of September 30, 2020; and

In our Core segment, net revenue for the year ended December 31, 2020 was R\$841.1 million, an increase of R\$407.8 million, or 94.1%, from R\$433.3 million for the year ended December 31, 2019.

This increase was primarily attributable to:

- (i) the acquisition of Positivo on November 1, 2019, adding two Core brands to the portfolio, Sistema Positivo de Ensino and Conquista;
- (ii) the 5.1% increase in the number of enrolled students at partner schools (excluding Positivo), to the Final Number of Enrolled Students of 434,969 as of September 30, 2020, from the Number of Enrolled Students of 413,678 as of March 31, 2019, which impacted the first three quarters of 2020, combined with the 23.1% increase in the Number of Enrolled Students to 1,270,463 as of March 31, 2021, compared to the Final Number of Enrolled Students of 1,032,029 as of September 30, 2020, which impacted the fourth quarter of 2020; and

In our Supplemental segment, net revenue for the year ended December 31, 2020 was R\$160.6 million, an increase of R\$21.1 million, or 15.1% from R\$139.5 million for the year ended December 31, 2019.

This increase was primarily attributable to the acquisition of Positivo on November 1, 2019, adding one ESL solution, PES, and the 86.4% increase in the number of enrolled students at partner schools (excluding Positivo), to the Final Number of Enrolled Students of 158,247 as of September 30, 2020, from the Number of Enrolled Students of 84,875 as of March 31, 2019, and the addition of new supplemental solutions to our portfolio.

Cost of Sales

Cost of sales for the year ended December 31, 2020 was R\$221.1 million, an increase of R\$103.8 million, or 88.5%, from R\$117.3 million for the year ended December 31, 2019. This increase was primarily attributable to the overall increase in the production volume of our educational materials, resulting from the positive impact of our organic growth. The increase in cost of sales was higher than our revenue growth due to new solutions in our base with lower gross margin.

As a percentage of net revenue, our cost of sales increased to 22.1% for the year ended December 31, 2020, compared to 20.5% for the year ended December 31, 2019.

In our Core segment, cost of sales for the year ended December 31, 2020 was R\$190.9 million, an increase of R\$93.4 million, or 95.8%, from R\$97.5 million for the year ended December 31, 2019. As mentioned above, this increase was primarily attributable to the overall increase in the production volume of our educational materials, resulting from the positive impact of our organic growth and mix of solutions. As a percentage of net revenue in our Core segment, cost of sales increased to 22.7% in the year ended December 31, 2020, compared to 22.5% in the year ended December 31, 2019.

In our Supplemental segment, cost of sales for the year ended December 31, 2020 was R\$30.2 million, an increase of R\$10.5 million, or 53.3% from R\$19.7 million for the year ended December 31, 2019. This increase was also primarily attributable to the overall increase in the production volume of our educational materials, resulting from the positive impact of our organic growth and the addition of our supplemental solutions in our portfolio. As a percentage of net revenue in our Supplemental segment, cost of sales increased to 18.8% in the year ended December 31, 2020, compared to 14.1% in the year ended December 31, 2019.

Gross Profit

For the reasons discussed above, gross profit for the year ended December 31, 2020 was R\$780.6 million, an increase of R\$325.1 million, or 71.4%, from R\$455.5 million for the year ended December 31, 2019. In our Core segment, gross profit for the year ended December 31, 2020 was R\$650.2 million, an increase of R\$314.4 million, or 93.6%, from R\$335.8 million for the year ended December 31, 2019. In our Supplemental segment, gross profit for the year ended December 31, 2020 was R\$130.4 million, an increase of R\$10.6 million or 8.8%, from R\$119.8 million for the year ended December 31, 2019.

Selling Expenses

Selling expenses for the year ended December 31, 2020 were R\$372.3 million, an increase of R\$172.5 million, or 86.3%, from R\$199.8 million for the year ended December 31, 2019. This increase/decrease was primarily attributable to:

- (i) a R\$79.9 million, or 91.5%, increase in sales personnel expenses, mainly attributable to new brands in our portfolio and the increase in the number of employees in our educational and pedagogical consulting teams to support our growth strategy going forward;
- (ii) a R\$23.1 million, or 75.2%, increase in customer support expenses due to new brands in our portfolio and continuous investments for customer satisfaction, which increases as our school base grows;
- (iii) a R\$53.8 million, or 228.1%, increase in depreciation and amortization expenses, mainly due to the acquisition of Positivo and Escola da Inteligência, which includes their trademarks, and customer relationship and educational systems; and
- (iv) a R\$7.1 million, or 22.8%, decrease in sales & marketing expenses, despite the increase of brands in our portfolio, the decrease was mainly attributable to travel and events restrictions related to COVID-19 pandemic.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2020 were R\$270.6 million, an increase of R\$79.2 million, or 41.4%, from R\$191.4 million for the year ended December 31, 2019. This increase was primarily attributable to:

- (i) a R\$21.0 million increase in corporate personnel expenses totaling R\$74.4 million for the year ended December 31, 2020, due to the 13.0% increase in the number of employees in our general administrative team, to 436 employees as of December 31, 2020, from 355 employees as of December 31, 2019; and
- (ii) a R\$36.8 million increase in third-party services expenses totaling R\$80.3 million for the year ended December 31, 2020, attributable to expenses relating to (i) the acquisition of new brands; (ii) services related to M&A acquisitions; and (iii) non-recurring legal and consulting services, including related to SOX implementation.

Operating Profit

For the reasons discussed above, operating profit for the year ended December 31, 2020 was R\$135.5 million, an increase of R\$77.4 million, or 133.2%, from R\$58.1 million for the year ended December 31, 2019.

Finance Result

Finance result for the year ended December 31, 2020 was a net finance cost of R\$96.8 million, a decrease of R\$2.0 million, from a net finance cost of R\$98.8 million for the year ended December 31, 2019, for the reasons described below.

Finance income. Finance income for the year ended December 31, 2020 was R\$45.2 million, a decrease of R\$26.8 million, or 37.2%, from R\$72.0 million for the year ended December 31, 2019. This decrease was mainly attributable to the interest from financial investments.

Finance costs. Finance costs for the year ended December 31, 2020 was R\$142.0 million, a decrease of R\$28.8 million, from R\$170.8 million for the year ended December 31, 2019. This decrease was primarily attributable to the effects of changes in fair value of accounts payable to selling shareholders (International School acquisition debt), which decreased R\$69.1 million, while the interest in acquisition of investments (mainly International School and Position acquisitions debt) had an increased impact of R\$26.2 million.

Share of Profit (Loss) of Equity-Accounted Investees

Share of profit (loss) of equity-accounted investees for the year ended December 31, 2020 was a profit of R\$0.4 million, as compared to a loss of R\$1.8 million for the year ended December 31, 2019, attributable to the performance of our equity-accounted investees.

Profit (Loss) before Income Taxes

For the reasons discussed above, for the year ended December 31, 2020, we recorded a profit before income taxes of R\$39.1 million compared to a loss of R\$42.5 million for the year ended December 31, 2019.

Income Taxes – Income (Expense)

For the year ended December 31, 2020, we recorded an income tax expense of R\$22.3 million compared to an income tax credit of R\$33.1 million for the year ended December 31, 2019. This income tax credit in 2019 was mainly attributable to the recognition of deferred tax credits over financial instruments from acquisition of interests.

Profit (Loss) for the Year

As a result of the foregoing, profit for the year ended December 31, 2020 was R\$16.8 million compared to a loss of R\$9.4 million for the year ended December 31, 2019.

Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

The following table sets forth our consolidated statements of income (loss) for the years ended December 31, 2019 and 2018:

	For the Year Ended December 31,		
	2019	2018	Variation
	(in R\$ millions, except for percentages)		
Statement of Income Data:			
Net revenue	572.8	381.0	50.3%
Core ⁽¹⁾	433.3	303.0	43.0%

	For the Year Ended December 31,		
	2019	2018	Variation
	(in R\$ millions, except for percentages)		
Supplemental ⁽¹⁾	139.5	78.0	78.9%
Cost of sales	(117.3)	(80.7)	45.4%
Gross profit	455.5	300.2	51.7%
Selling expenses	(199.8)	(113.3)	76.3%
General and administrative expenses	(191.4)	(129.8)	47.5%
Other income (expenses), net	(6.2)	4.9	(226.5)%
Operating profit	58.1	62.1	(6.4)%
Finance income	72.0	36.6	96.7%
Finance costs	(170.8)	(198.8)	(14.1)%
Finance result	(98.8)	(162.2)	(39.1)%
Share of loss of equity-accounted investees	(1.8)	(0.8)	125.0%
Profit (loss) before income taxes	(42.5)	(100.9)	(57.9)%
Income taxes—income	33.1	18.0	83.9 %
Current	(46.9)	(26.5)	77.0%
Deferred	80.0	44.5	79.8%
Profit (loss) for the year	(9.4)	(82.9)	(88.7)%
Profit (loss) attributable to:			
Equity holders of the parent	(9.4)	(82.4)	(88.6)%
Non-controlling interests	—	(0.5)	—

(1) Our operating segments consist of our Core segment and our Supplemental segment. For further information, see note 25 to our audited consolidated financial statements.

Net Revenue

Net revenue for the year ended December 31, 2019 was R\$572.8 million, an increase of R\$191.8 million, or 50.3%, from R\$381.0 million for the year ended December 31, 2018.

This increase was primarily attributable to:

- (i) in the first three quarters of 2019, the positive impact of our organic growth through the addition of new partner schools and an increase in up-sales of our solutions, which resulted in a 22.9% increase in the total number of students enrolled at our partner schools, to 498,553 students distributed across our partner schools as of March 31, 2019, from 405,814 students distributed across our partner schools as of March 31, 2018;
- (ii) in the fourth quarter of 2019, the positive impact of our organic growth through the addition of new partner schools and an increase in up-sales of our solutions, which resulted in a 173.2% increase in the total number of students enrolled at our partner schools, to 1,362,141 students distributed across our partner schools as of March 31, 2020 from 498,553 students distributed across our partner schools as of March 31, 2019;
- (iii) the 11.4% increase in the average contractual fees per student that we charge our partner schools, from R\$793.8 per student as of March 31, 2018 to R\$884.3 per student as of March 31, 2019, which impacted the first three quarters of 2019; and
- (iv) the completion of the acquisition of Positivo on November 1, 2019, which contributed 710,705 students to our total student base, with an average ticket per student per year of R\$579.0, impacting the last two months of 2019.

In our Core segment, net revenue for the year ended December 31, 2019 was R\$433.3 million, an increase of R\$130.3 million, or 43.0%, from R\$303.0 million for the year ended December 31, 2018.

This increase was primarily attributable to:

- (i) the 13.7% increase in the number of enrolled students at partner schools, from 363,824 enrolled students as of March 31, 2018 to 413,678 enrolled students as of March 31, 2019, which impacted the first three quarters of 2019, combined with the 174% increase in the number of enrolled students at partner schools to 1,131,691 as of March 31, 2020, which impacted the fourth quarter of 2019; and
- (ii) the 8.6% overall increase in the average contractual fees per student payable by partner schools, from R\$757.6 per student for the year ended December 31, 2018 to R\$823.0 per student for the year ended December 31, 2019, which impacted the first three quarters of 2019.

In our Supplemental segment, net revenue for the year ended December 31, 2019 was R\$139.5 million, an increase of R\$61.5 million, or 78.9% from R\$78.0 million for the year ended December 31, 2018.

This increase was primarily attributable to the 172% increase in the number of enrolled students at partner schools, from 84,875 enrolled students as of March 31, 2019 to 230,450 enrolled students as of March 31, 2020 and the addition of new supplemental solutions in our portfolio.

Cost of Sales

Cost of sales for the year ended December 31, 2019 was R\$117.3 million, an increase of R\$36.6 million, or 45.4%, from R\$80.7 million for the year ended December 31, 2018. This increase of 45.4% was primarily attributable to the overall increase in the production volume of our educational materials, resulting from the positive impact of our organic growth. The increase in cost of sales was lower than our revenue growth due to captured benefits from economies of scale.

As a percentage of net revenue, our cost of sales decreased to 20.5% for the year ended December 31, 2019, compared to 21.2% for the year ended December 31, 2018.

In our Core segment, cost of sales for the year ended December 31, 2019 was R\$97.5 million, an increase of R\$26.6 million, or 37.7%, from R\$70.9 million for the year ended December 31, 2018. As mentioned above, this increase was primarily attributable to the overall increase in the production volume of our educational materials, resulting from the positive impact of our organic growth. As a percentage of net revenue in our Core segment, cost of sales decreased to 22.5% in the year ended December 31, 2019, compared to 23.4% in the year ended December 31, 2018.

In our Supplemental segment, cost of sales for the year ended December 31, 2019 was R\$19.7 million, an increase of R\$9.9 million, or 101.0% from R\$9.8 million for the year ended December 31, 2018. This increase was also primarily attributable to the overall increase in the production volume of our educational materials, resulting from the positive impact of our organic growth and the addition of our supplemental solutions in our portfolio. As a percentage of net revenue in our Supplemental segment, cost of sales increased to 14.6% in the year ended December 31, 2019, compared to 12.6% in the year ended December 31, 2018.

Gross Profit

For the reasons discussed above, gross profit for the year ended December 31, 2019 was R\$455.5 million, an increase of R\$155.3 million, or 51.7%, from R\$300.2 million for the year ended December 31, 2018. In our Core segment, gross profit for the year ended December 31, 2019 was R\$335.8 million, an increase of R\$103.7 million, or 44.7%, from R\$232.1 million for the year ended December 31, 2018. In our Supplemental segment, gross profit for the year ended December 31, 2019 was R\$119.8 million, an increase of R\$51.6 million or 75.7%, from R\$68.1 million for the year ended December 31, 2018.

Selling Expenses

Selling expenses for the year ended December 31, 2019 were R\$199.8 million, an increase of R\$86.5 million, or 76.3%, from R\$113.3 million for the year ended December 31, 2018. This increase was primarily attributable to:

- (i) a R\$38.3 million, or 78.1%, increase in sales personnel expenses, mainly attributable to the 35% increase in the number of employees in our educational and pedagogical consulting teams to support our growth strategy going forward;
- (ii) a R\$13.5 million, or 78.0%, increase in customer support expenses due to continuous investments for customer satisfaction, which increases as our school base grows;
- (iii) a R\$11.6 million, or 97.4%, increase in depreciation and amortization expenses, mainly due to the acquisition of Positivo, which includes Positivo's trademarks, and customer relationship and educational systems; and
- (iv) a R\$13.3 million, or 74.0%, increase in sales & marketing expenses, mainly attributable to the expansion of our educational and pedagogical teams' activities, such as traveling expenses, advertising, and other general expenses, necessary to support our growth strategy going forward.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2019 were R\$191.4 million, an increase of R\$61.6 million, or 47.5%, from R\$129.8 million for the year ended December 31, 2018. This increase was primarily attributable to:

- (i) a R\$14.1 million increase in corporate personnel expenses totaling R\$53.4 million for the year ended December 31, 2019, due to the 25% increase in the number of employees in our general administrative team, from 284 employees as of December 31, 2018, to 355 employees as of December 31, 2019; and
- (ii) a R\$29.1 million increase in third-party services expenses totaling R\$43.4 million for the year ended December 31, 2019, attributable to expenses relating to (i) the acquisition of Positivo; and (ii) the follow-on equity public offering we completed on October 29, 2019.

Operating Profit

For the reasons discussed above, operating profit for the year ended December 31, 2019 was R\$58.1 million, a decrease of R\$4.0 million, or 6.4%, from R\$62.1 million for the year ended December 31, 2018.

Finance Result

Finance result for the year ended December 31, 2019 was a net finance cost of R\$98.8 million, a decrease of R\$63.4 million, from a net finance cost of R\$162.2 million for the year ended December 31, 2018, for the reasons described below.

Finance income. Finance income for the year ended December 31, 2019 was R\$72.0 million, an increase of R\$35.4 million, or 96.7%, from R\$36.6 million for the year ended December 31, 2018. This increase was mainly attributable to the interest generated from financial investments.

Finance costs. Finance costs for the year ended December 31, 2019 was R\$170.8 million, a decrease of R\$28.0 million, from R\$198.8 million for the year ended December 31, 2018. This decrease was primarily attributable to the effects of fair value adjustments of our derivative financial instruments comprising the put and call options of our business acquisitions and investments in associates and joint ventures, primarily with respect to International School, which had an impact of R\$89.4 million.

Share of Loss of Equity-Accounted Investees

Share of loss of equity-accounted investees for the year ended December 31, 2019 was a loss of R\$1.8 million, as compared to a loss of R\$0.8 million for the year ended December 31, 2018, attributable to the performance of our equity-accounted investees.

Loss before Income Taxes

For the reasons discussed above, for the year ended December 31, 2019, we recorded a loss before income taxes of R\$42.5 million compared to a loss of R\$100.9 million for the year ended December 31, 2018.

Income Taxes – Income

For the year ended December 31, 2019, we recorded an income tax credit of R\$33.1 million compared to an income tax credit of R\$18.0 million for the year ended December 31, 2018. This income tax credit was mainly attributable to the recognition of deferred tax credits over financial instruments from acquisition of interests.

Loss for the Year

As a result of the foregoing, loss for the year ended December 31, 2019 was R\$9.4 million compared to a loss of R\$82.9 million for the year ended December 31, 2018.

B. Liquidity and Capital Resources

As of December 31, 2020, we had R\$1,137.1 million in cash and cash equivalents and financial investments (current). We believe that our current available cash and cash equivalents and financial investments and the cash flows from our operating activities will be sufficient to meet our working capital requirements and capital expenditures in the ordinary course of business for the next 12 months.

The following discussion of our liquidity and capital resources is based on the financial information derived from the audited consolidated financial statements included elsewhere in this annual report.

Cash Flows

	For the Year Ended December 31,		
	2020	2019	2018
		(in thousands of reais)	
Cash Flow Data			
Net cash flows generated from (used in) operating activities	92,351	(7,615)	92,124
Net cash flows used in investing activities	(479,676)	(631,442)	(780,964)
Net cash flows generated from financing activities	762,647	676,211	734,742

Operating Activities

We recorded net cash flows generated from operating activities of R\$92,351 million in 2020, compared to net cash flows used in operating activities of R\$7.6 million in 2019. In 2020, our net cash flows generated from operating activities were affected by the impact of our organic growth through the acquisition of new companies, in addition to adding new partner schools and an increase in up-sales of our solutions during the period.

We recorded net cash flows used in operating activities of R\$7.6 million in 2019, compared to net cash flows from operating activities of R\$92.1 million in 2018. In 2019, our net cash flows used in operating activities were affected by the impact of our organic growth through the acquisition of new companies, in addition to adding new partner schools and an increase in up-sales of our solutions during the period, which was partially offset by increases in payments to suppliers and personnel expenses.

Investing Activities

Our net cash used in investing activities was R\$479.7 million in the year ended December 31, 2020, compared to net cash used in investing activities of R\$631.4 million in the year ended December 31, 2019, primarily due to the impact of the purchase of financial investments of R\$130.1 million and the amount paid in acquisition of subsidiaries during this year of R\$204.3 million.

Our net cash used in investing activities was R\$631.4 million in the year ended December 31, 2019, compared to net cash used in investing activities of R\$781.0 million in the year ended December 31, 2018, primarily due to the positive impact of new addition of financial investments of R\$277.4 million and the amount paid in acquisition of subsidiaries during this year of R\$798.9 million.

Financing Activities

Our net cash flows generated from financing activities for the year ended December 31, 2020 was R\$762.6 million, compared to R\$676.2 million in the year December 31, 2019, primarily due to net proceeds from public offerings, which in 2020 was R\$ 591.9 million and in 2019 was R\$589.6 million. Additionally, in 2020 we received R\$498.4 million from loans and financing, and R\$97.6 million in 2019.

Our net cash flows from financing activities for the year ended December 31, 2019 was R\$676.2 million, compared to R\$734.7 million in the year December 31, 2018, primarily due to net proceeds from public offerings, which in 2019 was R\$589.6 million, and in 2018 was R\$895.2 million. Additionally, in 2019 we received R\$97.6 million from loans and financing, and zero in 2018. Finally, in 2018 we paid dividends in the amount of R\$85.0 million, and zero in 2019.

Indebtedness

As of December 31, 2020, our total outstanding indebtedness was R\$311.1 million.

On July 1, 2020, we entered into a loan agreement with Banco Santander (Brasil) S.A. in the amount of R\$100.0 million. The loan accrues interest at a rate equal to 100% of the CDI rate plus 2.7% per annum. The loan is payable in December 2021 in a single installment.

On July 1, 2020, we entered into two loan agreements with Itaú Unibanco S.A. in the amount of R\$100.0 million each, both loans maturing in January 2022 (single installment). The loans accrue interest at a rate equal to 100% of the CDI rate plus 2.7% per annum, payable in 17 installments.

As collateral for the payment of the remaining purchase price of Positivo Acquisition, on October 25, 2018, we have entered into a bank guarantee with Banco Bradesco S.A. In accordance with the terms of such bank guarantee, 100% of the shares held by Arco Brazil in SAE and 20% of the shares held by Arco Brazil in PSD were assigned in guarantee (*alienação fiduciária*) to Banco Bradesco S.A.

On November 13, 2018, we have entered into a fiduciary agreement with Banco Safra S.A., as amended on December 3, 2020, to guarantee the payment due under the lease agreements of our São Paulo offices located at Rua Augusta 2,840. For further information, see note 13 to our audited consolidated financial statements.

Capital Expenditures

In the years ended December 31, 2020, 2019 and 2018 we made capital expenditures of R\$107.6 million, R\$54.1 million and R\$36.2 million, respectively. These capital expenditures mainly include expenditures related to the acquisition of property and equipment and the acquisition of intangible assets. Our capital expenditures increased in 2020 as compared to 2019 mainly due to: (i) investments made due to the acquisition of Positivo in developments of new products and educational technology in R\$34.1 million; and (ii) investments in software development and licenses of R\$22.1 million, which include investments in Positivo ERP's system, e-commerce platform and others softwares platforms. Our capital expenditures increased in 2019 as compared to 2018 mainly due to (i) investments made to comply with the BNCC amounting to R\$14.9 million and R\$ 5.5 million of investments and educational technology; (ii) investments in leasehold improvements of Fortaleza and São Paulo site of R\$4.6 million; and (iii) development Pleno's product of R\$4.1 million.

We expect to increase our capital expenditures to support the growth in our business and operations. We expect to meet our capital expenditure needs for the foreseeable future from our operating cash flow and our existing cash and cash equivalents. Our future capital requirements will depend on several factors, including our growth rate, the expansion of our research and development efforts, employee headcount, marketing and sales activities, the introduction of new features to our existing products and the continued market acceptance of our products. We are monitoring our cash position and if needed acquisition of funds from financial institutions, private debt or public offerings will be timely analyzed.

On January 6, 2021, our Board of Directors approved the Repurchase Program to comply with management long-term incentive plan obligations. Pursuant to the Repurchase Program, we may repurchase up to 500,000 of our outstanding Class A common shares in the open market, based on prevailing market prices, or in privately negotiated transactions, over a period beginning on January 6, 2021 continuing until the earlier of the completion of the repurchase or January 6, 2023, depending upon market conditions. Our Board of Directors will review the Repurchase Program periodically and may authorize adjustments to its terms and size or suspend or discontinue the Repurchase Program. We expect to use our existing funds to fund repurchases made under the Repurchase Program.

Additionally, our Board of Directors authorized our management to appoint J.P. Morgan Securities LLC, or JPMS, as our agent under the Repurchase Program to purchase securities on our behalf in the open market. Such purchases benefit from the safe harbor provided by Rule 10b-18, or Rule 10b-18, promulgated by the SEC under the Exchange Act. Accordingly, we shall not take, nor permit any person or entity under our control to take, any action that could jeopardize the availability of Rule 10b-18 for purchases of securities under the Repurchase Program.

The actual timing, number and value of shares repurchased under the Repurchase Program will depend on several factors, including constraints specified in the Rule 10b-18, price, general business and market conditions, and alternative investment opportunities. The Repurchase Program does not obligate us to acquire any specific number of shares in any period, and may be expanded, extended, modified or discontinued at any time.

As of the date of this annual report, we had purchased an aggregate of 276,581 Class A common shares for a total of approximately US\$9.8 million under the Repurchase Program.

C. Research and Development, Patents and Licenses, Etc.

See "Item 4. Information on the Company—D. Property, plant and equipment—Intellectual Property."

D. Trend Information

For a discussion of trend information, see “Item 4. Information on the Company—B. Business Overview—Underlying Trends.”

E. Off-Balance Sheet Arrangements

As of December 31, 2020, we did not have any off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

The following is a summary of our contractual obligations as of December 31, 2020:

	Payments Due by Period as of December 31, 2020				Total
	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	
Trade payables	40.9	—	—	—	40.9
Lease liabilities	3.6	9.1	22.5	—	35.2
Loans and financing	1.9	105.9	203.3	—	311.1
Accounts payable to selling shareholders ⁽¹⁾	152.0	504.0	1,130.5	—	1,786.5
Total	198.4	619.0	1,356.3	—	2,173.7

(1) See note 17 to our audited consolidated financial statements.

G. Safe harbor

See “Forward-Looking Statements.”

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and senior management

We are managed by our board of directors and by our senior management, pursuant to our Articles of Association and the Cayman Islands Companies Act (As Revised) or the Companies Act.

Board of Directors

As of December 31, 2020, our board of directors was composed of seven members. Each director holds office for the term, if any, fixed by the shareholders’ resolution that appointed him, or, if no term is fixed on the appointment of the director, until the earlier of his or her removal or vacation of office as a director in accordance with the Articles of Association. Directors appointed by the board of directors hold office until the next annual general meeting. Our directors do not have a retirement age requirement under our Articles of Association.

On February 23, 2021, our board of directors appointed two new independent members to its board of directors, Carla Schmitzberger and Beatriz Amary. The appointment of Ms. Amary and Ms. Schmitzberger expanded our board to nine directors and increases the number of independent directors to seven from five, bringing additional expertise and background diversity to the board. The appointments of Ms. Amary and Ms. Schmitzberger will be formally ratified at our annual general meeting scheduled to take place on April 29, 2021.

We have service contracts with our executive directors that provide the general terms of their services and applicable compensation.

The following table presents the names of the current members of our board of directors.

Name	Date of birth	Position
Oto Brasil de Sá Cavalcante	05/27/1946	Chairman
Ari de Sá Cavalcante Neto	07/08/1979	Director
Beatriz Amary	07/16/1978	Independent Director
Carla Schmitzberger	06/21/1962	Independent Director
David Peixoto dos Santos	06/03/1987	Independent Director*
Edward Ruiz	04/10/1950	Independent Director*
Martin Escobari	12/03/1971	Independent Director
Pablo Doberti	09/29/1964	Independent Director*
Stelleo Tolda	11/20/1967	Independent Director

* Member of our Audit Committee.

The following is a brief summary of the business experience of our directors. Unless otherwise indicated, the current business addresses for our directors is Rua Augusta 2840, 9th floor, suite 91, Consolação, São Paulo - SP, 01412-100, Brazil.

Oto Brasil de Sá Cavalcante is the Chairman of our board of directors, a position he has held since February 2018. Mr. Brasil de Sá Cavalcante has over 50 years' experience in the education industry. In 2001, he founded Colégio Ari de Sá in Fortaleza, and has been the chairman of its board of directors since 2001. In 2013, he founded Faculdade Ari de Sá in Fortaleza, and has been its chief executive officer since 2013. He holds a bachelor's degree in civil engineering from *Universidade Federal do Ceará* in Fortaleza.

Ari de Sá Cavalcante Neto is a member of our board of directors and our Chief Executive Officer, positions he has held since February 2018. He has been a member of the advisory committee at Colégio Ari de Sá since 2007. Mr. de Sá Cavalcante Neto was an associate at Ernst & Young from 1998 to 2000. He was the chief operating officer of Colégio Ari de Sá from 2001 to 2005 and was an associate at McKinsey & Company in 2006. He holds an MBA from the Massachusetts Institute of Technology (MIT).

Beatriz Amary is an independent board member, a position she has held since February 23, 2021. She is a partner focused on emerging markets at Amadeus Capital, a global technology investor. Before that, she was part of the team responsible for launching Actis, a global emerging markets investment fund, in São Paulo, leading investments in the consumer, retail, healthcare and education sectors in Latin America. Ms. Amary was responsible for the investments and held board member positions in CNA, an English Language Training company in Brazil, and Cruzeiro do Sul, an in-class and distance learning post-secondary education provider in Brazil. Prior to that, Ms. Amary worked in M&A at JP Morgan and Johnson & Johnson. Ms. Amary holds a degree from Fundação Getúlio Vargas in Brazil and an MBA from Harvard Business School.

Carla Schmitzberger is an independent board member, a position she has held since February 23, 2021. She was a vice-president at Alpargatas, owner of the Havaianas brand of sandals, for nearly 14 years, responsible for the internationalization of the business, the expansion of the brand to new product categories and the establishment of retail operations. Prior to that, Ms. Schmitzberger has worked for eight years at Citibank, holding the positions of Vice-President of Marketing and Products, Vice-President of Marketing and Head of Citibank Credit Cards Brazil. Ms. Schmitzberger also worked for 11 years at P&G and 2 years for Johnson & Johnson. Ms. Schmitzberger is currently an independent board member at Natura & Co and Lojas Marisa. Carla holds a bachelor's degree in chemical engineering from Cornell University.

David Peixoto dos Santos is a member of our board of directors, a position he has held since August 2020. He is also a member of our audit committee, a position he has held since December 22, 2020. Previously, he served as our Chief Financial Officer and Vice President of Business Development from March 2014 to October 2020. Prior to joining us, Mr. Peixoto dos Santos was an analyst at Credit Suisse from November 2011 to March 2014. He holds a law degree from *Universidade de São Paulo* and participated in a student exchange program at Yale University.

Edward Ruiz is a member of our board of directors and the chair of our audit committee, positions he has held since July 2019. Mr. Ruiz is an American national with over 50 years of experience in public and private accounting. He has been a Certified Public Accountant in the United States since 1972. Edward retired from Deloitte in 2012, where he was an audit partner and member of Deloitte's IFRS Specialist Group in Brazil. As Head of the Capital Markets group in Brazil, Edward advised companies on financial and regulatory reporting matters related to initial public offerings and secondary offerings in Brazil, the United States and European Capital Markets. Prior to Deloitte, he held executive positions in internal audit at JP Morgan and PepsiCo Inc. in the United States. He holds a bachelor's degree in Business Administration from Pace University, New York City and has taken advanced courses related to an Executive MBA at FIA in São Paulo and governance courses at the Harvard Business School. Since his retirement, Mr. Ruiz has gained extensive board-level experience as a member and Audit Committee chair of several publicly traded companies in Brazil. Mr. Ruiz is currently a Board member and Audit Committee chair at Nexa Resources, a mining company listed on the New York Stock Exchange and Toronto Stock Exchange and with mining and smelting operations in Brazil and Peru.

Martin Escobari is a member of our board of directors, a position he has held since August 2018. He has been with General Atlantic since 2012, and is a member of its Executive Committee, is the Chair of its Investment Committee, and is the head of its Latin America business. Mr. Escobari serves on the board of directors of Empreendimentos Pague Menos SA, Invekra, S.A.P.I. de C.V. (d/b/a Laboratórios Sanfer, S.A. de C.V.), Grupo Axo, S.A.P.I. de C.V. and XP Investimentos, and has previously served on the boards of Ourofino Saude Animal Participações S.A., Sura Asset Management, Smiles S.A. Aceco TI Participações S.A., Grupo Linx and Decolar.com, Inc. Mr. Escobari co-founded submarino.com and was its chief financial officer from 1999 to 2007. He was an associate at the Boston Consulting Group (New York) from 1994 to 1996, an investment officer at the private equity firm GP Investimentos from 1998 to 1999, and a managing director at Advent International from 2007 to 2011. Mr. Escobari holds a bachelor's degree in economics from Harvard College (Harvard University) and an MBA (George F. Baker Scholar) from Harvard Business School. He serves on the board of Primeira Chance, a scholarship program for gifted children in Brazil and is active with Endeavor Brazil, where he mentors young entrepreneurs. Mr. Escobari is also a member of the Brazil office of Harvard's Rockefeller Center for Latin American Studies.

Pablo Doberti is a member of our board of directors and a member of our audit committee, positions he has held since August 2019. Mr. Doberti is an education executive with more than 25 years of experience in the sector. He is the founder and CEO of Agaton Educação, a startup incubator and accelerator focused on education in Brazil and Mexico. He is also founder and CEO of Vivadi. Prior to Vivadi, Mr. Doberti was the General Global Director of Uno Internacional Santillana, creating the business model and leading the international expansion and the entrance of Unoi in Brazil. Mr. Doberti holds a bachelor's degree in Psychology from Universidad de Buenos Aires.

Stelleo Tolda is a member of our board of directors, a position he has held since August 2020. He has been the Chief Operating Officer of MercadoLibre Inc. since April 1, 2009 and had previously served as a senior vice president and as a country manager of Brazil since 1999. Previously, Mr. Tolda worked at Lehman Brothers Inc. in the United States in 1999, and at Banco Pactual and Banco Icatu in Brazil, from 1996, 1997 and 1994 to 1996, respectively. Mr. Tolda holds an MBA from Stanford University, and a master's degree and bachelor's degree in mechanical engineering from Stanford University.

