

(A free translation of the original in Portuguese)

***Kroton Educacional S.A. and
subsidiaries***

*Parent company and consolidated
financial statements at
December 31, 2015
and independent auditor's report*

(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Stockholders
Kroton Educacional S.A.

We have audited the accompanying parent company financial statements of Kroton Educacional S.A. ("Parent company" or "Company"), which comprise the balance sheet as at December 31, 2015 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Kroton Educacional S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2015 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

Kroton Educacional S.A.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kroton Educacional S.A. and of Kroton Educacional S.A. and its subsidiaries as at December 31, 2015, and the parent company financial performance and cash flows, as well as the consolidated financial performance and cash flows, for the year then ended, in accordance with accounting practices adopted in Brazil and the IFRS issued by the IASB.

Other matters

Supplementary information - Statements of value added

We have also audited the parent company and consolidated statements of value added for the year ended December 31, 2015, which are the responsibility of the Company's management. The presentation of these statements is required by the Brazilian corporate legislation for listed companies, but it is considered supplementary information for IFRS. These statements were subject to the same audit procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Audit of prior-year information

The financial statements of the Company for the year ended December 31, 2014 were audited by another firm of auditors, whose report, dated March 19, 2015, expressed an unmodified opinion on those statements.

Belo Horizonte, March 15, 2016

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" MG

Eduardo Rogatto Luque
Contador CRC 1SP166259/O-4 "S" MG

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES
BALANCE SHEETS AT DECEMBER 31

All amounts in thousands of reais - R\$

(A free translation of the original in Portuguese)

ASSETS	Note	Parent company		Consolidated	
		12/31/2015	12/31/2014	12/31/2015	12/31/2014
CURRENT ASSETS					
Cash and cash equivalents:	8				
Cash and banks		195	230	15,593	16,835
Financial investments		4,704	54,947	382,639	433,929
Trade receivables	9	-	-	1,009,807	732,410
Inventories		-	-	31,536	36,076
Advances		2	-	50,081	49,962
Taxes recoverable	10	1,187	1,036	43,384	55,077
Other receivables	12	-	12	108,575	126,282
Total current assets		6,088	56,225	1,641,615	1,450,571
NON-CURRENT ASSETS					
Marketable securities	8	-	-	5,351	4,568
Trade receivables	9	-	-	599,947	10,345
Deferred income tax and social contribution	11	-	-	513,722	434,849
Judicial deposits	21	174	10	40,409	43,221
Advances		-	-	1,680	2,577
Taxes recoverable	10	-	-	6,969	6,282
Guarantee for tax, labor and civil losses	21	69,456	80,146	230,299	169,734
Other receivables	12	-	-	8,738	6,691
Related parties		86	-	-	-
Investments:					
In subsidiaries	30	13,518,753	12,351,581	-	-
Other		-	-	1,600	1,600
Property and equipment	13	-	-	1,622,148	1,421,876
Intangible assets	14	57,061	59,450	11,966,376	11,933,866
Total non-current assets		13,645,530	12,491,187	14,997,239	14,035,609
TOTAL ASSETS		13,651,618	12,547,412	16,638,854	15,486,180

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

BALANCE SHEETS AT DECEMBER 31

All amounts in thousands of reais - R\$

(continued)

LIABILITIES AND EQUITY	Note	Parent company		Consolidated	
		12/31/2015	12/31/2014	12/31/2015	12/31/2014
CURRENT LIABILITIES					
Trade payables		14	276	222,604	184,416
Borrowings	15	-	-	2,378	7,279
Debentures	16	-	-	193,587	193,976
Salaries and social charges	17	102,626	36,768	345,677	304,286
Income tax and social contribution payable	11	557	-	24,137	9,763
Taxes payable		381	398	64,618	48,733
Advances from customers	18	-	-	131,592	101,212
Taxes and contributions payable in installments	20	-	-	11,090	16,123
Payables - acquisitions	19	-	-	95,481	74,802
Dividends payable		70,175	1	70,175	17
Other payables		65	-	12,186	5,298
Total current liabilities		173,818	37,443	1,173,525	945,905
NON-CURRENT LIABILITIES					
Borrowings	15	-	-	38,430	40,855
Debentures	16	-	-	524,009	700,008
Provision for tax, labor and civil losses	21	222,624	247,466	984,845	915,374
Taxes and contributions payable in installments	20	-	-	46,523	50,827
Payables - acquisitions	19	-	-	125,587	170,720
Deferred taxes	11	795,488	815,220	1,257,029	1,211,952
Other payables		-	875	29,218	4,131
Related parties		-	-	-	-
Total non-current liabilities		1,018,112	1,063,561	3,005,641	3,093,867
EQUITY					
Share capital	22	4,249,901	4,239,757	4,249,901	4,239,757
Capital reserves	22	6,266,499	6,237,379	6,266,499	6,237,379
Treasury shares	22	(96,139)	(5,603)	(96,139)	(5,603)
Revenue reserves	22	2,039,427	974,875	2,039,427	974,875
Retained earnings		-	-	-	-
Total equity		12,459,688	11,446,408	12,459,688	11,446,408
TOTAL LIABILITIES AND EQUITY		13,651,618	12,547,412	16,638,854	15,486,180

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

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31

(All amounts in thousands of reais - R\$, except earnings per share)

(A free translation of the original in Portuguese)

		<u>Parent company</u>		<u>Consolidated</u>	
	<u>Note</u>	<u>12/31/2015</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
NET SALES AND SERVICES REVENUE					
Higher education	25	-	-	5,081,886	3,583,866
Basic education	25	-	-	183,172	190,609
		-	-	5,265,058	3,774,475
COST OF SALES AND SERVICES					
Cost of sales	26	-	-	(84,906)	(39,198)
Cost of services	26	-	-	(2,155,968)	(1,603,932)
		-	-	(2,240,874)	(1,643,130)
GROSS PROFIT		-	-	3,024,184	2,131,345
OPERATING INCOME (EXPENSES)					
Selling expenses	26	-	-	(586,760)	(379,405)
General and administrative expenses	26	(196,949)	(163,971)	(941,808)	(709,109)
Other operating income	26	-	-	22,097	344
Other operating expenses	26	-	-	(22,343)	(2,358)
Results of equity investments					
Equity in the results of investees	30	1,542,391	1,137,579	-	-
PROFIT BEFORE FINANCE RESULT		1,345,442	973,608	1,495,370	1,040,817
FINANCE RESULT					
Finance income	27	935	1,594	164,663	124,157
Finance costs	27	(85)	(9)	(195,572)	(149,133)
PROFIT BEFORE TAXATION		1,346,292	975,193	1,464,461	1,015,841
INCOME TAX AND SOCIAL CONTRIBUTION					
Current	11	(626)	-	(106,114)	(28,936)
Deferred	11	50,468	25,407	37,787	13,695
		49,842	25,407	(68,327)	(15,241)
PROFIT FOR THE YEAR		1,396,134	1,000,600	1,396,134	1,000,600
ATTRIBUTABLE TO					
Owners of the parent		1,396,134	1,000,600	1,396,134	1,000,600
Non-controlling interests		-	-	-	-
Basic earnings per common share - R\$	28	0.86	0.74	0.86	0.74
Diluted earnings per common share - R\$	28	0.86	0.74	0.86	0.74

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

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31

All amounts in thousands of reais - R\$

(A free translation of the original in Portuguese)

	<u>Parent company (BR GAAP)</u>		<u>Consolidated (IFRS and BR GAAP)</u>	
	<u>Year ended</u> <u>12/31/2015</u>	<u>Year ended</u> <u>12/31/2014</u>	<u>Year ended</u> <u>12/31/2015</u>	<u>Year ended</u> <u>12/31/2014</u>
PROFIT FOR THE YEAR	1,396,134	1,000,600	1,396,134	1,000,600
OTHER COMPREHENSIVE INCOME	-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>1,396,134</u>	<u>1,000,600</u>	<u>1,396,134</u>	<u>1,000,600</u>
ATTRIBUTABLE TO				
Owners of the parent	<u>1,396,134</u>	<u>1,000,600</u>	<u>1,396,134</u>	<u>1,000,600</u>
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY (PARENT COMPANY AND CONSOLIDATED)
FOR THE YEARS ENDED DECEMBER 31

All amounts in thousands of reais - R\$, except earnings per share

(A free translation of the original in Portuguese)

	Share capital	Capital reserves		Treasury shares	Revenue reserves			Retained earnings (accumulated deficit)	Total equity
		Capital reserves	Equity instruments arising from business combination		Legal reserve	Investment reserve	Capital budget reserve		
AT DECEMBER 31, 2013	1,867,228	(8,609)	243,873	(6,333)	35,261	487,269	-	-	2,618,689
Capital increase - acquisition of Anhanguera on 07/03	2,327,299	-	5,981,227						8,308,526
Capital increase	45,230	-		(45,230)					-
Treasury shares purchased	-	-		(41,039)					(41,039)
Options granted	-	53,505	-	-	-	-	-	-	53,505
Stock option plan of acquiree		72,913	(72,913)						-
Treasury shares canceled				86,999					86,999
Stock options exercised using treasury shares	-	(32,617)	-						(32,617)
Profit for the year	-	-	-	-	-	-	-	1,000,600	1,000,600
Dividends						(483,000)		(65,255)	(548,255)
Investment reserve						885,315		(885,315)	-
Legal reserve					50,030			(50,030)	
AT DECEMBER 31, 2014	4,239,757	85,192	6,152,187	(5,603)	85,291	889,584	-	-	11,446,408
Capital increase	10,144	-	-	-	-	-	-	-	10,144
Treasury shares sold	-	-	-	29,137	-	-	-	-	29,137
Treasury shares purchased	-	-	-	(119,673)	-	-	-	-	(119,673)
Options granted	-	48,119	-	-	-	-	-	-	48,119
Result on sale of treasury shares	-	(18,999)	-	-	-	-	-	-	(18,999)
Allocation of capital budget investment reserve	-	-	-	-	-	(186,000)	186,000	-	-
Profit for the year	-	-	-	-	-	-	-	1,396,134	1,396,134
Legal reserve	-	-	-	-	69,807	-	-	(69,807)	-
Minimum mandatory dividend	-	-	-	-	-	-	-	(331,582)	(331,582)
Investment reserve	-	-	-	-	-	994,745	-	(994,745)	-
AT DECEMBER 31, 2015	4,249,901	114,312	6,152,187	(96,139)	155,098	1,698,329	186,000	-	12,459,688

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31**
All amounts in thousands of reais - R\$

(A free translation of the original in Portuguese)