Executive Officers

Our executive officers are responsible for the day-to-day management of our business and for implementing the general policies and directives established by our board of directors. We have a strong management team led by Ari de Sá Cavalcante Neto, our Chief Executive Officer, who has broad experience in the education industry. The members of our management team have worked together as a team for many years. Our executive officers were appointed by our board of directors for an indefinite term.

The following table lists our current executive officers:

Name	Date of birth	Position
Ari de Sá Cavalcante Neto	07/08/1979	Chief Executive Officer
Alexandre Nakamaru	07/29/1976	Chief Financial Officer
João Cunha Silva	10/27/1985	Chief Product Officer
Pedro Guerra	10/19/1985	Chief Operating Officer

The following is a brief summary of the business experience of our executive officers. Unless otherwise indicated, the current business addresses for our executive officers is Rua Augusta 2840, 9th floor, suite 91, Consolação, São Paulo - SP, 01412-100, Brazil.

Alexandre Nakamaru is our Chief Financial Officer, a position he has held since October 2020. He previously served as Financial Officer of Arco between June 2019 and October 2020. Mr. Nakamaru has 18 years of experience working at large multinational companies in Brazil (including Monsanto, AmBev and Natura), in audit roles at Deloitte and as the Chief Financial Officer of two private equity owned companies. Mr. Nakamaru holds a bachelor's degree in business administration from *Fundação Armando Alvares Penteado – FAAP* and a post-graduation degree in controllership from *Fundação Getúlio Vargas (FGV)*.

João Cunha Silva is our Chief Product Officer, a position he has held since September 2, 2020. Before that, Mr. Cunha was our Chief Operating Officer, a position he held from February 2018 to September 2020. Mr. Cunha Silva has also been the Chief Executive Officer of SAS, one of our core business units, since 2018. Prior to joining us, Mr. Cunha Silva was an associate at Boston Consulting Group from January 2008 to September 2009. He holds a bachelor's degree in computer engineering from *Universidade Estadual de Campinas (Unicamp)*, in Campinas, São Paulo, and a certificate from the Executive Leadership Development program at Stanford University.

Pedro Guerra is our Chief Operating Officer, a position he has held since September 2, 2020. Mr. Guerra has also been the Chief Executive Officer of SAE Digital, one of our core business units, since March 2019. Prior to joining us in 2018, Mr. Guerra has worked at Bain & Company in Brazil, the United Kingdom and Chile. He holds a bachelor's degree in mechanical engineering from *Unicamp* and an MBA from Columbia University, in New York City.

Family Relationships

Oto Brasil de Sá Cavalcante, our Chairman, is the father of Ari de Sá Cavalcante Neto, our Chief Executive Officer.

Directors' and Officers' Insurance

We have contracted civil liability insurance coverage for acts carried out by our directors and executive officers in the course of their duties.

B. Compensation

Compensation of Directors and Officers

Under Cayman Islands law, we are not required to disclose compensation paid to our senior management on an individual basis and we have not otherwise publicly disclosed this information elsewhere.

Our executive officers, directors and management receive fixed and variable compensation. They also receive benefits in line with market practice in Brazil. The fixed component of their compensation is set on market terms and adjusted annually.

The variable component consists of cash bonuses and awards of shares (or the cash equivalent). Cash bonuses or paid to executive officers and members of our management based on previously agreed targets for the business. Shares (or the cash equivalent) are awarded under our share options long-term incentive program, as discussed below.

Long-Term Incentive Plan (LTIP) and Share-based Compensation

Restricted Shares Grant Plan

On April 30, 2019, our board of directors approved our restricted share long-term incentive program, or the "Restricted Shares Grant Plan." The maximum number of shares that can be issued under the Restricted Shares Grant Plan may not exceed 5% of our share capital at any time. The Restricted Shares Grant Plan is administered by our board of directors and a designated committee (the "Restricted Share Plan Advisory Committee").

Our and our controlled companies' directors, officers, employees and professionals of any nature may participate in the Restricted Shares Grant Plan, which is composed of two underlying programs: (i) the regular program, pursuant to which we will grant restricted shares to the participant at no cost, subject to certain vesting and/or performance conditions (the "Regular Program") and (ii) the matching shares program, pursuant to which we will match the number of Class A shares (at no additional cost to the participant) that were acquired by the participant at fair market value ("investment shares"), using the amounts received by the participant as a short term incentive and designated by our board of directors to be used as an investment in investment shares, provided certain vesting conditions are satisfied (the "Matching Program").

Under the matching shares program, participants are required to (i) be employed or providing services to us through each vesting date, as set forth in the applicable award agreement and (ii) hold the investment shares through each vesting date. The vesting period may not exceed five years. In addition, upon each vesting date, a portion of the investment shares will become free of restrictions and the participant will be allowed to freely negotiate such shares. Under the regular shares program, the participant's right to receive the restricted shares will be subject to the participant remaining continuously bound as our employee, officer, or director, as applicable, through each vesting, which may not exceed five years.

If a participant is dismissed by us with cause or voluntarily terminates his or her employment or service relationship with us, the participant will forfeit any right to the unvested shares. If the participant is dismissed by us without cause or by mutual agreement between us and the participant, the participant will be entitled to receive his or her vested shares and a pro rata amount of the granted and unvested shares, by reference to the vesting period in which the termination occurred and based on the number of days the participant was employed by us. In case of the participant's death or permanent disability, the participant (or his or her heirs) will be entitled to receive all the granted shares, whether or not vested, which will be delivered upon termination of the original vesting period.

If our shares cease to be publicly traded or in an event of a change in our control, the vesting period of the granted shares will be accelerated, as applicable. In each such case, each participant may elect to (i) sell his or her granted shares at a price equal to the price at which the shares were sold in connection with the transaction resulting in the Company becoming privately owned or in a change of control, or (ii) remain a shareholder of the Company subject to the approval of the board of directors.

Awards of restricted shares and matching shares may be settled in shares or cash, as determined by our board of directors. The restricted shares and matching shares may not be pledged, assigned or transferred to third parties, without the prior approval of our board of directors. Participants in the Restricted Share Grant Plan will be subject to a two-year post-termination of employment or service noncompete and prohibition against soliciting our employees, service providers and customers. The Restricted Shares Grant Plan provides that the Company shall withhold a portion of the restricted shares units to comply with all taxes applicable to the delivery of the restricted shares units to the beneficiary.

As of March 31, 2021, we had 253,756 restricted shares units outstanding under the Regular Program and Matching Program.

Regular Programs

The Restricted Plan Advisory Committee approves the participants of each Regular Program, from time to time. The table below shows the grant date and market value on the grant date of the share units granted by us up to March 31, 2021, under the Regular Programs.

Grant Date	Regular Program	No. of Unit Shares		Value per Unit Share	
April 30, 2019	1 st Program	542,760	RS		126.76
June 30, 2019	3 rd Program	3,086	RS		192.19
October 15, 2019	2 nd Program	37,929	RS		200.18
January 23, 2020	4 th Program	13,000	RS		214.48
March 2, 2020	5 th Program	36,673	RS		238.93
March 4, 2020	6 th Program	13,164	RS		254.21
September 3, 2020	7 th Program	3,600	RS		245.18
November 19, 2020	8 th Program	6,648	RS		216.63
February 10, 2021	9 th Program	70,320	RS		204.03
February 10, 2021	10 th Program	1,838	RS		204.03
February 26, 2021	11 th Program	1,836	RS		196.58

All such shares will be available for sale by the beneficiaries annually, over three or four years, on each date of the anniversary of the IPO or March 31, depending on the program.

Matching Program

On February 26, 2021, our Restricted Shares Plan Advisory Committee approved our first Matching Program. The table below shows the grant date and market value on the grant date of the share units granted by us up to March 31, 2021, under the Matching Programs.

Grant Date	Matching Program	No. of Unit Shares		Value per Unit Share	
February 26, 2021	1 st Program	9,366	RS		196.58

All such shares, including the investment shares acquired by the participants of the Matching Program, will be available for sale by the beneficiaries annually, over four years, on March 31 of each year.

LTIP I

Certain members of our management participate in our share option long-term incentive program, or the LTIP I. Beneficiaries under the LTIP I are granted rights to buy shares based on certain criteria.

After our initial public offering in September 2018, all the options of the LTIP I were cancelled and reissued by Arco and automatically vested, generating an expense in our consolidated statement of income (loss) of R\$59,747 thousand in 2018 (compared to an expense of R\$1,359 thousand in 2017 and an expense of R\$2,043 thousand in 2016).

As of December 31, 2020, we had a total of 1,091,039 exercised share options (the total of 1,091,039 share options of PSD were vested as of December 31, 2019). All the vested shares options were exercised by the beneficiaries and no additional options were granted under the LTIP I.

C. Board Practices

Committees of the Board of Directors

Our board of directors has two standing committees: Audit Committee and Compensation Committee.

Audit Committee

The audit committee, which consists of Edward Ruiz, Pablo Doberti and David Peixoto dos Santos, assists our board of directors in overseeing our accounting and financial reporting processes and the audits of our financial statements. In addition, the audit committee is directly responsible for the appointment, compensation, retention and oversight of the work of our independent registered public accounting firm. Edward Ruiz serves as Chairman of the audit committee. The audit committee consists exclusively of members of our board of directors who are financially literate, and Edward Ruiz is considered an “audit committee financial expert” as defined by the SEC. Our board of directors has determined that Edward Ruiz, Pablo Doberti and David Peixoto dos Santos satisfy the “independence” requirements set forth in Rule 10A-3 under the Exchange Act.

The audit committee is governed by a charter that complies with Nasdaq rules. The audit committee is responsible for, among other matters:

- the appointment, compensation, retention and oversight of any auditor or accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services;
- pre-approving the audit services and non-audit services to be provided by our independent auditor before the auditor is engaged to render such services;
- reviewing and discussing with the independent auditor its responsibilities under generally accepted auditing standards, the planned scope and timing of the independent auditor’s annual audit plan(s) and significant findings from the audit;
- obtaining and reviewing a report from the independent auditor describing all relationships between the independent auditor and the Company consistent with the applicable PCAOB requirements regarding the independent auditor’s communications with the audit committee concerning independence;
- confirming and evaluating the rotation of the audit partners on the audit engagement team as required by law;
- reviewing with management and the independent auditor, in separate meetings whenever the Audit Committee deems appropriate, any analyses or other written communications prepared by the Management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative IFRS methods on the financial statements; and other critical accounting policies and practices of the Company;
- reviewing, in conjunction with the Chief Executive Officer and Chief Financial Officer of the Company, the Company’s disclosure controls and procedures and internal control over financial reporting;
- establishing procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;
- approving or ratifying any related person transaction in accordance with our internal policies and applicable legislation; and
- review, direct and supervise the actions of the Ethics Committee, which analyzes, investigates and take the proper measures in case of misconduct by any employee and breaches of the Company’s Code of Ethics and other internal policies.

The audit committee meets as often as it determines is appropriate to carry out its responsibilities, but in any event, meets at least four times per year.

Compensation Committee

Our compensation committee was created on March 12, 2020 by our board of directors, and it is composed of two members, Edward Ruiz and Pablo Doberti.

Our compensation committee assists our board of directors in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. The committee reviews the total compensation package for our executive officers and directors and recommends to the board of directors for determination the compensation of each of our directors and executive officers and will periodically review and approve any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, and employee pension and benefits plans. Our board of directors has determined that Edward Ruiz and Pablo Doberti satisfy the requirements set forth Nasdaq Listing Rule 5605(d), which requires that a compensation committee consist entirely of independent directors.

Restricted Shares Plan Advisory Committee

Our restricted shares plan advisory committee was created on September 30, 2019, by our board of directors, and its composed by four members, Ari de Sá Cavalcante Neto, Renata Machado (our people and performance officer), Alexandre Nakamaru and Pablo Doberti, which assists the board of directors on matters regarding the Restricted Shares Grant Plan.

D. Employees

As of December 31, 2020, 2019 and 2018, we had 2,746, 1,949 and 1,198 employees, respectively. As of December 31, 2020, 633 of these employees were based in our offices in Fortaleza, 966 of these employees were based in our offices in Curitiba, and 1147 were based in cities elsewhere in Brazil. As of December 31, 2020, 2019 and 2018, we had 799, 362 and 122 sales consultants marketing personnel, respectively. We also engage temporary employees and consultants as needed to support our operations.

The table below breaks down our full-time personnel by function as of December 31, 2020:

Function	Number of Employees	% of Total
Management	32	1%
Technology and Content Development	900	33%
Sales and Marketing	799	29%
Customer Support	579	21%
General and Administrative	436	16%
Total	2,746	100%

Our employees are represented by labor unions through collective agreements (*convenções coletivas*) they have with such labor unions. These collective agreements are renegotiated annually. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

None of our executive officers have entered into employment agreements directly with the Company. All the employment agreements of the executive officers were entered into with PSD. Those agreements are the sole agreement existing to regulate the executive officers' activities.

E. Share ownership

The shares and any outstanding beneficially owned by our directors and officers and/or entities affiliated with these individuals are disclosed in "Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders."

See "Item 6. Directors, Senior Management and Employees—B. Compensation—Long-Term Incentive Plan (LTIP)" for information on our share option long-term incentive program.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table and accompanying footnotes present information relating to the beneficial ownership of our Class A common shares and Class B common shares as of December 31, 2020.

The number of common shares beneficially owned by each entity, person, executive officer or director is determined in accordance with the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares over which the individual has sole or shared voting power or investment power as well as any shares that the individual has the right to acquire within 60 days through the exercise of any option, warrant or other right. Except as otherwise indicated, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all common shares held by that person.

The percentages of beneficial ownership in the table below are calculated as of December 31, 2020 on the basis of (i) 30,186,715 Class A common shares outstanding, and (ii) 27,400,848 Class B common shares outstanding. In addition to the shares detailed below, we have a total of 29,625,953 Class A common shares outstanding that are publicly traded as of December 31, 2020.

Unless otherwise indicated below, the address for each beneficial owner is c/o Arco, Rua Augusta 2840, 9th floor, suite 91, Consolação, São Paulo - SP, 01412-100, Brazil.

Shareholders	Shares Beneficially Owned as of December 31, 2020				% of Total Voting Power ⁽¹⁾
	Class A		Class B		
	Shares	%	Shares	%	
5% Shareholders					
Ari de Sá Cavalcante Neto ⁽²⁾	340,360	1.1%	8,297,485	30.3%	27.4%
Oto Brasil de Sá Cavalcante ⁽³⁾	—	—	18,966,953	69.2%	62.4%
Other Shareholders					
Other Shareholders	—	—	136,410	—	—
Executive Officers and Directors					
Oto Brasil de Sá Cavalcante ⁽³⁾	—	—	18,966,953	69.2%	62.4%
Ari de Sá Cavalcante Neto ⁽²⁾	340,360	1.1%	8,297,485	30.3%	27.4%
David Peixoto dos Santos	*	*	—	—	—
João Cunha Silva	*	*	—	—	*
Pedro Guerra	*	*	—	—	*
Alexandre Nakamaru	*	*	—	—	*
Martin Escobari	—	—	—	—	—
Pablo Doberti	*	*	—	—	*
Stelleo Tolda	—	—	—	—	—
Edward Ruiz	*	*	—	—	*
All directors and executive officers as a group	560,762	1.9%	27,264,438	99.5%	89.8%

* Represents beneficial ownership of less than 1% of our issued and outstanding common shares.

(1) Percentage of total voting power represents voting power with respect to all of our Class A common shares and Class B common shares, as a single class. Holders of our Class B common shares are entitled to 10 votes per share, whereas holders of our Class A common shares are entitled to one vote per share. For more information about the voting rights of our Class A common shares and Class B common shares, see “Item 10. Additional Information—B. Memorandum and articles of association.”

(2) Indirectly owns Class B common shares through ASCN Investments Ltd.

(3) Indirectly owns Class B common shares through OSC Investments Ltd.

The holders of our Class A common shares and Class B common shares have identical rights, except that our Founding Shareholders as holders of Class B common shares (i) are entitled to 10 votes per share, whereas holders of our Class A common shares are entitled to one vote per share (ii) have certain conversion rights and (iii) are entitled to maintain a proportional ownership interest by purchasing additional Class B common shares in the event that additional Class A common shares are issued. For more information see “Item 10. Additional Information—B. Memorandum and articles of association—Preemptive or Similar Rights” and “Item 10. Additional Information—B. Memorandum and articles of association—Conversion.” Each Class B common share is convertible into one Class A common share.

B. Related party transactions

Educational Agreement—International School Program

On August 2, 2016, Educadora ASC Ltda., or Educadora ASC, entered into an agreement with International School, pursuant to which International School agreed to (i) make available to Educadora ASC an educational platform that it developed, and (ii) supply to Educadora ASC the related materials, and Educadora ASC agreed to pay certain fees to International School in connection therewith. The net revenue from sales to Educadora ASC totaled R\$2.9, R\$3.2 million and R\$2.7 million for the years ended December 31, 2020, 2019 and 2018.

Development and Promotion of Educational Materials Agreement

On August 29, 2014, Educadora ASC and Livraria ASC Ltda., or Livraria ASC, entities under common control of our controlling shareholder, entered into an agreement with *SAS Desenvolvimento e Promoção de Material Didático*, or *SAS Material Didático*, which was merged into PSD on January 2021, pursuant to which (i) *SAS Material Didático* agreed to (a) make available to Educadora ASC and Livraria ASC an educational platform that it developed, and (b) supply to Educadora ASC and Livraria ASC the related materials, and (ii) Educadora ASC agreed to promote the educational platform and share its expertise in educational management with *SAS Material Didático*, and Educadora ASC and Livraria ASC agreed to pay certain fees to *SAS Material Didático* in connection therewith.

The agreement is for an initial term of 10 years and will be automatically renewed for an additional 5 years or 10 years respectively, should there be a change of control or initial public offering of PSD Brazil or any of the companies in *SAS Material Didático*'s economic group. The net revenue from sales to Educadora ASC totaled R\$0.3 million, R\$0.4 million and R\$0.4 million for the years ended December 31, 2020, 2019 and 2018, respectively. The net revenue from sales to Livraria ASC totaled R\$4.9 million, R\$5.2 million and R\$5.1 million for the years ended December 31, 2020, 2019 and 2018, respectively. Due to the merger of *SAS Desenvolvimento* (or Arco Ventures) with PSD Educação, on December 2020, the agreements with Educadora ASC and Livraria ASC were assigned to PSD Educação as a part of the group reorganization. The values described herein for December 2020 consists of the total net revenue, considering the sales for *SAS Desenvolvimento* and PSD Educação.

Loan Agreement with Nave à Vela

Arco Ventures is party to four loan agreements with Nave à Vela.

On November 29, 2019 Nave à Vela entered into two loan agreements respectively in the amount of R\$1.3 million (which Nave à Vela only requested for R\$900,000.00) and R\$1.0 million, as of December 31, 2020. The loans matured on March 30, 2020 and April 30, 2020, respectively. The R\$1.3 million loan accrues interest of 0.8% per month and the R\$1.0 million loan accrues interest at 100% of CDI.

On March 31, 2020, Arco Ventures S.A. entered into a loan agreement with Nave à Vela, in the amount of R\$5 million. The loan accrues interest at a rate equal to 0.65% per month and matures on March 31, 2022.

Additionally, on November 27, 2020, PSD entered into a loan agreement with Nave à Vela, in the amount of R\$6 million. The loan accrues interest rate equal to 0.65% per month and matures on March 31, 2022.

Loan and Debentures Agreements with Geekie

On January 17, 2019, we entered into an agreement (the "Geekie Agreement") with Geekie, our subsidiary company. Pursuant to the Geekie Agreement, we purchased 100,000 debentures issued by Geekie, each at par value R\$100.00, totaling R\$10 million. The debentures mature in June 2022 and bears interest at 110% of the CDI, as described in note 10 to our audited consolidated financial statements. As per the new negotiation between the companies, in June 2022, PSD will have acquired 100% of the stock capital of Geekie.

In addition, and pursuant to the Geekie Agreement, we lent R\$4.0 million to Geekie Partners S.A., the former controlling entity of Geekie. The loan is repayable in a single instalment in June 2022, bears interest at 110% of the CDI, and is secured by the shares of Geekie Partners S.A. in Geekie.

The transaction totaled R\$14.0 million and its purpose was to support Geekie's working capital needs.

In accordance with the investment agreement executed on November 27, 2020, we will lend in 2021 the amount of R\$5.5 million to Geekie, for the development of a new line of products.

Loan Agreement with Arco Educação S.A.

On March 27, 2020 and April 15, 2020, we entered into two loan agreements with Arco Educação S.A. in the amounts of R\$5 million and R\$11.5 million, respectively. Both loans accrue interest at a rate equal to 100% of the CDI and mature on March 27, 2023.

Investment in Isaac

On January 25, 2021, we entered into a Series B Ordinary Shares Purchase Agreement, among other ancillary and transactional documents, with INCO, the controlling entity of OISA (a company indirectly controlled by David Peixoto dos Santos), by which we acquired 8,571,427 series B ordinary shares, equivalent to 30% of the total stock capital of INCO, for a total amount of R\$25,000,000. INCO Limited provides financial assistance and other administrative services to private schools.

Sale of Escola de Aplicação São José dos Campos Ltda.

On January 2, 2019, we sold the shares we owned in Escola de Aplicação São José dos Campos Ltda. to its minority shareholders. The transaction price of R\$3.7 million will be paid in sixteen quarterly installments from January 2022 to October 2025, adjusted by the IGP-M. On October 23, 2020, the buyers have anticipated the payment of the installments due in 2022 and the first installment of 2023. On February 26, 2021 the parties executed an amendment to the purchase agreement, which was agreed that the installments to be paid in 2021 will be adjusted by the IPCA.

Indemnification Agreements

We have entered into indemnification agreements with each of our directors and executive officers. Pursuant to these agreements, we have agreed to indemnify and hold harmless each director and officer to the full extent permitted by applicable law in the event of any claim made against him or her in any proceeding due to the fact that he or she is or was a director or officer of our company or served at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise.

In addition, under the terms of these agreements we have agreed to cover all expenses actually and reasonably incurred by each director and officer in connection with any such proceeding, with certain limited exceptions.

The indemnification extends to the beneficiary's services as a director or officer prior to the date of the indemnification agreement as well as afterward. It continues after the beneficiary ceases to be a director or officer.

C. Interests of experts and counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated statements and other financial information

Financial statements

See "Item 18. Financial Statements," which contains our audited financial statements prepared in accordance with IFRS.

Dividends and Dividend Policy

We have not adopted a dividend policy with respect to future distributions of dividends. The amount of any distributions will depend on many factors such as our results of operations, financial condition, cash requirements, prospects and other factors deemed relevant by our board of directors and, where applicable, our shareholders. We currently intend to retain all available funds and any future earnings, if any, to fund the development and expansion of our business and we do not anticipate paying any cash dividends in the foreseeable future.

Subject to the Companies Act, Arco's shareholders may, by resolution passed by a simple majority of the voting rights entitled to vote at a general meeting, declare dividends (including interim dividends) to be paid to shareholders but no dividend shall be declared in excess of the amount recommended by the board of directors. The board of directors may also declare dividends. Dividends may be declared and paid out of funds lawfully available to Arco. Except as otherwise provided by the rights attached to shares and the Articles of Association of Arco, all dividends shall be paid in proportion to the number of Class A common shares or Class B common shares a shareholder holds at the date the dividend is declared (or such other date as may be set as a record date); but, (i) if any share is issued on terms providing that it shall rank for dividend as from a particular date, share shall rank for dividend accordingly, and (ii) where we have shares in issue which are not fully paid up (as to par value) we may pay dividends in proportion to the amounts paid up on each share.

The holders of Class A common shares and Class B common shares shall be entitled to share equally in any dividends that may be declared in respect of Arco's common shares from time to time. In the event that a dividend is paid in the form of Class A common shares or Class B common shares, or rights to acquire Class A common shares or Class B common shares, (1) the holders of Class A common shares shall receive Class A common shares, or rights to acquire Class A common shares, as the case may be; and (2) the holders of Class B common shares shall receive Class B common shares, or rights to acquire Class B common shares, as the case may be.

We have not declared or paid any dividends to our shareholders since our incorporation in the Cayman Islands on April 12, 2018. However, PSD Brazil, our principal operating company and the wholly owned subsidiary of Arco Brazil at that time, paid significant dividends to the shareholders of PSD Brazil, including R\$13.5 million in February 2016 and R\$75.0 million in September 2017.

In addition, a dividend payment of R\$10.5 million (based on PSD Brazil's net profit for the year ended December 31, 2017, and pursuant to the Brazilian Corporate Law which requires PSD Brazil to pay a minimum dividend equal to 25% of its net profit for the year) which was declared by the management of PSD Brazil was approved at the PSD Shareholders' Meeting and paid to the shareholders of PSD Brazil on June 25, 2018. In addition, PSD Brazil approved an additional dividend of R\$74.5 million on June 7, 2018, which was paid to the shareholders of PSD Brazil on June 25, 2018. There was no distribution of dividends of PSD Brazil in 2018, 2019 and 2020.

Certain Cayman Islands and Brazilian Legal Requirements Related to Dividends

Under the Companies Act and our Articles of Association, a Cayman Islands company may pay a dividend out of either its profit or share premium account, but a dividend may not be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. According to our Articles of Association, dividends can be declared and paid out of funds lawfully available to us, which include the share premium account. Dividends, if any, would be paid in proportion to the number of common shares a shareholder holds. For further information, see "Item 10. Additional Information—E. Taxation—Cayman Islands Tax Considerations."

Additionally, please refer to "Item 3. D. Risk Factors—Certain Factors Relating to Our Business and Industry—We depend on dividend distributions by our subsidiaries, and we may be adversely affected if the performance of our subsidiaries is not positive or if Brazil imposes legal restrictions on dividend distributions by subsidiaries." Our ability to pay dividends is directly related to positive and distributable net results from our Brazilian subsidiaries. If, for any legal reasons due to new laws or bilateral agreements between countries, they are unable to pay dividends to Cayman Islands companies, or if a Cayman Islands company becomes incapable of receiving them, we may not be able to make any dividend payments in the future.

Legal proceedings

We are, and may be from time to time, involved in disputes that arise in the ordinary course of our business. Claims against us can be time-consuming, result in costly litigation, require significant management time and result in the diversion of significant operational resources.

In particular, we are subject to a number of judicial and administrative proceedings in the Brazilian court systems, including civil, labor and tax law claims and other proceedings. We recognize provisions for legal proceedings in our financial statements when (i) it is probable that an outflow of resources will be required to settle the obligation, and (ii) a reliable estimate can be made of the amount of the obligation. The assessment by our management of the likelihood of loss includes analysis by outside counsel of available evidence, the hierarchy of laws, available case law, recent court rulings and their relevance in the Brazilian legal system. Our provisions for probable losses arising from these matters are estimated and periodically adjusted by management. In making these adjustments, our management relies on the opinions of our external legal advisors.

As of December 31, 2020, we had a provision for legal proceedings of R\$630 thousand recorded in our financial statements in connection with legal proceedings, based on the advice of our external legal counsel that the likelihood of loss in connection with such proceedings is probable. However, legal proceedings are inherently unpredictable and subject to significant uncertainties. If one or more cases were to result in a judgment against us in any reporting period for amounts that exceeded our management's expectations, the impact on our operating results or financial condition for that reporting period could be material. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business and Industry—Unfavorable decisions in our legal, arbitration or administrative proceedings may adversely affect us."

Civil Matters

As of December 31, 2020, we were a defendant to approximately 38 judicial and administrative proceedings of a civil nature for which we did not record any provision based on the advice of our external legal counsel that the likelihood of loss in connection with these proceedings was not probable. The civil claims to which we are a party generally relate to consumer claims, including those related to the early termination of certain of our agreements, among others. We believe these proceedings are unlikely to have a material adverse impact, individually, or in the aggregate, on our results of operations or financial condition.

As of March 31, 2021, we were party to two administrative proceeding of civil nature filed by the prosecutor's offices in the States of Ceará and Maranhão.

The proceeding in the State of Ceará results from a complaint filed on behalf of some students' parents of one of our partner schools alleging that the students are required to purchase our educational material only from the partner school in which the student is enrolled in at prices higher than those charged by other partner schools in the region, with no option to purchase such educational material at bookstores or other points of sale. We have filed our answers, which are currently under review.

The proceedings filed by the prosecutor's offices in the state of Maranhão, result from the questioning of students' parents of some our partner schools in the region about the impossibility of using reused books and acquiring access to our digital content without acquiring the full platform provided by us. We have already filed our answers, which are currently under review.

As both the proceedings are still ongoing and at early stage, it is not possible to confirm the claims that may be asserted against us, however the applicable prosecutors' offices may file a public civil claim or require the parties to enter into a settlement agreement (*Termo de Ajustamento de Conduta - TAC*), requiring the partner schools to adjust its commercial practices as they relate to the sale of educational material. As of March 31, 2021, we cannot estimate the amount of any eventual fine or any claim for damages, or collective non-material damages that may be imposed on us as a result of this proceeding.

Labor Matters

As of December 31, 2020, we were party to approximately 13 labor-related judicial and administrative proceedings for which we did not record any provision based on the advice of our external legal counsel that the likelihood of loss in connection with these proceedings was not probable. In general, the labor claims to which we are a party were filed by former employees or third-party employees seeking our joint and/or subsidiary liability for the acts of our suppliers and service providers. The principal claims involved in these labor suits relate to overtime, salary equalization termination fees, and indemnities based on Brazilian labor laws. We believe these proceedings are unlikely to have a material adverse impact, individually or in the aggregate, on our results of operations or financial condition.

Tax and Social Security Matters

As of December 31, 2020, we were party to 9 administrative tax and social security proceeding for which we did not record any provision based on the advice of our external legal counsel that the likelihood of loss in connection with this proceeding was not probable.

Request for Arbitration

On September 19, 2019, Mr. Ulisses Borges Cardinot, a 48.52% shareholder in our subsidiary, International School, filed a request for arbitration with the Center for Arbitration and Mediation of the Chamber of Commerce Brazil-Canada in Brazil against Arco Platform Limited, PSD Educação S.A. (current name of EAS Educação S.A.) and Arco Educação S.A.

This request for arbitration purporting to assert Mr. Cardinot's rights under the Investment Agreement (for more information regarding the Investment Agreement, see "Item 4.A. History and development of the company—Acquisitions and Investments—Acquisition of International School") is still ongoing; therefore, it is not possible to confirm if the claims asserted by Mr. Cardinot in the course of the proceedings will prevail. Mr. Cardinot, however, has asserted that, among others, he is entitled to receive shares of Arco Platform and the purchase price due pursuant to the Investment Agreement is materially higher. On October 10, 2019, we filed our response to the request for arbitration, denying Mr. Cardinot's claims and affirming that Arco Platform and Arco Educação cannot be parties to the arbitration since they are not parties to the Investment Agreement. On July 6, 2020, Arco Brazil, the Company and EAS filed their statements of defense. On August 10, 2020, Ulisses Cardinot filed his reply to the statements of defense. On September 14, 2020, Arco Brazil, the Company and PSD filed their rejoinders. As of December 31, 2020, the arbitration panel has not decided on the merits of the dispute and the proceeding is still ongoing.

This request for arbitration purporting to assert Mr. Cardinot's rights under the Investment Agreement (for more information regarding the Investment Agreement, see "Item 4.A. History and development of the company—Acquisitions and Investments—Acquisition of International School") is still ongoing; therefore, it is not possible to confirm if the claims asserted by Mr. Cardinot in the course of the proceedings will prevail. Mr. Cardinot, however, has asserted that, among others, he is entitled to receive shares of Arco Platform and the purchase price due pursuant to the Investment Agreement is materially higher. Since the date of the request for arbitration filed by Mr. Cardinot, there were several submissions by PSD Educação S.A. and by Mr. Cardinot in the proceeding, which had not caused a material impact on our assessment of the applicable liabilities or on the provisions made by us in the financial statements. As of December 31, 2020, the arbitration panel has not decided on the merits of the dispute and the proceeding is still ongoing.

We are vigorously defending ourselves against the existing claims and any additional claims that may be asserted against us in the future by Mr. Cardinot. If an unfavorable decision in the arbitration were to occur, it could result in a material adverse impact on our financial position and results of operations in the period in which the decision occurs, or in future periods, and on the price of our Class A common shares.

B. Significant changes

None.

ITEM 9. THE OFFER AND LISTING

A. Offering and listing details

On September 28, 2018, we completed our initial public offering. Subsequently, we completed a follow-on offering on: (i) October 24, 2019; (ii) June 4, 2020; and (iii) September 8, 2020. Our common shares have been listed on the Nasdaq Global Select Market since September 26, 2018 under the symbol "ARCE."

B. Plan of distribution

Not applicable.

C. Markets

For a description of our publicly traded common shares, see "—A. Offering and listing details."

D. Selling shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share capital

Not applicable.

B. Memorandum and articles of association

Our shareholders adopted the Amended and Restated Memorandum and Articles of Association included as Exhibit 3.1 to the Amendment No. 2 to our registration statement on Form F-1 (File no. 333-227007), filed with the SEC on September 12, 2018.

Share Capital

The Memorandum and Articles of Association authorize two classes of common shares: Class A common shares, which are entitled to one vote per share, and Class B common shares, which are entitled to 10 votes per share and to maintain a proportional ownership interest in the event that additional Class A common shares are issued. Any holder of Class B common shares may convert his or her shares at any time into Class A common shares on a share-for-share basis. The rights of the two classes of common shares are otherwise identical, except as described below. The implementation of this dual class structure was required by Oto Brasil de Sá Cavalcante and Ari de Sá Cavalcante Neto, our principal shareholders, as a condition of undertaking the initial public offering of our common shares. See “—Anti-Takeover Provisions in our Articles of Association—Two Classes of Shares.”

As of December 31, 2020, Arco had a total issued share capital of U.S.\$ 2,879.38, divided into 57,587,563 common shares of a nominal or par value of U.S.\$0.00005. Those common shares are divided into 30,186,715, issued Class A common shares and 27,400,848 Class B common shares.

Treasury Shares

As of December 31, 2020, Arco had no shares in treasury.

Issuance of Shares

Except as expressly provided in Arco’s Articles of Association, Arco’s board of directors has general and unconditional authority to allot, grant options over, offer or otherwise deal with or dispose of any unissued shares in the company’s capital without the approval of our shareholders (whether forming part of the original or any increased share capital), either at a premium or at par, with or without preferred, deferred or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise and to such persons, on such terms and conditions, and at such times as the directors may decide, but so that no share shall be issued at a discount, except in accordance with the provisions of the Companies Act. In accordance with its Articles of Association, Arco shall not issue bearer shares.

Arco’s Articles of Association provide that at any time that there are Class A common shares in issue, additional Class B common shares may only be issued pursuant to (1) a share split, subdivision of shares or similar transaction or where a dividend or other distribution is paid by the issue of shares or rights to acquire shares or following capitalization of profits, (2) a merger, consolidation, or other business combination involving the issuance of Class B common shares as full or partial consideration, or (3) an issuance of Class A common shares, whereby holders of the Class B common shares are entitled to purchase a number of Class B common shares that would allow them to maintain their proportional ownership interests in Arco (following an offer by Arco to each holder of Class B common shares to issue to such holder, upon the same economic terms and at the same price, such number of Class B common shares as would ensure such holder may maintain a proportional ownership interest in Arco pursuant to Arco’s Articles of Association). In light of (a) the above provisions; (b) the fact that future transfers by holders of Class B common shares will generally result in those shares converting to Class A common shares, subject to limited exceptions as provided in the Memorandum and Articles of Association; and (c) the ten-to-one voting ratio between our Class B common shares and Class A common shares, means that holders of our Class B common shares will in many situations continue to maintain control of all matters requiring shareholder approval. This concentration of ownership and voting power will limit or preclude your ability to influence corporate matters for the foreseeable future. For more information see “—Preemptive or Similar Rights.”

Arco’s Articles of Association also provide that the issuance of non-voting common shares requires the affirmative vote of a majority of the of then-outstanding Class A common shares.

Fiscal Year

Arco’s fiscal year begins on January 1 of each year and ends on December 31 of the same year.

Voting Rights

The holders of the Class A common shares and Class B common shares have identical rights, except that (i) the holder of Class B common shares is entitled to 10 votes per share, whereas holders of Class A common shares are entitled to one vote per share, (ii) Class B common shares have certain conversion rights and (iii) the holder of Class B common shares is entitled to maintain a proportional ownership interest in the event that additional Class A common shares are issued. For more information see “—Preemptive or Similar Rights” and “—Conversion.” The holders of Class A common shares and Class B common shares vote together as a single class on all matters (including the election of directors) submitted to a vote of shareholders, except as provided below and as otherwise required by law.

Arco’s Articles of Association provide as follows regarding the respective rights of holders of Class A common shares and Class B common shares:

- (i) class consents from the holders of Class A common shares or Class B common shares, as applicable, shall be required for any variation to the rights attached to their respective class of shares, however, the Directors may treat any two or more classes of shares as forming one class if they consider that all such classes would be affected in the same way by the proposal;
- (ii) the rights conferred on holders of Class A common shares shall not be deemed to be varied by the creation or issue of further Class B common shares and vice versa; and
- (iii) the rights attaching to the Class A common shares and the Class B common shares shall not be deemed to be varied by the creation or issue of shares with preferred or other rights, including, without limitation, shares with enhanced or weighted voting rights.

As set forth in the Articles of Association, the holders of Class A common shares and Class B common shares, respectively, do not have the right to vote separately if the number of authorized shares of such class is increased or decreased. Rather, the number of authorized Class A common shares and Class B common shares may be increased or decreased (but not below the number of shares of such class then outstanding) by the affirmative vote of the holders of a majority of the voting power of the issued and outstanding Class A common shares and Class B common shares, voting together in a general meeting.

Preemptive or Similar Rights

The Class A common shares and Class B common shares are not entitled to preemptive rights upon transfer and are not subject to conversion (except as described below under “—Conversion”), redemption or sinking fund provisions.

The Class B common shares are entitled to maintain a proportional ownership interest in the event that additional Class A common shares are issued. As such, except for certain exceptions, if Arco issues Class A common shares, it must first make an offer to each holder of Class B common shares to issue to such holder, upon the same economic terms and at the same price, such number of Class B common shares as would ensure such holder may maintain a proportional ownership interest in Arco. This right to maintain a proportional ownership interest may be waived by the holders of a majority of the Class B common shares.

Conversion

The outstanding Class B common shares are convertible at any time as follows: (1) at the option of the holder, a Class B common share may be converted at any time into one Class A common share or (2) upon the election of the holders of a majority of the then outstanding Class B common shares, all outstanding Class B common shares may be converted into a like number of Class A common shares. In addition, each Class B common share will convert automatically into one Class A common share upon any transfer, whether or not for value, except for certain transfers described in the Articles of Association, including transfers to affiliates, transfers to and between the Founding Shareholders, their family members and their respective heirs and successors, trusts solely for the benefit of the shareholder or their affiliates, and partnerships, corporations and other entities exclusively owned by the shareholder or their affiliates and certain transfers to organizations that are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Furthermore, each Class B common share will convert automatically into one Class A common share and no Class B common shares will be issued thereafter if, at any time, the total number of the issued and outstanding Class B common shares is less than 10% of the total number of shares outstanding.

No class of Arco’s common shares may be subdivided or combined unless the other class of common shares is concurrently subdivided or combined in the same proportion and in the same manner.

Equal Status

Except as expressly provided in Arco's Articles of Association, Class A common shares and Class B common shares have the same rights and privileges and rank equally, share ratably and are identical in all respects as to all matters. In the event of any merger, consolidation, scheme, arrangement or other business combination requiring the approval of our shareholders entitled to vote thereon (whether or not Arco is the surviving entity), the holders of Class A common shares shall have the right to receive, or the right to elect to receive, the same form of consideration as the holders of Class B common shares, and the holders of Class A common shares shall have the right to receive, or the right to elect to receive, at least the same amount of consideration on a per share basis as the holders of Class B common shares. In the event of any (1) tender or exchange offer to acquire any Class A common shares or Class B common shares by any third-party pursuant to an agreement to which Arco is a party, or (2) any tender or exchange offer by Arco to acquire any Class A common shares or Class B common shares, the holders of Class A common shares shall have the right to receive, or the right to elect to receive, the same form of consideration as the holders of Class B common shares, and the holders of Class A common shares shall have the right to receive, or the right to elect to receive, at least the same amount of consideration on a per share basis as the holders of Class B common shares.

Record Dates

For the purpose of determining shareholders entitled to notice of, or to vote at any general meeting of shareholders or any adjournment thereof, or shareholders entitled to receive dividend or other distribution payments, or in order to make a determination of shareholders for any other purpose, Arco's board of directors may set a record date which shall not exceed forty (40) clear days prior to the date where the determination will be made.

General Meetings of Shareholders

As a condition of admission to a shareholders' meeting, a shareholder must be duly registered as a shareholder of Arco at the applicable record date for that meeting and, in order to vote, all calls or installments then payable by such shareholder to Arco in respect of the shares that such shareholder holds must have been paid.

Subject to any special rights or restrictions as to voting then attached to any shares, at any general meeting every shareholder who is present in person or by proxy (or, in the case of a shareholder being a corporation, by its duly authorized representative not being himself or herself a shareholder entitled to vote) shall have one vote per Class A common share and 10 votes per Class B common share.

As a Cayman Islands exempted company, Arco is not obliged by the Companies Act to call annual general meetings; however, the Articles of Association provide that in each year the company will hold an annual general meeting of shareholders, at a time determined by the board of directors, provided that the board of directors of Arco has the discretion whether or not to hold an annual general meeting in 2021. For the annual general meeting of shareholders, the agenda will include, among other things, the presentation of the annual accounts and the report of the directors. In addition, the agenda for an annual general meeting of shareholders will only include such items as have been included therein by the board of directors.

Also, Arco may, but is not required to (unless required by the laws of the Cayman Islands), hold extraordinary general meetings during the year. General meetings of shareholders are generally expected to take place in São Paulo, Brazil, but may be held elsewhere if the directors so decide.

The Companies Act provides shareholders a limited right to request a general meeting and does not provide shareholders with any right to put any proposal before a general meeting in default of a company's Articles of Association. However, these rights may be provided in a company's Articles of Association. Arco's Articles of Association provide that upon the requisition of one or more shareholders representing not less than one-third of the voting rights entitled to vote at general meetings, the board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. The Articles of Association provide no other right to put any proposals before annual general meetings or extraordinary general meetings.

Subject to regulatory requirements, the annual general meeting and any extraordinary general meetings must be called by not less than ten (10) clear days' notice prior to the relevant shareholders meeting and convened by a notice discussed below. Alternatively, upon the prior consent of all holders entitled to receive notice, with regards to the annual general meeting, and the holders of 95% in par value of the shares entitled to attend and vote at an extraordinary general meeting, that meeting may be convened by a shorter notice and in a manner deemed appropriate by those holders.

Arco will give notice of each general meeting of shareholders by publication on its website and in any other manner that it may be required to follow in order to comply with Cayman Islands law, Nasdaq and SEC requirements. The holders of registered shares may be given notice of a shareholders' meeting by means of letters sent to the addresses of those shareholders as registered in our shareholders' register, or, subject to certain statutory requirements, by electronic means.

Holders whose shares are registered in the name of DTC or its nominee, which we expect will be the case for all holders of Class A common shares, will not be a shareholder or member of the company and must rely on the procedures of DTC regarding notice of shareholders' meetings and the exercise of rights of a holder of the Class A common shares.

A quorum for a general meeting consists of any one or more persons holding or representing by proxy not less than one-third of the aggregate voting power of all shares in issue and entitled to vote upon the business to be transacted.

A resolution put to a vote at a general meeting shall be decided on a poll. An ordinary resolution to be passed by the shareholders at a general meeting requires the affirmative vote of a simple majority of the votes cast by, or on behalf of, the shareholders entitled to vote, present in person or by proxy and voting at the meeting. A special resolution requires the affirmative vote on a poll of no less than two-thirds of the votes cast by the shareholders entitled to vote who are present in person or by proxy at a general meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our Company, as permitted by the Companies Act and our Articles of Association.

Pursuant to Arco's Articles of Association, general meetings of shareholders are to be chaired by the chairman of our board of directors or in his absence the vice-chairman of the board of directors. If the chairman or vice-chairman of our board of directors is absent, the directors present at the meeting shall appoint one of them to be chairman of the general meeting. If neither the chairman nor another director is present at the general meeting within 15 minutes after the time appointed for holding the meeting, the shareholders present in person or by proxy and entitled to vote may elect any one of the shareholders to be chairman. The order of business at each meeting shall be determined by the chairman of the meeting, and he or she shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting, including, without limitation, the establishment of procedures for the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the Company, restrictions on entry to such meeting after the time prescribed for the commencement thereof, and the opening and closing of the polls.

Liquidation Rights

If Arco is voluntarily wound up, the liquidator, after taking into account and giving effect to the rights of preferred and secured creditors and to any agreement between Arco and any creditors that the claims of such creditors shall be subordinated or otherwise deferred to the claims of any other creditors and to any contractual rights of set-off or netting of claims between Arco and any person or persons (including without limitation any bilateral or any multi-lateral set-off or netting arrangements between the company and any person or persons) and subject to any agreement between Arco and any person or persons to waive or limit the same, shall apply Arco's property in satisfaction of its liabilities *pari passu* and subject thereto shall, subject to the rights attaching to any share, distribute the property *pari passu* amongst the shareholders in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively.

Changes to Capital

Pursuant to the Articles of Association, Arco may from time to time by ordinary resolution:

- increase its share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe;
- consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
- convert all or any of its paid-up shares into stock and reconvert that stock into paid-up shares of any denomination;
- subdivide its existing shares or any of them into shares of a smaller amount, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived; or
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so canceled.

Arco's shareholders may by special resolution, subject to confirmation by the Grand Court of the Cayman Islands on an application by the Company for an order confirming such reduction, reduce its share capital or any capital redemption reserve in any manner permitted by law.

In addition, subject to the provisions of the Companies Act and our Articles of Association, Arco may:

- issue shares on terms that they are to be redeemed or are liable to be redeemed;
- purchase its own shares (including any redeemable shares); and
- make a payment in respect of the redemption or purchase of its own shares in any manner authorized by the Companies Act, including out of its own capital.

Transfer of Shares

Subject to any applicable restrictions set forth in the Articles of Association, any shareholder of Arco may transfer all or any of his or her common shares by an instrument of transfer in the usual or common form or in the form prescribed by the Nasdaq or any other form approved by the Company's board of directors.

The Class A common shares are traded on the Nasdaq in book-entry form and may be transferred in accordance with Arco's Articles of Association and Nasdaq's rules and regulations.

However, Arco's board of directors may, in its absolute discretion, decline to register any transfer of any common share which is either not fully paid up to a person of whom it does not approve or is issued under any share incentive scheme for employees which contains a transfer restriction that is still applicable to such common share. The board of directors may also decline to register any transfer of any common share unless:

- a fee of such maximum sum as the Nasdaq may determine to be payable or such lesser sum as the board of directors may from time to time require is paid to Arco in respect thereof;
- the instrument of transfer is lodged with Arco, accompanied by the certificate (if any) for the common shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of shares;
- the instrument of transfer is properly stamped, if required;
- the common shares transferred are free of any lien in favor of Arco; and
- in the case of a transfer to joint holders, the transfer is not to more than four joint holders.

If the directors refuse to register a transfer they are required, within two months after the date on which the instrument of transfer was lodged, to send to the transferee notice of such refusal.

Share Repurchase

The Companies Act and the Articles of Association permit Arco to purchase its own shares, subject to certain restrictions. The board of directors may only exercise this power on behalf of Arco, subject to the Companies Act, the Articles of Association and to any applicable requirements imposed from time to time by the SEC, the Nasdaq, or by any recognized stock exchange on which our securities are listed.

Dividend Rights

See "Item 8A. Consolidated Statements and Other Financial Information—Dividends and Dividend Policy" for further information regarding dividend rights.

Appointment, Disqualification and Removal of Directors

Arco is managed by its board of directors. The Articles of Association provide that, unless otherwise determined by a special resolution of shareholders, the board of directors will be composed of four to 11 directors, with the number being determined by a majority of the directors then in office. There are no provisions relating to retirement of directors upon reaching any age limit. The Articles of Association also provide that, while Arco's shares are admitted to trading on Nasdaq, the board of directors must always comply with the residency and citizenship requirements of the U.S. securities laws applicable to foreign private issuers.

The Articles of Association provide that directors shall be elected by an ordinary resolution of our shareholders, which requires the affirmative vote of a simple majority of the votes cast on the resolution by the shareholders entitled to vote who are present, in person or by proxy, at the meeting. Each director shall be appointed and elected for such term as the resolution appointing him or her may determine or until his or her removal or vacation of office in accordance with the Articles of Association.

Any vacancies on the board of directors that arise other than upon the removal of a director by resolution passed at a general meeting can be filled by the remaining directors (notwithstanding that they may constitute less than a quorum). Any such appointment shall be as an interim director to fill such vacancy until the next annual general meeting of shareholders.

Additions to the existing board (within the limits set pursuant to the Articles of Association) may be made by ordinary resolution of the shareholders.

Grounds for Removing a Director

A director may be removed with or without cause by ordinary resolution. The notice of general meeting must contain a statement of the intention to remove the director and must be served on the director not less than ten calendar days before the meeting. The director is entitled to attend the meeting and be heard on the motion for his removal.

The office of a director will be vacated automatically if he or she (1) becomes prohibited by law from being a director, (2) becomes bankrupt or makes an arrangement or composition with his creditors, (3) dies or is in the opinion of all his co-directors, incapable by reason of mental disorder of discharging his duties as director, (4) resigns his office by notice to us or (5) has for more than six months been absent without permission of the directors from meetings of the board of directors held during that period, and the remaining directors resolve that his or her office be vacated.

Proceedings of the Board of Directors

The Articles of Association provide that Arco's business is to be managed and conducted by the board of directors. The quorum necessary for the board meeting shall be a simple majority of the directors then in office (subject to there being a minimum of two directors present) and business at any meeting shall be decided by a majority of votes. In the case of an equality of votes, the chairman shall have a casting vote.

Subject to the provisions of the Articles of Association, the board of directors may regulate its proceedings as they determine is appropriate. Board meetings shall be held at least once every calendar quarter and shall take place either in São Paulo, Brazil or at such other place as the directors may determine.

Subject to the provisions of the Articles of Association, to any directions given by ordinary resolution of the shareholders and the listing rules of the Nasdaq, the board of directors may from time to time at its discretion exercise all powers of Arco, including, subject to the Companies Act, the power to issue debentures, bonds and other securities of the company, whether outright or as collateral security for any debt, liability or obligation of our company or of any third-party.

Inspection of Books and Records

Holders of Arco shares will have no general right under Cayman Islands law to inspect or obtain copies of the list of shareholders or corporate records of the Company. However, the board of directors may determine from time to time whether and to what extent Arco's accounting records and books shall be open to inspection by shareholders who are not members of the board of directors. Notwithstanding the above, the Articles of Association provide shareholders with the right to receive annual financial statements. Such right to receive annual financial statements may be satisfied by publishing the same on the company's website or filing such annual reports as we are required to file with the SEC.

Register of Shareholders

The Class A common shares are held through DTC, and DTC or Cede & Co., as nominee for DTC, will be recorded in the shareholders' register as the holder of our Class A common shares.

Under Cayman Islands law, Arco must keep a register of shareholders that includes:

- the names and addresses of the shareholders, a statement of the shares held by each member, and of the amount paid or agreed to be considered as paid, on the shares of each member;
- whether voting rights attach to the shares in issue;
- the date on which the name of any person was entered on the register as a member; and
- the date on which any person ceased to be a member.

Under Cayman Islands law, the register of shareholders of Arco is *prima facie* evidence of the matters set out therein (i.e., the register of shareholders will raise a presumption of fact on the matters referred to above unless rebutted) and a shareholder registered in the register of shareholders is deemed as a matter of Cayman Islands law to have *prima facie* legal title to the shares as set against his or her name in the register of shareholders. Once the register of shareholders has been updated, the shareholders recorded in the register of shareholders should be deemed to have legal title to the shares set against their name.

However, there are certain limited circumstances where an application may be made to a Cayman Islands court for a determination on whether the register of members reflects the correct legal position. Further, the Cayman Islands court has the power to order that the register of members maintained by a company should be rectified where it considers that the register of members does not reflect the correct legal position. If an application for an order for rectification of the register of members were made in respect of our ordinary shares, then the validity of such shares may be subject to re-examination by a Cayman Islands court.

Exempted Company

Arco is an exempted company with limited liability under the Companies Act. The Companies Act distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company's register of shareholders is not open to inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may issue shares with no par value;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Arco is subject to reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers. Except as otherwise disclosed in this annual report, Arco intends to continue to comply with the Nasdaq rules in lieu of following home country practice.

Anti-Takeover Provisions in our Articles of Association

Some provisions of the Articles of Association may discourage, delay or prevent a change in control of Arco or management that shareholders may consider favorable. In particular, the capital structure of Arco concentrates ownership of voting rights in the hands of the Founding Shareholders. These provisions, which are summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of Arco to first negotiate with the board of directors. However, these provisions could also have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they may also inhibit temporary fluctuations in the market price of the Class A common shares that often result from actual or rumored hostile takeover attempts. These provisions may also have the effect of preventing changes in the management of Arco. It is possible that these provisions could make it more difficult to accomplish transactions that shareholders may otherwise deem to be in their best interests.

Two Classes of Common Shares

The Class B common shares of Arco are entitled to 10 votes per share, while the Class A common shares are entitled to one vote per share. Since it owns all of the Class B common shares of Arco, the Founding Shareholders currently have the ability to elect all directors and to determine the outcome of most matters submitted for a vote of shareholders. This concentrated voting control could discourage others from initiating any potential merger, takeover, or other change of control transaction that other shareholders may view as beneficial.

So long as the Founding Shareholders have the ability to determine the outcome of most matters submitted to a vote of shareholders as well as the overall management and direction of Arco, third parties may be deterred in their willingness to make an unsolicited merger, takeover, or other change of control proposal, or to engage in a proxy contest for the election of directors. As a result, the fact that Arco has two classes of common shares may have the effect of depriving you as a holder of Class A common shares of an opportunity to sell your Class A common shares at a premium over prevailing market prices and make it more difficult to replace the directors and management of Arco.

Preferred Shares

Arco's board of directors is given wide powers to issue one or more classes or series of shares with preferred rights. Such preferences may include, for example, dividend rights, conversion rights, redemption privileges, enhanced voting powers and liquidation preferences.

Despite the anti-takeover provisions described above, under Cayman Islands law, Arco's board of directors may only exercise the rights and powers granted to them under the Articles of Association, for what they believe in good faith to be in the best interests of Arco.

Protection of Non-Controlling Shareholders

The Grand Court of the Cayman Islands may, on the application of shareholders holding not less than one-fifth of the shares of Arco in issue, appoint an inspector to examine the Company's affairs and report thereon in a manner as the Grand Court shall direct.

Subject to the provisions of the Companies Act, any shareholder may petition the Grand Court of the Cayman Islands which may make a winding-up order, if the court is of the opinion that this winding up is just and equitable.

Notwithstanding the U.S. securities laws and regulations that are applicable to Arco, general corporate claims against Arco by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by Arco's Articles of Association.

The Cayman Islands courts ordinarily would be expected to follow English case law precedents, which permit a minority shareholder to commence a representative action against Arco, or derivative actions in Arco's name, to challenge (1) an act which is *ultra vires* or illegal, (2) an act which constitutes a fraud against the minority and the wrongdoers themselves control Arco, and (3) an irregularity in the passing of a resolution that requires a qualified (or special) majority.

Registration Rights and Restricted Shares

Although no shareholders of Arco have formal registration rights, they or entities controlled by them or their permitted transferees will be able to sell their shares in the public market from time to time pursuant to an exemption from registration, subject to certain limitations on the timing, amount and method of those sales imposed by regulations promulgated by the SEC.

C. Material contracts

See “Item 7. Major Shareholders and Related Party Transactions—B. Related party transactions.” Except as otherwise disclosed in this annual report on Form 20-F (including the Exhibits), we are not currently, and have not been in the last two years, party to any material contract, other than contracts entered into in the ordinary course of business.

D. Exchange controls

The Cayman Islands currently has no exchange control restrictions.

E. Taxation

The following summary contains a description of certain Cayman Islands and U.S. federal income tax consequences of the acquisition, ownership and disposition of our Class A common shares. It does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the Class A common shares, is not applicable to all categories of investors, some of which may be subject to special rules, and does not address all of the Cayman Islands and U.S. federal income tax considerations applicable to any particular holder. The summary is based upon the tax laws of the Cayman Islands and regulations thereunder and on the United States and regulations thereunder as of the date hereof, which are subject to change.

Prospective purchasers of our Class A common shares should consult their own tax advisors about the particular Cayman Islands and U.S. federal, state, local and other tax consequences to them of the acquisition, ownership and disposition of our Class A common shares.

Cayman Islands Tax Considerations

The Cayman Islands laws currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of Class A common shares. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. The Cayman Islands is not party to any double tax treaties which are applicable to any payments made by or to our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

As a Cayman Islands exempted company with limited liability, we have received an undertaking as to tax concessions pursuant to Section 6 of the Tax Concessions Act (As Revised). This undertaking provides that, for a period of 20 years from the date of issue of the undertaking (April 16, 2018), no law thereafter enacted in the Cayman Islands imposing any taxes to be levied on profits, income, gains or appreciation will apply to us or our operations.

Payments of dividends and capital in respect of our Class A common shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of our Class A common shares, nor will gains derived from the disposal of our Class A common shares be subject to Cayman Islands income or corporation tax.

There is no income tax treaty or convention currently in effect between the United States and the Cayman Islands.

Material U.S. Federal Income Tax Considerations for U.S. Holders

The following summary describes the material U.S. federal income tax consequences of the ownership and disposition of our Class A common shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person’s decision to hold such securities.

This summary applies only to U.S. Holders (as defined below) that hold our Class A common shares as capital assets for tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances, including alternative minimum tax consequences, the potential application of the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), known as the Medicare contribution tax, and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- real estate investment trusts or regulated investment companies;
- dealers or traders in securities that use a mark-to-market method of tax accounting;
- persons holding common shares as part of a hedging transaction, straddle, wash sale, conversion transaction or other integrated transaction or persons entering into a constructive sale with respect to the common shares;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- tax-exempt entities, including an "individual retirement account" or "Roth IRA;"
- persons that own or are deemed to own ten percent or more of our Class A common shares, by vote or value;
- persons holding our Class A common shares in connection with a trade or business conducted outside of the United States; or
- partnerships or other entities or arrangements treated as partnerships for U.S. federal income tax purposes.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds our Class A common shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding our Class A common shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of the Class A common shares.

This discussion is based on the Code, administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, all as of the date hereof, any of which is subject to change or differing interpretations, possibly with retroactive effect.

A "U.S. Holder" is a holder who, for U.S. federal income tax purposes, is a beneficial owner of our Class A common shares and is:

- an individual that is a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of our Class A common shares in their particular circumstances.

This discussion assumes that we are not, and will not become, a passive foreign investment company (a "PFIC"), as described below.

Taxation of Distributions

As discussed under "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividends and Dividend Policy", we do not currently intend to pay dividends. In the event that we do pay dividends, and subject to the discussion below under "—Passive Foreign Investment Company Rules," distributions paid on our Class A common shares, other than certain pro rata distributions of common shares, will be treated as dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, we expect that distributions generally will be reported to U.S. Holders as dividends. Subject to applicable limitations, dividends paid to certain non-corporate U.S. Holders may be eligible for taxation as "qualified dividend income" and therefore may be taxable at rates applicable to long-term capital gains so long as our Class A common shares are listed and trade on Nasdaq or are readily tradable on another established securities market in the United States. U.S. Holders should consult their tax advisers regarding the availability of the reduced tax rate on dividends in their particular circumstances.

The amount of the dividend will generally be treated as foreign-source dividend income to U.S. Holders and will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code. Dividends will be included in a U.S. Holder's income on the date of the U.S. Holder's receipt of the dividend.

Sale or Other Disposition of Common Shares

Subject to the discussion below under “—Passive Foreign Investment Company Rules,” for U.S. federal income tax purposes, gain or loss realized on the sale or other disposition of our Class A common shares will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder held the Class A common shares for more than one year. The amount of the gain or loss will equal the difference between the U.S. Holder's tax basis in the Class A common shares disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. This gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes. The deductibility of capital losses is subject to various limitations.

Passive Foreign Investment Company Rules

A non-U.S. corporation will be a PFIC for any taxable year in which either (i) 75% or more of its gross income consists of “passive income,” or (ii) 50% or more of the average quarterly value of its assets consist of assets that produce, or are held for the production of, “passive income.” For this purpose, subject to certain exceptions, passive income includes interest, dividends, rents, and gains from transactions in commodities. A non-U.S. corporation will be treated as owning its proportionate share of the assets and earning its proportionate share of the income of any other corporation in which it owns, directly or indirectly, more than 25% (by value) of the stock.

Based on our current operations, income, assets and certain estimates and projections, including as to the relative values of our assets, we believe that we were not a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2020. However, because PFIC status depends on the composition of a company's income and assets and the market value of its assets from time to time, there can be no assurance that we will not be a PFIC for any taxable year. If we were a PFIC for any year during which a U.S. Holder holds our Class A common shares, we generally would continue to be treated as a PFIC with respect to that U.S.

Holder for all succeeding years during which the U.S. Holder holds the Class A common shares, even if we ceased to meet the threshold requirements for PFIC status.

If we were a PFIC for any taxable year during which a U.S. Holder held our Class A common shares (assuming such U.S. Holder has not made a timely election described below), gain recognized by a U.S. Holder on a sale or other disposition (including certain pledges) of the Class A common shares would be allocated ratably over the U.S. Holder's holding period for the Class A common shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the tax on such amount. Further, to the extent that any distribution received by a U.S. Holder on its Class A common shares exceeds 125% of the average of the annual distributions on such common shares received during the preceding three years or the U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain, described immediately above. If we are a PFIC in any year, certain elections may be available that would result in alternative tax consequences (such as mark-to-market treatment) of owning and disposing the Class A common shares. U.S. Holders should consult their tax advisers to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in their particular circumstances.

In addition, if we were a PFIC or, with respect to a particular U.S. Holder, were treated as a PFIC for the taxable year in which we paid a dividend or for the prior taxable year, the preferential dividend rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply.

If a U.S. Holder owns Class A common shares during any year in which we are a PFIC, the holder generally must file an annual report containing such information as the U.S. Treasury may require on IRS Form 8621 (or any successor form) with respect to us, generally with the holder's federal income tax return for that year.

U.S. Holders should consult their tax advisers concerning our potential PFIC status and the potential application of the PFIC rules.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is a corporation or other exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against such holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the IRS. U.S. Holders should consult their tax advisers regarding the application of the U.S. information reporting and backup withholding rules.

Information with Respect to Foreign Financial Assets

Certain U.S. Holders who are individuals (and, under recent Treasury regulations, certain entities) may be required to report information on their U.S. federal income tax returns relating to an interest in our common shares, subject to certain exceptions (including an exception for common shares held in accounts maintained by certain U.S. financial institutions). U.S. Holders should consult their tax advisers regarding the effect, if any, of this requirement on their ownership and disposition of the common shares.

F. Dividends and paying agents

Not applicable.

G. Statement by experts

Not applicable.

H. Documents on display

We are subject to the informational requirements of the Exchange Act. Accordingly, we are required to file reports and other information with the SEC, including annual reports on Form 20-F and reports on Form 6-K. You may inspect and copy reports and other information filed with the SEC at the Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet website that contains reports and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov.

I. Subsidiary information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks associated with foreign exchange and interest rates. In accordance with our policies, we seek to manage our exposure to these various market-based risks.

We monitor market, credit and operational risks in line with the objectives in capital management, supported by the oversight of our Board of Directors, in decisions related to capital management and to ensure their consistency with our objectives and assessment of risks. Information relating to quantitative and qualitative disclosures about these market risks is described below.

Foreign Exchange Risk

Our results are not subject to significant fluctuations resulting from the effects of the volatility of any exchange rate. As of December 31, 2020, we have cash and cash equivalents and financial investments denominated in U.S. dollars in the amount of R\$28.9 million. See note 27 to our audited consolidated financial statements for a sensitivity analysis of the impact of a hypothetical 20% change in the exchange rate variation on our cash and cash equivalents and financial investments as of December 31, 2020.

Liquidity Risk

We regularly review the liquidity risk and maintain appropriate reserves, including bank credit facilities with first tier financial institutions. We also continuously monitor projected and actual cash flows and the combination of maturity profiles of the financial assets and liabilities.

The main requirements for financial resources used by us arise from the need to make payments for printing educational content, freight expenses, operating expenses, labor and social obligations and other operating disbursements. See “Item 5. F—Tabular disclosure of contractual obligations” for a table summarizing our contractual obligations as of December 31, 2020.

Financial Counterparty Risk

The financial counterparty risk arises from the possibility that we may incur losses due to the default of our counterparties. We adopt as practice the analysis of the financial and equity situation of our counter parts in order to control this risk.

Counterparty credit limits, which take published credit ratings and other factors into account, are set to cover our total aggregate exposure to a single financial institution. Exposures and limits applicable to each financial institution are approved by our treasury within guidelines approved by the board and are reviewed on a regular basis.

Interest Rate Risk

Interest rate risk represents the chance that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Our exposure to this risk relates primarily to our investments with floating interest rates. We are primarily exposed to fluctuations in CDI interest rates on financial investments. Our exposure to cash, bank deposits and cash equivalents and financial investments indexed to the CDI totaled R\$1,118.5 million as of December 31, 2020. See note 27 to our audited consolidated financial statements for a sensitivity analysis of the impact of a hypothetical 10% change in the CDI on our cash and cash equivalents and financial investments as of December 31, 2020.

For further information on our market risks, see note 27 to our audited consolidated financial statements.

Other market risk

We have a significant portion of our accounts payable whose exercise price is determined by multiples of ACV and revenue discounted to present value for the acquisition of the remaining interest of Geekie and Escola da Inteligência as described in note 17 to our audited consolidated financial statements.

See note 27 to our audited consolidated financial statements for a sensitivity analysis of the impact of a hypothetical 20% change in the estimated ACV book and WACC as of December 31, 2020.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt securities

Not applicable.