	Note	Parent company		Consolidated	
		12/31/2015	12/31/2014	12/31/2015	12/31/2014
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax and social contribution	11	1,346,292	975,193	1,464,461	1,015,841
Adjustments to reconcile profit before income tax and social contribution to net cash (used in) provided by operating activities:					
Depreciation and amortization	26	148,405	74,758	379,871	249,768
Provision for impairment of trade receivables	26	-	-	268,158	147,542
Provision for tax, labor and civil losses	21	(65,529)	(12,992)	(53,196)	(500)
Provision for inventory losses		-	-	727	106
Financial charges on borrowings and debentures	15and16	-	-	129,561	106,428
Financial charges on acquisitions	19	-	-	24,519	18,122
Earnings from marketable securities	27	(951)	(414)	(50,614)	(414)
Options granted	23	48,119	53,505	48,119	53,505
Result on sale or write-off of non-current assets		-	-	246	2,366
Equity in the results of investees	30	(1,542,391)	(1,137,579)	-	-
Changes in assets and liabilities:					
(Increase)/decrease in trade receivables	9	-	-	(1,135,158)	(171,385)
(Increase) decrease in inventories		-	-	3,813	2,123
(Increase) in advances		(2)	-	778	(16,767)
(Increase) decrease in taxes recoverable	10	(98)	191	35,375	22,334
(Increase)/decrease in judicial deposits	21	(164)	(3)	2,815	(15,109)
Increase (decrease) in other assets		(819)	(9)	(3,938)	1,488
Increase (decrease) in trade payables		(261)	154	36,994	24,781
Increase (decrease) in payroll and related taxes	17	65,858	36,768	41,391	(12,023)
Increase/(decrease) in taxes payable		165	9	(107,143)	(51,131)
Increase in advances from customers	18	-	-	30,380	4,406
(Decrease) increase in taxes and contributions payable in installments	20	-	-	(9,337)	(44,406)
(Decrease) in provision for tax, labor and civil losses	21	(724)	-	(73,408)	(10,524)
Increase (decrease) in other payables		(811)	866	26,020	14,810
Cash (used in) provided by operations		(2,911)	(9,553)	1,060,434	1,341,361
Income tax and social contribution paid		(53)	-	(24,369)	(16,487)
Interest on borrowings and debentures paid	15and16	-	-	(124,743)	(119,975)
Net cash (used in) provided by operating activities		(2,964)	(9,553)	911,322	1,204,899
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of (investment) in marketable securities		951	414	49,829	-
Purchases of property and equipment	13	-	-	(350,589)	(277,872)
Additions to intangible assets	14	-	-	(107,439)	(89,939)
Acquisitions of control net of cash acquired	19	-	-	(50,282)	(40,607)
Cash from acquired companies	5	-	-	-	188,806
Advance for capital increase in subsidiary		-	-	-	-
Dividends received from subsidiary	30	339,166	625,947	-	-
Capital increase in subsidiary	30	(26,633)	-	-	-
Proceeds from sale of non-current assets		-	-	38,851	-
Net cash (used in) provided by investing activities		313,484	626,361	(419,630)	(219,612)
CASH FLOWS FROM FINANCING ACTIVITIES					
Capital increase	22	10,144	-	10,144	-
Disposal (acquisition) of treasury shares	22	(109,535)	13,344	(109,535)	13,344
New debentures	15and16	-	-	569,785	-
Payment of debentures	15and16	-	-	(750,000)	(230,000)
Repayments of borrowings	15and16	-	-	(3,211)	(108,612)
Dividends paid to stockholders	22	(261,407)	(575,980)	(261,407)	(628,187)
Net cash used in financing activities		(360,798)	(562,636)	(544,224)	(953,455)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(50,278)	54,172	(52,532)	31,832
Cash and cash equivalents at the beginning of the year		55,177	1,005	450,764	418,932
Cash and cash equivalents at the end of the year		4,899	55,177	398,232	450,764
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(50,278)	54,172	(52,532)	31,832

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

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

STATEMENTS OF VALUE ADDED
FOR THE YEARS ENDED DECEMBER 31
All amounts in thousands of reais - R\$

(A free translation of the original in Portuguese)

	Parent company (BR GAAP)		Consolidated (IFRS and BR GAAP)	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
REVENUE				
Sales and services	-	-	5,417,491	3,881,217
Higher education	-	-	5,212,522	3,553,270
Basic education	-	-	204,969	327,947
Other revenue	-	-	21,942	60
Provision for impairment of trade receivables	-	-	(271,699)	(147,542)
INPUTS ACQUIRED FROM THIRD PARTIES				
Cost of sales and services	-	-	(37,221)	(40,216)
Materials, electricity, third-party services and other	65,700	912	(741,305)	(645,318)
GROSS VALUE ADDED	65,700	912	4,389,208	3,048,201
Depreciation and amortization	(148,405)	(74,758)	(379,873)	(249,768)
NET VALUE ADDED GENERATED	(82,705)	(73,846)	4,009,335	2,798,433
VALUE ADDED RECEIVED THROUGH TRANSFER				
Equity in results of investees	1,542,391	1,137,579	-	-
Finance income	935	1,594	172,003	124,157
TOTAL VALUE ADDED TO DISTRIBUTE	1,460,621	1,065,327	4,181,338	2,922,590
DISTRIBUTION OF VALUE ADDED	1,460,621	1,065,327	4,181,338	2,922,590
Personnel:				
Direct compensation	113,977	89,987	1,425,238	1,047,306
Benefits	-	-	86,195	54,494
Government Severance Indemnity Fund For Employees (FGTS)	-	-	109,765	88,873
Taxes, fees and contributions:				
Federal	(49,584)	(25,271)	433,217	247,797
State	9	2	276	442
Municipal	-	-	149,014	102,537
Return on third-party capital				
Interest	84	9	195,569	149,249
Rental	-	-	379,122	223,244
Copyright	-	-	6,808	8,048
Return on stockholders' capital	1,396,134	1,000,600	1,396,134	1,000,600
	1,396,134	1,000,600	1,396,134	1,000,600

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

MANAGEMENT REPORT 2015

Dear Shareholders,

In accordance with governing law, the Management of Kroton Educacional S.A. (“Kroton” or the “Company”) is pleased to present its Management Report and Financial Statements for the fiscal year ended December 31, 2015, with comparisons in relation to fiscal year 2014. The consolidated financial statements were prepared in accordance with the accounting practices adopted in Brazil, including the pronouncements issued by the Accounting Pronouncements Committee (CPC). They were also prepared and are presented in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

About Kroton

Kroton (BM&FBovespa: KROT3; OTCQX: KROTY) is the largest private educational organization in Brazil and the world based on number of students. With operations spanning over 45 years, the Company has a nationwide presence in all of Brazil’s states in the Primary and Secondary Education and the Postsecondary Education business segments. On December 31, 2015, Kroton had approximately one million students enrolled in its On-Campus and Distance Learning Postsecondary Education programs at its 128 Postsecondary units and its 726 Undergraduate Distance Learning centers. It also offers Vocational Programs under the National Program to Promote Access to Vocational Education and Jobs (Pronatec) and Preparatory Courses under the brand LFG. In the Primary and Secondary Education business, Kroton had 245,000 students through its Learning System, which in 2015 served 713 private schools nationwide.

Message from Management

The year 2015 was undoubtedly a very challenging period for many different sectors of the Brazilian economy, due to the various effects generated by the economic and political crises experienced during practically the entire period. In the education sector, these challenges were even more significant following the changes to the rules and criteria of the Student Financing Fund (FIES) of the Ministry of Education (MEC) implemented by various administrative rules (PNs), especially PN1, PN2 and PN23, whose main effects were (a) the sharp reduction (and redistribution under new criteria) in the number of seats for FIES students; and (b) the considerable change in the flow of repurchase payments under the program, which significantly affected companies’ cash flows.

Obviously, this scenario tested companies’ capacity to react and demanded a rapid response. It was in this scenario that we, aware of the challenges ahead, defined early in 2015 three main priorities: (i) mitigating the impacts generated by the restriction of public credit and by the economic scenario in order to support healthy growth in our student base; (ii) restructuring the Company, accelerating the capture of synergies from the Anhanguera merger (concluded in July 2014) and adjusting costs and expenses to support improvement in our financial results; and (iii) moving forward in the ongoing projects to support improvements in quality, innovation and long-term growth. This capacity to adapt to new environments and to respond quickly and nimbly to the needs arising from these changes in scenario is a competitive advantage that Kroton has built over the past few years.

In terms of our operating performance, we managed to end the year with more than 1 million Postsecondary students, which represent growth of 4% compared to 2014. In the On-Campus

Undergraduate segment, Kroton expanded its student base by 3.5% in relation to the prior year. This performance was achieved through efficient sales campaigns and the launch of a private credit product developed intelligently and responsibly, the Private Special Installment Plan (PEP), which not only offers attractive conditions to students, but also maximizes our operational and financial performance. The performance of the Distance Learning segment, which was not affected by limitations of the FIES program, was even better, with growth of 4.8% in the Undergraduate student base, attesting to the strength and recall enjoyed by our brands. Another highlight was the stability both in our dropout rate among non-first-year students in both the On-Campus and Distance Learning segments and in our delinquency as indicated by the stability in our level of provisioning for doubtful accounts.

On the cost and expense front, we conducted a comprehensive review of our cost structures and focused our efforts on three structural initiatives: (a) capturing efficiency gains in the process to form new classes with the introduction of a new proprietary operations research software; (b) adjusting administrative structures at the Corporate level and at our On-Campus units, which was completed already in the first semester; and (c) the Strategic Sourcing program to streamline expenses by renegotiating key contracts with suppliers divided into three phases, with the first already successfully concluded in 2015. These measures were essential for enabling us to deliver a very solid financial performance, which surpassed the guidance given to the market at the start of the year.

Supported by these measures, we delivered adjusted EBITDA of R\$2.2 billion and EBITDA margin of 41.4%, which represents expansion of 600 basis points from the previous year (pro forma). Meanwhile, adjusted net income surpassed R\$1.7 billion, with net margin of 33.9%. These financial indicators were also accompanied by excellent operating cash generation, despite the limitations imposed by the changes to the FIES program, leading us to end the year with cash of R\$403.6 million and net debt of R\$633.5 million, which corresponds to less than 0.3 times our EBITDA.

These financial results strengthen our capacity to deliver various projects to improve the quality of educational services, with the highlight the launch of the Kroton Learning System 2.0 (KLS 2.0), which is our new academic model that began to be rolled out in the second semester of the year and will play a key role in driving important improvement in our regulatory indicators for academic quality over the coming years. In the area of innovation, Kroton concluded the acquisition of Studiare, a startup that will bring expertise and speed up the development of applied educational technology solutions to support our students' learning, with a special focus on adaptive learning to create new competitive advantages.

We also made progress on our organic growth plans, with the highlight the approval in late 2015 to open 202 new distance learning centers and to reactivate another 30 centers, which will be inaugurated over the course of 2016. In the On-Campus Education segment, we received authorization to open a new campus in João Pessoa and also have another 43 requests for new campus and another 500 new programs currently under analysis at MEC. In parallel, we remain alert to any consolidation opportunities through mergers or acquisitions that could further accelerate our expansion in various regions of Brazil.

All of these projects aim to solidify further the strategic pillars that are part of Kroton's corporate DNA, which include efficiency, quality, innovation and expansion. After analyzing the accomplishments attained over the course of the year, we can affirm that, once again, we have demonstrated our strong execution capacity and exceptional ability to adapt, which will allow us to continue on a path of growing value creation for our stakeholders.