B. Warrants and rights

Not applicable.

C. Other securities

Not applicable.

D. American depositary shares

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Defaults

No matters to report.

Arrears and delinquencies

No matters to report.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. Material modifications to instruments

Not applicable.

B. Material modifications to rights

Not applicable.

C. Withdrawal or substitution of assets

Not applicable.

D. Change in trustees or paying agents

Not applicable.

E. Use of proceeds

On September 25, 2018, the registration statement on Form F-1 (File No 333-7007) relating to our initial public offering of our class A common shares was declared effective by the SEC. On September 25, 2018, we commenced our initial public offering. On September 28, 2018 we closed our initial public offering, pursuant to which we issued and sold 12,777,777 Class A common shares. Goldman Sachs & Co. LLC, Morgan Stanley & Co. LLC, Itau BBA USA Securities, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated acted as the representatives of the underwriters in our initial public offering. The 12,777,777 registered Class A common shares were sold to the public at a price of US\$17.50 per Class A common share, for an aggregate price of US\$223,611,098 (which included the full exercise of the option to purchase additional shares by the underwriters). We incurred approximately US\$6.6 million in expenses related to our initial public offering and paid approximately US\$13.4 million in underwriting discounts and commissions.

On October 21, 2019, a shelf registration statement on Form F-3 (File No 333-234215) was declared effective by the SEC. On October 25, 2019, we filed with the SEC the final prospectus supplement related to our follow-on public offering of our class A common shares. Goldman Sachs & Co. LLC, Morgan Stanley & Co. LLC and Itau BBA USA Securities, Inc. acted as the representatives of the underwriters in this offering. In connection with this offering, we issued and sold 3,450,656 Class A common shares and the selling shareholders offered and sold an additional 4,268,847 Class A common shares to the public at a price of US\$43.00 per Class A common shares, for an aggregate price of US\$331,938,629. We received net proceeds of US\$143.9 million, after deducting US\$3.7 million in underwriting discounts and commissions. On November 26, 2019, an additional 661,112 Class A common shares were sold by General Atlantic Arco (Bermuda), L.P. following the exercise by the underwriters of their option to purchase additional shares.

On September 8, 2020, we filed with the SEC the final prospectus supplement (File No 333-234215) related to a public offering of our class A common shares. Goldman Sachs & Co. LLC, Morgan Stanley & Co. LLC and Itau BBA USA Securities, Inc. acted as the representatives of the underwriters in our follow-on. In connection with the follow-on, we issued and sold 2,500,000 Class A common shares to the public at a price of US\$44.80 per Class A common shares, for an aggregate price of US\$112,000,000. We received net proceeds of US\$109.8 million, after deducting US\$2.2 million in underwriting discounts and commissions.

ITEM 15. CONTROLS AND PROCEDURES

A. Disclosure controls and procedures

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act, as of December 31, 2020. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2020 to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

B. Management’s annual report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate “internal control over financial reporting,” as such term is defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, our chief executive officer and chief financial officer and effected by our Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2020. In making its assessment of internal control over financial reporting, management used the criteria described in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

As indicated in the accompanying Report of Management on Arco Platform Limited’s Internal Control Over Financial Reporting, management’s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of WPensar, Studos, Geekie and Escola de Inteligência, which are included in the 2020 consolidated financial statements of the Company. Collectively, WPensar, Studos, Geekie and Escola de Inteligência constituted less than 10% of the Company’s total assets as of December 31, 2020 and less than 5% of the Company’s total revenues for the year ended December 31, 2020.

C. Attestation report of the registered public accounting firm

The effectiveness of internal control over financial reporting as of December 31, 2020, has been audited by Ernst & Young Auditores Independentes S.S., an independent registered public accounting firm, as stated in its report which is included under Item 18 in this annual report on Form 20-F on page F-2. EY’s audit of internal control over financial reporting of the Company did not include an evaluation of the internal control over financial reporting of WPensar, Studos, Geekie and Escola de Inteligência.

D. Changes in internal control over financial reporting

There has been no change in our internal control over financial reporting during 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. RESERVED

ITEM 16A. Audit committee financial expert

The audit committee, which consists of Edward Ruiz, Pablo Doberti and David Peixoto dos Santos, assists our board of directors in overseeing our accounting and financial reporting processes and the audits of our financial statements. In addition, the audit committee is directly responsible for the appointment, compensation, retention and oversight of the work of our independent registered public accounting firm. Edward Ruiz serves as Chairman of the audit committee. The audit committee consists exclusively of members of our board of directors who are financially literate, and Edward Ruiz is considered an “audit committee financial expert” as defined by the SEC. Our board of directors has determined that Edward Ruiz, Pablo Doberti and David Peixoto dos Santos satisfy the “independence” requirements set forth in Rule 10A-3 under the Exchange Act. For more information, see “Item 6. Directors, Senior Management and Employees—C. Board Practices—Committees of the Board of Directors—Audit Committee.”

ITEM 16B. Code of ethics

On September 11, 2018, our Board of Directors adopted a code of business conduct and ethics (the “Code of Ethics”) applicable to the board of directors and all employees of Arco. On November 21, 2019, our Board of Directors approved an amendment to the Code of Ethics applicable to the board of directors and all employees of Arco. An English translation of the Code of Ethics was included in the 2019 annual report as Exhibit 14.1.

Since its effective date on September 11, 2018, we have not waived compliance with the Code of Ethics.

ITEM 16C. Principal accountant fees and services

Audit and Non-Audit Fees

The following table sets forth the fees billed to us by our independent registered public accounting firm during the years ended December 31, 2020 and 2019. Our independent registered public accounting firm was Ernst & Young Auditores Independentes S.S. for the years ended December 31, 2020, 2019, 2018 and 2017.

	2020	2019
	(in thousands of reais)	
Audit fees ⁽¹⁾	10,291.6	5,588.7
Audit related fees ⁽²⁾	—	804.7
All other fees ⁽³⁾	—	709.0
Total	10,291.6	7,102.4

(1) “Audit fees” include fees for (i) the audit of our annual consolidated financial statements, prepared in accordance with IFRS, as issued by the IASB; (ii) the audit of financial statements of the Company’s subsidiaries; (iii) the review of our interim financial statements for the three-month period ended March 31, 2020, for the six-month periods ended June 30, 2020 and for the nine-month periods September 30, 2020; (iv) the preparation and issuance of comfort letters in connection with Arco’s offerings; (v) the preparation and issuance of consent letter in connection with Arco’s registration statement pertaining to the Restricted Share Grant Plan.

(2) “Audit-related fees” in 2019 include assessment services of internal controls in order to issue recommendation letter including deficiencies in design or implementation.

(3) All other fees are fees billed for K-12 market assessment service in Brazil.

ITEM 16D. Exemptions from the listing standards for audit committees

Under the listed company audit committee rules of Nasdaq and the SEC, we must comply with Exchange Act Rule 10A-3, which requires that we establish an audit committee composed of members of the Board of Directors that meets specified requirements. The composition of our audit committee complies with the requirements of Nasdaq rules.

ITEM 16E. Purchases of equity securities by the issuer and affiliated purchasers

On January 6, 2021, our Board of Directors approved the Repurchase Program, by which we may repurchase up to 500,000 of our outstanding Class A common shares in the open market, based on prevailing market prices, or in privately negotiated transactions, over a period beginning on January 6, 2021 continuing until the earlier of the completion of the repurchase or January 6, 2023, depending upon market conditions. Our Board of Directors will review the Repurchase Program periodically and may authorize adjustments to its terms and size or suspend or discontinue the Repurchase Program. We expect to use our existing funds to fund repurchases made under the Repurchase Program.

2021	Total Number of Shares Purchased	Average Price Paid per Share (US\$)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Value of Shares that May Yet Be Purchased Under the Plans or Programs
January	70,839	33.6778	70,839	429,161
February	205,742	36.2643	205,742	223,419
March	—	—	—	233,419
Total	276,581		276,581	233,419

(1) The column includes all the shares repurchased as a part of the Repurchase Program announced on January 6, 2021, as further described above. As of the date of this annual report, we had purchased an aggregate of 276,581 Class A common shares for a total of approximately US\$9.8 million under the Repurchase Program.

ITEM 16F. Change in registrant’s certifying accountant

Not applicable.

ITEM 16G. Corporate governance**Foreign Private Issuer Status**

Nasdaq listing rules include certain accommodations in the corporate governance requirements that allow foreign private issuers, such as us, to follow “home country” corporate governance practices in lieu of the otherwise applicable corporate governance standards of Nasdaq. The application of such exceptions requires that we disclose each noncompliance with Nasdaq listing rules that we do not follow and describe the Cayman Islands corporate governance practices we do follow in lieu of the relevant Nasdaq corporate governance standard. As a foreign private issuer, we currently rely, and will continue to rely, on the foreign private issuer exemption with respect to the following rules:

- Nasdaq Rule 5605(b), which requires that independent directors comprise a majority of a company’s board of directors. As allowed by the laws of the Cayman Islands, independent directors do not comprise a majority of our board of directors.
- Nasdaq Rule 5605(e)(1), which requires that a company have a nominations committee comprised solely of “independent directors” as defined by Nasdaq. As allowed by the laws of the Cayman Islands, we do not have a nominations committee nor do we have any current intention to establish one.
- Nasdaq Rule 5605(d) & (e), which require that compensation for our executive officers and selection of our director nominees be determined by a majority of independent directors. As allowed by the laws of the Cayman Islands, we do not have (i) a nomination and corporate governance committee; or (ii) a remuneration committee that meets the requirements of Nasdaq Rule 5605(d) & (e), nor do we have any current intention to establish either.

Principal Differences between Cayman Islands and U.S. Corporate Law

The Companies Act was modeled originally after similar laws in England and Wales but does not follow subsequent statutory enactments in England and Wales. In addition, the Companies Act differs from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Act applicable to Arco and the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and Similar Arrangements

The Companies Act permits mergers or consolidations between two Cayman Islands companies and between Cayman Islands companies, or between a Cayman Islands company and a company incorporated in another jurisdiction (provided that is facilitated by the laws of that other jurisdiction).

Where the merger or consolidation is between two Cayman Islands companies, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each company; and (b) such other authorization, if any, as may be specified in such constituent company's Articles of Association. No shareholder resolution is required for a merger between a parent company (i.e., a company that owns at least 90% of the issued shares of each class in a subsidiary company) and its subsidiary company. The consent of each holder of a fixed or floating security interest of a constituent company must be obtained, unless the court waives such requirement. If the Cayman Islands Registrar of Companies is satisfied that the requirements of the Companies Act (which includes certain other formalities) have been complied with, the Registrar of Companies will register the plan of merger or consolidation. Where the merger or consolidation involves a foreign company, the procedure is similar, save that with respect to the foreign company, the director of the Cayman Islands company is required to make a declaration to the effect that, having made due enquiry, he is of the opinion that the requirements set out below have been met: (i) that the merger or consolidation is permitted or not prohibited by the constitutional documents of the foreign company and by the laws of the jurisdiction in which the foreign company is incorporated, and that those laws and any requirements of those constitutional documents have been or will be complied with; (ii) that no petition or other similar proceeding has been filed and remains outstanding or order made or resolution adopted to wind up or liquidate the company in any foreign jurisdiction, (iii) that no receiver, trustee, administrator or other similar person has been appointed in any jurisdiction and is acting in respect of the foreign company, its affairs or property or any part thereof, (iv) that no scheme, order, compromise or similar arrangement has been entered into or made in any jurisdiction whereby the rights of creditors of the foreign company are and continue to be suspended or restricted.

Moreover, Cayman Islands law also has separate statutory provisions that facilitate the reconstruction or amalgamation of companies, in certain circumstances, schemes of arrangement will generally be more suited for complex mergers or other transactions involving widely held companies, commonly referred to in the Cayman Islands as a "scheme of arrangement" which may be tantamount to a merger. In the event that a merger was sought pursuant to a scheme of arrangement (the procedure of which are more rigorous and take longer to complete than the procedures typically required to consummate a merger in the United States), the arrangement in question is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings summoned for that purpose. The convening of the meetings and subsequently the terms of the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder would have the right to express to the court the view that the transaction should not be approved, the court can be expected to approve the arrangement if it satisfies itself that:

- Arco is not proposing to act illegally or beyond the scope of its corporate authority and the statutory provisions as to majority vote have been complied with;
- the shareholders have been fairly represented at the meeting in question;
- the arrangement is such as a businessman would reasonably approve; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Act or that would amount to a "fraud on the minority."

If a scheme of arrangement or takeover offer (as described below) is approved, any dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of United States corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Squeeze-out Provisions

When a takeover offer is made and accepted by holders of 90.0% of the shares to whom the offer is made within four months, the offeror may, within a two-month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection may be made to the Grand Court of the Cayman Islands but is unlikely to succeed unless there is evidence of fraud, bad faith, collusion or inequitable treatment of the shareholders.

Further, transactions similar to a merger, reconstruction and/or an amalgamation may in some circumstances be achieved through other means to these statutory provisions, such as a share capital exchange, asset acquisition or control, through contractual arrangements, of an operating business.

Shareholders' Suits

Maples and Calder (Cayman) LLP, our Cayman Islands counsel is not aware of any reported class action having been brought in a Cayman Islands court. Derivative actions have been brought in the Cayman Islands courts, and the Cayman Islands courts have confirmed the availability for such actions. In most cases, we will be the proper plaintiff in any claim based on a breach of duty owed to us, and a claim against (for example) our officers or directors usually may not be brought by a shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority and be applied by a court in the Cayman Islands, exceptions to the foregoing principle apply in circumstances in which:

- a company is acting or proposing to act illegally or beyond the scope of its authority;
- the act complained of, although not beyond the scope of the authority, could be effected if duly authorized by more than the number of votes which have actually been obtained; and
- those who control the company are perpetrating a "fraud on the minority."

A shareholder may have a direct right of action against us where the individual rights of that shareholder have been infringed or are about to be infringed.

Corporate Governance

Cayman Islands law restricts transactions between a company and its directors unless there are provisions in the Articles of Association which provide a mechanism to alleviate possible conflicts of interest. Additionally, Cayman Islands law imposes on directors' duties of care and skill and fiduciary duties to the companies which they serve. Under Arco's Articles of Association, a director must disclose the nature and extent of his interest in any contract or arrangement and following such disclosure and subject to any separate requirement under applicable law or the listing rules of the Nasdaq, and unless disqualified by the chairman of the relevant meeting, the interested director may vote in respect of any transaction or arrangement in which he or she is interested. The interested director shall be counted in the quorum at such meeting and the resolution may be passed by a majority of the directors present at the meeting.

Subject to the foregoing and our Articles of Association, our directors may exercise all the powers of Arco to vote compensation to themselves or any member of their body in the absence of an independent quorum. Our Articles of Association provide that, in the event a Compensation Committee is established, it shall be made up of such number of independent directors as is required from time to time by the Nasdaq rules (or as otherwise may be required by law). We currently have no intention to establish a Compensation Committee.

As a foreign private issuer, we are permitted to follow home country practice in lieu of certain Nasdaq corporate governance rules, subject to certain requirements. We currently rely, and will continue to rely, on the foreign private issuer exemption with respect to the following rules:

- Nasdaq Rule 5605(b), which requires that independent directors comprise a majority of a company's board of directors. As allowed by the laws of the Cayman Islands, independent directors do not comprise a majority of our board of directors.
- Nasdaq Rule 5605(e)(1), which requires that a company have a nominations committee comprised solely of "independent directors" as defined by Nasdaq. As allowed by the laws of the Cayman Islands, we do not have a nominations committee nor do we have any current intention to establish one.
- Nasdaq Rule 5605(d) & (e), which require that compensation for our executive officers and selection of our director nominees be determined by a majority of independent directors. As allowed by the laws of the Cayman Islands, we do not have (i) a nomination and corporate governance committee; or (ii) a remuneration committee that meets the requirements of Nasdaq Rule 5605(d) & (e), nor do we have any current intention to establish either.

Borrowing Powers

Arco's directors may exercise all the powers of Arco to borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of Arco or of any third-party. Such powers may be varied by a special resolution of shareholders (requiring a two-thirds majority vote).

Indemnification of Directors and Executive Officers and Limitation of Liability

The Companies Act does not limit the extent to which a company's Articles of Association may provide for indemnification of directors and officers, except to the extent that it may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Arco's Articles of Association provide that we shall indemnify and hold harmless our directors and officers against all actions, proceedings, costs, charges, expenses, losses, damages, liabilities, judgments, fines, settlements and other amounts incurred or sustained by such directors or officers, other than by reason of such person's dishonesty, willful default or fraud, in or about the conduct of our company's business or affairs (including as a result of any mistake of judgment) or in the execution or discharge of his duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such director or officer in defending (whether successfully or otherwise) any civil, criminal or other proceedings concerning Arco or our affairs in any court whether in the Cayman Islands or elsewhere. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to Arco's directors, officers or persons controlling the Company under the foregoing provisions, we have been informed that, in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Directors' Fiduciary Duties

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company. Accordingly, directors and officers owe the following fiduciary duties (1) duty to act in good faith in what the director or officer believes to be in the best interests of the company as a whole; (2) duty to exercise powers for the purposes for which those powers were conferred and not for a collateral purpose; (3) directors should not properly fetter the exercise of future discretion; (4) duty to exercise powers fairly as between different sections of shareholders; (5) duty to exercise independent judgment; and (6) duty not to put themselves in a position in which there is a conflict between their duty to the company and their personal interests. However, this obligation may be varied by the company's Articles of Association, which may permit a director to vote on a matter in which he has a personal interest provided that he has disclosed that nature of his interest to the board of directors. With respect to the duty of directors to avoid conflicts of interest, Arco's Articles of Association vary from the applicable provisions of Cayman Islands law mentioned above by providing that a director must disclose the nature and extent of his or her interest in any contract or arrangement, and following such disclosure and subject to any separate requirement under applicable law or the listing rules of the Nasdaq, and unless disqualified by the chairman of the relevant meeting, such director may vote in respect of any transaction or arrangement in which he or she is interested and may be counted in the quorum at the meeting. In addition to the above, under Cayman Islands law, directors also owe a duty of care which is not fiduciary in nature. This duty has been defined as a requirement to act as a reasonably diligent person having both the general knowledge, skill and experience that may reasonably be expected of a person carrying out the same functions as are carried out by that director in relation to the company and the general knowledge skill and experience which that director has. As set out above, directors have a duty not to put themselves in a position of conflict and this includes a duty not to engage in self-dealing, or to otherwise benefit as a result of their position. However, in some instances what would otherwise be a breach of this duty can be forgiven and/or authorized in advance by the shareholders provided that there is full disclosure by the directors. This can be done by way of permission granted in the memorandum and articles of association or alternatively by shareholder approval at general meetings.

A director of a Cayman Islands company also owes to the company duties to exercise independent judgment in carrying out his functions and to exercise reasonable skill, care and diligence, which has both objective and subjective elements. Recent Cayman Islands case law confirmed that directors must exercise the care, skill and diligence that would be exercised by a reasonably diligent person having the general knowledge, skill and experience reasonably to be expected of a person acting as a director. Additionally, a director must exercise the knowledge, skill and experience which he or she actually possesses.

A general notice may be given to the board of directors to the effect that (1) the director is a member or officer of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with that company or firm; or (2) he or she is to be regarded as interested in any contract or arrangement which may after the date of the notice to the board of directors be made with a specified person who is connected with him or her, will be deemed sufficient declaration of interest. This notice shall specify the nature of the interest in question. Following the disclosure being made pursuant to Arco's Articles of Association and subject to any separate requirement under applicable law or the listing rules of the Nasdaq, and unless disqualified by the chairman of the relevant meeting, a director may vote in respect of any transaction or arrangement in which he or she is interested and may be counted in the quorum at the meeting.

In comparison, under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself or herself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he or she reasonably believes to be in the best interests of the corporation. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

Shareholder Proposals

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. The Delaware General Corporation Law does not provide shareholders an express right to put any proposal before the annual meeting of shareholders, but Delaware corporations generally afford shareholders an opportunity to make proposals and nominations provided that they comply with the notice provisions in the certificate of incorporation or bylaws. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Companies Act provides shareholders with only limited rights to requisition a general meeting and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's Articles of Association. Arco's Articles of Association provide that upon the requisition of one or more shareholders representing not less than one-third of the voting rights entitled to vote at general meetings, the board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. The Articles of Association provide no other right to put any proposals before annual general meetings or extraordinary general meetings.

Cumulative Voting

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. As permitted under Cayman Islands law, Arco's Articles of Association do not provide for cumulative voting. As a result, the shareholders of Arco are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors

The office of a director shall be vacated automatically if, among other things, he or she (1) becomes prohibited by law from being a director, (2) becomes bankrupt or makes an arrangement or composition with his creditors, (3) dies or is in the opinion of all his co-directors, incapable by reason of mental disorder of discharging his duties as director (4) resigns his office by notice to us or (5) has for more than six months been absent without permission of the directors from meetings of the board of directors held during that period, and the remaining directors resolve that his/her office be vacated.

Transaction with Interested Shareholders

The Delaware General Corporation Law provides that, unless the corporation has specifically elected not to be governed by this statute, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that this person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting shares or who or which is an affiliate or associate of the corporation and owned 15% or more of the corporation's outstanding voting shares within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which the shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, Arco cannot avail itself of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that the board of directors owe duties to ensure that these transactions are entered into bona fide in the best interests of the company and for a proper corporate purpose and, as noted above, a transaction may be subject to challenge if it has the effect of constituting a fraud on the minority shareholders.

Dissolution; Winding Up

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. If the dissolution is initiated by the board of directors, it may be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company resolves by ordinary resolution that it be wound up because it is unable to pay its debts as they fall due. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

Under the Companies Act, Arco may be dissolved, liquidated or wound up by a special resolution of shareholders (requiring a two-thirds majority vote). Arco's Articles of Association also give its board of directors authority to petition the Cayman Islands Court to wind up Arco.

Variation of Rights of Shares

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of that class, unless the certificate of incorporation provides otherwise. Under Arco's Articles of Association, if the share capital is divided into more than one class of shares, the rights attached to any class may only be varied with the written consent of the holders of two-thirds of the shares of that class or the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

Also, except with respect to share capital (as described above), alterations to Arco's Articles of Association may only be made by special resolution of shareholders (requiring a two-thirds majority vote).

Amendment of Governing Documents

Under the Delaware General Corporation Law, a corporation's certificate of incorporation may be amended only if adopted and declared advisable by the board of directors and approved by a majority of the outstanding shares entitled to vote, and the bylaws may be amended with the approval of a majority of the outstanding shares entitled to vote and may, if so provided in the certificate of incorporation, also be amended by the board of directors. Under Cayman Islands law, Arco's Articles of Association generally (and save for certain amendments to share capital described in this section) may only be amended by special resolution of shareholders (requiring a two-thirds majority vote).

Rights of Non-Resident or Foreign Shareholders

There are no limitations imposed by Arco's Articles of Association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on Arco's shares. In addition, there are no provisions in the Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

Handling of Mail

Mail addressed to us and received at our registered office will be forwarded unopened to the forwarding address, which will be supplied by us. None of us, our directors, officers, advisors or service providers (including the organization which provides registered office services in the Cayman Islands) will bear any responsibility for any delay howsoever caused in mail reaching the forwarding address.

ITEM 16H. Mine safety disclosure

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of this item.

ITEM 18. FINANCIAL STATEMENTS

Financial Statements are filed as part of this annual report, see pages F-1 to F-93 to this annual report.

ITEM 19. EXHIBITS

The following documents are filed as part of this annual report:

<u>Exhibit No.</u>	<u>Exhibit</u>
3.1	Memorandum and Articles of Association of Arco (incorporated herein by reference to Exhibit 3.1 to the Amendment No. 2 to our registration statement on Form F-1 (File No. 333-227007) filed with the SEC on September 17, 2018).
10.1	Form of indemnification agreement (incorporated herein by reference to Exhibit 10.1 to our registration statement on Form F-1 (File No. 333-227007) filed with the SEC on August 24, 2018).
12.1	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 of the Chief Executive Officer.*
12.2	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 of the Chief Financial Officer.*
13.1	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer.*
13.2	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer.*
21.1	List of subsidiaries.*
23.1	Consent of Ernst & Young Auditores Independientes S.S.*
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

March 31, 2021

Arco Platform Limited

By: /s/ Ari de Sá Cavalcante Neto
Name: Ari de Sá Cavalcante Neto
Title: CEO

March 31, 2021

Arco Platform Limited

By: /s/ Alexandre Nakamaru
Name: Alexandre Nakamaru
Title: CFO

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Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for assessing the effectiveness of internal control over financial reporting.

Our internal control over financial reporting is a process designed by, or under the supervision of, our chief executive officer and chief financial officer and effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2020, based upon the criteria described in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Based on this assessment and criteria, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2020 to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of WPensar S.A. ("WPensar"), Studos Software Ltda. ("Studos"), Geekie Desenvolvimento de Software S.A. ("Geekie") and Escola de Inteligência Cursos Educacionais S.A. ("Escola de Inteligência"), which are included in the 2020 consolidated financial statements of the Company. Collectively, WPensar, Studos, Geekie and Escola de Inteligência constituted less than 10% of the Company's total assets as of December 31, 2020 and less than 5% of the Company's total revenues for the year ended December 31, 2020.

March 31, 2021

/s/ Ari de Sá Cavalcante Neto
Ari de Sá Cavalcante Neto
Chief Executive Officer

/s/ Alexandre Nakamura
Alexandre Nakamura
Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Arco Platform Limited

Opinion on the Financial Statements

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

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

Adoption of IFRS 16

As discussed in Note 2.4(m) to the consolidated financial statements, the Company changed its method for recognizing leases in 2019, due to the adoption of IFRS 16 – Leases using the modified retrospective method of adoption.

Basis for Opinion

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) related to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgements. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Business combinations - fair value of net assets acquired

Description of the Matter

The Company made certain acquisitions during the year ended December 31, 2020, as disclosed in Note 4. The Company recorded these acquisitions as business combinations using the acquisition method, allocating the purchase price to the assets acquired and liabilities assumed, including identifying intangible assets and contingent considerations, at their respective fair values. The significant assumptions used to estimate the fair value of the net assets acquired included discount rates and certain assumptions that form the basis of the forecasted results (e.g., revenue growth rates and operating profit margin). These significant assumptions are forward looking and could be affected by future economic and market conditions.

Auditing the fair value of net assets acquired is complex and requires significant audit judgement to audit management estimations to determine the fair value of the net assets acquired.

How We Addressed the Matter in our audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of the controls over business combinations. For example, we tested controls over the recognition and measurement of intangible assets, including the valuation models and underlying assumptions used to develop such estimates.

To test the estimated fair value of the net assets acquired, we performed audit procedures that included, among others, evaluating the Company's selection of the valuation methodology, evaluating the methods and significant assumptions used by the Company's valuation specialist, and evaluating the completeness and accuracy of the underlying data supporting the significant assumptions and estimates. We involved our valuation specialists to assist with our evaluation of the methodology used by the Company and significant assumptions included in the fair value estimates. For example, we compared the significant assumptions to current industry, market and economic trends, to the assumptions used to value similar assets in other past acquisitions, to the historical results of the acquired business and to other guidelines used by companies within the same industry. We also evaluated the financial statements disclosures included in Note 4.

Goodwill impairment test

Description of the Matter

At December 31, 2020, the Company's goodwill was R\$ 1,394 million. As discussed in Note 14 to the consolidated financial statements, goodwill is tested for impairment at least annually at the cash generating unit (CGU) level.

Auditing management's annual goodwill impairment test is complex and highly judgmental due to the significant estimation required to determine the fair value of the cash generating units. In particular, the fair value estimate is sensitive to significant assumptions, such as changes in the weighted average cost of capital, revenue growth rate, operating margin and working capital, which are affected by expectations about future economic scenarios, particularly those in emerging markets.

How We Addressed the Matter in our audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's goodwill impairment review process including controls over management's review of the significant assumptions described above.

To test goodwill impairment our audit procedures included, among other, involving our valuation specialist to assist in evaluating the methodologies and key assumptions, including the estimated future gross margins, growth rate and the discount rate used in the valuation model. We also performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions and compared those significant assumptions to the Company's industry and economic trends. Our procedures also consisted of testing the mathematical accuracy of the forecasts in the impairment assessment model and confirm whether Management's estimate of each CGU's recoverable amount considering the value in use calculation was based on a discounted cash flow model. We agreed the forecast cash flows to board-approved budgets and market communications and assessed the accuracy of prior period forecasts. We also evaluated the Company's disclosures in respect to its goodwill impairment assessment in Note 14.

Accounts payable to selling shareholders

Description of the Matter

At December 31, 2020, accounts payable to selling shareholders amounted to R\$ 1,789 million, as disclosed in Note 17. Those amounts arise from certain business combinations and investments in associates. The determination of the recorded amounts include the use of management assumptions about future business performance and interest rates.

Auditing accounts payable to selling shareholders was complex and required significant auditor judgement because of the high degree of subjectivity and judgment applied by management in the process of estimating the significant assumptions underlying the prospective financial information used in the determination of the recorded amounts. Those significant assumptions are forward looking and could be affected by future

economic and market conditions.

How We Addressed the Matter in our audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of management controls over the Company's determination of accounts payable to selling shareholders. For example, we tested controls on the mathematical accuracy of management's computations and review controls on the selection of assumptions.

To test the account payable to selling shareholders, our audit procedures included, among others, involving our valuation specialists to assist in evaluating the methodologies and key assumptions, including the estimated future revenue, growth rate and the discount rate used to prepare the projected financial information. We also performed sensitivity analyses to evaluate the change in the liability amounts resulting from changes in those assumptions. We also compared those significant assumptions to market benchmarks and evaluated them against known general economic trends. We also evaluated the Company's disclosures in Note 17.

/s/ ERNST & YOUNG
Auditores Independentes S.S.

We have served as the Company's auditor since 2017.

Fortaleza, Brazil
March 31, 2021

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Arco Platform Limited

Opinion on Internal Control over Financial Reporting

We have audited Arco Platform Limited and subsidiaries' internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Arco Platform Limited (the Company and subsidiaries) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

As indicated in the accompanying Report of Management on Arco Platform Limited's Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of WPensar S.A. ("WPensar"), Studos Software Ltda. ("Studos"), Geekie Desenvolvimento de Softwares S.A. ("Geekie") and Escola de Inteligência Cursos Educacionais S.A. ("Escola de Inteligência"), which are included in the 2020 consolidated financial statements of the Company. Collectively, WPensar, Studos, Geekie and Escola de Inteligência constituted less than 10% of the Company's total assets as of December 31, 2020 and less than 5% of the Company's total revenues for the year ended December 31, 2020. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of WPensar, Studos, Geekie and Escola de Inteligência.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated March 31, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

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Definition and Limitations of Internal Control Over Financial Reporting

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

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

Fortaleza, Brazil
March 31, 2021

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Arco Platform Limited

Consolidated financial statements

December 31, 2020

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Arco Platform Limited

Consolidated statements of financial position

As of December 31, 2020 and 2019

(In thousands of Brazilian reais, unless otherwise stated)

	Notes	December 31, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents	5	424,410	48,900
Financial investments	6	712,645	574,804
Trade receivables	7	415,282	329,428
Inventories	8	74,076	40,106
Recoverable taxes	9	19,304	15,612
Financial instruments from acquisition of interest	16	-	3,794
Related parties	10	9,970	1,298
Other assets		24,073	14,630
Total current assets		1,679,760	1,028,572
Non-current assets			
Financial instruments from acquisition of interest	16	-	32,152
Deferred income tax	24	236,903	156,748
Recoverable taxes	9	1,121	6,613
Financial investments	6	10,349	4,690
Related parties	10	10,508	14,813
Other assets		22,239	14,399
Investments and interests in other entities	11	9,654	48,574
Property and equipment	12	26,087	21,328
Right-of-use assets	13	30,022	21,631
Intangible assets	14	2,549,637	1,811,903
Total non-current assets		2,896,520	2,132,851
Total assets		4,576,280	3,161,423
Liabilities			
Current liabilities			
Trade payables		40,925	34,521
Labor and social obligations	18	85,069	68,511
Taxes and contributions payable		9,676	7,508
Income taxes payable		44,731	52,038
Advances from customers		23,080	25,626
Lease liabilities	13	12,742	6,845
Loans and financing	15	107,706	98,561
Accounts payable to selling shareholders	17	656,014	117,959
Other liabilities		331	607
Total current liabilities		980,274	412,176
Non-current liabilities			
Labor and social obligations	18	36,570	2,801
Lease liabilities	13	22,478	19,012
Loans and financing	15	203,413	-
Financial instruments from acquisition of interest	16	-	33,940
Provision for legal proceedings	28	1,366	251
Accounts payable to selling shareholders	17	1,130,501	1,098,273
Other liabilities		794	160
Total non-current liabilities		1,395,122	1,154,437
Total liabilities		2,375,396	1,566,613
Equity			
Share capital	19	11	11
Capital reserve		2,200,645	1,607,622
Share-based compensation reserve		80,817	84,546
Accumulated losses		(80,589)	(97,369)
Total equity		2,200,974	1,594,800

Total liabilities and equity**4,498,286****3,787,819**

The accompanying notes are part of the consolidated financial statements.