Macroeconomic Environment

The combination of severe fiscal austerity measures, which forced the government to cut costs in all areas, including in education, and the turbulent political environment led to a sharp drop in economic activity, with Brazil's GDP contracting 3.8% in the year. Another factor that contributed to the deterioration in the economic environment was the behavior of inflation, which ended the year significantly above the target set by the central bank, at 10.67%, which is the highest rate since 2012. The government, in an attempt to combat inflation, increased the basic interest rate from 11.75% at the end of 2014 to 14.25% at the end of 2015. The performance of the local economy, combined with the behavior of prices for various commodities and the still-uncertain international scenario, contributed to the depreciation in the Brazilian real against the U.S. dollar, from R\$2.35/US\$ in 2014 to R\$3.33/US\$ in 2015, based on the average exchange rate in the period. Lastly, the labor market, which still presented satisfactory employment rates at the start of the year, ended up succumbing to the economic crisis, with the unemployment rate increasing and income levels falling at very rapid rates. According to the IBGE, the average unemployment rate was 6.8% in 2015 in the country's six largest metropolitan areas, which represents an increase of 2 percentage points from 2014. On the other hand, the unemployment rate has proven more resilient among college graduates, and data from CAGED indicate that the total number of jobs for people with low levels of education fell 4% in 2015, compared to a drop of just 1% for those with at least some college education.

Operating Performance

In the Postsecondary Education segment, the Company ended 2015 with 1,023,616 students, with 969,514 students enrolled in Undergraduate programs (On-Campus and Distance Learning) and another 54,102 enrolled in Graduate programs (On-Campus and Distance Learning). The number of students in Postsecondary Education grew by 3.7% in relation to 2014, exclusively due to the organic growth of the business driven by the student enrollment and reenrollment process.

Even with all the changes and cuts in the Student Financing Fund (FIES), Kroton ended 2015 with 238,200 students in the program, which represents 54.4% of the total student base in the On-Campus Undergraduate segment or 24.5% of the total student base in the Postsecondary segment. Meanwhile, the Company's exposure to the National Program to Promote Access to Vocational Education and Jobs (Pronatec) (*Bolsa Formação* category) decreased significantly over the course of 2015, due to the fact that no enrollment cycles for the program were carried out in the period. As a result, Kroton ended the year with an average base (average number of students with revenue recognized) of 12,300 students distributed across 49 different programs.

In the Primary and Secondary Education business segment, Kroton's main activity is offering, through the Pitágoras Network, teaching book collections, teacher training, educational evaluations and other services to private schools at the Pre-School, Primary and Secondary Education levels. In 2015, Kroton served approximately 245,000 students in the private sector, 16% less than in the previous year, which reflects the Company's strategy not to renew most of its contracts with the schools owned by Rede Sesi. Meanwhile, the number of private Associated Schools stood at 713, or 18.6% fewer than in 2014, due to the same factor commented above. However, the number of book collections sold through the Pitágoras Network (ex-SESI) and the Cristã Network posted strong growth of 20% in relation to 2014, which demonstrates the strong recognition that this Learnings System enjoys nationwide and the potential of the business.

Through the brand LFG, the Company offers preparatory courses for the examination of the Brazilian Bar Association (OAB) and for examinations for civil servant positions. Always positioned as a reference in preparatory courses, LFG had 17,861 students in December and one of the market's highest pass rates on the bar examination.

In parallel, the Company also offers Language Programs and Unregulated Programs through its On-Campus units and Distance Learning centers operating under various brands. In 2015, the Company administered these programs to 74,621 students (which are not included in the figure for Postsecondary students).

Ministry of Education (MEC) Evaluations

At the end of 2015, 98.2% of the academic programs and 99.1% of the institutions that form Kroton had received evaluations ranging from satisfactory to excellent, which reinforces its commitment to teaching quality in all of the educational services offered to students.

Financial Performance

Except where stated otherwise, the financial data used to prepare the following analyses reflect the consolidated result of Kroton.

- *Gross and Net Revenue* – Kroton ended fiscal year 2015 with total gross revenue of R\$6,723.7 million, an increase of 43.1% from 2014. This growth mainly reflects the expansion in the student base resulting from the new enrollment and re-enrollment processes conducted in the year and the fact that the result for 2014 recognizes the figures from Anhanguera only for the second half of the year. The Company ended 2015 with total net revenue of R\$5,265.1 million, an increase of 39.5% from 2014, following the same behavior as gross revenue. Considering the pro-forma results for 2014 (12 months of contribution from Anhanguera), net revenue growth in 2015 was 9.2%.
- *Cost of Goods Sold and Services Rendered* – Kroton's total costs amounted to R\$2,240.9 million, or 42.6% of net revenue in 2015, down 0.9 p.p. from 2014, reflecting the important economies of scale and efficiency gains captured at all units, the continuous improvement from the integration of the acquired institutions and the rigorous budget control exercised by Management. Cost of services rendered corresponded to 98.4% of total costs due to the higher share of the Postsecondary Education operations.
 - Costs of goods sold, which are the costs related to the publishing and printing of the teaching materials sold to the Associated Schools in Primary and Secondary Education, amounted to R\$35.2 million, or 19.2% of the segment's net revenue, down 1.4 p.p. from 2014. This result is explained by the better management of the segment following the adjustments in logistics operations carried out last year and by the lower sales volume resulting from the termination of most contracts with the Sesi schools.
 - Cost of services rendered, which are the costs related primarily to the operations of the units in the Postsecondary business, was R\$2,205.6 million in 2015, or 41.9% of consolidated net revenue, improving 0.6 p.p. from the prior year, due to the initiatives

being implemented by the Company to optimize the cost structure and to the capture of economies of scale.

- *Gross Income and Gross Margin* – gross income was R\$3,024.2 million in 2015, increasing 41.9% compared to 2014. Gross margin was 57.4%, expanding 0.9 p.p. from the prior year, reflecting the operational improvements described above.
- *Operating Expenses* – in 2015, Kroton's total operating expenses amounted to R\$1,528.8 million, which corresponds to 29.0% of net revenue, representing an increase of 0.1 p.p. from the prior year. Operating expenses are divided into two major lines, namely:
 - Personnel, General and Administrative Expenses: are derived from the business segments and include primarily expenses with consulting services, travel, outsourcing and other operating income/expenses. This group of expenses amounted to R\$942.0 million in 2015, corresponding to 17.9% of net revenue, a decrease of only 0.9 p.p. from the previous year, with the main impact coming from the incorporation of the Anhanguera operation, which was not fully reflected in the 2014 results.
 - Selling Expenses: are expenses with the sales team, advertising and marketing, copyrights and the Provision for Doubtful Accounts (PDA), which combined amounted to R\$586.8 million:
 - Sales team, advertising and marketing and copyrights: these expenses combined amounted to R\$318.6 million, or 6.1% of net revenue, which is stable in relation to the prior year, despite the more challenging economic and commercial environment.
 - Provision for Doubtful Accounts (PDA): Kroton uses a model for provisioning losses from student receivables based on historical behavior and trends in the recovery curves of these receivables over a 365-day cycle. The amount of PDA accrued covers this entire receivables cycle as from the month of billing. Amounts not received within 365 days are fully written off from Assets. However, all receivables related to trade accounts over 365 days already written off are recognized directly in the profit or loss. Based on this criteria, PDA for 2015 amounted to R\$268.2 million, corresponding to 5.1% of net revenue, an increase of 1.2 p.p. from 2014, mainly due to the introduction of the Company's Private Special Installment Plan (PEP), which has higher provisioning levels.
- *EBITDA (unaudited)* – the Company posted adjusted EBITDA of R\$2,178.8 million. EBITDA margin in the period was 41.4%, expanding 2.8 p.p. from 2014. This margin expansion is mainly explained by the ongoing efforts to capture operating efficiency gains and to rigorously control costs and expenses. Note that EBITDA includes the interest and fines on overdue monthly tuition payments. Excluding nonrecurring events (R\$195.6 million), EBITDA amounted to R\$1,983.2 million in 2015 (margin of 37.7%, up 1.8 p.p. from 2012). Considering the 12 months of EBITDA at Anhanguera in the 2014 result, Kroton's adjusted EBITDA in 2015 advanced 28.0%, with margin expanding 6.1 p.p.

- *Debt* – Kroton ended the year with net debt of R\$633.5 million, down 20.7% from the end of 2014, reflecting the strong cash generation in the period and the payment of a portion of the Company's debentures. Debt is formed by the balance of the Debentures issued in December 2011 and by the outstanding installment payments for the acquisitions made, including the Uniasselvi acquisition made in May 2012, as well as by the debt from Anhanguera; from this balance is deducted the amount of financial investments and cash equivalents.
- *Financial Result* – in 2015, the net financial result was an expense of R\$30.9 million, compared to the expense of R\$25.0 million in 2014, which was basically due to the behavior of the lines "interest on loans for acquisitions" and "interest on obligations under acquisitions," due to the carryover of debt from recent acquisitions.
- *Income Tax and Social Contribution* – the amount of Income Tax and Social Contribution paid in 2015 was R\$68.4 million.
- *Net Income* – net income amounted to R\$1,396.2 million, increasing 39.5% from 2014. Meanwhile, adjusted net income (adjusted for the amortization of intangible assets and nonrecurring costs and expenses) amounted to R\$1,785.3 million, increasing 46.8% from 2014. Considering the 12 months of net income of Anhanguera in the result for 2014, Kroton's adjusted net income grew 30.1%, with margin expansion of 544 basis points.
- *Investments* – the amount invested in 2015 came to R\$342.5 million, which corresponds to 6.5% of net revenue, down 1.3 p.p. from the level in 2014, which is explained by the budget adjustments made by the Company at the start of the year in view of the more restrictive economic scenario. Considering also special projects, which include the acquisition of properties, opening of new units (greenfield projects) and the construction of buildings to support stronger growth rates over the coming years, which came to R\$96.8 million, total investment amounted to R\$439.3 million in 2015, corresponding to 8.3% of net revenue, which is explained by the acceleration of growth projects.

Corporate Governance, Investor Relations and Awards

Kroton has always adopted an ethical, responsible and transparent approach to managing its business and constantly seeks to improve its corporate governance standards in accordance with best market practices. Accordingly, the Company's stock (KROT3) is listed on the Novo Mercado segment of the BM&FBovespa, which is the listing segment with the best corporate governance practices, which reaffirms its commitment to the financial community and to all shareholders. On September 28, 2015, approval was given for the new composition of the Board of Directors, which now has nine members who are responsible for the general orientation of the Company's business activities. Of the nine current members, two are independent directors. The Company also has four advisory committees: Financial and Human Resources Committee, Audit Committee, Academic and Corporate Committee and Social Responsibility Committee. The main function of the committees is to provide the Board of Directors with the elements and support required for its decision-making process and to support the Board of Executive Officers in its execution of the policies approved by the Board of Directors. In 2015, Kroton also had an Audit Board formed by three members responsible for overseeing the activities of the management, reviewing the financial statements of the Company and reporting their findings to the shareholders. Lastly, the Company has an Internal Controls department whose mission is to evaluate and inform the Board of Directors, through the Audit Committee, on the effectiveness

of the risk management and governance processes, as well as on the adequacy of the managerial controls and compliance with the rules contained in the internal Code of Conduct.

In 2015, the Company continued to make advances in enhancing its compliance structure through the activities of our Internal Controls area, which is supervised by Management and by the Audit Committee. In this context, we also highlight the drafting and dissemination among all employees of an anticorruption manual in accordance with the most rigorous compliance criteria, the enhancement of our whistleblowing channel (*Canal Confidencial Kroton – CCK*) and the review of our code of ethics.