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Arco Platform Limited

Consolidated statements of income

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

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

	Notes	2020	2019	2018
Net revenue	21	1,001,710	572,837	380,981
Cost of sales	22	(221,130)	(117,258)	(80,745)
Gross profit		780,580	455,579	300,236
Selling expenses	22	(372,269)	(199,780)	(113,270)
General and administrative expenses	22	(270,558)	(191,438)	(129,754)
Other income (expenses), net		(2,258)	(6,287)	4,856
Operating profit		135,495	58,074	62,068
Finance income	23	45,211	72,047	36,618
Finance costs	23	(142,013)	(170,855)	(198,795)
Finance result	23	(96,802)	(98,808)	(162,177)
Share of profit (loss) of equity-accounted investees	11	409	(1,800)	(792)
Income (loss) before income taxes		39,102	(42,534)	(100,901)
Income taxes - income (expense)				
Current		(87,379)	(46,850)	(26,553)
Deferred	24	65,057	79,953	44,538
		(22,322)	33,103	17,985
Profit (loss) for the year		16,780	(9,431)	(82,916)
Profit (loss) attributable to:				
Equity holders of the parent		16,780	(9,431)	(82,380)
Non-controlling interests		-	-	(536)
Basic earnings per share - in Brazilian reais	20			
Class A		0.30	(0.18)	(1.64)
Class B		0.30	(0.18)	(1.64)
Diluted earnings per share - in Brazilian reais	20			
Class A		0.30	(0.18)	(1.64)
Class B		0.30	(0.18)	(1.64)

The accompanying notes are part of the consolidated financial statements.

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Arco Platform Limited

Consolidated statements of changes in equity

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

(In thousands of Brazilian reais, unless otherwise stated)

	Attributable to equity holders of the parent						Total	Non-controlling interests	Total equity
	Share capital	Capital reserve	Legal reserve	Retained earnings reserve	Share-based compensation reserve	Accumulated losses			
Balances at December 31, 2017	55,897	160,682	8,165	73,827	7,053	-	305,624	111	305,735
Change in accounting policy (IFRS 9)	-	-	-	-	-	(4,307)	(4,307)	-	(4,307)
Balances at January 1, 2018	55,897	160,682	8,165	73,827	7,053	(4,307)	301,317	111	301,428
Loss for the year	-	-	-	-	-	(82,380)	(82,380)	(536)	(82,916)
Total comprehensive loss	-	-	-	-	-	(82,380)	(82,380)	(536)	(82,916)
Corporate reorganization	(55,890)	63,444	(8,165)	(73,827)	-	-	(74,438)	-	(74,438)
GA Holding - tax benefit on tax deductible goodwill	-	46,314	-	-	-	-	46,314	-	46,314
Capital increase - Alfacó	-	3,091	-	-	-	-	3,091	-	3,091
Issuance of common shares in initial public offering	3	895,179	-	-	-	-	895,182	-	895,182
Share issuance costs	-	(79,205)	-	-	-	-	(79,205)	-	(79,205)
Non-controlling interest	-	-	-	-	-	-	-	131	131
Share-based compensation plan	-	-	-	-	60,297	-	60,297	-	60,297
Balances at December 31, 2018	10	1,089,505	-	-	67,350	(86,687)	1,070,178	(294)	1,069,884
Change in accounting policy (IFRS 16)	-	-	-	-	-	(1,251)	(1,251)	-	(1,251)

Balances at January 1, 2019	10	1,089,505	-	-	67,350	(87,938)	1,068,927	(294)	1,068,633
Loss for the year	-	-	-	-	-	(9,431)	(9,431)	-	(9,431)
Total comprehensive loss	-	-	-	-	-	(9,431)	(9,431)	-	(9,431)
Corporate reorganization	-	(36,624)	-	-	-	-	(36,624)	-	(36,624)
Tax benefit on tax deductible goodwill – reversion	-	(46,314)	-	-	-	-	(46,314)	-	(46,314)
Capital increase	1	13,829	-	-	-	-	13,830	-	13,830
Issuance of common shares in follow-on public offering	-	589,602	-	-	-	-	589,602	-	589,602
Share issuance costs	-	(18,223)	-	-	-	-	(18,223)	-	(18,223)
Non-controlling interest	-	-	-	-	-	-	-	294	294
Share-based compensation plan	-	-	-	-	33,043	-	33,043	-	33,043
Restricted stocks transferred	-	15,847	-	-	(15,847)	-	-	-	-
Balances at December 31, 2019	11	1,607,622	-	-	84,546	(97,369)	1,594,810	-	1,594,810

The accompanying notes are part of the consolidated financial statements.

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Arco Platform Limited

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

	Share capital	Capital reserve	Share-based compensation reserve	Accumulated losses	Total
Balances at December 31, 2019	11	1,607,622	84,546	(97,369)	1,594,810
Profit for the year	-	-	-	16,780	16,780
Total comprehensive income	-	-	-	16,780	16,780
Issuance of common shares in follow-on public offering (Note 1.2)	-	591,898	-	-	591,898
Share issuance costs (Note 1.2)	-	(16,291)	-	-	(16,291)
Share-based compensation plan (Note 18)	-	-	13,687	-	13,687
Restricted stocks transferred	-	17,416	(17,416)	-	-
Balances at December 31, 2020	11	2,200,645	80,817	(80,589)	2,200,884

The accompanying notes are part of the consolidated financial statements.

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Arco Platform Limited

Consolidated statements of cash flows
For the years ended December 31, 2020, 2019 and 2018
(In thousands of Brazilian reais, unless otherwise stated)

	2020	2019	2018
Operating activities			
Profit (loss) before income taxes	39,102	(42,534)	(100,901)
Adjustments to reconcile profit (loss) before income taxes			
Depreciation and amortization	127,455	48,314	19,594
Inventory reserves	7,453	8,476	7,252
Allowance for doubtful accounts	34,684	17,392	9,588
Loss on sale/disposal of property and equipment and intangible assets disposed	4,277	3,499	138
Fair value change in financial instruments from acquisition interests	(562)	(473)	(659)
Changes in accounts payable to selling shareholders	20,330	89,403	130,378
Share of (profit) loss of equity-accounted investees	(409)	1,800	792
Share-based compensation plan	36,333	33,043	60,297
Accrued interest on loans and financing	19,862	1,002	-
Interest accretion on acquisition liability	68,379	42,206	8,704
Income from non-cash equivalents	(13,388)	(45,797)	-
Interest on lease liabilities	3,036	1,489	-
Provision for legal proceedings	587	120	131
Provision for payroll taxes (restricted stock units)	(2,997)	8,333	-
Foreign exchange income (loss)	(188)	555	34,435
Changes in fair value of step acquisitions	307	(3,708)	-
Gain on sale of investment	-	(3,286)	-
Other financial cost/revenue, net	(2,315)	(2,362)	-
	341,946	157,472	169,749
Changes in assets and liabilities			
Trade receivables	(108,087)	(136,407)	(57,020)
Inventories	(18,161)	(14,637)	(3,563)
Recoverable taxes	3,152	(8,494)	(3,807)
Other assets	(14,087)	(16,035)	(2,254)
Trade payables	3,886	8,455	10,256

Labor and social obligations	7,239	15,950	7,169
Taxes and contributions payable	1,147	1,951	1,476
Advances from customers	(2,981)	19,997	99
Other liabilities	(1,420)	(268)	(3,342)
Cash generated from operations	212,634	27,984	118,763
Income taxes paid	(95,053)	(34,747)	(26,639)
Interest paid on lease liabilities	(2,100)	(852)	-
Interest paid on accounts payable to selling shareholders	(187)	-	-
Interest paid on loans and financing	(13,423)	-	-
Payments for contingent consideration	(9,520)	-	-
Net cash flows generated from (used in) operating activities	92,351	(7,615)	92,124
Investing activities			
Acquisition of property and equipment	(10,822)	(10,991)	(6,854)
Payment of investments and interests in other entities	(32,628)	(41,853)	(2,000)
Acquisition of subsidiaries, net of cash acquired	(204,286)	(798,885)	-
Payment of accounts payables to selling shareholders	-	-	(14,756)
Acquisition of intangible assets	(96,827)	(43,102)	(29,403)
Net sales (purchases) of financial investments	(130,113)	277,389	(727,951)
Loans to related parties	(5,000)	(14,000)	-
Net cash flows used in investing activities	(479,676)	(631,442)	(780,964)
Financing activities			
Capital increase - exercised stock options	-	13,830	3,091
Capital increase - proceeds from public offering	591,898	589,602	895,182
Share issuance costs	(16,291)	(18,897)	(78,531)
Payment of lease liabilities	(8,510)	(4,407)	-
Payment of loans and financing	(301,151)	(563)	-
Payment to owners to acquire entity's shares	(1,733)	(928)	-
Loans and financing	498,434	97,574	-
Dividends paid by subsidiaries	-	-	(85,000)
Net cash flows generated from financing activities	762,647	676,211	734,742
Foreign exchange effects on cash and cash equivalents	188	(555)	(34,435)
Increase in cash and cash equivalents	375,510	36,599	11,467
Cash and cash equivalents at the beginning of the year	48,900	12,301	834
Cash and cash equivalents at the end of the year	424,410	48,900	12,301
Increase in cash and cash equivalents	375,510	36,599	11,467

The accompanying notes are part of the consolidated financial statements.

Notes to the consolidated financial statements

Expressed in thousands of Brazilian reais, unless otherwise stated

1 Corporate information

Arco Platform Limited ("Arco") is a holding company incorporated under the laws of the Cayman Islands on April 12, 2018 whose shares are publicly traded on the National Association of Securities Dealers Automated Quotations Payments exchange (NASDAQ) under the ticker symbol "ARCE". Arco and its subsidiaries are collectively referred to as the Company. Arco became the parent company of Arco Educação S.A. ("Arco Brazil") through the completion of a corporate reorganization and initial public offering in 2018. Arco Brazil is the holding company of the operating subsidiaries, including PSD Educação S.A. ("PSD"), which provides educational content from basic to secondary education ("K-12 curriculum"). The Company's principal administrative office is located at 2840 Rua Augusta, 11th Floor, Consolação, São Paulo, Brazil.

Since 2015, the Company has been investing in technology and its printed methodology has evolved to an educational platform, capable of delivering the entire K-12 curriculum content.

The Company offers a complete pedagogical methodology using technology features to deliver educational content to improve the learning process. The Company's activities comprise the editing, publishing, advertising and sale of educational content for private schools.

The Company has an asset-light, highly scalable business model that emphasizes operational efficiency and profitability. Arco operates through long-term service contracts with private schools. These contracts generally have terms of validity ranging from one to five years, pursuant to which educational content is provided in printed and digital format to private schools. The revenue is driven by the number of enrolled students at each customer using the solutions and the agreed upon price per student per year, all in accordance with the terms and conditions set forth in each contract. As a result, the Company benefits from high visibility in its net revenue and operating margin, which is calculated by dividing the operating profit by net revenue over a given period.

These consolidated financial statements were authorized for issue by the Board of Directors on March 31, 2021.

1.2 Significant events during the year

(a) Follow-on public offering

On June 04, 2020, Arco completed a follow-on public offering of 5,563,203 Class A common shares, offered by General Atlantic Arco (Bermuda), L.P. ("GA"), and Alfacó Holding Inc. (the "Selling Shareholders"), at a public offering price of US\$ 47.70. Arco did not receive any proceeds from the sale of the Class A common shares by the Selling Shareholders. Neither Arco nor any of its other shareholders, including its founding shareholders and members of management, sold Class A common shares in this offering.

On September 8, 2020, the Company completed a follow-on public offering of 2,500,000 Class A common shares issued by Arco at a public offering price of US\$44.80.

The public offering resulted in gross proceeds of US\$112.0 million (or R\$591.9) for the Company. The Company received net proceeds of US\$109,760 (or R\$580,059), after deducting US\$2,240 (or R\$11,839) in underwriting discounts and commissions. In addition, the Company incurred in the amount of R\$ 4,452 for audit, consulting and legal services related to the offering. These transactions costs, net of taxes, are classified in equity as a reduction of the gross proceeds resulting from the public offering.

(b) Internal restructurings

PSD Educação S.A. (“PSD”)

On August 01, 2020, continuing the corporate restructuring, PSD Educação S.A. incorporated the companies Positivo Soluções Didáticas Ltda. and Editora Piá Ltda. When PSD Educação S.A. acquired these entities, goodwill and fair value adjustments recognized in the amount of R\$830,028 and R\$726,876, respectively, were not tax deductible. However, as a result of the corporate restructuring, PSD Educação S.A. now has tax benefits from the deductibility of the amortization of goodwill and fair value adjustments of R\$529,347 (tax rate of 34%). The fair value adjustments are deductible over the next 5 to 20 years, according to the useful lives of the identified is deductible over 7.5 years, as defined by the Company's Management, under Brazilian tax laws.

(c) Acquisition of investments

Geekie Desenvolvimento de Softwares S.A. (“Geekie”)

On November 27, 2020, the Company signed a new shareholders' agreement and based on the new terms defined, on that date the Company acquired control of Geekie and the investee became a consolidated subsidiary of Arco as shown in Note 4.c).

Bewater Ventures I GA Fundo de Investimento em Participações Multiestratégia (“Bewater”)

On July 24, 2020, the Company acquired a 14.48% interest in Bewater Ventures I GA FIP - Multiestratégia, a fund managed by Paraty Capital, through the purchase of 9,670 Class B quotas for R\$9,670 as described in Note 11. The fund's main goal was to make a minority investment in Grupo A, a company that provides educational solutions for higher education, which happened subsequently to our investment.

Escola da Inteligência Cursos Educacionais Ltda. (“EI” or “Escola da Inteligência”)

On August 28, 2020, the Company announced that it entered into a definitive agreement to acquire Escola da Inteligência, the leading solution in social-emotional learning (SEL) in Brazil.

On November 13, 2020, the Company received approval of the transaction from Brazil's Administrative Council for Economic Defense – CADE, with no restrictions, and the Company concluded the transaction on December 2, 2020. Accordingly, on that date, the Company, through its subsidiary PSD, acquired control of EI as described in Note 4.d).

WPensar S.A. (“WPensar”)

On September 21, 2020, the Company acquired control of WPensar S.A. through the acquisition of the remaining 75.0% interest and started to consolidate it as subsidiary of the Company with 100.0% interest in the share capital. See Note 4.a) for further information.

Studos Software Ltda. (“Studos”)

On September 21, 2020, the Company acquired the control of Studos Software Ltda. (“Studos”) by acquiring 100.0% of its outstanding ordinary shares and voting interests as described in Note 4.b).

(d) Information related to Covid-19 pandemic

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. While the spread started in December 2019 in China and adversely impacted regional economies across the globe, first cases in Brazil were officially reported during the first quarter of 2020. Such events caused the disruption of economic activity, imposing restrictions on industries, commerce, and social contact. At the beginning of the pandemic, state and local authorities have ordered many companies to limit or suspend operations and encourage social distancing with the aim to reduce the speed at which COVID-19 is spreading.

The initial measures of restrictions taken by Brazilian states and local authorities directly impacted the education industry by indefinitely postponing on-site school activities. Nonetheless, as education is an important and essential service, the private schools are conducting classes on a flex model, with classroom and virtual classes. In Brazil, the resumption of economic activity is occurring in stages, some activities are gradually being released, including presential classes in some cases and states with several security rules. The return is occurring differently in each Brazilian state, according to their particular situation.

Notwithstanding the above, the Company did not suspend its activities and, even with the return allowed by the authorities, most of its workforce continues to work remotely from home, except for some people from administrative teams and distribution centers' teams that are working on site in accordance with health and safety protocols and social distancing guidelines. In this scenario, the Company has made additional investments in IT and network infrastructure; incurred additional expenses for cleaning and disinfecting the installations; purchased alcohol and masks; funded COVID-19 tests and H1N1 flu vaccination campaigns with the objective of taking care of its employees, reducing the demand for care in health units and to facilitate the diagnosis of COVID-19. The Company also delivered chairs, computers, and work kits to its employees. Additionally, to support schools, since day 1, the Company has made available an integrated platform with daily live classes to all students, webinars, broadcast, and remote support to maintain student learning with the social distancing measures

The measures discussed above, including travel restrictions, were put in place to safeguard the health and safety of our employees, customers, and suppliers, but have not limited

the Company's ability to maintain its operations. In addition, these alternative working arrangements have not adversely affected financial reporting systems, internal control over financial reporting or disclosure controls and procedures.

Our content production continues according to the scheduled curriculum calendar and the current educational material has been delivered to the schools according to the school calendar for the year, enabling the Company to recognize the revenues on these products.

With respect to the Company's distribution and delivery capacity, which relies on third parties, the Company's principal vendors responsible for the printing of educational material did not raise any issues related to their ability to fulfill scheduled shipments or with respect to the incurrence of any significant additional expenses.

As a result, as of December 31, 2020, the following events and transactions occurred during the year:

- Expected credit losses were revised considering estimated increases in financial defaults, arising from renegotiations with customers and in unemployment rates in Brazil for the foreseeable future due COVID-19, which resulted in an increase of R\$ 6,996 in allowance for doubtful accounts as of December 31, 2020.
- The Company incurred additional expenses of R\$ 7,707 during the year ended December 31, 2020. These additional expenses are related to IT, network infrastructure and an integrated teaching platform, as well as expenses to maintain protective measures such as cleaning and disinfecting the installations, distribution of protective masks and alcohol to employees and delivery of chairs, computers and work kits.
- The Company assessed the existence of potential impairment indicators and the possible impacts on the key assumptions and projections caused by the pandemic on the recoverability of long-lived assets and concluded that there are no indications that demonstrate the need to recognize a provision for impairment of long-lived assets in the consolidated financial statements.
- Despite the year's such unprecedented events, the Company was able to recognize 96% of the 2020 school year ACV.
- The inventory reserves were increased to accurately reflect the expected realization of inventories, which resulted in an incremental charge of R\$287 in the consolidated financial statement of income for the year ended December 31, 2020.

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- As of December 31, 2020, management opted to not benefit from the payroll relief measures announced by the Brazilian government. On the tax side, the Company opted for some Brazilian benefits of postponing tax payments for certain entities (INSS and FGTS) for the second half of the year. The payments were settled in the last quarter of 2020.
- There were rent concessions, regarding leased buildings, that occurred as a direct consequence of the COVID-19 pandemic and were accounted as if they were not lease modifications. Therefore, no changes occurred in the expected useful life and residual value of properties and equipment. For the year ended December 31, 2020, the discount obtained was R\$ 350.
- No changes in the provision for contingencies against the Company were identified because of COVID-19.
- The Company entered into an additional loan agreement of R\$ 200,000, with no significant change in costs. The Company has no financial covenants on any of its existing loans and financing and has sufficient working capital and other undrawn financing facilities to service its operating activities and ongoing investments. The loan was repaid on September 21, 2020. See Note 15 for further information.

In January 2021, the COVID vaccine began to be applied in Brazilians. Vaccination started with the priority groups: health workers, the elderly, the disabled and indigenous villagers. Although there is no exact date for application in 100% of the population, expectations are for 2022. The future impact of the COVID-19 pandemic on an ongoing basis is still uncertain and will remain a factor in the analysis of key estimates and judgements used in preparing the Company's financial statements, especially given the rapid and unexpected changes the pandemic is posing to global and local economic environments.

Despite the beginning of the vaccination, we are now facing a new wave of contamination from COVID-19. Given the uncertainty around the extent and timing of the future spread of COVID-19, the imposition of additional protective measures, or the relaxation of existing protective measures, it is not possible to accurately predict COVID-19's general impact on the education industry or to reasonably estimate its impact on Arco's results of operations, cash flows or financial condition, including, but not limited to:

- A decrease in the number of students, which may impact the expected amount of revenue.
- An increase in bad debts due to the current economic scenario.
- A change in the fair value of financial instruments.
- The renegotiation of loans and lease agreements to ensure the continued strength of the Company's financial position.

Management will continue to monitor and assess the impact COVID-19 may have on the Company's business and financial performance and position.

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2 Significant accounting policies

2.1 Basis for preparation of the consolidated financial statements

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

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets, derivative financial instruments and contingent consideration from business combinations that have been measured at fair value.

Arco is a holding company and considers the currency of the local environment of the operational companies in Brazil as its functional currency, as this is the environment which drives the dividend income it receives, which is its primary source of revenue.

Therefore, the functional currency of the Company is the Brazilian *real* and the consolidated financial statements are presented in Brazilian *reais* ("BRL" or "RS"). All amounts are

rounded to the nearest thousands, except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

1.2 Basis of consolidation and investments

The consolidated financial statements comprise the financial statements of the Company, its subsidiaries and investments as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018.

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

Name	Principal activities	Country	Investment type	Direct and indirect interest		
				2020	2019	2018
Arco Educação S.A.	Holding	Brazil	Subsidiary	100.0%	100.0%	100.0%
PSD Educação S.A.	Educational content	Brazil	Subsidiary	100.0%	100.0%	100.0%
Barra Américas Editora Ltda.	Educational content	Brazil	Subsidiary	100.0%	100.0%	100.0%
Distribuidora de Material Didático Desterro Ltda.	Educational content	Brazil	Subsidiary	100.0%	100.0%	100.0%
Novagaúcha Editora e Livraria Ltda.	Educational content	Brazil	Subsidiary	-	-	100.0%
SAS Sistema de Ensino Ltda.	Educational content	Brazil	Subsidiary	100.0%	100.0%	100.0%
Arco Ventures S.A.	Educational content	Brazil	Subsidiary	100.0%	100.0%	100.0%
SAS Livrarias Ltda.	Educational content	Brazil	Subsidiary	100.0%	100.0%	100.0%
SAE Digital S.A.	Educational content	Brazil	Subsidiary	100.0%	100.0%	100.0%
Escola de Aplicação São José dos Campos Ltda.	Educational services	Brazil	Subsidiary	-	-	69.6%
International School Serviços de Ensino, Treinamento e Editoração, Franqueadora S.A.	Educational content	Brazil	Subsidiary	51.5%	51.5%	51.5%
NS Ventures Participações Ltda.	Educational content	Brazil	Subsidiary	-	-	100.0%
NS Educação Ltda.	Educational content	Brazil	Subsidiary	-	-	100.0%
Nave à Vela Ltda.	Educational content	Brazil	Subsidiary	51.0%	51.0%	-
EEM Licenciamento de Programas Educacionais Ltda.	Educational technology	Brazil	Subsidiary	100.0%	100.0%	-
NLP Soluções Educacionais Ltda.	Educational content	Brazil	Subsidiary	100.0%	100.0%	-
WPensar S.A.	Educational technology	Brazil	Subsidiary	100.0%	25.0%	25.0%
Geekie Desenvolvimento de Softwares S.A.	Educational technology	Brazil	Subsidiary	56.0%	37.5%	8.05%
Studos Software Ltda.	Educational content	Brazil	Subsidiary	100.0%	-	-
Escola da Inteligência Cursos Educacionais Ltda.	Educational content	Brazil	Subsidiary	60.0%	-	-
Bewater Ventures I GA Fundo de Investimento em Participações Multiestratégia	Private equity	Brazil	Investee	14.48%	-	-

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

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

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

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

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2.3 Summary of significant accounting policies

This note provides a description of the significant accounting policies adopted in the preparation of these consolidated financial statements in addition to other policies that have been disclosed in other notes to these consolidated financial statements. These policies have been consistently applied to all periods presented, unless otherwise stated.

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Company elects whether to measure the non-

controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

The Company determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs.

The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organized workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

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

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognized in the statement of income (loss) in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

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

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After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each segment that is expected to benefit from the combination.

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

The current Brazilian tax law allows the deductibility of the acquisition date goodwill and fair value of net assets acquired when a corporate reorganization occurs after acquisition by the Company (i.e. when the Company merges or spins off the businesses acquired). Until such action occurs, the tax and accounting bases of the net assets acquired are the same as of the acquisition date and no deferred tax effects are recognized.

Certain acquired subsidiaries utilize the presumed profit regime as described in Note 24.a) to calculate income taxes. Under this regime, there is no difference between the carrying amount and related tax basis of assets and liabilities and therefore no deferred income taxes were recorded in these financial statements at acquisition date or any subsequent periods.

b) Investment in associates and joint venture

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Company's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint ventures is included in the carrying amount of the investment and is not tested for impairment separately.

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The statement of income (loss) reflects the Company's share of the results of operations of the associate or joint venture. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Company recognizes its share of any changes, when applicable, in the statement of changes in equity.

Unrealized gains and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Company's share of profit or loss of an associate and a joint venture is shown on the face of the statement of income (loss) outside operating profit and represents profit or loss after tax of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss within share of profit (loss) of equity-accounted investees in the statement of income (loss).

c) Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;

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- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Company classifies all other liabilities as non-current.

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

d) Fair value measurement

The Company measures certain financial instruments such as, financial assets, financial investments, derivatives and financial liabilities at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

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

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

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. See Note 26 for further information.

e) Financial instruments – initial recognition and measurement

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

f) Financial assets

Initial recognition and measurement

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

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

For a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income (OCI), it should give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding.

This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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The Company's business model for managing financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Subsequent measurement

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

Financial assets at amortized cost

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The Company's financial assets at amortized cost include trade receivables and certain financial investments.

Financial assets at fair value through profit or loss

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Derecognition

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

Impairment

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

- Disclosures for significant assumptions - Note 3

- Trade receivables, including contract assets - Note 7

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

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

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The Company considers a financial asset in default when contractual payments are 360 days past due. Management considers this period of maturity to be adequate considering the Company's business model and the historical customer's payment since the contracts are signed annually and during this period the Company can negotiate the payment of the security reducing the credit risk. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

g) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade payables, loans and borrowings, financial instruments from acquisition of interests and accounts payable to selling shareholders.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortized cost (loans and borrowings)

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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Gains or losses on liabilities held for trading are recognized in the statement of income (loss).

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

Financial liabilities at amortized cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate (EIR) method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of income (loss).

Derecognition

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

h) Offsetting of financial instruments

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

i) Derivative financial instruments

Initial recognition and subsequent measurement

The Company has derivative financial instruments from call and put options from acquisitions of subsidiaries, associates and joint venture arrangements. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as

financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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

j) Cash and cash equivalents

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

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

k) Inventories

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

Educational content in progress is considered as inventories in progress and comprises the costs incurred to produce educational content. This amount is measured based on the allocation of hours incurred by editorial production employees in the preparation of educational content.

The inventory reserve for educational material is calculated based on their expected net realizable value. Inventory reserve corresponds to a reserve for inventory obsolescence and is recorded in cost of sales. It is estimated based on the amount of educational materials from prior collections which are no longer used for sale and educational materials which the Company expects will not be sold based on the actual sales. In determining the inventory reserve, the Company considers management's current assessment of the marketplace, industry trends and projected product demand as compared to the number of units currently in stock.

l) Property and equipment

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

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

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

Machinery and equipment	10%
Vehicles	20%
Furniture and fixtures	10%
IT equipment	20%
Facilities	10%
Leasehold improvements	20% to 33%

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

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

m) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

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

Right-of-use assets

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

Buildings	1 to 10 years
Equipment	4 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. Right-of-use assets are subject to impairment.

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

n) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The Company capitalizes the costs directly related with the development of the educational platforms used to deliver content. These costs are substantially comprised of technology related services and payroll expenses, recorded as internally developed software in the educational platform accounting ledger. Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in the statement of income (loss) as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

Costs associated with maintaining internally developed software are recognized as an expense as incurred.

The useful lives of intangible assets are assessed as finite.

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

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

o) Impairment of non-financial asset

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

- Disclosures for significant assumptions - Note 3
- Property and equipment - Note 12
- Intangible assets - Note 14
- Goodwill and intangible assets with indefinite lives - Note 14

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

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

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

Impairment losses of continuing operations are recognized in the statement of income (loss) in expense categories consistent with the function of the impaired asset.

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

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired. An operating segment is the lowest level within the Company at which the goodwill is monitored for internal management purposes and therefore impairment tests of goodwill have been carried out at each operating segment level. Impairment is determined for goodwill by assessing the recoverable amount of each operating segment to which the goodwill relates. When the recoverable amount is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

p) Provisions

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

q) Cash dividend

The Company recognizes a liability to pay a dividend when the distribution is authorized, and the distribution is no longer at the discretion of the Company. The distribution is authorized when it is required to pay a dividend of the profit for the year in accordance with the Company's Articles of Association or is approved by the shareholders. A corresponding amount is recognized directly in equity.

r) Labor and social obligations

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

s) Share-based payments

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

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Equity-settled transactions

The expenses of equity-settled transactions are determined by the fair value at the date when the grant is made using an appropriate valuation model. That expense is recognized in general and administrative expenses, together with a corresponding increase in equity (share-based compensation reserve), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of income (loss) for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

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

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

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

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

Cash-settled transactions

A liability is recognized for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is determined using a Black & Scholes model. The approach used to account for vesting conditions when measuring equity-settled transactions also applies to cash-settled transactions.

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t) Revenue from contracts with customers

Revenue from sale of education content

The Company sells educational content to private schools, which is delivered through printed and digital formats to private school. Revenue from contracts with customers is

recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services., i.e., at the moment it delivers the content to private schools in printed and digital format when the Company fulfills its performance obligation, and the revenue from these contracts is recognized at a point of time.

Revenue is driven by the number of students enrolled in each school and is based on a value negotiated with each contract through the conditions contained in the terms of sales. The technology is provided solely in support of the best use of its content. Both printed and digital content are the same.

Printed content

The Company provides printed content capable of delivering the entire K-12 curriculum. The Company also provides digital content, including its features, and in this case, for the purpose of supporting the printed content, and it includes video lessons, online homework and assessments that are not customized and have no stand-alone value if used separately or outside of the main context. In this context, the digital content and related features are an evolution from a totally printed methodology to a broader approach and will continue to evolve and change in the coming years but are currently still deeply entwined with the printed content.

Digital content

The Company has been investing in technology and has solutions provided only in digital content due to the evolution to an educational platform capable of delivering entire K-12 curriculum content in a digital format and it includes video lessons, online homework and assessments for the purpose of supporting the digital content.

The Company generates substantially all its revenue from contracts that have an average term from one to five years, pursuant to which the Company provides educational content in printed and digital format to private schools. The Company's revenue is driven by the number of enrolled students at each customer using the solutions and the agreed price per student per year, all in accordance with the terms and conditions set forth in each contract. Each contract contemplates penalties ranging between 20% to 100% of the remaining total value of the contract in the event of termination. However, the content already delivered to the private schools is not returned to the Company unless the return conditions in the following paragraph are met.

Revenue recognition of digital content only consists in providing the digital content to the class/year to the school that will provide that to the students. The Company recognizes the revenue at a point of time and the content be kept available to the students.

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Pursuant to the terms of the contracts with the schools, they are required, by the end of November of each year, to provide the Company with an estimate of the number of enrolled students that will access the content in the next school year (which typically starts in February of the following year), allowing the Company to start the delivery of its educational content. Since the contracts with the schools allows product returns or increase in the number of enrolled students up to a certain limit, the Company recognizes revenue for the amount that is expected to be received based on past experience, assuming that the other conditions for revenue recognition are met. A right of return asset (and corresponding adjustment to cost of sales) is also recognized for the right to recover the goods from the customer.

The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods and any potential decreases in value. The Company updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned products.

The Company may enter into contracts with another party in addition to our customer. In making the determination as to whether revenue should be recognized on a gross or net basis, the contract with the customer is analyzed to understand which party controls the relevant good or service prior to transferring to the customer. This judgement is informed by facts and circumstances of the contract in determining whether the Company has promised to provide the specified good or service or whether the Company is arranging for the transfer of the specified good or service, including which party is responsible for fulfilment, has discretion to set the price to the customer and is responsible for inventory risk. On certain contracts, where the Company acts as an agent, only commissions and fees receivable for services rendered are recognized as revenue. Any third-party costs incurred on behalf of the principal that are rechargeable under the contractual arrangement are not included in revenue.

Revenue from services

The Company provides services related to school management for private schools and students, and technological solutions for communicating with students' parents and a learning platform for students and teachers, which are delivered through monthly software licenses. Revenue from contracts with customers is recognized when the control of services is transferred to the customer for an amount that reflects the consideration to which the Company expects to be entitled for the exchange of services, that is, when it releases the license to use services. software for private schools.

The Company generates subscription revenue from the sale of user licenses, in which customers can use the services of online school management software. The services are sold directly to schools that bundle the subscription with their own services provided to end customers. The Company fulfills its performance obligation, and the revenue from these services is recognized on a straight-line basis during the subscription period.

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Subscription revenue is driven by the number of students enrolled in each customer and is based on a value negotiated with each subscriber through the conditions contained in the terms of use.

Interest income

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate (EIR) method. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income includes also gain from financial investments classified as financial assets at fair value through profit or loss. Interest income is included in finance income in the statement of income (loss).

Cost to obtain a contract

The Company incurs costs to obtain each sales contract and recognizes as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

u) Taxes

Current income tax

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

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

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint venture, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 Changes in accounting policies and disclosures

New and amended standards and interpretations

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments did not have an impact on the Company's consolidated financial statements for the business combinations entered into during the year, but may impact future periods should the Company enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Company as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of the Company, nor is there expected to be any future impact to the Company.

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Company.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

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

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had an impact of RS 350 on the consolidated financial statements of the Company due to the discounts obtained.

3 Significant accounting judgements, estimates and assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are recognized prospectively.