Charged with the permanent mission of maintaining transparency with regard to Kroton's business and performance, the Investor Relations (IR) team organized more than 33 events for the financial community, considering the conferences with analysts and Brazilian and international investors and the local and international road shows. In recognition of this effort, the Company once again was featured in the awards sponsored by *IR Magazine*, in which it won a total of six awards: "Sector Award – Cyclical Consumption," "Most Improvement in Investor Relations," "Best Meeting with Investors – Kroton Day," "Best Investor Relations Officer – Carlos Lazar," "Best Investor Relations by a CEO – Rodrigo Galindo," "Grand Prix for Best Investor Relations Program." *IR Magazine* also recognized Kroton with the award World's Best Investor Relations Program, considering companies with market capitalization of up to US\$7.5 billion. This was the first time that a Brazilian company was honored with such an important award.

In addition, *Institutional Investor* magazine also awarded Kroton in the categories Best CEO, Best CFO, Best IR and Best Meeting with Analysts. Kroton was also recognized by the newspaper *Valor Econômico* with the award "Best Performance in the Education and Teaching Sector" and the "Valor Executive Award 2015" for the Company's CEO, Rodrigo Galindo.

Finally, the Pitágoras Network won the award Trusted Suppliers 2015, which recognizes companies that are highly evaluated by their own clients.

Capital Markets

In 2015, the Company's stock ("KROT3") was traded in 100% of trading sessions on the BM&FBovespa, with average daily financial trading volume of R\$168.3 million. Kroton's stock price fell 38.5% in the period, while the Bovespa Index (Ibovespa) fell 13.3%. At the end of 2015, the Company's market capitalization was R\$15.5 billion. The Company's stock is also a component of the Bovespa Index (Ibovespa), Special Corporate Governance Stock Index (IGC), Special Tag-Along Stock Index (ITAG), Consumption Sector Index (ICON), Small Cap Index (SMLL) and Morgan Stanley Capital International (MSCI Brazil).

Under the scope of the fourth Share Buyback Program that expired on June 30, the Company acquired 3,602,800 shares at an average price of R\$15.60 per share (considering the stock split carried out subsequently). In July, the fifth Share Buyback Program was announced, with duration of 12 months. Under the new program, up to 54,007,297 common shares may be repurchased, which corresponds to 4% of the free-float on the approval date. The program aims to maximize value creation for shareholders and the shares repurchased may be held in treasury, cancelled and/or subsequently sold, and may also be used to meet any exercise of options under the scope of the stock option plans. Under

the scope of this program, as of December 31, 2015, a total of 10,872,500 shares were repurchased at an average price of R\$8.86 per share.

Lastly, nine capital increases were approved in 2015, which were carried out on: February 13, April 13, April 27, May 13, June 30, August 12, September 2, September 10 and September 16, respectively. Accordingly, the capital stock of Kroton is now composed of 1,626,069,778 common shares, distributed as follows:

Remuneration of Shareholders

The Bylaws of Kroton provide for the distribution of a mandatory dividend corresponding to 25% of net income adjusted by the deductions and increases provided for by Article 202, Paragraphs II and III of Brazilian Corporation Law. For fiscal year 2015, Kroton declared dividends of R\$261.4 million, of which R\$88.3 million was distributed based on the result of the first quarter (paid on June 12, 2015), R\$98.8 million was distributed based on the result of the second quarter (paid on August 21, 2015) and R\$74.3 million was distributed based on the result of the third quarter (paid on November 19, 2015). Kroton also plans to distribute dividends based on the result of the fourth quarter, in the amount of R\$70.2 million, which will bring the total amount distributed for fiscal year 2015.

Social Responsibility

One of Kroton's main pillars in the area of Social Responsibility is the sustainability of its actions involving its various stakeholders, with the highlight its relationship with local communities. The practices adopted to benefit these communities promote social inclusion and development, while also further strengthening the Company's relationship with its consumers.

Fundação Pitágoras, Kroton's social arm with more than 15 years of activities, has already benefited around 29,000 educators and 1 million students in more than ten Brazilian states, with the substantial improvement in the official learning indicators of the municipalities assisted demonstrating the efficiency of its activities. The deterioration in the results of the Basic Education Development Index (IDEB) and the Human Development Index (HDI) are the basic criteria adopted for implementing the Integrated Management System (SGI) on a pro bono basis, i.e., with no cost for schools or for Municipal Education Departments.

In 2015, all Kroton institutions developed Corporate Social Responsibility programs, which were managed by the Social Responsibility Committee, which was created in 2014 to define policies and to accompany the development of programs in this area.

During the year, Kroton's 130 Postsecondary Education units and its Distance Learning Centers developed approximately 2,100 Social Responsibility projects, which benefitted over 2 million people mainly in the areas of health and well-being.

The following corporate programs merit special mention: Solidarity Hazing, with activities related to the eight UN Millennium Goals concluded in 2015, with more than 150,000 assistance events; Social Responsibility Week, an initiative that involved programs in various fields and offered activities free of charge to 315,000 people in the local community in the areas of education, health, culture and the environment; Global Entrepreneurship Week, an international event that encourages cultural entrepreneurship among students in which more than 25,000 students participated; and the Solidarity Admissions Examination, which collected more than 11 tons of food.

Independent Auditor

In compliance with CVM Instruction 381/03, we inform that PricewaterhouseCoopers Auditores Independentes was engaged to render the following services in 2015: the audit of the financial statements in accordance with the accounting practices adopted in Brazil and International Financial Reporting Standards ("IFRS") and the review of interim quarterly financial information in accordance with Brazilian and international standards for the review of interim information (NBC TR 2410 - "*Revisão de Informações Intermediárias Executadas pelo Auditor da Entidade*" and ISRE 2410 - "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*," respectively).

The engagement of independent auditors is based on principles that safeguard the independence of the auditor, which are: (a) auditors may not audit their own work; (b) auditors may not exercise managerial functions; and (c) auditors may not provide any services that may be considered prohibited by governing law. Furthermore, Management must obtain from the independent auditors a declaration that the special services rendered do not affect their professional independence.

The information in this report on the performance of nonrecurring events and expenses, recurring capital expenditure, financial result, number of students, percentages of satisfactory scores from the Ministry of Education, publishing production costs, expenses with the sales team, advertising and marketing and copyrights, balances of nonrecurring events and average ticket were not subjected to special review by the independent auditors.

Submission to Arbitration

As a solution for corporate conflicts, Kroton submits to arbitration by the Market Arbitration Chamber, in accordance with Article 44 of the Bylaws of the Company.

Subsequent Event

On February 29, 2016, Kroton consummated the sale to Treviso Empreendimentos e Participações S.A. of all ownership interests held by the subsidiaries of Kroton in Uniasselvi. The sale price could reach R\$1.1 billion, in accordance with the following form of payment: (i) R\$400 million to be paid in cash on the settlement date; (ii) R\$450 million to be paid in five annual installments from 2018 to 2022, restated by the IPCA index; and (iii) up to R\$255 million to be paid in the form of an additional price, in a variable amount to be calculated based on pre-established financial and operating targets, in annual installments from 2018 to 2022, restated by the IPCA index.

Declaration of the Board of Executive Officers

The Board of Executive Officers of Kroton hereby declares, pursuant to CVM Instruction 480 of December 7, 2009, that it reviewed, discussed and approved (i) the contents and opinions expressed in the report of PricewaterhouseCoopers Auditores Independentes issued on March 15, 2016; and (ii) the financial statements for the fiscal year ended December 31, 2015.

Acknowledgments

The Management of Kroton is honored to extend its appreciation to its students, Associated Schools, government agencies, suppliers, shareholders and, in particular, its employees for their efforts, dedication and commitment.

For more details of the analysis of our 2015 results, please go to our website:
[**www.kroton.com.br/ri.**](http://www.kroton.com.br/ri)

THE MANAGEMENT

(A free translation of the original in Portuguese)

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31

All amounts in thousands of reais - R\$ unless otherwise stated

1. GENERAL INFORMATION

Kroton Educacional S.A., headquartered at Rua Santa Madalena Sofia, 25, in the City of Belo Horizonte, State of Minas Gerais, and its subsidiaries ("Company", "Kroton" or "Group") are mainly engaged in offering in-class and distance-learning higher education and post-graduate courses; managing child, K-12 and high school teaching activities; selling textbooks and learning aids, and licensing teaching and pedagogic products, in addition to technical and preparatory courses for civil service examinations and OAB (Brazilian Bar Association); advising and/or offering the possibility of direct and indirect financing for students, developing software for adaptative teaching and optimizing academic management.

The Company is listed on BM&FBOVESPA S.A. - Bolsa de Valores, Mercadorias e Futuros, in the special segment named New Market, under ticker symbol KROT3, where its common shares are traded. The Company carries out its activities through its direct subsidiaries: Editora e Distribuidora Educacional S.A. - EDE and Anhanguera Educacional Participações S.A.

Seasonality

The Company expects to achieve the highest revenues and profitability in the first and third quarters.

In basic education, the first quarter is the peak period for sales of book collections. In higher education, the first and third quarters are the periods of enrollment for the school semester. Given these conditions, such seasonality tends to cause variations in our operating results between the quarters of each fiscal year.

Corporate aspects

a) Studiare

On November 6, 2015, through its subsidiary EDE, the Company purchased all the capital quotas of Studiare Engenharia e Tecnologia Ltda. ("STUDIARE"), a start-up company focused on the development of software for adaptive teaching and school management, for R\$ 4,135, of which R\$ 3,335 was fully paid in November 2015 and R\$800 is payable in 2016, plus a four-year stock option plan for the founders of the start-up, which are now executives of the Company.

The fair value of the intangible assets in the amount of R\$ 4,015, measured on a preliminary basis by the Company at the acquisition date, may be subject to adjustments in a period of less than one year in conformity with CVM (Brazilian Securities Commission) Resolution 665/11 and CPC 15(R1) Business Combinations.

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

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b) Anhanguera Educacional

On July 3, 2014, the acquisition of shares of Anhanguera Educacional Participações S.A. by the Company was approved by the respective Extraordinary General Meetings, and Anhanguera Educacional Participações S.A. became a subsidiary. See Note 5.

On May 14, 2014, this transaction was approved by the Administrative Council of Economic Defense (CADE) effects on which analyzed aspects of concentration related to the operation considering the competition and drew up a "Concentrations Control Agreement - ACC" requiring the transfer of some rights and obligations ("Remedies"), believes necessary to preserve the entry and competitive conditions of the relevant market.

The final study for the allocation of the surplus of the purchase price was completed within one year of the transaction, with all significant effects considered in the period ended June 30, 2015.

Comparability

Due to the acquisition of Anhanguera Educacional Participações S.A. on July 3, 2014, the comparative statements of income, comprehensive income, changes in equity and cash flows for the year 2014 include a twelve-month period relating to the operations of Kroton and a six-month period relating to the operations of Anhanguera. This fact should be taken into consideration when making the comparative analysis of these financial statements.

Changes to FIES legislation

In December 2014, the Ministry of Education and Culture (MEC) issued Regulatory Ordinances 21 and 23 that changed, mainly, the flow of payments to educational institutions, thereby reducing the annual number of financial transfers made by MEC, and imposed new minimum score rules in respect of the National High School Test (ENEM) for students entering as from March 2015.

According to the legal agreement entered into between ABRAES - Brazilian Association for Higher Education Development, the Federal Government, the SESU - Ministry of Education's Higher Education Secretary and the FNDE - National Fund of Education Development, Higher Education Institutions associated to ABRAES will receive the FIES (Student Financing Fund) credits not paid by the FNDE during 2015 in 2016, 2017 and 2018, of which 25% of the balance in 2016; 25% in 2017 and 50% in 2018. The amount shall be settled until June of each year and the installments will be adjusted based on the variation of the IPCA (Amplified Consumer Price Index) from the due date in 2015 through the actual payment date.

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31

All amounts in thousands of reais - R\$ unless otherwise stated

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement of compliance

The Company's financial statements include: the parent company and consolidated financial statements prepared in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC) and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and evidence all (and only) material information specific to the financial statements, which is consistent with the information used by management in its activities.

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

2.2. Basis of preparation

The financial statements have been prepared in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC) and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and evidence all (and only) material information specific to the financial statements, which is consistent with the information used by management in its activities.

2.3. Basis of consolidation and measurement of investments

2.3.1. Subsidiaries

The process of consolidating subsidiaries consists of the sum of the balances of assets, liabilities, income and expenses, according to the nature of each balance, complemented by the following eliminations:

- (i) participations in capital, reserves and accumulated results between companies;
- (ii) current account balances and other asset and/or liability intercompany balances, including unrealized results; and
- (iii) identification of non-controlling interests.

The fiscal years of the subsidiaries included in the consolidation coincide with those of the Company, and the accounting practices of the subsidiaries are consistent with the Company's accounting practices.

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31

All amounts in thousands of reais - R\$ unless otherwise stated

2.3.2. Companies included in the consolidated financial statements

The consolidated financial statements include the balances and transactions of the Company and its subsidiaries, as follows:

TABLE 1 - Consolidated companies

Consolidated companies	Interest in total capital - %	
	12/31/2015	12/31/2014
Direct subsidiary:		
Anhanguera - Anhanguera Educacional Participações S.A.	100	100
Indirect subsidiaries:		
Aeltda- Anhanguera Educacional Ltda.	100	100
Clínica - Clínica Médica Anhanguera Ltda.	100	100
Imob I - AESA Empreendimentos Imobiliários (i)	-	100
Unipli - Sociedade Educacional Plinio Leite S/S Ltda.	100	100
Luiz Rosa - Instituto Educacional Professor Luiz Rosa Ltda.	100	100
Imob II - AESA Empreendimentos Imobiliários da Região Metropolitana (i)	-	100
Imob III - AESA Empreendimentos Imobiliários do ABC (i)	-	100
FIDC - Anhanguera Educacional Fundo de Investimento em Direitos Creditórios	100	100
Juspodivm - Instituto Excelência Ltda.	100	100
Direct subsidiary:		
EDE - Editora e Distribuidora Educacional	100	100
Indirect subsidiaries:		
Assevim - Sociedade Educacional do Vale do Itajaí Mirim	99.99	99.99
Ceama - Centro de Ensino Atenas Maranhense	99.99	99.99
Fais - Faculdade Integradas de Sorriso	99.99	99.99
Fama Macapá - União de Faculdades do Amapá	99.99	99.99
Fameg - Sociedade Educacional do Vale do Itapocu	99.99	99.99
Famelages - Sociedade Educacional do Planalto Serrano	99.99	99.99
Famesul - Instituto Educacional Alto Vale do Itajaí	99.99	99.99
GK - União Metropolitana Unime Feira de Santana	99.99	99.99
Iuni - Iuni Educacional	100	100
Orme - Orme Serviços Educacionais	99.99	99.99
Pax - Pax Editora e Distribuidora	99.99	99.99
Projecta - Projecta Educacional	99.99	99.99
Pses - Pitágoras Sistema de Ensino Sociedade	99.99	99.99
Spes - Sistema Pitágoras de Ensino	99.99	99.99
Studiare - Studiare Engenharia e Tecnologia Ltda.	99.99	
União - União de Ensino Unopar	99.99	99.99
Uniassevi - Sociedade Educacional Leonardo da Vinci	99.99	99.99
Unirondon - Uniao Educacional Candido Rondon	99.99	99.99
Unic Educacional - Unic Educacional	99.99	99.99
Unime Salvador - Iuni Educacional - Unime Salvador	99.99	99.99
Unime LF - União Metropolitana para o Desenvolvimento da Educação e Cultura	99.99	99.99

(i) Companies merged in 2015

2.4. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Board of Directors that makes the Company's strategic decisions.

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2.5. Functional and presentation currency

The items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Brazilian reais (R\$), which is the Company's functional and presentation currency.

2.6. Statement of comprehensive income

Other comprehensive income comprises income and expense items (including reclassification adjustments, when applicable) that are not recognized in the statement of income as required or permitted by the pronouncements, interpretations and guidance issued by the CPC, when applicable.

2.7. Cash and cash equivalents

These include cash, banks and highly liquid financial investments with low risk of change in value, stated at cost plus interest accrued. The category "Cash and cash equivalents" is classified as loans and receivables and the corresponding yield is recognized in profit or loss for the year.

2.8. Financial assets and liabilities

2.8.1. Classification and measurement

The Company classifies its financial assets according to the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

a) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Loans and receivables comprise cash and cash equivalents, trade receivables and other receivables. The assets arising from long-term transactions are adjusted to present value, and the others are adjusted when there is a material effect.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless Management intends to dispose of them within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value. Interest on available-for-sale securities calculated using the effective interest method is recognized as

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"Finance income", in the statement of income.

c) Fair value through profit or loss

For financial assets without an active market or public quotation, the Company establishes the fair value by using valuation techniques which may include, when applicable, the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

d) Other financial liabilities

These are initially measured at fair value, net of transaction costs, and subsequently measured at amortized cost using the effective interest method. The effective interest method is a method that calculates the amortized cost of a liability and allocates the interest expenses over the relevant period. The interest rate is the rate that discounts exactly future estimated cash payments through the expected life of the financial liability or, when applicable, over a shorter period.

2.8.2. Recognition

Normal purchases and sales of financial assets are recognized on the trade date - the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs. Financial assets are derecognized when the rights to receive cash flow from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

2.8.3. Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.8.4. Impairment of financial assets

a) Assets recognized at amortized cost

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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The criteria that the Company uses to determine that there is objective evidence of an impairment loss include, among others:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The probability that the debtor will enter bankruptcy or other financial reorganization;
- Disappearance of an active market for that financial asset because of financial difficulties or the existence of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - adverse changes in the payment status of debtors in the portfolio; and
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists.

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment decreases and the decrease can be related objectively to an event that occurred after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the impairment loss previously recorded will be recognized in profit or loss.

b) Assets classified as available-for-sale

For debt securities, the Company uses the criteria referred to in (a) above. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in the statement of income.

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2.9. Trade receivables

Correspond to the amounts receivable from customers for sales made and services rendered in the normal course of the Company's business.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment of trade receivables. The provision for losses is established as from the date of billing based on the performance of the various lines of business and respective expectations of collection within 365 days from maturity.

The provision is calculated based on the estimated sufficiency to cover potential losses on the realization of receivables, considering its adequacy against the performance of receivables of each line of business consistent with the policy on impairment of financial assets at amortizable cost.

In practice, trade receivables are usually recognized at the amount billed, adjusted by the provision for impairment, if necessary.

Trade receivables arising from long-term transactions are adjusted to present value.

2.10. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories is determined using the weighted moving average method. Net realizable value is the estimated selling price in the ordinary course of business, less conclusion costs and selling expenses. A provision for losses is recognized for items out of use, if necessary.

2.11. Property and equipment

Recorded at cost of acquisition, formation or construction less depreciation. Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to reduce their cost to their residual values over their estimated useful lives, as follows:

	<u>Years</u>
Buildings	25
IT equipment	3,3
Furniture, fittings and facilities	9
Leasehold improvements	25
Library	10
Laboratory	10

An asset's carrying amount is written down immediately to the recoverable amount when it is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other operating income (expenses)" in the statement of income.

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The Company reviewed the useful life of its assets and concluded that the depreciation rates used are consistent with its operations at December 31, 2015.

2.12. Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the net fair value of the assets and liabilities of the acquired entity and of other equity instruments acquired/exchanged. The goodwill of subsidiaries is recorded as intangible assets. If the acquirer determines an advantageous purchase, this should be recognized in the statement of income, at the acquisition date. Goodwill is tested for impairment annually, if circumstances indicate that it might be impaired and recorded at cost, less accumulated impairment losses, which are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

b) Computer software licenses and development of internal projects

Computer software licenses are capitalized and amortized over their estimated useful life.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following recognition criteria are met:

- It is technically feasible to complete the software so that it will be available for use or sale;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available;
- The expenditure attributable to the software product during its development can be reliably measured.

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Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of applicable overheads.

Other development costs that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software/project development costs recognized as assets are amortized on the straight-line method over their estimated useful lives.

2.13. Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that have a definite useful life are reviewed for indications of impairment at each balance sheet date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such indicators are present, the assets are tested for impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For impairment assessment purposes, assets are grouped at the lowest levels at which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business.

2.15. Borrowings and debentures

These are initially recognized at fair value, net of transaction costs incurred, and subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.16. Provision for tax, labor and civil losses

The provision for losses related to lawsuits and administrative proceedings involving labor, tax and civil matters is recognized when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

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

2.17. Current and deferred income tax and social contribution

Tax expenses comprise current and deferred Corporate Income Tax - IRPJ and Social Contribution on Net Income - CSLL. Taxes are recognized in the statement of income.

The IRPJ is calculated based on pre-tax income, adjusted by additions and exclusions provided for by law. The CSLL is calculated at the prevailing rate on income before income tax adjusted as provided for by prevailing law. Deferred taxes are calculated on income tax and social contribution losses and the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Liabilities for deferred income tax and social contribution are fully recognized, while assets depend on the probability of their realization. The rates of these taxes are 25% for income tax and 9% for social contribution.

The deferred income tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the temporary differences and income tax and social contribution tax losses can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred tax assets and liabilities are related to the tax levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The higher education institutions controlled by the Company are included in the University for All Program - ProUni, which establishes, through Law 11,096, of January 13, 2015, exemption from certain federal taxes (PIS, COFINS, IRPJ and CSLL) for higher education institutions that grant full and partial scholarships to low-income students enrolled in traditional graduation and technological graduation courses. For more information, see Note 11.

As permitted by tax legislation, certain subsidiaries, whose revenues in the previous year were lower than R\$ 78,000, opted for the deemed profit method. For these companies, the bases of calculation of income tax and social contribution are computed at the rates of 8% and 12%, respectively, on gross revenues (32% when the revenue arises from services rendered and 100% when it arises from financial revenues), to which the standard income tax and social contribution rates are applied.

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2.18. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the profit attributable to Company shareholders by the weighted average number of common shares issued during the year, excluding common shares purchased by the Company and kept as treasury shares.

Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding, assuming conversion of all potentially dilutable common shares. The Company has only one category of potential common shares that would cause dilution: this being the stock option plan.

2.19. Employee benefits - share-based compensation

The Company offers to officers and employees considered strategic a share-based compensation plan, under which the Company receives services as consideration for stock options. The fair value of options granted is recognized as an expense during the period in which the right is obtained, i.e., the period during which specific vesting conditions must be met. The corresponding credit is recorded in a capital reserve (options granted) in equity. At the date of the balance sheet, the Company revises the estimated number of options which will vest based on the established conditions. The impact of the revision of the initial estimates, if any, is recognized in the statement of income on a prospective basis.

2.20. Finance leases

The classification of lease agreements is made at the time they are contracted. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made for operating leases are recorded as expenses for the year under the straight-line method over the lease period.

Leases in which the Company has substantially all risks and rewards of ownership are classified as finance leases, which are capitalized in the balance sheet at the inception of the lease at the lower of fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding obligations, net of the financial charges, are classified as current and non-current liabilities according to the term of the contract. The property and equipment item acquired under finance lease is depreciated over the economic useful life of the asset or over the lease agreement term, whichever is shorter.

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2.21. Other current and non-current assets and liabilities

These are stated at realizable amounts (assets) and at known or estimated amounts including, when applicable, the corresponding charges and monetary variations incurred (liabilities).

2.22. Share capital

On December 5, 2012, the Company started being listed on the special segment named New Market, which allows only the issuance and trading of common shares. Common shares are classified as equity.

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

Where any Company subsidiary purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's stockholders until the shares are canceled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax and social contribution effects, is included in capital attributable to the Company's stockholders.

2.23. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts, adjusted to present value, and after eliminating sales between the consolidated companies.

The adjustment to present value is recognized against accounts receivable and is presented together with revenue since the Company believes that it is part of the operation to provide financing for students.

The Company recognizes revenue when: (i) the amount of revenue can be reliably measured; (ii) it is probable that future economic benefits will flow to the Company; and (iii) specific criteria have been met for each of the Company's activities as described below. The revenue amount is not considered as measurable in a reliable manner until all contingencies relating to the sale have been resolved. The Company bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

a) Sales of goods

Revenue from the sale of products is recognized when the significant risks and rewards from the ownership of products have been transferred to the buyer. Therefore, the

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Company's policy is to recognize revenues on the date the product is delivered to the purchaser.

Amounts received in advance from the sale of educational collections are recorded under "Advances from customers" and recognized when the material is delivered.

b) Sale of services

The revenue from services rendered is recognized based on the services rendered through the end of the reporting period.

The monthly tuition fees of the courses and related discounts vary according to the course, unit or teaching term. In the semester, six monthly tuition fees are charged, which include the enrollment fee. Amounts received in advance from enrollment fees and monthly tuition fees are recorded under "Advances from customers" and recognized in the month the services are rendered.

For monthly tuition fees of the distance education courses - EAD a percentage between 30% and 36% is transferred to partners that teach the courses, according to the option chosen. Thus, revenue is recognized on the percentages of 70% or 64%, respectively.

For monthly tuition fees of the distance education courses - EAD related to subsidiary Uniasselvi, the amount of the transfer varies according to the size of the classes and has specific rules that can vary for each teaching unit. Revenue is recognized only on that part of the revenue related to the subsidiaries.

A teaching unit: is a local operating unit that can be owned by the Company or third parties (partners) and has the responsibility for offering the structure to students in terms of audiovisual resources, library and information technology, to support the distance learning course.

c) Finance income and costs

Interest income is recognized on the accrual basis, using the effective interest rate method. When a receivable instrument is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument. Subsequently, as time passes, interest is incorporated into accounts receivable, against finance income, which is calculated at the same effective interest rate used to calculate the recoverable amount, that is, the original rate of the receivable.

Finance costs cover interest expenses on borrowings, debentures, taxes payable in installments and other financial liabilities, net of discount to present value of provisions and impairment losses recognized in the financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest rate method.

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2.24. Distribution of dividends

The distribution of dividends to the Company's stockholders is recognized as a liability in its financial statements at year-end based on its bylaws. Any amounts over the mandatory minimum are only accrued on the date approved by the Board of Directors.

2.25. New and revised standards and interpretations

The following new standards issued by the IASB have been approved and issued, but are not yet effective and have not been early adopted by the Company since the CPC has not yet issued the equivalent local standards. Accordingly, their early adoption is not permitted in Brazil, and the future impacts of their adoption is currently being assessed by Management.

(i) IFRS 15 - Revenue from Contracts with Customers

This standard brings the principles that an entity shall apply to determine the revenue measurement and when it is recognized. It supersedes IAS 11 "Construction Contracts", IAS 18 - "Revenue" and related interpretations. The standard becomes effective on January 1, 2018.

(ii) IFRS 9 - Financial Instruments

The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. The main changes introduced by IFRS 9 are new criteria for classification of financial assets, new impairment model for financial assets, a combination of expected and incurred losses, in replacement of the current model of incurred losses, and more flexible criteria for the adoption of hedge accounting. The standard becomes effective on January 1, 2018.

(iii) IFRS 16 - Leases

The new standard supersedes IAS 17 - "Leases" and related interpretations and determines that lessees recognize the liability of future payments and the right to use the leased asset for virtually all lease agreements, including operating leases. Certain short-term agreements or immaterial amount agreements may be outside the scope of this new standard. The criteria for recognition and measurement of leases in the financial statements of lessors remain unaltered. The standard becomes effective on January 1, 2019.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company's financial statements.

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3. ACCOUNTING ESTIMATES AND JUDGMENTS

Management evaluates as critical accounting practices not only those that are significant to present the financial position and the results of operations and also those that require more difficult, subjective or complex judgments, usually as a result of the necessity of estimates involving the impact of inherently uncertain matters. As the number of variables and assumptions that affect the future possible resolution of the uncertainties increases, the judgments become even more subjective and complex.

In the preparation of the financial statements, the Company has adopted variables and assumptions that are derived from historical experience and other factors that it believes are reasonable and relevant. Even though these estimates and assumptions may be revised by the Company in the ordinary course of its business, the balance sheet and the statement of income frequently require the use of judgment regarding the effects of inherently uncertain matters that affect the book values of its assets and liabilities.

The actual results may vary from the estimates under different variables, assumptions and conditions. In order to provide an understanding of how the Company forms its judgments on future events, including the variables and assumptions used in the estimates, below are some comments related to each accounting practice described.

a) Estimated impairment of goodwill

Assets that have indefinite useful life, such as goodwill, are not amortized and are tested annually to identify any deterioration in them through a methodology known as impairment test. To identify the impairment of goodwill, these assets are grouped at the lowest level for which cash flows can be identified, and the allocation is made on a proportional basis. Goodwill is carried at cost less accumulated impairment losses. Impairment of goodwill, if applicable, is recognized in profit or loss for the year in which it occurs and cannot be reversed in the following years, even if the conditions that cause a loss cease to exist.

b) Deferred income tax and social contribution

The liability method (as described in IAS 12 - "Income Taxes") is used to account for income tax and social contribution in respect of temporary differences between the carrying amount of assets and liabilities and the related tax bases. The amount of deferred tax assets is reviewed at the end of each reporting period and reduced for the amount that is no longer probable to be realized through future taxable profits. Deferred tax assets and liabilities are calculated using tax rates applicable to taxable profit in the years in which those temporary differences are expected to be realized. Future taxable profits may be higher or lower than the estimates considered when the need to recognize the tax asset, and the amount to be recognized, is determined.

c) Provision for tax, labor and civil losses

The Company is a party to lawsuits and administrative proceedings. A provision is recognized for all lawsuits that represent probable losses. The assessment of the likelihood of a loss includes

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the evaluation of available evidence, including the opinion of the Company's internal and external legal advisors. Management believes that this provision is sufficient and is correctly presented in the financial statements.

d) Determination of the adjustment to present value of certain assets and liabilities

For certain assets and liabilities that are part of the Company's operations, Management calculates and recognizes in the accounting records the effects of the adjustment to present value taking into consideration the time value of money and the uncertainties associated to them.

4. FINANCIAL RISK MANAGEMENT - CONSOLIDATED

4.1. Financial risk factors

The Company's objective in managing capital is to ensure it has the resources necessary to carry out its strategy at the lowest cost of capital, seeking to maximize the return to its stockholders.

The Company's activities expose it to financial risks: market risk, credit risk and liquidity risk.

The Company's management supervises the administration of such risks in line with the capital management policy objectives and relies on the Board of Directors' support, monitoring and supervision for decisions related to capital management and its alignment with objectives and risks.

a) Policy on use of financial instruments

The Company has no derivative transactions.

b) Market risk - cash flow interest rate risk

This risk arises from the possibility of the Company incurring losses because of interest rate fluctuations that increase finance costs related to borrowings and debentures raised in the market and obligations for acquisitions from third parties payable in installments. The Company continuously monitors market interest rates in order to assess the need to contract new instruments to hedge against the volatility risk of these rates.

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

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TABLE 2 - Contracted interest rates

	Consolidated		Interest rates
	<u>12/31/2015</u>	<u>12/31/2014</u>	
Borrowings:			
Borrowings and leases (i)	40,808	48,134	100% of the CDI + interest of 1.5% to 2% p.a.
Debentures	717,596	893,984	
Payables for acquisitions:			
Interbank Deposit Certificate (CDI)	132,928	151,594	CDI
Amplified Consumer Price Index (IPCA)	42,582	92,293	IPCA
Other (ii)	<u>45,558</u>	<u>1,635</u>	
	<u>979,472</u>	<u>1,187,640</u>	

- (i) The total amount includes R\$ 40,662 related to leases, of which R\$ 886 refer to leases of equipment subject to an average fixed rate of 6.7% per year and R\$ 39,776 to rental agreements of properties of operating units.
- (ii) Includes mainly R\$ 29,596 referring to the commitment to build a unit in a plot of land in the City of Sorocaba, State of São Paulo.

c) Credit risk

Credit risk involves the potential default of a counterparty to an agreement or financial instrument, resulting in financial loss. The Company is exposed to credit risk in its operating activities (mainly in connection with receivables) and financial activities, including deposits in banks and other financial institutions and other financial instruments contracted. The Company recognizes appropriate provisions in the balance sheet to cover these risks.

Trade receivables

The Group's sales policy is aligned with the risk inherent in its segment and is governed by federal government rules (Law 9,870/99, which provides for the total annual tuition fees). Enrollment for the next school year is blocked whenever a student is in default with the institution. The diversification of the receivables portfolio, the selectivity in accepting students, as well as the follow-up of maturities are procedures adopted in order to minimize problems arising from default on receivables.

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In the in-class higher education segment, for students included in the Higher Education Student Financing Program (FIES), a substantial portion of the Company's credits is secured by FIES. For the portion of credit not guaranteed by the program, the Company estimates the potential default and recognizes the respective provision.

Additionally, the Company maintains a provision for impairment of receivables, based on the gross balance of third party receivables outstanding, to cover the credit risk.