Other disclosures relating to the Company's exposure to risks and uncertainties includes:

- Capital management - Note 27
- Financial instruments risk management – Notes 26 and 27
- Sensitivity analyses disclosures - Note 27

Estimates and assumptions

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

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") or group of CGU exceeds its recoverable amount, defined as the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on data available from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow model ("DCF" model). The cash flows are derived from the budget for the next five years and do not include restructuring activities to which the Company has not yet committed or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as to expected future cash-inflows and the growth rate used for extrapolation purposes. The Company determined that its operating segment is the cash generating unit. These estimates are most relevant to goodwill that are recognized by the Company. The key assumptions used to determine the recoverable amount for the different operating segments, including a sensitivity analysis, are disclosed and further explained in Note 14.

Inventory reserve

The Company recognizes a provision for disposal of inventory considering materials from previous collections not sold and a prospective model to estimate the forecast of obsolescence of products from current collections. The applied model considers the historical data of non-realization of products to obtain the expected loss percentages. Any significant changes between the observed losses compared to the historical loss pattern impact the expected loss percentages estimated by the Company. See Note 8 for further information.

Provision for expected credit losses of trade receivables and contract assets

The Company uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for customer. The provision matrix is initially based on the Company's historical observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables and contract assets is disclosed in Note 7.

Share-based payment

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity-settled transactions, the Company uses the Black & Scholes model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 18. b).

Taxes

Deferred tax assets are recognized for deductible temporary differences and unused tax credits from net operating losses carryforward to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

The Company has R\$ 4,380 (2019: R\$ 4,066) of unrecognized unused tax loss carryforwards as of December 31, 2020 related to a subsidiary that has a history of losses. Such unused tax loss carryforwards do not expire and may not be used to offset taxable income of other subsidiaries of the Company. See Note 24.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs into these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required to estimate fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 26 for further disclosures.

Contingent consideration, resulting from business combinations, is valued at fair value as of the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured at each reporting date. This determination of fair value is based on discounted cash flows. The key assumptions taken into consideration are the probability of meeting each performance target and the discount factor (see Notes 6 and 26 for additional information).

Any contingent consideration is classified as financial instruments from acquisition of interests (see Note 16).

4 Business combinations and acquisition of non-controlling interests

The fair value of the identifiable assets and liabilities as of the date of each acquisition was:

	Fair value as of the acquisition date						
	2020			2019			
	WPensar	Studos	Geekie	EI	EEM	Nave	Positivo
Assets							
Cash and cash and equivalents	378	191	7,796	14,492	219	1,565	37,635
Trade receivables	75	126	1,120	11,129	126	896	72,780
Inventories	-	-	8,333	4,419	-	897	13,664
Recoverable taxes	108	-	524	-	12	7	99
Deferred taxes	-	-	15,098	-	-	-	7,518
Advance to employees	-	-	-	11,484	-	-	-
Other assets	1	-	710	697	14	284	1,526
Property and equipment	172	39	2,592	843	80	292	4,760
Right-of-use assets	-	-	292	2,418	-	-	5,241
Intangible assets	6,192	5,996	36,328	238,825	5,866	19,009	773,134
	<u>6,926</u>	<u>6,352</u>	<u>72,793</u>	<u>284,307</u>	<u>6,317</u>	<u>22,950</u>	<u>916,357</u>
Liabilities							
Trade payables	47	18	823	1,709	48	271	12,463
Labor and social obligations	385	79	21,584	3,097	240	1,444	29,607
Taxes and contributions payable	152	56	677	-	109	50	2,937
Income taxes payable	8	-	-	-	-	2	22,643
Leases	-	-	292	2,418	-	-	5,374
Loans and financing	-	-	8,836	-	548	-	-
Loans with related parties	1,285	-	10,885	-	-	-	-
Provision for legal proceedings	-	-	-	599	-	-	-
Advances from customers	100	27	269	-	-	-	-
Other liabilities	35	10	-	166	156	546	-
	<u>2,012</u>	<u>190</u>	<u>43,366</u>	<u>7,989</u>	<u>1,101</u>	<u>2,313</u>	<u>73,024</u>
Total identifiable net assets at fair value	4,914	6,162	29,427	276,318	5,216	20,637	843,333
Goodwill arising on acquisition	18,994	13,371	162,552	282,667	13,069	37,557	830,028
Purchase consideration transferred	23,908	19,533	191,979	558,985	18,285	58,194	1,673,361
Cash paid	14,345	8,298	4,500	200,000	16,355	21,098	800,851
Capital contribution	-	-	4,000	-	-	-	-
Forward contract of non-controlling interest at acquisition	-	-	115,222	354,365	-	29,728	-
Retained payments	3,586	11,235	-	-	1,930	-	872,510
Price adjustment	-	-	-	4,620	-	-	-
Fair value of previously held interest in a step acquisition	5,977	-	68,257	-	-	7,368	-
Analysis of cash flows on acquisition:							
Transaction costs of the acquisition (included in cash flows from operating activities)	(115)	(275)	(762)	(6,510)	(649)	(467)	(27,389)
Cash paid and subscribed capital net of cash acquired with the subsidiary (included in cash flows from investing activities)	(13,967)	(8,107)	3,296	(185,508)	(16,136)	(19,533)	(763,216)

The purchase price allocation is subject to change during the period of completion of the determination of the fair value of intangible assets according to the deadline defined by IFRS.

(a) WPensar S.A. (“WPensar”)

WPensar is a company engaged in the development and licensing of software, related to school management systems.

The Company bought, as a first step, a 25.0% stake in the entity in April 2015 for R\$ 5,000, of which R\$ 4,777 related to the consideration transferred as capital contribution and R\$ 223 to the initial recognition of asymmetrical put and call options. Pursuant to the investment and share purchase agreement for the acquisition of WPensar, Arco purchased the remaining 75.0% on September 21, 2020.

The purchase consideration transferred was R\$ 23,908, consisting of R\$ 14,345 paid at the acquisition date, R\$ 3,586 retained until September 30, 2021 as a guarantee for any losses and R\$ 5,977 regarding the fair value of the previously held interest. At the date of acquisition, the carrying amount of the investment previously held interest was R\$ 2,729, resulting in a gain in step acquisition of R\$ 3,248. The amount will be released in a single installment, adjusted by Interbank certificates of deposit (CDI). On the due date, if there are no losses, the amount will be paid to the selling shareholders.

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

Goodwill

The goodwill acquired on the acquisition was R\$ 18,994 and is expected to be deductible for tax purposes after the Company merges the acquiree. For the purposes of impairment testing, the goodwill has been allocated to the Supplemental operating segment.

The goodwill recognized is primarily attributable to the expected synergies and other benefits from combining the assets and activities of WPensar with those of the Company. The goodwill paid is based on the Business Plan prepared for purposes of the acquisition, and the principal business assumptions used were considered by the administration as appropriate.

Transaction costs

Transaction costs of R\$ 115 were expensed and are included in general and administrative expenses on December 31, 2020.

Measurement of fair value

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

Asset acquired	Valuation technique
Customer relationship	Multi-period excess earning method The method considers the present value of net cash flows expected to be generated by customer relationship, by excluding any cash flows related to contributory assets.
Non-compete agreement	With-and-without method The With-and-Without method consists of estimating the fair value of an asset by the difference between the value of this asset in two scenarios: a scenario considering the existence of the asset in question and another, considering its non-existence.
Software	Replacement cost The method considers the amount that an entity would have to pay to replace at the present time, according to its current worth.

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(b) Studos Software Ltda. (“Studos”)

On September 21, 2020, the Company acquired control of Studos, by acquiring 100% of the outstanding ordinary shares and voting interests.

Studos is a platform that contributes to enrich students' learning and optimize teachers' time, in addition to providing simplified management for coordinators.

The purchase consideration transferred was R\$ 19,533. The amount of R\$ 8,298 was paid on the acquisition date and R\$ 11,235 has been retained for the period of 2 years and is conditioned to the performance of the entity. The amount will be released in two annual installments.

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

Goodwill

The goodwill recorded on the acquisition was R\$ 13,371 and it is expected to be deductible for tax purposes after the Company merges the acquiree. For the purposes of impairment testing, the goodwill has been allocated to the Supplemental operating segment.

The goodwill acquired is primarily attributable to the expected synergies and other benefits from combining the assets and activities of Studos with those of the Company. The goodwill paid is based on the Business Plan prepared for purposes of the acquisition, and the principal business assumptions used were considered by the administration as appropriate.

Transaction costs

Transaction costs of R\$ 275 were expensed and are included in general and administrative expenses on December 31, 2020.

Measurement of fair value

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

Asset acquired	Valuation technique
Customer relationship	Multi-period excess earning method The method considers the present value of net cash flows expected to be generated by customer relationship, by excluding any cash flows related to contributory assets.
Non-compete agreement	With-and-without method The With-and-Without method consists of estimating the fair value of an asset by the difference between the value of this asset in two scenarios: a scenario considering the existence of the asset in question and another, considering its non-existence.
Educational system	Relief-from-royalty method The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the educational platform being owned.

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(c) Geekie Desenvolvimento de Softwares S.A. (“Geekie”)

Geekie Desenvolvimento de Software S.A. is an entity that provides technology for adaptive assessment and learning products and engages in the production, development and licensing of software tailored to the specific requirements of education sector customers.

In December 2016, the Company acquired a 6.54% interest in Geekie. Based on the agreement signed by Geekie’s shareholders, the Company exercised significant influence over the investment, as the Company: (i) had representation on the board of directors; (ii) participated in strategic decision making regarding all relevant matters; (iii) approved all products launched by Geekie; and (iv) provided essential technical information (Geekie’s products are based on the Company’s educational content). At that date, the Company entered into an agreement through which it had a call option and the sellers had a put option over the remaining shares. The price would be determined by the greater of the multiple of the Company’s EBITDA for 2021 multiplied by Geekie’s EBITDA, including any cash or debt; or 10 times Geekie’s EBITDA for 2021, less net debt. The put option could be exercised between the period beginning on May 1, 2022, through May 31, 2022. Call and put options were recorded at fair value, calculated through the multiple scenarios method – Monte Carlo. Any adjustment to the fair value was recognized as finance income (costs) in the statement of income (loss).

The amount to acquire the 6.54% interest of R\$ 8,000 was paid in January 2017, of which R\$ 4,000 was a capital contribution and R\$ 4,000 was paid to the selling shareholders.

The Company agreed with the selling shareholders that if in June 2018 the cash and cash equivalents of Geekie were lower than a threshold of R\$ 5,000, the Company would have to subscribe capital in the amount of R\$ 2,000.

On July 2, 2018, the extraordinary shareholders’ meeting authorized the acquisition of an additional 1.51% interest in the equity of Geekie, increasing the Company’s share from 6.54% to 8.05% through a capital increase of R\$ 2,000. The capital increase was fully paid on July 3, 2018. The additional investment did not change the Company’s influence in Geekie and had the purpose to support Geekie’s working capital needs.

On September 20, 2019, Arco acquired an additional 0.96% interest in the share capital of Geekie through a capital increase of R\$1,218 increasing the Company’s total interest to 9.01%. On October 14, 2019, Arco acquired an additional 1.92% interest in the share capital of Geekie through a capital increase of R\$2,500 increasing its total interest to 10.92%. In addition, on October 25, 2019, Arco acquired an additional 18.44% interest in the share capital of Geekie from a minority shareholder for R\$21,892 increasing its total interest to 29.36%. On November 15, 2019, Arco acquired an additional 1.17% interest in the share capital of Geekie through a capital increase of R\$2,000 increasing its total interest to 30.53%. In December 2019, Arco acquired an additional 7.00% interest in the share capital of Geekie through a capital increase of R\$ 4,282 and the purchase of minority shareholders for R\$ 5,761 increasing its total interest to 37.53% as of December 31, 2019. On March 4, 2020, Arco acquired an additional 10.51% interest in the share capital of Geekie through the purchase of shares from minority shareholders in the amount of R\$12,676, increasing its total interest to 48.04%. On July 06, 2020, Arco acquired an additional 4.62% interest in Geekie’s share capital from minority shareholders for R\$5,782, increasing its total interest to 52.67%. Notwithstanding these acquisition, at that date, based on the shareholders’ agreement the Company has not yet acquired control of Geekie. On September 21, 2020, Arco acquired a 1.76% interest in the share capital of Geekie through a capital increase of R\$4,500 increasing its total interest to 54.43%. On November 11, 2020, Arco acquired an additional 1.64% interest in Geekie’s share capital through a capital increase of R\$4,500 increasing its total interest to 56.06%.

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In addition, on November 27, 2020, the Company signed a new shareholders’ agreement and based on the new terms defined, on that date the Company acquired control of Geekie. With the change in the composition of the Board of Directors the Company has power to decide on Geekie’s operations. The financial statements of Geekie were consolidated from the date the Company acquired control and the acquisition was accounted for as a business combination.

The shareholders entered into a firm commitment on the 43.94% of the remaining interest held by the non-controlling shareholders will be exercised until January 2023, because the terms are non-cancelable in any way.

The terms of the firm commitment were assessed to determine as to whether or not they expose the Company to the risks and rewards associated with the actual ownership of such shares during the period of the firm commitment contract.

The Company accounted for the firm commitment under the anticipated-acquisition method, and the non-controlling interest subject to that is deemed to have been acquired at the date of acquisition of the control. Accordingly, upon obtaining control, the Company also consolidated the interest currently legally held by the non-controlling shareholder and recognized a financial liability that will be eventually settled when the non-cancelable firm commitment option is exercised.

The financial liability was recorded at the present value of the estimated amount payable to the non-controlling shareholder upon the exercise of the firm commitment discounted to present value using an estimated interest rate of 13.15%. Any dividends payable to non-controlling shareholder will recorded as interest expense.

The purchase consideration transferred amounted to R\$ 191,979, comprised of: (i) cash consideration in the amount of R\$ 4,500 through capital contribution paid on the same month of acquisition; (ii) an additional payment of R\$ 4,000 also related to capital increase; (iii) R\$ 115,222 regarding a forward contract and; (iv) R\$ 68,257 regarding a fair value of previously held interest in a step acquisition.

At the date of acquisition, the carrying amount of the investment previously held interest was R\$ 71,812, resulting in a loss in step acquisition of R\$ 3,555. The exercise price is variable and conditioned to the performance of the entity and is based on multiples of 2022 ACV/book value and revenue as described in Note 17.i).

Goodwill

The goodwill recorded on the acquisition was R\$ 162,552 and it is expected to be deductible for tax purposes after the Company merges the acquiree. For the purposes of impairment testing, the goodwill has been allocated to the Core operating segment.

The goodwill acquired is primarily attributable to the expected synergies and other benefits from combining the assets and activities of Geekie with those of the Company. The goodwill paid is based on the Business Plan prepared for purposes of the acquisition, and the principal business assumptions used were considered by the administration as appropriate.

Transaction costs

Transaction costs of R\$ 762 were expensed and are included in general and administrative expenses on December 31, 2020.

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Measurement of fair value

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

Asset acquired	Valuation technique
Trademarks	Relief-from-royalty method The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the trademarks being owned.

(d) Escola da Inteligência Cursos Educacionais Ltda. (“EI” or “Escola da Inteligência”)

On August 28, 2020, the Company announced that it entered into a definitive agreement to acquire Escola da Inteligência, the leading solution in social-emotional learning (SEL) in Brazil.

This transaction broadens Arco’s supplemental market presence by adding a strong brand to its portfolio. Arco believes there is a favorable market trend for SEL, pushed forward by the COVID-19 pandemic, and that EI is well positioned to capture this demand outside and within Arco’s school base.

The acquisition involves only the private sector business of Escola da Inteligência and under the terms of the transaction, Arco will acquire 100% of EI’s shares for R\$ 558,985, of which R\$200,000 was paid at closing, the amount of R\$ 83,264 will be paid in the second quarter of 2021, concluding the first stage of acquisition corresponding to 60% of EI’s shares. The remaining 40% of EI’s shares is estimated in R\$ 271,101, subject to adjustments related to multiples of 2023 ACV book value plus cash generation multiplied by 40%. The amount will be paid in the second quarter of 2023.

The amount of R\$ 4,620 was determined as an "acquisition price adjustment", which was calculated based on the difference between net debt less the working capital and will be paid to the selling shareholders after the parties finalize the terms of payment.

The transaction was subject to customary closing conditions, including antitrust and other regulatory approvals. After the preliminary antitrust approval from Brazil’s Administrative Council for Economic Defense – CADE, which occurred on November 13, 2020, Arco closed the acquisition of EI on December 2, 2020 becoming a subsidiary of Company.

Goodwill

The goodwill recorded on the acquisition was R\$ 282,667 and it is expected to be deductible for tax purposes after the Company merges the acquiree. For the purposes of impairment testing, the goodwill has been allocated to the Supplemental operating segment.

The goodwill acquired is primarily attributable to the expected synergies and other benefits from combining the assets and activities of Escola da Inteligência with those of the Company. The goodwill paid is based on the Business Plan prepared for purposes of the acquisition, and the principal business assumptions used were considered by the administration as appropriate.

Transaction costs

Transaction costs of R\$ 6,510 were expensed and are included in general and administrative expenses on December 31, 2020.

Measurement of fair value

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

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Asset acquired	Valuation technique
Customer relationship	Multi-period excess earning method The method considers the present value of net cash flows expected to be generated by customer relationship, by excluding any cash flows related to contributory assets.
Trademarks	Relief-from-royalty method The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the trademarks being owned.
Educational system	Replacement cost The method considers the amount that an entity would have to pay to replace at the present time, according to its current worth.
Non-compete agreement	With-and-without method

The With-and-Without method consists of estimating the fair value of an asset by the difference between the value of this asset in two scenarios: a scenario considering the existence of the asset in question and another, considering its non-existence.

(e) EEM Licenciamento de Programas Educacionais S.A. (“Escola em Movimento”)

On April 29, 2019, the Company agreed to acquire control of Escola em Movimento, by acquiring 100% of its outstanding ordinary shares and voting interests. The Company acquired Escola em Movimento to expand both its existing product portfolio and customer base. The acquisition was subject to CADE’s approval, the Brazilian anti-trust agency, which was a condition precedent for closing the acquisition. CADE approved the acquisition in May 2019, and the transaction closing date occurred on June 4, 2019.

Escola em Movimento is an application developer that enhances communication between schools and parents.

The purchase consideration transferred was R\$ 18,285. The amount of R\$ 16,095 was paid on the acquisition date; R\$260 was paid on September 29, 2019 and R\$ 1,930 was retained for the period of 2 years as a guarantee for the payment of any contingent liabilities that may arise. Any remaining balance will be transferred to the former owners of the acquired entity. The amount will be released in two equal annual installments R\$ 965, adjusted by the Brazilian basic interest rate (SELIC).

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

Goodwill

The goodwill recorded on the acquisition was R\$ 13,069 and it is expected to be deductible for tax purposes after the Company merges the acquiree. For the purpose of impairment testing, the goodwill has been allocated to the Supplemental operating segment.

The goodwill acquired is primarily attributable to the expected synergies and other benefits from combining the assets and activities of Escola em Movimento with those of the Company. The goodwill paid is based on the Business Plan prepared for purposes of the acquisition, and the principal business assumptions used were considered by the administration as appropriate.

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Transaction costs

Transaction costs of R\$ 649 were expensed and are included in general and administrative expenses on December 31, 2019.

Measurement of fair value

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

Asset acquired	Valuation technique
Customer relationship	Multi-period excess earning method The method considers the present value of net cash flows expected to be generated by customer relationship, by excluding any cash flows related to contributory assets.
Software	Replacement cost The method considers the amount that an entity would have to pay to replace at the present time, according to its current worth.
Trademarks	Relief-from-royalty method The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the trademarks being owned.
Non-compete agreement	With-and-without method The With-and-Without method consists of estimating the fair value of an asset by the difference between the value of this asset in two scenarios: a scenario considering the existence of the asset in question and another, considering its non-existence.

(f) Nave à Vela Ltda. (“Nave”)

Nave à Vela (“Nave”) is a 2019 Arco Platform acquisition. Based on the trend that education focuses more on the development of competence-based learning than the traditional content knowledge-based, Arco decided to invest in Nave. Nave offers a competence-based learning solution, with a proprietary, high-quality content and methodology fully integrated with K12 curriculum.

Arco initially bought a 13,2% stake in the target entity in May 2019 for R\$ 4,200. Included in the original purchase agreement, Arco agreed to acquire 100% of Nave over the next three years in three tranches (subject to price adjustments, net of debt at each closing date). Pursuant to the investment and share purchase agreement for the acquisition of Nave, Arco purchased an additional 37.8% on October 29, 2019.

The Company therefore owned 51% interest and concluded it had control and consolidated Nave as a majority owned subsidiary.

The purchase consideration transferred was R\$ 58,194, of which R\$ 21,098 paid at the acquisition date; R\$ 29,728 related to a forward contract that will be paid over the next 2 years and R\$ 7,368 regarding the fair value of previously held interest in a step acquisition. At the date of acquisition, the carrying amount of the investment previously held interest was R\$ 3,660, resulting in a gain of R\$ 3,708. The purchase price is variable and conditioned to the performance of the entity, the price of the option is based on a revenue multiple.

The breakdown purchase consideration is as follows:

	At acquisition date
Cash paid	21,098
Fair value of previously held investment	7,368
Fair value of forward contract	29,728
Consideration transferred	58,194

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

Goodwill

The goodwill acquired on the acquisition was R\$ 37,557 and is expected to be deductible for tax purposes after the Company merges the acquiree. For the purpose of impairment testing, the goodwill has been allocated to the Supplemental operating segment.

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The goodwill recognized is primarily attributable to the expected synergies and other benefits from combining the assets and activities of Nave with those of the Company. The goodwill paid is based on the Business Plan prepared for purposes of the acquisition, and the principal business assumptions used were considered by the administration as appropriate.

Transaction costs

Transaction costs of R\$ 467 were expensed and are included in general and administrative expenses on December 31, 2020.

Measurement of fair value

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

Asset acquired	Valuation technique
Customer relationship	Multi-period excess earning method The method considers the present value of net cash flows expected to be generated by customer relationship, by excluding any cash flows related to contributory assets.
Trademarks	Relief-from-royalty method The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the trademarks being owned.
Non-compete agreement	With-and-without method The With-and-Without method consists of estimating the fair value of an asset by the difference between the value of this asset in two scenarios: a scenario considering the existence of the asset in question and another, considering its non-existence.
Educational system	Relief-from-royalty method The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the educational system being owned.

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(g) Sistema Positivo de Ensino (“Positivo”)

On May 7, 2019, the Company announced that it entered into a definitive agreement to acquire Sistema Positivo de Ensino (Positivo), one of the largest K-12 content providers to private schools in Brazil.

The transaction was subject to customary closing conditions, including antitrust and other regulatory approvals in Brazil. After the final antitrust approval from Brazil’s Administrative Council for Economic Defense – CADE, which occurred on October 23, 2019, Arco concluded the transaction on November 1, 2019. Accordingly, in that date, the Company, through its subsidiary EAS, acquired control of Positivo.

On November 1, 2019, the Company updated the amount of the contract by CDI from March 31 to October 31, 2019, to R\$ 1,745,160. The 50% due on the closing date of the transaction, was reduced by restricted values (movements outside the normal course of business), corresponding to R\$ 71,729. The acquisition has been approved by the Boards of Directors of both Arco and Positivo.

The amount of R\$ 800,851 was paid on the acquisition date, and net of the restricted values, this amount corresponds to 50% of the purchase. The remaining 50% will be paid over 5 years, 20% payable in 2021 and 2022, and 30% payable in 2023 and 2024, all adjusted by the Brazilian Interbank Certificate of Deposit rate (CDI).

To guarantee the remaining debt, the Company signed a guarantee letter with Bradesco bank.

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

Goodwill

The goodwill recorded on the acquisition was R\$ 830,028 and it is expected to be deductible for tax purposes after the Company merges the acquiree. For the purpose of impairment testing, the goodwill has been allocated to the Core operating segment regarding operations of educational content and to the Supplemental operating segment for the activities from Positvo English School, the bilingual content.

The goodwill recognized is primarily attributable to the expected synergies and other benefits from combining the assets and activities of Positivo with those of the Company. The goodwill paid is based on the Business Plan prepared for purposes of the acquisition, and the principal business assumptions used were considered by the administration as appropriate.

Transaction costs

Transaction costs of R\$ 27,389 were expensed and are included in general and administrative expenses on December 31, 2019.

Measurement of fair value

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

Asset acquired	Valuation technique
Customer relationship	Multi-period excess earning method The method considers the present value of net cash flows expected to be generated by customer relationship, by excluding any cash flows related to contributory assets.
Trademarks	Relief-from-royalty method The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the trademarks being owned.
Non-compete agreement	With-and-without method The With-and-Without method consists of estimating the fair value of an asset by the difference between the value of this asset in two scenarios: a scenario considering the existence of the asset in question and another, considering its non-existence.
Educational system	Relief-from-royalty method The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the educational system being owned.
Educational platform	Relief-from-royalty method The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the educational platform being owned.

(h) Revenue and profit contribution

The individual net revenue and net income from the acquisition date through each period end for all business combinations are presented below:

	2020				2019		
	WPensar	Studos	Geekie	EI	EEM	Nave	Positivo
Total net revenue	1,126	282	18,497	14,779	2,395	7,147	80,100
Profit (loss) before income taxes	(89)	(249)	(11,035)	10,429	(2,918)	3,379	25,641

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Total revenue and income and net income for the Company are presented below on a pro-forma basis assuming the acquisitions had occurred at the beginning of the year of each acquisition:

	2020	2019
Pro-forma total net revenue	1,078,831	893,497
Pro-forma profit (loss) before income taxes	32,208	75,498

This pro-forma financial information is presented for informational purposes only and does not purport to represent what the Company's results of operations would have been had it completed the acquisition on the date assumed, nor is it necessarily indicative of the results that may be expected in future periods.

5 Cash and cash equivalents

	2020	2019
Cash and bank deposits	7,536	2,838
Bank deposits in foreign currency (a)	28,327	23,346
Cash equivalents (b)	388,547	22,716
	424,410	48,900

(a) Short-term deposits (mainly follow-on proceeds) maintained in U.S. dollar.

(b) Cash equivalents correspond to financial investments in Bank Certificates of Deposit ("CDB") of highly rated financial institutions. As of December 31, 2020, the average interest on these CDB is equivalent to 95.4% (2019: 30.0%) of the Interbank Certificates of Deposit ("CDI"). These financial investments are highly liquid and available for immediate use and have insignificant risk of changes in value. The increase in the balance is mainly due to follow-on public offering and loans acquired, as described in Notes 1.2 and 15.

6 Financial investments

	2020	2019
Financial investments (a)	721,935	577,398
Financial investments in foreign currency	542	1,629
Other	517	467
	722,994	579,494
Current	712,645	574,804
Non-current	10,349	4,690

(a) Financial investments correspond to investments managed by highly rated financial institutions. As of December 31, 2020, the average interest on these investments are equivalent to 101.3% (2019: 99.9%) of the CDI. The average CDI rate during the year was 0.38% per month. The increase in the balance is mainly due to follow-on public offering and loans acquired, as described in Notes 1.2 and 15.

7 Trade receivables

	2020	2019
From sales of educational content	475,507	354,968
From related parties (Note 10)	3,209	4,511
	478,716	359,479
(-) Allowance for doubtful accounts	(63,434)	(30,051)
	415,282	329,428

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

	2020	2019
Neither past due nor impaired	360,737	299,159
Past due	117,979	60,320
1 to 60 days	26,206	18,931
61 to 90 days	9,973	6,865
91 to 120 days	10,528	6,414
121 to 180 days	18,887	9,904
More than 180 days	52,385	18,206
	478,716	359,479

The Company reviews its bad debt provision at least twice a year following a detailed review of receivable balances and historical payment profiles, and assessment of forward-looking risk factors. Management believes all the remaining receivable balances are fully recoverable.

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

	2020	2019	2018
Balance at beginning of the year	(30,051)	(13,419)	(10,290)
Additions	(34,684)	(17,392)	(9,588)
Receivables written off during the period as uncollectible	1,301	760	6,459
Balance at end of year	(63,434)	(30,051)	(13,419)

The increase in allowance for doubtful accounts for the year ended December 31, 2020 compared to the same period of the previous year, is mainly due to the inclusion of the companies acquired last year as mentioned in Note 4 and the impacts of the COVID-19 pandemic as described in Note 1.2.

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8 Inventories

	2020	2019
Educational content	30,167	24,535
Educational content in progress (a)	37,276	12,837
Consumables and supplies	1,198	835
Inventories held by third parties	5,435	1,899
	74,076	40,106

(a) Costs being incurred to prepare educational content for delivery to customers. These costs include incurred personnel costs and third parties' services for editing educational content and related activities (graphic design, editing, proofreading and layout, among others).

Educational content is presented net of inventory reserve. The movement in the inventory reserve for the years ended December 31, 2020, 2019 and 2018 was as follows:

	2020	2019	2018
Balance at beginning of the year	(6,517)	(4,403)	(2,047)
Inventory reserve	(7,453)	(8,476)	(7,252)
Write-off of inventories against reserve	6,460	6,362	4,896
Balance at end of year	(7,510)	(6,517)	(4,403)

9 Recoverable taxes

	2020	2019
Withholding Income Tax (IRRF) on financial investments (a)	2,027	637
Recoverable IRPJ and CSLL	8,573	17,456
Recoverable PIS and COFINS	7,250	2,501
Other recoverable taxes	2,575	1,631
	20,425	22,225
Current	19,304	15,612
Non-current	1,121	6,613

(a) Withholding income tax (IRRF) will be utilized to offset federal taxes payable.

10 Related parties

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

	2020	2019
Assets		
Trade receivables		
Livraria ASC Ltda. and Educadora ASC Ltda. (a)	3,209	4,511
	3,209	4,511
Other assets		
General Atlantic Arco (Bermuda), L.P. (b)	-	4,109
Loans to related parties	-	4,109
WPensar S.A. (c)	-	1,298
Loans - Geekie Partners(d)	4,361	4,231
Debentures – Geekie (e)	-	10,582
OISA Tecnologia e Serviços Ltda. (f)	5,018	-
Former shareholders - EI (g)	11,099	-
	20,478	16,111
Current	9,970	1,298
Non-current	10,508	14,813
Advances from customers		
Livraria ASC Ltda. and Educadora ASC Ltda. (a)	(150)	(1)
	(150)	(1)
Other liabilities		
OISA Tecnologia e Serviços Ltda. (i)	469	-
	469	-

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	2020	2019	2018
Net revenue			
Livraria ASC Ltda. and Educadora ASC Ltda. (a)	7,230	8,805	8,234
OISA Tecnologia e Serviços Ltda. (i)	4	-	-
	7,234	8,805	8,234
Expenses			
ASC Empreendimentos Ltda. and OSC Empreendimentos Ltda. (h)	(1)	(8)	(13)
Finance income			
WPensar S.A. (c)	30	72	-
Geekie (d) e (e)	453	813	-
OISA Tecnologia e Serviços Ltda. (f)	18	-	-
Minority shareholders - EI (g)	18	-	-
	519	885	-

- (a) Arco Ventures S.A. and International School sell educational content to Livraria ASC Ltda. and Educadora ASC Ltda., entities under common control of the Company's controlling shareholders. The transactions are priced based on contract price at the sales date. Sales price for these transactions are conducted at arm's length, at similar observable market prices.
- (b) On June 04, 2020, General Atlantic Arco (Bermuda), L.P ("GA") sold the entire interest held in the Company as described in Note 1.2. Accordingly, because of the mentioned follow-on public offering, as of December 31, 2020, GA is no longer a related party to the Company. The amounts due were settled in the third quarter.
- (c) On September 21, 2020, the Company acquired the control of WPensar and such investment became a consolidated subsidiary of the Company. During the nine-month period ended September 30, 2020, the Company recognized R\$ 30 of interest income, before the consolidation. See Note 4.a) for further information.
- (d) On January 17, 2019, the Company loaned R\$ 4,000 to Geekie Partners S.A., the current minority shareholder of Geekie, through a loan agreement with payment due in June 2022, interest of 110% of the CDI, and with their entire interest on Geekie's shares as collateral to the transaction. During the year, the Company recognized R\$ 130 of interest income. The transaction was intended to support Geekie's working capital needs.
- (e) On November 27, 2020, the Company acquired the control of Geekie and such investment became a consolidated subsidiary of the Company. Before consolidation, the Company recognized R\$ 323 of interest income. See Note 4.c) for further information.

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- (f) On October 23, 2020, the Company loaned R\$ 5,000 to the company OISA Tecnologia e Serviços Ltda. ("ISAAC"), an affiliated of the company which has member of the key management personnel under common with the Company. The entity is developing a project to assist schools in financial and administrative management. According to the contractual terms the amount is due in February 2021 and bear interest of 100% of the CDI. During 2020, the Company recognized R\$ 18 of interest income.
- (g) Amount due by minority shareholders of Escola da Inteligência and bear interest rate of 100% CDI and maturing in May 2023. During the year, the Company recognized R\$ 18 of interest income.
- (h) Arco Ventures S.A. leases a facility from OSC Empreendimentos Ltda., which are entities under common control of the Company's controlling shareholder. The agreement was terminated in February 2020.
- (i) WPensar provides financial intermediation services to OISA which the amounts received through this intermediation are transferred to OISA discounted from the value of the service provided. As of December 31, 2020, the amount to be transferred to OISA is R\$ 469 and during the year the recognized revenue from financial intermediation was R\$ 4.

Key management personnel compensation

Key management personnel compensation comprised the following:

	2020	2019	2018
Short-term employee benefits	39,628	13,732	9,436
Stock options	-	-	59,747
Restricted stock units	48,852	66,429	-
	88,480	80,161	69,183

Compensation of the Company's key management includes short-term employee benefits comprised by salaries, bonuses, labor and social charges, and other ordinary short-term employee benefits.

Certain executive officers also participate in the Company's share-based compensation plan (Note 18.b).

11 Investments and interests in other entities

(a) Investments

Bewater Ventures IGA Fundo de Investimento em Participações Multiestratégia ("Bewater")

On July 24, 2020, the Company, through its subsidiary PSD Educação S.A. acquired 9,670,000 Class B quotas of Bewater Ventures IGA Fundo de Investimento em Participações Multiestratégia, a fund managed by Paraty Capital. On the date of transaction, the Company paid the total amount of R\$ 9,670, corresponding to a total interest of 14.48% in Bewater.

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The fund made a minority investment in Group A, a company that provides educational solutions for higher education. The investment in Bewater is measured at fair value through profit and loss.

When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, a mutual fund, unit trust or similar entity including an investment-linked insurance fund, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 – Financial Instruments.

(i) Investments and interests in other entities

Reconciliation of carrying amount:

	2020				2019
	WPensar	Geekie	Bewater	Total	Total
At beginning of the year	3,049	45,525	-	48,574	11,862
Capital contributions	-	4,500	9,670	14,170	14,200
Acquisition from a minority shareholder	-	18,458	-	18,458	27,653
Fair value on investment	-	-	(16)	(16)	-
Loss of changes in ownership	-	-	-	-	319
Share of loss of equity-accounted investees	(150)	559	-	409	(1,800)
Consolidation on the acquisition of control	(2,899)	(69,042)	-	(71,941)	(3,660)
At end of the year	-	-	9,654	9,654	48,574
Percentage of ownership	100.0%	56.06%	14.48%		

12 Property and equipment

Reconciliation of carrying amount:

	Machinery and equipment	Vehicles	Furniture and fixtures	IT equipment	Facilities	Leasehold improvements	Others	Total
Cost								
As of December 31, 2018	896	191	2,296	5,080	325	4,638	6,199	19,625
Additions	215	-	636	2,529	45	4,663	2,903	10,991
Disposals	(17)	(70)	(895)	(3,061)	(290)	(184)	(1,076)	(5,593)
Business combination	213	-	517	2,775	-	1,627	-	5,132
Sale of Escola de Aplicação São José dos Campos Ltda.	(50)	-	(201)	(51)	-	(710)	-	(1,012)
Write-offs	-	-	-	-	-	-	(792)	(792)
As of December 31, 2019	1,257	121	2,353	7,272	80	10,034	7,234	28,351
Additions	146	-	1,365	4,612	38	4,239	422	10,822
Disposals	(37)	-	(114)	(1,289)	-	-	(934)	(2,374)
Business combination	625	186	325	2,300	5	205	-	3,646
As of December 31, 2020	1,991	307	3,929	12,895	123	14,478	6,722	40,445
Depreciation								
As of December 31, 2018	(254)	(144)	(527)	(1,910)	(100)	(1,274)	(2,069)	(6,278)
Depreciation charge for the period	(91)	(24)	(254)	(1,211)	(34)	(1,161)	(1,580)	(4,355)
Depreciation of disposals	114	68	368	1,709	108	60	972	3,399
Sale of Escola de Aplicação São José dos Campos Ltda.	10	-	34	17	-	150	-	211
As of December 31, 2019	(221)	(100)	(379)	(1,395)	(26)	(2,225)	(2,677)	(7,023)
Depreciation charge for the period	(136)	(26)	(327)	(2,279)	(9)	(2,391)	(2,284)	(7,452)
Depreciation of disposals	104	-	-	13	-	-	-	117
As of December 31, 2020	(253)	(126)	(706)	(3,661)	(35)	(4,616)	(4,961)	(14,358)

Net book value								
As of December 31, 2018	642	47	1,769	3,170	225	3,364	4,130	13,347
As of December 31, 2019	1,036	21	1,974	5,877	54	7,809	4,557	21,328
As of December 31, 2020	1,738	181	3,223	9,234	88	9,862	1,761	26,087

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The increase in the year ended December 31, 2020 is mainly due to purchase of new computers and printers and improvements to the offices located in São Paulo, Curitiba and Belo Horizonte.

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

13 Leases

The balance sheet shows the following amounts relating to leases:

	2020	2019
Right-of-use assets		
Properties	29,938	21,518
Machinery and equipment	84	113
	30,022	21,631
	2020	2019
Lease liabilities		
Current	12,742	6,845
Non-current	22,478	19,012
	35,220	25,857

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

	Right-of-use assets – Properties	Lease Liabilities
As at January 1, 2019	18,225	20,089
Additions	4,502	4,502
Lease modification (a)	(338)	(338)
Depreciation expense	(5,999)	-
Business combination	5,241	5,374
Interest expense	-	1,489
Payments of lease liabilities	-	(4,407)
Interest paid	-	(852)
As at December 31, 2019	21,631	25,857
Additions	12,391	12,391
Disposal	(253)	(244)
Lease modification (a)	2,080	2,080
Depreciation expense	(8,537)	-
Business combination	2,710	2,710
Interest expense	-	3,036
Payments of lease liabilities	-	(8,160)
Discounts on leases	-	(350)
Interest paid	-	(2,100)
As at December 31, 2020	30,022	35,220
Average annual depreciation rate 2019		23.7%
Average annual depreciation rate 2020		27.5%

(a) Refers to price adjustments that occur annually as defined in the lease agreements.

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The Company entered into fiduciary agreements with Banco Safra S.A. in the amount of R\$ 10,903 to guarantee payment due in the lease agreements of the São Paulo office. These agreements are calculated considering rates of 1.30% and 1.95% per year and are adjusted annually by the General Market Price Index (IGP-M).

The Company recognized rent expense from short-term leases and low-value assets of R\$ 2,329 for the year ended December 31, 2020 (2019: R\$ 2,613)

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14 Intangible assets and goodwill

Software

Non-

	Goodwill	Rights on contracts	Customer relationships	Educational system	Copyrights	license and development	Trademarks	Educational platform	competete agreement	In Progress	Total
Cost											
As of December 31, 2018	89,634	15,263	23,045	36,656	12,692	2,808	19,177	21,911	1,097	2,213	224,496
Corporate restructuring	(53,521)	-	-	-	-	-	-	-	-	-	(53,521)
Acquisitions	-	-	-	-	8,377	4,441	-	23,634	309	6,341	43,102
Disposals	-	-	-	-	-	-	-	(1,841)	-	-	(1,841)
Acquisitions through business combinations	880,654	-	183,926	214,567	-	11,163	336,121	24,728	6,897	20,607	1,678,663
Transfer	-	-	-	-	-	-	-	19,555	-	-	(19,555)
As of December 31, 2019	916,767	15,263	206,971	251,223	21,069	18,412	355,298	87,987	8,303	9,606	1,890,899
Acquisitions	-	-	-	-	8,131	22,127	3	51,262	431	14,873	96,827
Disposals	-	-	-	-	(3)	(94)	-	(4,607)	-	-	(4,704)
Acquisitions through business combinations	477,584	-	115,172	29,775	14	5,103	121,053	13,102	3,122	-	764,925
Transfer	-	-	-	-	249	(231)	-	22,604	-	(22,622)	-
As of December 31, 2020	1,394,351	15,263	322,143	280,998	29,460	45,317	476,354	170,348	11,856	1,857	2,747,947
Amortization											
As of December 31, 2018	-	(3,949)	(7,560)	(12,716)	(3,939)	(648)	(3,810)	(3,860)	(274)	-	(36,756)
Amortization	-	(1,342)	(6,450)	(9,518)	(7,743)	(2,307)	(4,431)	(10,449)	(536)	-	(42,776)
Amortization of disposals	-	-	-	-	-	-	-	536	-	-	536
As of December 31, 2019	-	(5,291)	(14,010)	(22,234)	(11,682)	(2,955)	(8,241)	(13,773)	(810)	-	(78,996)
Amortization	-	(1,527)	(24,227)	(26,941)	(6,421)	(6,789)	(19,074)	(35,072)	(1,947)	-	(121,998)
Amortization of disposals	-	-	-	-	-	3	-	2,681	-	-	2,684
As of December 31, 2020	-	(6,818)	(38,237)	(49,175)	(18,103)	(9,741)	(27,315)	(46,164)	(2,757)	-	(198,310)
Net book value											
As of December 31, 2018	89,634	11,314	15,485	23,940	8,753	2,160	15,367	18,051	823	2,213	187,740
As of December 31, 2019	916,767	9,972	192,961	228,989	9,387	15,457	347,057	74,214	7,493	9,606	1,811,903
As of December 31, 2020	1,394,351	8,445	283,906	231,823	11,357	35,576	449,039	124,184	9,099	1,857	2,549,637

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(a) Goodwill

The carrying amount of goodwill by operating segment was:

	2020	2019
Core	918,091	755,539
Supplemental	476,260	161,228
	1,394,351	916,767

Impairment test for goodwill

The Company performed its annual impairment test on December 31, 2020 and 2019. The Company tests at least annually the recoverability of the carrying amount of each operating segment. The process of estimating these values involves the use of assumptions, judgments and estimates of future cash flows that represent the Company's best estimate.

Goodwill is monitored by management at the level of cash generating unit, which is the same of the two operating segments. The Core and Supplemental operating segments had an important cash flow improvement as they have increased their number of students and achieved greater scale that positively impact the gross margin.

The value-in-use calculation is based on cash flow projections and financial budgets approved by management for a period of five years. Cash flows beyond the five-year period were extrapolated using an estimated growth rate. The growth rate does not exceed the average long-term rate for the industry. The value-in-use of the Core operating segment calculated for 2020 was R\$ 2,372,829 (R\$ 2,130,003 in 2019), and the carrying amount was R\$ 2,099,723. The value-in-use of the Supplemental operating segment for 2020 was R\$ 1,349,754 (R\$ 854,855 in 2019), and the carrying amount was R\$ 812,614.

The value-in-use calculations were based on the discounted cash flow model and are based on the following assumptions for those segments:

	Budget period growth rate		Growth rate beyond budget period		Discount rate	
	2020	2019	2020	2019	2020	2019
Core	9.2%	11.1%	3.2%	4.3%	11.1%	12.7%
Supplemental	17.3%	18.3%	3.2%	4.3%	12.4%	14.5%

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Significant estimate: impact of possible changes in key assumptions

A decrease of 180 basis points in management estimated gross margin used in the value-in-use calculation for the Core operating segment as of December 31, 2020 (73.0% instead of 74.8%), would have not resulted in the recognition of an impairment of goodwill. Also, the Company performed the same sensitivity analysis for the Supplemental operating segment (80.6% instead of 82.4%) and concluded it would have not resulted in the recognition of an impairment of goodwill.

In addition, an increase of 180 basis points in management's estimated discount rate applied to the cash flow projections of the Core operating segment for the year ended December 31, 2020 (12.9% instead of 11.1%), would have not resulted in the recognition of an impairment of goodwill.

Also, the Company performed the same sensitivity analysis for the Supplemental operating segment (14.2% instead of 12.4%) and concluded it would have not resulted in the recognition of an impairment of goodwill.

There was no goodwill impairment for the years ended December 31, 2020, 2019 and 2018.

(b) Other intangible assets

Intangible assets, other than goodwill, are valued separately for each acquisition and are amortized over their respective useful lives. The useful lives and methods of amortization of

other intangibles are reviewed each financial year end and adjusted prospectively, if appropriate.

The estimated useful lives of intangible assets for the years ended December 31, 2020, are as follows:

	<u>Years</u>
Rights on contracts	10
Customer relationships	5 to 16
Educational system	3 to 10
Copyrights	3
Software license	2 a 5
Trademarks	10 to 20
Educational platform	3 a 10
Non-compete agreement	2 a 5

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

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15 Loans and financing

	<u>Interest rate</u>	<u>Maturity</u>	<u>2020</u>	<u>2019</u>
Bank loan (a)	100% CDI + 0.7% pa	October/2020	-	98,561
Bank loan (b)	100% CDI + 2.7% pa	December/2021	100,395	-
Bank loan (c)	100% CDI + 2.7% pa	January/2022	200,788	-
Bank loan (d)	8.1% pa	March/2022	1,500	-
Bank loan (e)	8.2% pa	May/2022	8,373	-
Bank loan (f)	3.8% pa	November/2023	63	-
			<u>311,119</u>	<u>98,561</u>
Current			107,706	98,561
Non-current			203,413	-

- (a) On October 25, 2019, the Company entered into a loan agreement in the amount of R\$ 100,000, maturing in October 2020 (single installment). The loan was paid on September 21, 2020.
- (b) On July 1, 2020, the Company entered into a loan agreement in the amount of R\$ 100,000. The loan accrues interest at a rate equal to 100% of the CDI rate plus 2.7% per annum. The loan matures in December 2021.
- (c) On July 1, 2020, the Company entered into two loans agreements in the amount of R\$ 100,000 each, maturing in January 2022 (single installments) and an interest rate of 100% CDI plus 2.7% per annum. Interest on loans is capitalized monthly to be settled in 17 installments from August 2020 to January 2022.
- (d) On February 17, 2020, Nave à Vela, the Company's subsidiary, entered into a loan agreement in the amount of R\$ 2,000 for working capital, to be settled in 21 installments from July 2020 to March 2022.
- (e) On May 29, 2020, Geekie, the Company's subsidiary, entered into a loan agreement of R\$ 10,000. The amount will be settled in 18 installments from December 2020 to May 2022 and bear interest at the rate of 8.2% per annum.
- (f) On October 30, 2020, WPensar, the Company's subsidiary, entered into a loan agreement in the amount of R\$ 63 for working capital, to be settled in 30 installments from June 2021 to November 2023. The loan accrues interest at a rate equal to 3.8% per annum.

All financing arranged by Company is not subject to any financial covenants for the year ended December 31, 2020.

Set out below the movements during the year:

	<u>2020</u>	<u>2019</u>
Balance at beginning of the year	98,561	-
Additions	502,063	100,000
Loan cost	(3,629)	(2,426)
Business combination	8,836	548
Interest expense	19,862	1,002
Interest paid	(13,423)	-
Payment of loans and financing	(301,151)	(563)
Balance at end of year	311,119	98,561

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16 Financial instruments from acquisition of interests

The breakdown of derivative instruments from acquisition of investments in associates and joint ventures is as follows:

	<u>2020</u>	<u>2019</u>
Assets		
Derivative financial instruments		
Investment in Geekie (a)	-	32,152
Investment in WPensar (b)	-	3,794
	<u>-</u>	<u>35,946</u>
Current	-	3,794

Non-current	-	32,152
	2020	2019
Liabilities		
Derivative financial instruments		
Investment in Geekie (a)	-	31,626
Investment in WPensar (b)	-	2,314
	-	33,940
Current	-	-
Non-current	-	33,940

(a) On November 27, 2020, the Company acquired control of Geekie and such investment became a consolidated subsidiary of the Company as described in Note 4.c). On the same date, the Company derecognized the derivative financial instrument and recognized a financial liability for the obligation to acquire the remaining interest in Geekie as described in Note 17.

(b) On September 21, 2020, the company acquired the remaining 75% interest in WPensar as described in Note 4.a). On the same date, the Company derecognized the derivative financial instrument and recognized a financial liability for the obligation of the acquisition of control of WPensar as described in Note 17.

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17 Accounts payable to selling shareholders

The breakdown of the liabilities regarding balances of accounts payable from business combination and investments in associates is as follows:

	2020	2019
Accounts payable to selling shareholders		
Acquisition of International School (a)	354,950	297,722
Acquisition of NS Educação Ltda. (b)	5,724	6,461
Acquisition of Escola em Movimento (c)	1,024	1,992
Acquisition of Nave à Vela (d)	21,941	30,946
Acquisition of Positivo (e)	903,428	879,111
Acquisition of WPensar (f)	3,605	-
Acquisition of Studos (g)	11,349	-
Acquisition of EI (h)	363,502	-
Acquisition of Geekie (i)	120,992	-
	1,786,515	1,216,232
Current	656,014	117,959
Non-current	1,130,501	1,098,273

(a) The financial liability is recorded at the present value of the estimated amount payable to the non-controlling shareholder upon the exercise of purchasing of the remaining interest using an estimated interest rate of 13.8% (14.5% in 2019). During the year ended December 31, 2020 the Company recognized R\$ 34,627 of interest. The amount payable is based on realized EBITDA for the 2019 and 2020 school years. The first and second installments will be paid in the course of arbitration mentioned in Note 28. Based on the realized numbers for 2020, the accounts payable increased by R\$ 32,121.

(b) This amount was retained for any contingent liabilities that may arise, which will be released in annual installments until December 31, 2022. The amount is being adjusted by the interest from Interbank certificates of deposit (CDI).

(c) This amount was retained for any contingent liabilities that may arise, which will be released in two annual installments on the first and second anniversary of the acquisition until June 2021. The amount is being adjusted by the Brazilian basic interest rate (SELIC).

(d) This amount is related to the remaining acquisition of 49% interest in Nave and will occur over the next two years (subject to price adjustments, net of debt at each closing date). This amount is recorded at the present value using an estimated interest rate of 14.6% (14.5% in 2019). During the year ended December 31, 2020, the Company recognized R\$ 2,802 of interest. The next tranche is payable on February 15, 2021, however the parties are negotiating the payment to be made in the second quarter of 2021. On this date Arco Ventures S.A. will acquire 24% interest, for the 24% of Nave's revenues from October 1, 2019 to September 30, 2020 multiplied by 5.3, net of debt. The last tranche is payable on February 15, 2022. On this date, Arco Ventures S.A. will acquire 25% interest, for 25% of Nave's revenues from October 1, 2020 to September 30, 2021 multiplied by 3, net of debt. Based on the realized numbers for 2020 school year and the new projected numbers for 2021 school year, the accounts payable decreased by R\$ 11,807.

(e) The amount of the contract is updated by CDI from November 1, 2019 to December 31, 2020. The amount will be paid over 4 years, 20% payable in 2021 and 2022 and 30% payable in 2023 and 2024 and the payment is secured by guarantee letter through a chattel mortgage of 20% of PSD shares and 100% of SAE shares. During the year ended December 31, 2020, the Company recognized R\$ 24,317 of interest.

(f) This amount corresponds to 20% of the acquisition price and is being retained until September 30, 2021, for any eventual inaccuracies in the fulfillment of the guarantees given in the purchase and sale agreement. The amount is updated considering 100% of the Interbank certificates of deposit (CDI) calculated from the date of acquisition until the maturity date.

(g) The obligation is recognized at present value of the acquisition price using an estimated interest rate of 3.4% for the first installment that will be paid in September 2021 and 6.0% for the second installment due in September 2022. The first and second installments will be paid over the next two years on the anniversary of the acquisition date.

(h) This amount is related to the remaining acquisition of 40% interest in EI and will occur over the next two years and subject to price adjustments. This amount is recorded at the present value using an estimated interest rate of 13.1%. The next installment is payable on May 14, 2021 by the greater between R\$ 88,000 or 10 times EI's ACV book value for 2021 multiplied by 48.43% and multiplied by 60.0% less installment paid in cash on the acquisition date. The last installment is payable on May 31, 2023 for 6 times EI's ACV book value for 2023 plus cash generation and multiplied for 40%. During the year ended December 31, 2020 the Company recognized R\$ 4,515 of interest.

(i) The financial liability is recorded at the present value of the estimated amount payable to the non-controlling shareholder upon the exercise of purchasing of the remaining interest using an estimated interest rate of 13.1%. The exercise price will be calculated for two different content ("Geekie One" and "Geekie Others") and is determined by the greater of:

Geekie One: 8 times Geekie's ACV book value for 2022 less net debt, multiplied by the remaining interest of sellers; or 0.65 times the multiple of the Company's ACV book value for 2022, multiplied by Geekie's ACV for 2022, less net debt, multiplied by the remaining interest of sellers. The amount is due on June 1, 2022.

Geekie Others: 8 times Geekie's revenue for 2022 multiplied by the remaining interest of sellers; or 0.65 times the multiple of the Company's ACV book value for 2022, multiplied by Geekie's revenue for 2022, multiplied by the remaining interest of sellers. The amount is due on January 6, 2023.

During the year ended December 31, 2020 the Company recognized R\$ 1,770 of interest..

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18 Labor and social obligations

	2020	2019
Bonuses (a)	31,046	28,045
Payroll and social charges	53,462	17,763
Payroll accruals	25,582	18,998
Other labor	11,549	6,506
	121,639	71,312
Current	85,069	68,511
Non-current	36,570	2,801

(a) Variable remuneration (bonuses)

The Company recorded bonuses related to variable remuneration of employees and management in cost of sales, selling and administrative expenses in the amount of R\$ 18,989, R\$ 14,519 and R\$ 4,224 for the years ended December 31, 2020, 2019, and 2018, respectively.

(b) Share-based compensation plan

Stock options - Arco plan

Members of the Company's management participated in the Arco share-based compensation plan. In 2019, all directors exercised their stock options.

As of December 31, 2020, there were no outstanding share options. There was no share-based compensation expense as of December 31, 2020.

The following table list the inputs to the model used for the Arco plan:

Dividend yield (%)	2.41
Fair value of the option at grant date	72.63
Exercise price	11.13
Expected volatility (%)	186.61
Risk-free interest rate (%)	8.01
Expected life of share options (years)	6.00
Weighted average share price (R\$)	12.67
Model used	Black & Scholes

Stock options - International School plan

International School has its own stock option plan, approved by its shareholders on August 4, 2017. International School granted 294,735 stock options on its own shares in 2017 to selected key executives. The stock option plan was designed to attract and retain key executives.

The fair value of the stock options was estimated at the grant date using the Black & Scholes pricing model, considering the terms and conditions on which the stock options were granted.

The stock options vested on January 1, 2020 and the compensation expense recognized for the International School Plan in the statement of income (loss) for the years ended December 31, 2020 and 2019 was R\$ 129 and R\$ 549 respectively.

On May 20, 2020, all Senior Executives exercised their 153,262 stock options pursuant to the International School Plan approved by its shareholders on August 4, 2017, with a updated unit value of R\$ 1.39. As of December 31, 2020, there were no outstanding share options.

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The following table details the assumptions used to determine the fair value of the share options under the International School share option plans:

Date of grant	08/04/2017
Fair value of the option at grant date	10.66
Exercise price	1.37
Dividend yield (%)	0.00%
Expected volatility (%)	380.36%
Risk-free interest rate (%)	8.62%
Expected life of share options (years)	2.74
Weighted average share price (reais) on the grant date	10.65
Model used	Black & Scholes

Stock options - Geekie plan

Geekie has its own stock option plan that is granted to employees elected by Management and duly approved by the Board.

On December 1, 2020, the Company approved, new conditions for granting stock options in the total amount of 31,763 shares. This stock option plan, in a full agreement between

the Company and the beneficiaries, replaced the previous plan approved on December 19, 2017.

The exercise price of the options granted to all beneficiaries is R\$ 82.91 as determined in the grant agreements. The stock options are exercisable from the date of approval of the new grant agreement, with the vesting period on that date being considered fulfilled. The beneficiary has the maximum period for exercising the options is up to March 31, 2022, under penalty of forfeiture. The stock options plan is classified as cash settled since all Geekies' employees have signed a mandatory contract to sell all the option to Arco at exercise date at the same price to be paid to non-controlling selling shareholders.

Restricted stock units

In 2019 the Company established a new share-based payment program called restricted stock units ("RSU") of the holding company Arco Platform Limited for employees registered with the Company's subsidiaries, which will be available for sale by the beneficiaries annually, on their anniversary dates, with the exception of the members of the Board, whose shares are blocked for sale for one year after the issue. The related compensation expense will be recognized over the following schedule. The restricted stock unit plan contemplates the issue of approximately 656,860 shares to be distributed to 39 beneficiaries.

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Final vesting date	Quantity of stocks
28/09/2019	197,951
30/06/2020	3,086
28/09/2020	215,709
30/06/2021	3,086
28/09/2021	215,709
28/09/2022	17,757
30/06/2022	3,562
Total	656,860

The participant's right to effectively receive ownership of the restricted shares will be conditioned to the participant's continuance as an employee, director or director of any company in the business group from the grant date until the grace periods ("Vesting"). If a participant leaves the group, it will be considered as non-compliance with the "vesting" condition, not being a cancellation of the plan but a "forfeiture". After the vesting period, the restricted shares have the same rights and privileges as any shareholder.

The following table reflects the movements from the grant date until December 31, 2020:

	Number of restricted share units
Outstanding at December 31, 2019	337,185
Granted	73,085
Restricted stocks units transferred	(203,622)
Effectively forfeited	(45,417)
Outstanding at December 31, 2020	161,231

The total compensation expense for the year ended December 31, 2020, including taxes and social charges, was R\$ 48,852 (R\$ 15,469 of principal and R\$ 33,383 of taxes and contributions) net of estimated forfeiture. These awards are classified as equity settled.

The fair value of these equity instruments was measured on the grant date as follows:

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Grant date	Total shares granted	Total shares vested	Total shares granted outstanding	Average fair value at grant date	Unit value average
30/04/2019	542,760	(375,532)	111,435	68,800	126.76
30/06/2019	1,543	(1,543)	-	274	177.71
30/06/2019	1,543	(1,543)	-	319	206.66
15/10/2019	37,929	(23,711)	7,698	7,593	200.18
23/01/2020	13,000	(5,449)	7,580	2,788	214.48
02/03/2020	36,673	(15,372)	21,383	8,762	238.93
04/03/2020	13,164	(9,906)	4,388	3,346	254.21
03/09/2020	3,600	(1,509)	2,099	883	245.18
19/11/2020	3,562	(410)	3,562	772	216.63
19/11/2020	3,086	(355)	3,086	669	216.63
Total	656,860	(435,330)	161,231	94,206	

The grant date is the date on which the entity and the counterparty (including employee) entered into a share-based payment agreement, that is, when the entity and the counterparty have a shared understanding of the terms and conditions of the agreement.

19 Equity

a. Share capital

As of December 31, 2020, Arco's share capital is represented by 57,587,563 (December 31, 2019: 54,939,088) common shares of par value of US\$ 0.00005 each, comprised by 27,400,848 (December 31, 2019: 27,400,848) Class B common shares and 30,186,715 (December 31, 2019: 27,538,240) Class A common shares.

December 31, 2019 shares outstanding	54,939,088
Restricted Stock Units Transferred (Note 18,b)	203,622
Restricted Stock Unit withheld (a)	(55,147)

December 31, 2020 shares outstanding**57,587,563**

- (a) A portion of the shares was withheld to pay income taxes of the beneficiaries.

The Class B common shares are entitled to 10 votes per share and the Class A common shares, which are publicly traded, are entitled to one vote per share. The Class B common shares are convertible into an equivalent number of Class A common shares and generally convert into Class A common shares upon transfer subject to limited exceptions.

The dual class structure will exist as long as the total number of issued and outstanding Class B common shares is at least 10% of the total number of shares outstanding.

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b. Capital reserve

Capital reserve includes additional paid in capital amounts related to the difference between the subscription price that shareholders paid for the common shares and their nominal value.

c. Dividends

There was no distribution of dividends for the years ended December 31, 2020 and 2019, due to accumulated losses of the years.

20 Earnings (loss) per share (EPS)**Basic**

Basic EPS is calculated by dividing profit (loss) attributable to the equity holders of the parent by the weighted average number of Class A and Class B common shares outstanding during the period.

Diluted

Diluted EPS is calculated by dividing profit (loss) attributable to the equity holders of the parent by the weighted average number of Class A and Class B common shares outstanding during the period plus the weighted average number of common shares that would be issued on conversion of all potential common shares with dilutive effects.

The following table reflects the profit (loss) attributable to equity holders of the parent and the share data used in the basic and diluted EPS computations:

	2020			2019			2018		
	Class A	Class B	Total	Class A	Class B	Total	Class A	Class B	Total
Profit (loss) attributable to equity holders of the parent	8,534	8,246	16,780	(4,379)	(5,052)	(9,431)	(37,047)	(45,333)	(82,380)
Weighted average number of common shares outstanding (thousand)	28,357	27,401		23,938	27,614		22,603	27,658	
Effects of dilution from									
Share-based compensation plan (thousands)	161	-		337	-		153	-	
Basic earnings (loss) per share - R\$	0.30	0.30		(0.18)	(0.18)		(1.64)	(1.64)	
Diluted earnings (loss) per share - R\$	0.30	0.30		(0.18)	(0.18)		(1.64)	(1.64)	

Diluted profit per share is calculated by the weighted average number of outstanding shares, in order to assume the conversion of all potential dilutive shares. Diluted earnings per share is calculated considering the instruments that may have a potential dilutive effect in the future, such as share-based payment instruments, using the treasury shares method when the effect is dilutive.

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21 Revenue

The Company's net revenue is as follows:

	2020	2019	2018
Educational content	998,373	570,292	377,143
Other	4,534	2,820	4,102
Deductions:			
Taxes	(1,197)	(275)	(264)
Net revenue	1,001,710	572,837	380,981

Segments	2020			2019			2018		
	Core	Supplemental	Total	Core	Supplemental	Total	Core	Supplemental	Total
Type of goods or service									
Educational content	839,383	157,793	997,176	433,326	136,853	570,179	299,203	77,940	377,143
Other	1,762	2,772	4,534	46	2,612	2,658	3,828	10	3,838
Total net revenue from contracts with customers	841,145	160,565	1,001,710	433,372	139,465	572,837	303,031	77,950	380,981
Timing of revenue recognition									
Transferred at a point in time	841,145	160,565	1,001,710	433,372	139,465	572,837	303,031	77,950	380,981
Total net revenue from contracts with customers	841,145	160,565	1,001,710	433,372	139,465	572,837	303,031	77,950	380,981

The Company's revenues from contracts with customers are all in Brazil.

The Company recognized impairment losses on trade receivables arising from contracts with customers, included under selling expenses in the statement of income (loss) of R\$ 34,684, R\$ 17,392 and R\$ 9,588 for the years ended December 31, 2020, 2019 and 2018, respectively.

Revenue Indirect tax benefits

The Company is not subjected to the payment of the social integration program tax (*Programa de Integração Social*, or PIS) and the social contribution on revenues tax (*Contribuição para o Financiamento da Seguridade Social*, or COFINS) on the sale of books. The sale of printed and digital books is also exempt from the Brazilian municipal taxes and from the Brazilian value added tax (*Imposto sobre Operações relativas à Circulação de Mercadorias e sobre Prestações de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação*, or ICMS).

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22 Expenses by nature

	2020	2019	2018
Educational content material	(122,401)	(61,953)	(41,551)
Operations personnel	(24,731)	(12,500)	(11,477)
Inventory reserves	(7,453)	(8,476)	(7,252)
Freight	(16,452)	(14,569)	(7,687)
Depreciation and amortization	(35,007)	(15,311)	(5,869)
Other	(15,086)	(4,449)	(6,909)
Cost of sales	(221,130)	(117,258)	(80,745)
Sales personnel	(167,300)	(87,352)	(49,041)
Depreciation and amortization	(77,343)	(23,573)	(11,939)
Sales & marketing	(24,104)	(31,208)	(17,931)
Customer support	(53,893)	(30,755)	(17,274)
Allowance for doubtful accounts	(34,684)	(17,392)	(9,588)
Real estate rentals	(965)	(1,728)	(1,923)
Other	(13,980)	(7,772)	(5,574)
Selling expenses	(372,269)	(199,780)	(113,270)
Corporate personnel	(74,437)	(53,443)	(39,382)
Third party services	(80,254)	(43,415)	(14,269)
Real estate rents	(1,623)	(2,613)	(3,429)
Travel expenses	(2,233)	(3,439)	(2,891)
Tax expenses	(7,341)	(2,331)	(2,858)
Software licenses	(5,909)	(1,487)	(1,098)
Share-based compensation plan	(69,846)	(66,978)	(60,297)
Depreciation and amortization	(15,105)	(9,430)	(1,786)
Other	(13,810)	(8,302)	(3,744)
General and administrative expenses	(270,558)	(191,438)	(129,754)
Total	(863,957)	(508,476)	(323,769)

The increase in expenses for the year ended December 31, 2020 compared to the same period of the previous year, is mainly due to inclusion of the companies as mentioned in Note 4.

During the year ended December 31, 2020 the companies acquired in 2019 contributed with R\$ 115,285 (2019: R\$ 28,059) of cost of sales and with R\$ 168,374 (2019: R\$ 37,738) of expenses. In the same period, the companies acquired in 2020 contributed with R\$ 8,004 of cost of sales and with R\$ 27,135 of expenses.