Financial instruments and cash deposits

The Company limits its exposure to credit risks associated with financial instruments, bank deposits and financial investments by making its investments in top-tier financial institutions, according to previously established limits.

d) Liquidity risk

This is the risk of the Company not having sufficient liquid funds to meet its financial commitments, due to the mismatch of terms in expected receipts and payments.

The Company's main financial liabilities refer to borrowings, debentures and trade and other payables. These financial liabilities mostly relate to funds raised for the Company's operations. The Company has demand and short-term deposits, trade receivables, other receivables and other assets directly arising from its operations.

The table below analyzes the Company's financial liabilities, by maturity ranges, corresponding to the remaining period at the balance sheet date through the contractual maturity date.

TABLE 3 - Financial liabilities by maturity ranges

	Less than 1 year	From 1 to 2 years	More than 2 years	Total
At December 31, 2015				
Borrowings	2,378	2,426	36,004	40,808
Debentures	193,587	206,959	317,050	717,596
Payables for acquisitions	<u>95,481</u>	<u>44,700</u>	<u>80,887</u>	<u>221,068</u>
	<u>291,446</u>	<u>254,085</u>	<u>433,941</u>	<u>979,472</u>
At December 31, 2014				
Borrowings	7,279	4,727	36,128	48,134
Debentures	193,976	206,010	493,998	893,984
Payables for acquisitions	<u>74,802</u>	<u>94,477</u>	<u>76,243</u>	<u>245,522</u>
	<u>276,057</u>	<u>305,214</u>	<u>606,369</u>	<u>1,187,640</u>

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4.2. Capital management

The main purpose of the Company's capital management policy is to ensure an appropriate credit rating to support its business and to maximize value for stockholders. Accordingly, the Company maintains a conservative minimum cash and financial gearing policy, seeking constant improvement.

The Company manages its capital structure in view of changes in economic circumstances. In order to maintain or adjust its capital structure, the Company may adjust the level of dividends paid to stockholders, return capital to stockholders, or issue new shares.

At December 31, 2015, the Company's capital structure was aimed at promoting its growth strategy, whether organically or through acquisitions. The investment decisions take the expected return potential into consideration.

The gearing ratios are as follows:

TABLE 4 - Calculation of the gearing ratios

	<u>Consolidated</u>	
	<u>12/31/2015</u>	<u>12/31/2014</u>
Debt (i)	979,472	1,187,640
Cash and cash equivalents and marketable securities – current and non-current (ii)	<u>(403,583)</u>	<u>(455,332)</u>
Net debt	575,889	732,308
Equity (iii)	<u>12,459,688</u>	<u>11,446,408</u>
Gearing ratio	4.62%	6.40%

(i) Debt is defined as current and non-current borrowings, debentures issued and payables for acquisitions.

(ii) Refers to cash and cash equivalents and non-current marketable securities.

(iii) Equity includes all the Company's capital and reserves.

4.3. Sensitivity analysis

The table below shows the sensitivity analysis for financial instruments, describing the risks that may result in relevant losses for the Company using a most probable scenario, according to an assessment made by management for a 12-month period, based on projected rates: CDI - 15.18% p.a. and IPCA - 6.94% p.a. Additionally, two other scenarios are shown to present a 25% and p.a. 50% stress of the risk variable considered, respectively.

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For the sensitivity analysis, the assumptions used were the macroeconomic indicators prevailing at the end of the reporting period. The rates used for the projection were obtained from independent external sources: IPCA from Focus report of the Central Bank of Brazil (BACEN) and CDI in accordance with reference rates of the São Paulo Commodities, Futures and Stock Exchange (BM&F), both available on the websites of the related institutions.

a) Financial investments and marketable securities (current and non-current)

TABLE 5 - Sensitivity analysis - financial investments - Consolidated

<u>Index</u>	<u>Amount</u>	<u>Risk</u>	<u>Probable scenario</u>	<u>Possible scenario (25%)</u>	<u>Remote scenario (50%)</u>
CDI	387,990	CDI decrease	58,884	44,163	29,442

b) Borrowings, debentures and payables for acquisitions

TABLE 6 - Sensitivity analysis - financial liabilities - Consolidated

<u>Index</u>	<u>Amount</u>	<u>Risk</u>	<u>Probable scenario</u>	<u>Possible scenario (25%)</u>	<u>Remote scenario (50%)</u>
CDI	850,524	CDI increase	129,082	161,353	193,623
IPCA	42,582	IPCA increase	2,955	8,078	9,694

Finance lease agreements, in the amount of R\$ 40,808, are not considered.

5. BUSINESS COMBINATIONS

Acquisition of Anhanguera

On July 3, 2014, the Extraordinary General Meetings approved the acquisition by the Company of all of the 437,070,783 common shares issued by Anhanguera Educacional Participações S.A. ("Anhanguera").

Due to the acquisition, 135,362,103 registered book-entry common shares with no par value were issued by the Company and were assigned to the stockholders of Anhanguera. As a result, Anhanguera became a subsidiary of the Company.

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The increase in the Company's capital was R\$ 2,327,299, corresponding to the net book value of Anhanguera on December 31, 2013, according to the appraisal report issued by independent appraisers. The difference between the total purchase price and the amount assigned to the share capital of R\$ 5,981,227 was recorded as capital reserve "Equity instruments resulting from the business combination."

The total purchase price was determined based on the market value (closing price) of the Company's share on the acquisition date (July 3, 2014), as follows:

TABLE 7 - Number of shares x price of purchase of Anhanguera

Number of shares issued by the Company	135,362,103
Closing price of the Company's share (KROT3) (*)	<u>61,38</u>
Purchase price	<u>8,308,526</u>

(*) before the stock split

The purchase price allocation and the fair value balances of Anhanguera are as follows:

TABLE 8 - Purchase price allocation Anhanguera

	<u>6/30/2015</u>
<u>Assets</u>	
Cash and cash equivalents	188,806
Trade receivables	364,259
Inventories	21,663
Advances	6,838
Taxes recoverable	38,026
Judicial deposits	22,669
Guarantee on provision for tax, labor and civil losses	128,788
Deferred income tax and social contribution	443,265
Property and equipment	744,422
Intangible assets:	
Goodwill on equity interests	1,268,282
Content development	75,761
Non-compete agreements	47,082
Software	25,769
Other intangible assets	95,268
Trademarks (i)	1,797,566
Licenses and network of teaching units (ii)	481,297
Portfolio of customers (iii)	269,055
Other assets	<u>115,581</u>
Total assets	<u>6,134,397</u>
<u>Liabilities</u>	
Trade payables	(75,912)
Borrowings	(161,785)

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	<u>6/30/2015</u>
Debentures	(583,272)
Payroll and related taxes	(194,745)
Taxes and contributions payable	(136,616)
Advances from customers	(45,703)
Acquisitions payable	(50,503)
Deferred income tax and social contribution	(1,081,033)
Provision for tax, labor and civil losses	(942,029)
Other liabilities	(52,230)
Total liabilities	<u>(3,323,828)</u>
Net assets	<u>2,810,569</u>
Purchase price	<u>(8,308,526)</u>
Excess of the purchase price over the fair value preliminarily classified as goodwill	<u>5,497,957</u>

- (i) Trademark with finite useful life of 25 years.
- (ii) Operation licenses and network of teaching units with indefinite useful life.
- (iii) Portfolio of customers with finite useful life of 3.5 years.

The final study of the surplus of the purchase price allocation was completed within one year of the transaction, with all significant effects considered in the period ended June 30, 2015.

Remedies of the CADE

On May 14, 2014, the Administrative Council of Economic Defense (CADE) drew up a Concentrations Control Agreement - ACC, whereby the Company committed to a series of market restriction measures (Remedies), including the sale of Uniasselvi, which offers distance learning graduation courses (EAD), under that brand name, and also two other higher education institutions that offer in-class courses in Rondonópolis and Cuiabá. The Company also undertook to limit the number of students that can be captured by its brands in certain EAD courses in 48 specific cities, until 2017. For the same period, the Company undertook not to use concurrently its brands to capture new students in certain EAD courses in cities where the Company and its subsidiary Anhanguera may come to operate.

The Company entered into a Share Purchase Agreement related to the sale of Uniasselvi, and all conditions to carry out the sale were fulfilled on February 29, 2016.

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6. FINANCIAL INSTRUMENTS BY CATEGORY

The market value of financial assets and liabilities was determined based on available market information and appropriate valuation methodologies for each situation. However, significant judgment is required to interpret market data and produce the most appropriate estimate of realizable values. Consequently, the estimates below do not necessarily indicate the amounts that may be realized in the current market. The use of different market inputs and/or valuation methodologies may have a material impact on the estimated fair value.

The Company's financial assets and liabilities at December 31, 2015 are recorded in the balance sheet at amounts that are consistent with those prevailing in the market.

The carrying amounts and market values of financial instruments are the same, except for debentures, as presented below:

TABLE 9 - Fair value of the debentures

Liabilities:	Classification	Carrying amount	Fair value
Debentures	Other financial liabilities	717,596	719,039

7. CREDIT QUALITY OF FINANCIAL ASSETS

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

TABLE 9 - Credit quality of financial assets

	Consolidated	
	12/31/2015	12/31/2014
Trade receivables		
Group 1 - higher education	2,144,375	1,067,270
Group 2 - basic education	51,177	47,812
	<u>2,195,552</u>	<u>1,115,082</u>
Current accounts and short-term bank deposits: (i)		
AAA	1,140	16,305
BB+	12,558	-
AA+	1,455	133
AA	-	-
BBB-	332	17
Other	108	380
	<u>15,593</u>	<u>16,835</u>

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	Consolidated	
	<u>12/31/2015</u>	<u>12/31/2014</u>
Financial investments and marketable securities (current and non-current) (i)		
AAA	-	438,497
AA+	128,751	-
BB+	235,031	-
BBB-	<u>24,208</u>	<u>-</u>
	<u>387,990</u>	<u>438,497</u>

(i) Ratings attributed by risk-rating agency Standard & Poor's (S&P) to banks where the Company holds investments.

8. CASH AND CASH EQUIVALENTS AND MARKETABLE SECURITIES

TABLE 10 - Breakdown of Cash and Cash Equivalents

	Parent company		Consolidated	
	<u>12/31/2015</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Current accounts	195	230	15,593	16,835
Financial investments				
Fixed-income fund	-	-	1,225	19,875
Investment fund (i)	-	-	230,396	228,642
Exclusive fund (ii)	3,344	48,729	121,491	165,021
Bank Deposit Certificates (CDB) (iii)	1,360	6,218	12,030	10,878
Treasury bills and notes (NTN)	<u>-</u>	<u>-</u>	<u>22,848</u>	<u>14,081</u>
	<u>4,899</u>	<u>55,177</u>	<u>403,583</u>	<u>455,332</u>
Current	4,899	55,177	398,232	450,764
Non-current	-	-	5,351	4,568

(i) Refer to investments in an investment fund with high liquidity, classified in the category "fixed income", in accordance with prevailing regulation. To achieve its objectives, the portfolio comprises basically government securities and those of private entities. The balances are readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value, and the Company has the right to immediate redemption.

The Atenas Fund portfolio is comprised of fixed-income securities from prime banks and National Treasury Securities (Financial Treasury Bills (LFT), National Treasury Bills (LTN) and Financial Bills (LF)) and other investments that are indexed to the CDI rate, of which: 12.78% corresponds to private credit (banks) and 87.22% corresponds to Treasury Bonds. The fund has an average yield of 100.61% of the CDI rate.