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23 Finance result

	2020	2019	2018
Income from financial investments	2,263	18,443	11,633
Changes in fair value of financial investments (a)	17,111	28,886	4,322
Changes in fair value of derivative instruments (b)	16,147	18,599	19,839
Foreign exchange gains	1,930	1,745	138
Interest income	4,721	1,042	-
Other	3,039	3,332	686
Finance income	45,211	72,047	36,618
Changes in fair value of derivative instruments (b)	(15,585)	(18,126)	(19,180)
Changes in accounts payable to selling shareholders (Note 17)	(20,330)	(89,403)	(130,378)
Interest in acquisition of investments (c)	(68,379)	(42,206)	(9,781)
Financial discounts granted	(2,248)	(3,343)	(1,911)
Foreign exchange loss	(1,742)	(2,300)	(34,573)
Interest in lease liabilities	(3,036)	(1,489)	-
Interest on loans and financing	(19,862)	(1,002)	-
Other	(10,831)	(12,986)	(2,972)
Finance costs	(142,013)	(170,855)	(198,795)
Finance result	(96,802)	(98,808)	(162,177)

(a) Refers to gains on financial investments measured at FVPL.

(b) Refers to changes in the fair value of derivative financial instruments, comprised of the put and call options from business acquisitions and investments in associates and joint ventures.

(c) Refer to interest expense on liabilities related to business combinations and investments in associates.

24 Income taxes

(a) Reconciliation of income taxes expense

	2020	2019	2018
Profit (loss) before income taxes	39,102	(42,534)	(100,901)
Combined statutory income taxes rate - % (a)	34%	34%	34%
	(13,295)	14,462	34,306
Income tax benefit (expense) at statutory rates			
Reconciliation adjustments:			
Share of profit (loss) of equity-accounted investees (b)	139	(612)	(269)
Effect of presumed profit of subsidiaries (c)	9,552	18,593	11,080
Non-deferred tax loss (d)	(7,427)	(1,714)	(34,227)
Stock option (d)	(6,986)	-	-
Other additions (exclusions), net	(4,305)	2,374	7,095
	(22,322)	33,103	17,985
Current	(87,379)	(46,850)	(26,553)
Deferred	65,057	79,953	44,538
Income taxes benefit (expense)	(22,322)	33,103	17,985
Effective rate	57.1%	77.8%	17.8%

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(a) Considering that Arco Platform Ltd. is domiciled in Cayman and there is no income tax in that jurisdiction, the combined tax rate of 34% demonstrated above is the current rate applied to Arco Brasil S.A. which is the holding company of all operating entities of Arco Platform, in Brazil.

(b) Refers to the effect of 34% on the share of profit (loss) of investees for the year.

(c) Brazilian tax law establishes that companies that generate gross revenues of up to R\$ 78,000 in the prior fiscal year may calculate income taxes as a percentage of gross revenue, using the presumed profit income tax regime. The Company's subsidiaries adopted this tax regime and the effect of the presumed profit of subsidiaries represents the difference between the taxation based on this method and the amount that would be due based on the statutory rate applied to the taxable profit of the subsidiaries.

(d) Permanent differences of non-deductible expenses.

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(b) Deferred income taxes

The changes in the deferred tax assets and liabilities are as follows:

	2018	Change in accounting practice	As of January 1, 2019	Profit or loss	Business combination	Equity	2019	Profit or loss	Business combination	2020
Deferred tax assets										
Tax losses carryforward	4,364	-	4,364	11,919	-	-	16,283	48,481	-	64,764
Temporary differences										
Financial instruments from acquisition of interests	59,166	-	59,166	47,563	-	-	106,729	10,664	-	117,393
Other temporary differences	6,585	613	7,198	14,610	7,517	-	29,325	2,392	15,098	46,815
Share base compensation	-	-	-	7,960	-	-	7,960	(1,487)	-	6,473
Tax benefit from tax deductible goodwill	46,314	-	46,314	(2,009)	-	(29,417)	14,888	(3,341)	-	11,547
Amortization of intangible assets	1,282	-	1,282	5,391	-	-	6,673	10,148	-	16,821
Total deferred tax assets	117,711	613	118,324	85,434	7,517	(29,417)	181,858	66,857	15,098	263,813
Deferred tax liabilities										
Financial instruments from acquisition of interests	(18,166)	-	(18,166)	(5,707)	-	-	(23,873)	14,642	-	(9,231)
Tax benefit from tax deductible goodwill	-	-	-	-	-	-	-	(15,678)	-	(15,678)
Other temporary differences	(1,463)	-	(1,463)	226	-	-	(1,237)	(764)	-	(2,001)
Total deferred tax liabilities	(19,629)	-	(19,629)	(5,481)	-	-	(25,110)	(1,800)	-	(26,910)
Deferred tax assets (liabilities), net	98,082	613	98,695	79,953	7,517	(29,417)	156,748	65,057	15,098	236,903
Deferred tax assets	99,460		100,073				156,748			236,903
Deferred tax liabilities	(1,378)		(1,378)				-			-

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As of December 31, 2020, the Company had unrecognized deferred income tax assets in the amount of R\$ 1,489 (2019: R\$ 1,382) with respect to tax loss carryforward. The net operating losses carried forward do not expire, however, their compensation is limited to 30% of the annual taxable income. The recognition of the deferred income tax assets is supported by the Company's forecasts of the future profitability and historical results.

25 Segment information

Segment information is presented consistently with the internal reports provided to the Company's main key executives and chief operating decision makers. They are responsible for allocating resources, assessing the performance of the operating segments, and making the Company's strategic decisions.

The Executive Officers have defined the operating segments based on the reports used to make structured strategic decisions, which allow for decision-making based on these structures:

- (i) **Core:** The Core Curriculum business segment provides solutions that address the Brazilian K-12 curriculum requirements through a personalized and interactive learning experience. Students access content in various formats, such as digital, video, print, and other audiovisual formats that are aligned with the daily curriculum of their classes;
- (ii) **Supplemental:** The Supplemental Solutions business segment provide additional value-added content that private schools can opt, in addition to the Core Curriculum solution. Currently, the Company's primary Supplemental product is an English as a second language (ESL) bilingual teaching program. Technological solutions for communication with the students' parents, learning laboratories that use the methodology of maker culture and content to develop socio-emotional skills on a platform of questions to students and teachers are also offered.

The Executive Officers do not make strategic decisions or evaluate performance based on geographic regions. Also, based on the agreements signed with private schools as of December 31, 2020, none of the customers individually represented more than 5% of total revenue.

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	2020				
	Core	Supplemental	Total reportable segments	Adjustments and eliminations	Total
Net revenue	841,145	160,565	1,001,710	-	1,001,710
Cost of sales	(190,893)	(30,237)	(221,130)	-	(221,130)
Gross profit	650,252	130,328	780,580	-	780,580
Selling expenses	(309,816)	(62,453)	(372,269)	-	(372,269)
Segment profit	340,436	67,875	408,311	-	408,311
General and administrative expenses	-	-	-	-	(270,558)
Other income (expenses), net	-	-	-	-	(2,258)
Operating profit	-	-	-	-	135,495
Finance income	-	-	-	-	45,211
Finance costs	-	-	-	-	(142,013)
Share of loss of equity-accounted investees	-	-	-	-	409
Profit before income taxes	-	-	-	-	39,102
Income taxes expense	-	-	-	-	(22,322)
Net profit for the year	-	-	-	-	16,780
Other disclosures					
Depreciation and amortization	118,416	9,039	127,455	-	127,455
Investments in associates and joint ventures	9,654	-	9,654	-	9,654
Capital expenditures	95,672	11,977	107,649	-	107,649
	2019				
	Core	Supplemental	Total reportable segments	Adjustments and eliminations	Total
Net revenue	433,372	139,465	572,837	-	572,837
Cost of sales	(97,513)	(19,745)	(117,258)	-	(117,258)
Gross profit	335,859	119,720	455,579	-	455,579
Selling expenses	-	-	-	-	(199,780)
General and administrative expenses	-	-	-	-	(191,438)
Other income (expenses), net	-	-	-	-	(6,287)
Operating profit	-	-	-	-	58,074
Finance income	-	-	-	-	72,047
Finance costs	-	-	-	-	(170,855)
Share of loss of equity-accounted investees	-	-	-	-	(1,800)
Loss before income taxes	-	-	-	-	(42,534)
Income taxes expense	-	-	-	-	33,103
Net loss for the year	-	-	-	-	(9,431)
Other disclosures					
Depreciation and amortization	43,854	4,460	48,314	-	48,314
Investments in associates and joint ventures	48,574	-	48,574	-	48,574
Capital expenditures	45,851	8,242	54,093	-	54,093

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	2018				
	Core	Supplemental	Total reportable segments	Adjustments and eliminations	Total
Net revenue	303,031	77,950	380,981	-	380,981
Cost of sales	(70,903)	(9,842)	(80,745)	-	(80,745)
Gross profit	232,128	68,108	300,236	-	300,236
Selling expenses	(87,186)	(26,084)	(113,270)	-	(113,270)
Segment profit	144,942	42,024	186,966	-	186,966
General and administrative expenses	-	-	-	-	(129,754)
Other income (expenses), net	-	-	-	-	4,856
Operating profit	-	-	-	-	62,068
Finance income	-	-	-	-	36,618
Finance costs	-	-	-	-	(198,795)

Share of loss of equity-accounted investees	-	-	-	-	(792)
Loss before income taxes	-	-	-	-	(100,901)
Income taxes expense	-	-	-	-	17,985
Net loss for the year	-	-	-	-	(82,916)

Other disclosures

Depreciation and amortization	17,997	1,597	19,594	-	19,594
Investments in associates and joint ventures	11,862	-	11,862	-	11,862
Capital expenditures	28,165	8,092	36,257	-	36,257

Capital expenditures consist of additions of property and equipment and intangible assets. There were no inter-segment revenues in the years ended December 31, 2020, 2019 and 2018.

Segment performance is evaluated based on segment profit and is measured consistently with profit or loss in the consolidated financial statements. General and administrative expenses, other income (expenses), net, finance result, share of profit (loss) of equity-accounted investees and income taxes are managed on a Company basis and are not allocated to operating segments.

Segment profit or loss excludes general and administrative expenses, other income (expenses), net, finance result, share of profit (loss) of equity-accounted investees and income taxes in order to demonstrate the results without the influence of shared service center expenses or significant items of income and expenses which may have an impact on equality of earnings such as restructuring costs, legal expenses and impairments.

There were no adjustments or eliminations in the profit or loss between segments. Segment assets and liabilities are measured in the same way as in the financial statements. These assets and liabilities are allocated based on the operations of the segment.

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	Core	Supplemental	Total reportable segments	Adjustments and eliminations	Total
As of December 31, 2020					
Total assets	4,342,905	253,480	4,596,385	(20,105)	4,576,280
Total liabilities	2,316,545	78,956	2,395,501	(20,105)	2,375,396
As of December 31, 2019					
Total assets	2,999,497	176,196	3,175,693	(14,270)	3,161,423
Total liabilities	1,535,695	45,188	1,580,883	(14,270)	1,566,613

26 Financial instruments

The Company holds the following financial instruments:

Financial assets	Assets at FVPL	Assets at amortized cost	Total
December 31, 2020			
Cash and cash equivalents	-	424,410	424,410
Financial investments	17,645	705,349	722,994
Trade receivables	-	415,282	415,282
Related parties	-	20,478	20,478
Investments and interests in other entities	9,654	-	9,654
	27,299	1,565,519	1,592,818
December 31, 2019			
Cash and cash equivalents	-	48,900	48,900
Financial investments	498,584	80,910	579,494
Trade receivables	-	329,428	329,428
Financial instruments from acquisition of interests	35,946	-	35,946
Related parties	-	16,111	16,111
Other assets	-	4,109	4,109
	534,530	479,458	1,013,988
Financial liabilities	Liabilities at FVPL	Liabilities at amortized cost	Total
December 31, 2020			
Trade payables	-	40,925	40,925
Financial instruments from acquisition of interests	-	-	-
Accounts payable to selling shareholders	861,385	925,130	1,786,515
Leases liabilities	-	35,220	35,220
Loans and financing	-	311,119	311,119
	861,385	1,312,394	2,173,779
December 31, 2019			
Trade payables	-	34,521	34,521
Financial instruments from acquisition of interests	33,940	-	33,940
Accounts payable to selling shareholders	328,668	887,564	1,216,232
Leases liabilities	-	25,857	25,857
Loans and financing	-	98,561	98,561
	362,608	1,046,503	1,409,111

The Company's exposure to certain risks associated with the financial instruments is discussed in Note 27.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

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(a) Financial instruments at fair value through profit or loss

Financial investments

The Company designated part of its financial investments as financial assets at fair value through profit or loss, related to investment fund which investments were entered to achieve 82.9% of the CDI. The Company designated these investments at fair value through profit or loss, given the swaps exist solely for the counterparty to deliver a fixed return on CDI. See Note 6 for more details on the financial investments.

Derivative instruments

The Company acquired entities under business combinations and through the acquisition of interests in associates and joint ventures. The share purchase agreements contain put and call options and forward contracts that are also measured at fair value through profit or loss. As of December 31, 2020, the Company had derecognized the derivative financial instruments arising from the put and call options as described in Note 16.

As of and for the years ended December 31, 2020, 2019 and 2018 none of the Company's derivatives have been designated as hedges for accounting purposes.

(ii) Amounts recognized in profit or loss

Changes in fair values of financial instruments at fair value through profit or loss are recorded in finance income (costs) in profit or loss (gain of R\$ 562, gain of R\$ 473 and gain of R\$ 659 for the years ended in December 31, 2020, 2019 and 2018, respectively).

(b) Recognized fair value measurements

(i) Fair value hierarchy

The table below explains the judgements and estimates made in determining the fair values of the financial instruments that are recognized and measured at fair value through profit or loss in the consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its financial instruments into the three levels.

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Assets and liabilities are measured and recognized at fair value as follows:

	Hierarchy	2020	2019
Financial assets			
Financial investments	Level 2	17,645	498,584
Derivative financial instruments	Level 3	-	35,946
Investments at fair value	Level 1	9,654	-
Financial liabilities			
Derivative financial instruments	Level 3	-	33,940
Accounts payable to selling shareholders	Level 3	861,385	328,668

As of December 31, 2020, and 2019, the Company assessed the fair values of its financial instruments. This assessment does not indicate fair values significantly different from the carrying amounts. The estimated realizable values of financial assets and liabilities were determined based on available market information and appropriate valuation methodologies.

The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels for recurring fair value measurements during the financial statements' periods presented herein.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments;
- the fair value of derivatives is calculated with Black & Scholes; and
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

All of the resulting fair value estimates are included in level 2 except for contingent consideration and certain derivative contracts, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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(iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the years ended December 31, 2020, 2019 and 2018.

	Financial instruments from acquisition of interests (assets)	Financial instruments from acquisition of interests (liabilities)	Accounts payable to selling shareholders
Recurring fair value measurements			
Balance as of December 31, 2017	12,511	(13,637)	(36,630)
Payment of capital increase in Geekie	-	2,000	-
Changes in accounts payable to selling shareholders	-	-	(129,430)
Interest expense	-	-	(8,350)
Deferred revenue in Escola de Aplicação São José dos Campos	-	50	-
Gains (losses) recognized in statement of income (loss)	14,119	(13,510)	-
Balance as of December 31, 2018	26,630	(25,097)	(174,410)
Acquisition of Nave à Vela	-	-	(58,194)
Payment of acquisition of Nave à Vela	-	-	21,098
Changes in accounts payable to selling shareholders	-	-	(89,403)
Interest expense	-	-	(35,127)
Deferred revenue in Escola de Aplicação São José dos Campos Ltda.	-	54	-
Fair value held in step acquisitions	-	-	7,368
Gains (loss) recognized in statement of income	9,316	(8,897)	-
Balance as of December 31, 2019	35,946	(33,940)	(328,668)
Acquisitions	-	-	(478,209)
Payment	-	-	9,520
Changes in accounts payable to selling shareholders	-	-	(20,314)
Interest expense	-	-	(43,714)
Gains (loss) recognized in statement of income	(35,946)	33,940	-
Balance as of December 31, 2020	-	-	(861,385)

(iv) Transfers between levels 2 and 3

In the years ended December 31, 2020, 2019 and 2018, the Company did not transfer any financial instruments from level 2 into level 3.

(v) Valuation processes

The finance department of the Company performs and reviews the valuations of items required for financial reporting purposes, including level 3 fair values. Discussions of valuation processes and results conform with the Company's yearly reporting periods. Also, the Company hires specialists to measure fair value of certain financial assets and liabilities independently.

The main level 3 inputs used by the Company are derived and evaluated as follows:

- Discount rates for financial assets and financial liabilities are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.
- Risk adjustments specific to the counterparties (including assumptions about credit default rates) are derived from observable market data of credit risk grading.
- Earnings growth factors for unlisted equity securities are estimated based on market information for similar types of companies.
- Contingent consideration – expected cash outflows are estimated based on the terms of the business combinations and the entity's knowledge of the business as well as how the current economic environment is likely to impact it.

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27 Risk

(a) Financial risk management

The Company monitors market, credit and operational risks in line with the objectives in capital management and counts with the support, monitoring and oversight of the Board of Directors in decisions related to capital management and its alignment with the objectives and risks. The Company monitors the effectiveness of the Company's risk management.

The sensitivity analyses in the following sections relate to the position as of December 31, 2020.

Capital management

The Company's objectives when managing capital are to:

- maximize shareholder value;
- safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or alter the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2020, 2019 and 2018.

(i) Foreign exchange risk

Exposure

The Company's exposure to foreign currency risk as of December 31, 2020 and December 31, 2019, was as follows:

	2020	2019
Cash and cash equivalents (Note 5)	28,327	23,346

The Company does not operate outside Brazil and does not have exposure to foreign exchange risk on commercial transactions, i.e., revenues or expenses.

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Sensitivity analysis

The sensitivity analysis as of December 31, 2020 consider three scenarios of U.S. dollar exchange rate variation, as follows:

- Base scenario - exchange rate as of December 31, 2020 of R\$ 5.1961 per US\$ 1.00;
- Scenario I - a 20% increase in the U.S. dollar exchange rate to R\$ 6.2353; and
- Scenario II - a 20% decrease in the U.S. dollar exchange rate to R\$ 4.1569.

The table below set forth the sensitivity analysis as of December 31, 2020, for the amount of cash and cash equivalents and financial investments denominated in U.S. dollar of US\$ 5,556 thousand:

	Base scenario	Scenario I	Scenario II
	Exchange rate: R\$ 5.1961	Exchange rate: R\$ 6.2353	Exchange rate: R\$ 4.1569
Finance income (costs)	-	R\$ 5,773	R\$ (5,773)

(ii) Liquidity risk

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

The main requirements for financial resources used by the Company arise from the need to make payments for printing educational content, freight expenses, operating expenses, labor and social obligations and other operating disbursements.

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

	Less than 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
December 31, 2020							
Trade payables	40,925	-	-	-	-	-	40,925
Lease liabilities	3,608	9,134	11,497	8,559	2,156	266	35,220
Loans and financing	1,855	105,851	203,413	-	-	-	311,119
Accounts payable to selling shareholders	152,057	503,957	585,663	273,810	271,028	-	1,786,515
	198,445	618,942	800,573	282,369	273,184	266	2,173,779
December 31, 2019							
Trade payables	34,521	-	-	-	-	-	34,521
Lease liabilities	2,037	4,808	9,696	7,225	1,901	190	25,857
Loans and financing	-	98,561	-	-	-	-	98,561
Financial instruments from acquisition of interests	-	-	33,940	-	-	-	33,940
Accounts payable to selling shareholders	-	117,959	374,106	194,548	265,886	263,733	1,216,232
	36,558	221,328	417,742	201,773	267,787	263,923	1,409,111

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(iii) Financial counterparty risk

This risk arises from the possibility that the Company may incur losses due to the default of its counterparties. To mitigate these risks, the Company adopts as practice the analysis of the financial and equity situation of its counterparties.

Counterparty credit limits, which take published credit ratings and other factors into account, are set to cover the Company's total aggregate exposure to a single financial institution. Exposures and limits applicable to each financial institution are approved by our treasury within guidelines approved by the board and are reviewed on a regular basis.

(iv) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's investments with floating interest rates. The Company is mainly exposed to fluctuations in CDI interest rates on financial investments, related parties, accounts payable to selling shareholders and loans and financing.

Sensitivity analysis

The Company has a significant portion of its financial investments indexed to the CDI variation. According to the reference rates obtained from the website of the Brazilian Stock Exchange – B3 S.A. - Brasil, Bolsa, Balcão ("B3") and projected for 12 months, as of December 31, 2020 the CDI rate was 3.04%.

As of December 31, 2019, the Company's management estimated two scenarios of the CDI rates at +10% and -10%, which were used as a basis for the possible and remote scenarios, respectively. The table below shows a summary of the scenarios estimated by Management and the effect on profit before income taxes:

December 31, 2020	Exposure	+10%	-10%
Cash, bank deposits and cash equivalents	396,083	1,204	(1,204)
Financial investments	722,452	2,196	(2,196)
Accounts payable to selling shareholders	912,757	2,775	(2,775)
Related parties	20,478	62	(62)

The Company had derivatives (calls and put options) on non-controlling interests in associates and joint ventures acquired and described in Note 16. During the year, the fair value of these derivatives was calculated using multiple scenarios and intrinsic methods. The major inputs are: exercise price, exercise date, volatility and gross profit of the associates and joint ventures.

The Company performed evaluation of their fair value at the end of each year in order to account for any changes to it, as disclosed in Note 26. These derivatives, which are not publicly traded, have specific conditions that do not enable the Company to present a sensitivity analysis in relation to specific interest rates or market indexes. Also, these derivatives are part of the Company's strategy to acquire companies directly related to its continuous growth and are considered by the Company as a deferred payment to the previous shareholders of the acquirees.

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Changes in liabilities arising from financing activities

	December 31, 2017	Cash flows	Other	December 31, 2018	Change in accounting practice	As of January 1, 2019	Cash flows	Other	December 31, 2019	Cash flows	Other	December 31, 2020
Dividends payable	10,511	(85,000)	74,489	-	-	-	-	-	-	-	-	-
Leases	-	-	-	-	20,089	20,089	(5,259)	11,027	25,857	(10,610)	19,973	35,220
Loans and financing	-	-	-	-	-	-	97,011	1,550	98,561	183,860	28,698	311,119
Total	10,511	(85,000)	74,489	-	20,089	20,089	91,752	12,577	124,418	173,250	48,671	346,339

Other market risk

The Company has a significant portion of its accounts payable whose exercise price is determined by multiples of ACV and revenue discounted to present value for the acquisition of the remaining interest of Geekie and EI as described in Note 17.

Sensitivity analysis

As of December 31, 2020, the Company's management estimated two scenarios of the rates at +20% and -20% of ACV book value and revenue and +20% and -20% of Weighted Average Capital Cost (WACC), whose premises are used in the calculation of debt. The table below shows a summary of the scenarios estimated:

	20%	-20%
ACV book value - Geekie	24,260	(24,260)
ACV book value - EI	51,883	(51,883)
	20%	-20%
WACC - Geekie	3,836	(3,836)
WACC - EI	15,262	(15,262)

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28 Commitments and contingencies

(i) Legal proceedings

The Company is party to labor and tax litigation in progress, which arise during the ordinary course of business. The provisions for probable losses arising from these matters are estimated and periodically adjusted by Management, supported by the opinion of its external legal advisors.

	Civil	Labor	Taxes	Total
Balance at December 31, 2018	-	17	114	131
Additions	-	209	145	354
Reversals	-	(104)	(130)	(234)
Balance at December 31, 2019	-	122	129	251
Additions	564	108	137	809
Business combination	-	-	599	599
Reversals	(99)	(178)	(16)	(293)
Balance at December 31, 2020	465	52	849	1,366

As of December 31, 2020, the Company was party to lawsuits classified as possible losses totaling R\$ 7,863 (2019: R\$ 7,209), as shown below:

	2020	2019
Civil (a)	6,367	6,113
Labor (b)	1,496	1,096
Total	7,863	7,209

- (a) The civil proceedings relate mainly to customer claims, including those related to the early termination of certain agreements, among others.
- (b) The labor proceedings to which the Company is a party were filed by former employees or suppliers and third-party service providers' employees seeking joint liability for the acts of the Company's suppliers and service providers.

On September 19, 2019, Mr. Ulisses Borges Cardinot, the non-controlling shareholder in our subsidiary, International School, filed a request for arbitration with the Center for Arbitration and Mediation of the Chamber of Commerce Brazil-Canada in Brazil against Arco Platform Limited, PSD Educação S.A. and Arco Educação S.A. This request for arbitration purporting to assert the non-controlling shareholder's rights related to both the form of payment (shares) and the calculation of the purchase price under the Investment Agreement is still at an early stage.

As the arbitration proceeding progresses the estimated amount payable by PSD to the non-controlling shareholder may be lower than the provision recorded, due to the disposition of the Investment Agreement that sets forth that the payment schedule of the purchase price shall be anticipated in case of an initial public offering. Conversely, the estimated amount payable by PSD to the non-controlling shareholder may be higher than the provision recorded in light of the claims asserted, and to be asserted, by the non-controlling shareholder.

In light of the arbitration proceeding and based on standard IAS 37 Provisions, contingent liabilities and contingent assets, the Company understands that the circumstances, risks and uncertainties of the arbitration must be taken into consideration in order to reach the best estimate of the liability. Contingencies should be reevaluated at each balance sheet date and adjusted to reflect the best current estimate.

Therefore, in light of the current early stage of the proceeding and the range of potential outcomes, the calculation methodology of the estimate has remained unchanged, consistent with the estimate previously calculated and reported.

Based on this analysis, the Company has recorded the provision at the present value of the amount considered the appropriate estimate of the amount of the purchase price under the Investment Agreement payable to the non-controlling shareholder and discounted to present value. The provision is calculated based on the realized EBITDA for the school years of 2019 (first installment) and 2020 (second installment), both, net of debts, as determined in the agreement. The school year is defined as the twelve-month period starting in October of the previous year to September of the mentioned current year. The first and second installments will be paid in the course of the arbitration. Based on realized EBITDA for the school year 2020, the liability increased by R\$ 32,121 in 2020 and was recorded as financial expense as described in Note 17.a). During the year ended December 31, 2020, the Company recognized R\$ 34,627 of interest related to the liability.

29 Transactions not involving cash

During the years ended December 31, 2020, 2019 and 2018, the Company carried out the following non-cash activities, which are not reflected in the statement of cash flows:

	2020	2019	2018
Share issuance costs – unpaid	-	-	674
Tax benefit from tax deductible goodwill	-	(46,314)	46,314
Investing - derivative financial instruments	-	14,597	-
Business combinations - derivative financial instruments	-	38,924	-
Lease (Note 13)	14,471	1,251	-
Forward contract (Note 4)	469,587	29,728	-
Retained payments from business combination (Note 4)	14,821	874,440	-
Capital contribution (Note 4)	4,000	-	-
Price adjustment from business combination (Note 4)	4,620	-	-
Acquisition from business combination (Note 4)	22,857	39,419	-

30 Subsequent events

Buyback agreement

On January 6, 2021, our Board of Directors approved a share repurchase program, or the Repurchase Program, to comply with management long-term incentive plan obligations. Pursuant to the Repurchase Program, we may repurchase up to 500,000 of our outstanding Class A common shares in the open market, based on prevailing market prices, or in privately negotiated transactions, over a period beginning on January 6, 2021 continuing until the earlier of the completion of the repurchase or January 6, 2023, depending upon market conditions. As of the date of this annual report, we had purchased an aggregate of 276,581 Class A common shares for a total of approximately US\$ 9.8 million under the Repurchase Program.

Acquisition of additional shares of Geekie

On January 20, 2021, Arco acquired an additional 1.36% interest in Geekie's share capital through a capital increase of R\$4,000, increasing its total interest to 57.42%.

Investment in INCO Limited ("INCO")

On January 25, 2021, we entered into a Shares Purchase Agreement with INCO Limited, or INCO, the controlling entity of OISA, a company that provides financial and administrative services to private schools, according to which we acquired 8,571,427 series B ordinary shares, equivalent to 30% of the total stock capital of INCO, for a total amount of R\$25,000. Accordingly, based on the signed agreement, the Company does not have control of INCO and it has significant influence over the entity since it has one of the four members of Board of Directors.

Acquisition of Nave

Pursuant to the investment and share purchase agreement for the acquisition of Nave, on February 25, 2021 Arco paid the second tranche and anticipated the third one, corresponding to 49.0% of the outstanding share capital of Nave for the amount of R\$22,646. At that date, the Company has 100.0% of Nave's shares.

Acquisition of COC and Dom Bosco learning systems

On March 6, 2021, the Company announced that it has entered into a definitive agreement (the "Purchase Agreement") with Pearson Education do Brasil Ltda. ("Pearson") to acquire COC and Dom Bosco, two important K-12 learning systems in Brazil, for R\$920 million in cash.

COC and Dom Bosco have over 50 years of academic track record in Brazil, serving over 800 partner schools and around 210 thousand students in all regions of the country, from pre-K to high school and pre-university. The brands have a strong presence in the Southeast region of Brazil, especially in the state of São Paulo.

Arco expects to accelerate the growth of COC and Dom Bosco by updating their content and technology, improving distribution and customer service capabilities, as well as to cross-sell supplemental solutions within the COC and Dom Bosco partner school base.

Pursuant to the Purchase Agreement, Arco will acquire 100% of COC and Dom Bosco learning systems for R\$920 million in cash, equivalent to 14.4x 2020 EBITDA, with (i) 80% of the purchase price payable at the time of closing, and (ii) the remaining 20% of the purchase price payable on the first anniversary of the closing date, as adjusted. The transaction also includes an agreement with Pearson to distribute some supplemental educational solutions for K-12 schools in Brazil.

This transaction is not subject to any shareholder approvals, but is subject to customary closing conditions, including Brazilian antitrust approvals.

Acquisition of Me Salva!

On March 12, 2021, the Company announced that it has acquired Me Salva!, an online educational solution that prepares students to be admitted to the best universities in Brazil.

Me Salva! was founded in 2011 with the mission of helping students to improve their ENEM scores and to be admitted to the best universities in the country. The online solution offers recorded and live video classes, comprehensive exercises, essay writing tools, assessment tests, 1-on-1 tutoring and personalized study plans. Over 900 thousand students have used Me Salva! in 2020, and the company has grown its revenues by 36% per year between 2016 and 2020.

This transaction expands Arco's supplemental solutions portfolio to test prep and tutoring, a vertical with an estimated addressable market of R\$5 billion and favorable growth prospects. The deal rationale relies on accelerating Me Salva!'s growth by leveraging Arco's resources, and strengthening Arco's B2B2C winning factors with new digital capabilities.

**CERTIFICATION BY THE PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ari de Sá Cavalcante Neto, certify that:

1. I have reviewed this annual report on Form 20-F of Arco Platform Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 31, 2021

Company Name

By: /s/ Ari de Sá Cavalcante Neto

Name: Ari de Sá Cavalcante Neto

Title: Chief Executive Officer

**CERTIFICATION BY THE PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Alexandre Nakamaru, certify that:

1. I have reviewed this annual report on Form 20-F of Arco Platform Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 31, 2021

Company Name

By: /s/ Alexandre Nakamaru

Name: Alexandre Nakamaru

Title: Chief Financial Officer

**CERTIFICATION BY THE PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the Annual Report on Form 20-F of Arco Platform Limited (the "Company") for the fiscal year ended December 31, 2020 (the "Report"), I, Ari de Sá Cavalcante Neto, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2021

Company Name

By: /s/ Ari de Sá Cavalcante Neto

Name: Ari de Sá Cavalcante Neto

Title: Chief Executive Officer

**CERTIFICATION BY THE PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the Annual Report on Form 20-F of Arco Platform Limited (the "Company") for the fiscal year ended December 31, 2020 (the "Report"), I, Alexandre Nakamaru, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2021

Company Name

By: /s/ Alexandre Nakamaru

Name: Alexandre Nakamaru

Title: Chief Financial Officer

List of Subsidiaries

The table below is a complete list of the Company's subsidiaries as of December 31, 2020:

Name	Principal Activities	Country
Arco Educação S.A.	Holding	Brazil
PSD Educação S.A.	Educational content	Brazil
Barra Américas Editora Ltda.	Educational content	Brazil
Distribuidora de Material Didático Desterro Ltda.	Educational content	Brazil
SAS Sistema de Ensino Ltda.	Educational content	Brazil
Arco Ventures S.A.	Educational content	Brazil
SAS Livrarias Ltda.	Educational content	Brazil
SAE Digital S.A.	Educational content	Brazil
International School Serviços de Ensino, Treinamento e Editoração, Franqueadora S.A.	Educational content	Brazil
Nave à Vela Editora e Comercializadora de Materiais Educacionais S.A.	Educational content	Brazil
EEM Licenciamento de Programas Educacionais Ltda.	Educational technology	Brazil
NLP Soluções Educacionais Ltda.	Educational content	Brazil
WPensar S.A.	Educational technology	Brazil
Geekie Desenvolvimento de Softwares S.A.	Educational technology	Brazil
Studos Software Ltda.	Educational technology	Brazil
Escola de Inteligência Cursos Educacionais S.A.	Educational content	Brazil

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form F-3 No. 333-234215) of Arco Platform Limited and in the related Prospectus and the Registration Statement (Form S-8 No. 333-233920) pertaining to the Restricted Shares Grant Plan of Arco Platform Limited of our report dated March 31, 2021, with respect to the consolidated financial statements of Arco Platform Limited, and the effectiveness of internal control over financial reporting of Arco Platform Limited, included in this Annual Report (Form 20-F) for the year ended December 31, 2020.

/s/ ERNST & YOUNG
Auditores Independentes S.S.

Fortaleza, Brazil
March 31, 2021