(ii) This exclusive fund refers to financial investments categorized as "fixed income", in accordance with applicable legislation. To achieve its objectives, the portfolio comprises basically government securities and those of private entities. The balances are readily convertible into a known amount of cash and are subject to an insignificant risk of changes

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in value, and the Company has the right to immediate redemption.

The Tenerife Fund portfolio is comprised of fixed-income securities from prime banks and National Treasury Securities (Financial Treasury Bills (LFT), National Treasury Bills (LTN) and Financial Bills (LF)) and other investments that are indexed to the CDI rate, of which: 56.8% corresponds to private credit (banks) and 43.2% corresponds to Treasury Bonds. The fund has an average yield of 103.2% of the CDI rate in 2015.

<u>Breakdown of the Tenerife Fund portfolio</u>	<u>12/31/2015</u>
Government securities	
LFT	46,882
NTN	7,639
Private securities	66,970
TOTAL	<u>121,491</u>

(iii) Refer to financial investments in CDB, with yield linked to the CDI. The average yield was 100.12% of the CDI.

(iv) Comprised of National Treasury Notes - NTN.

9. TRADE RECEIVABLES - CONSOLIDATED

TABLE 12 - Composition of trade receivables

	<u>12/31/2015</u>	<u>12/31/2014</u>
Higher education (i)	2,144,375	1,067,270
Basic education	<u>51,177</u>	<u>47,812</u>
	2,195,552	1,115,082
Provision for impairment of receivables		
Higher education	(463,078)	(353,922)
Basic education	<u>(6,370)</u>	<u>(5,854)</u>
	(469,448)	(359,776)
Trade receivables, net	1,726,104	755,306
Adjustment to present value (ii)	<u>(116,350)</u>	<u>(12,551)</u>
	<u>1,609,754</u>	<u>742,755</u>
Current	1,009,807	732,410
Non-current (iii)	599,947	10,345

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- (i) The Company has students enrolled in the FIES Program in the in-class higher education segment.

The impacts of the amendment to the legislation are effective as from 2015 and, according to Ordinance 02 of MEC, dated February 20, 2015, the effects on the transfers will only become effective in 2015 and will be regulated as from 2016, including as regards the overdue transfers.

According to the Legal Agreement entered into between ABRAES - Brazilian Association for Higher Education Development, the Federal Government, the SESU - Ministry of Education's Higher Education Secretary and the FNDE - National Fund of Education Development, Higher Education Institutions associated to ABRAES will receive the FIES (Student Financing Fund) credits not paid by the FNDE during 2015 in 2016, 2017 and 2018, of which 25% of the balance in 2016; 25% in 2017 and 50% in 2018. The amount shall be settled until June of each year and the installments will be adjusted based on the variation of the IPCA (Amplified Consumer Price Index) from the due date in 2015 through the actual payment date.

Pursuant to the law that introduced such Program, the Company receives from the National Education Development Fund (FNDE) transfers relating to the amount financed by students (98% without guarantee fund and 94.2% with guarantee fund). In addition to that, the Company can also offset federal taxes against the amounts to be transferred by FNDE.

In 2015, the Company established a Private Special Tuition Installment Program (PEP) to aid the students who have not been granted the FIES financing due to the amendments made.

At December 31, 2015, the receivables from FIES, net of the provision for impairment of trade receivables, amounts to R\$ 1,075,022 (R\$ 314,538 at December 31, 2014).

- (ii) The adjustment to present value is calculated on the balances of trade receivables with future maturities, the interest of which was recognized at the present date. The calculation is made using the discounted cash flow method. The average rate used was 4.95% p.a., which includes the students who benefit from the Private Special Tuition Installment Program (PEP) and the FIES pending balance due to PN23.
- (iii) This item refers to renegotiations of higher education monthly tuition fees that are past due for up to 365 days, which remain recorded in trade receivables, and to PEP.

In 2015, the Company derecognized the student financing credits (higher education), which were 100% provided for.

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The ageing analysis of these trade receivables is as follows:

TABLE 13 - Maturities of trade receivables - Consolidated

	<u>12/31/2015</u>	<u>12/31/2014</u>
Not yet due (i)	1,638,398	626,157
Past due		
Up to 30 days	121,268	98,719
From 31 to 60 days	82,749	83,339
From 61 to 90 days	67,168	51,879
From 91 to 365 days	285,969	254,988
Provision for impairment of receivables	(469,448)	(359,776)
Adjustment to present value	<u>(116,350)</u>	<u>(12,551)</u>
	<u>1,609,754</u>	<u>742,755</u>

(i) Amounts receivable from FIES are classified in this line item.

The Company recognizes the provision for impairment of receivables on a monthly basis, by analyzing the monthly receivables and the related breakdown per default range and by calculating the recovery performance. According to this methodology, each default range is assigned a percentage of loss likelihood, which is provided for on a regular basis.

When the default exceeds 365 days, the receivable is written off. Collection efforts continue to be made, even for the receivables that have been written-off, and the related collected amounts are directly recognized in the result when received.

The Company recognizes a provision for impairment of receivables for the FIES-related amounts, according to the loss likelihood associated with the students enrolled in the program. The Company is responsible for a portion of a potential student default with the FNDE, according to the type of agreement. For agreements without a guarantee fund, the Company is responsible for 15% of any potential student default. For agreements with a guarantee fund, the Company is responsible for 1.5% of the potential student default.

According to its loss likelihood methodology, the Company establishes a provision of 50% for impairment of the receivables arising from the PEP program.

The changes in the Company's provision for impairment of trade receivables are as follows:

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TABLE 14 - Changes in the provision for impairment of trade receivables

	<u>12/31/2015</u>	<u>12/31/2014</u>
Opening balance	(359,776)	(121,970)
Write-offs	158,486	125,322
Recognition of provision	(268,158)	(147,542)
Addition from acquiree - (Note 5)	-	(215,586)
Closing balance	<u>(469,448)</u>	<u>(359,776)</u>

10. TAXES RECOVERABLE

TABLE 15 – Breakdown of taxes recoverable

	<u>Consolidated</u>	
	<u>12/31/2015</u>	<u>12/31/2014</u>
Current:		
Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL) (i)	28,622	44,384
PIS, COFINS and ISS (ii)	9,321	5,761
INSS (iii)	4,216	3,985
Other taxes	665	615
Value-added Tax on Sales and Services (ICMS)	<u>560</u>	<u>332</u>
	<u>43,384</u>	<u>55,077</u>
Non-current-		
Other taxes	<u>6,969</u>	<u>6,282</u>

- (i) Refers to IRRF and negative balance of IRPJ and CSLL determined on an estimate basis, which can be used to offset any federal tax managed by the Brazilian Federal Revenue.
- (ii) Refers to taxes withheld at source related to issuance of service invoices.
- (iii) Refers to taxes withheld at source by corporate customers.

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11. INCOME TAX AND SOCIAL CONTRIBUTION - CURRENT AND DEFERRED

a) Income tax and social contribution in results

The income tax and social contribution differ from the theoretical amount that would arise using the income tax and social contribution standard rates, applicable to profits of the consolidated entities, as follows:

TABLE 16 - Reconciliation of the income tax and social contribution

	Parent company	
	12/31/2015	12/31/2014
Profit before income tax and social contribution for the year	1,346,292	975,193
Combined standard rate of income tax and social contribution - %	34	34
Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL) calculated at the standard rates	(457,739)	(331,566)
Reconciliation:		
Equity in the results of investees	524,413	386,777
Additions (exclusions), net	(67,300)	(51,597)
Deferred IRPJ and CSLL on amortization of allocated goodwill	50,468	25,407
Unrecognized deferred IRPJ and CSLL on loss for the year	-	(3,614)
Total IRPJ and CSLL	49,842	25,407
Current IRPJ and CSLL in the result	(626)	-
Deferred IRPJ and CSLL in the result	50,468	25,407
	Consolidated	
	12/31/2015	12/31/2014
Profit before income tax and social contribution for the year	1,464,461	1,015,841
Combined standard rate of income tax and social contribution - %	34	34
Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL) calculated at the standard rates	(497,917)	(345,386)
Tax incentive in subsidiary subject to the University for All Program (PROUNI) benefit (i)	450,836	338,893
Additions (exclusions), net	(63,225)	(24,760)
Offsets of prior years' IRPJ and CSLL losses (iii)	190	1,724
Difference in deemed profit rate of subsidiary	878	364
Unrecognized deferred IRPJ and CSLL on loss for the year of subsidiaries	(1,142)	(7,215)
Deduction of other tax benefits (iv)	4,266	868
Offset of taxes payable in installments against tax losses (v)	-	6,576
Deferred IRPJ and CSLL asset	59,018	90,000
Deferred IRPJ and CSLL liability	(21,231)	(76,305)
Total IRPJ and CSLL	(68,327)	(15,241)
Current IRPJ and CSLL in the result	(106,114)	(28,936)
Deferred IRPJ and CSLL in the result	37,787	13,695

- (i) Refers to the tax benefit of Law 11,096 of 2005 (ProUni), calculated under the method of operating profit from tax-incentive activities (see item c).
- (ii) The main additions and exclusions are: Provision for impairment of trade receivables, provision for employee profit sharing and provision for tax, labor and civil risks, amortization

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of goodwill allocated to equity interests, as well as adjustment to present value, difference between the tax and accounting depreciation rates, and the deemed cost of the assets.

- (iii) Refer to the subsidiaries PAX and AESA Imobiliária that opted for the deemed profit taxation system in 2015. The deemed profit system is the taxation regime where the tax base for the payment of Income Tax and Social Contribution is the rate of presumption of profit (32% for service activities), as defined in the legislation, on the Company's billing.
- (iv) In 2015 the Company opted for the contribution to the Municipal Fund of Children and Adolescent (FUMCAD), to the State Fund for the Elderly, and the Sports Incentive Program, deducting from the tax the contribution amounts (restricted to 1% of the amount related to the 15% income tax for taxpayer companies) and sponsorship of the Audiovisual Activity (with restriction of 4% of the 15% income tax, as prescribed by the Income Tax Regulation (Decree 3,000/99) and subsequent legislations).
- (v) The Company used the benefit of settlement of federal taxes payable in installments provided by Law 13,043/2014, utilizing the tax credits derived from the tax losses of associates.

b) Deferred income tax and social contribution

The deferred asset balances at December 31, 2015 are recorded in various companies of the Group.

According to the projections, adjusted to present value and reflecting the expectation of certain corporate restructurings, the non-current deferred income tax and social contribution assets will be realized in the following years, and their earlier realization is possible:

TABLE 17 - Deferred income tax and social contribution

	Consolidated	
	12/31/2015	12/31/2014
Income tax and social contribution losses	198,387	191,377
Temporary differences of taxable income (i)	315,335	231,609
Other adjustments (ii)	-	11,863
	<u>513,722</u>	<u>434,849</u>

- (i) The deferred IRPJ and CSLL on temporary differences derive from the adjustments of additions to taxable income made in the tax calculation of the provision for impairment of trade receivables and provisions for tax, civil and labor risks.
- (ii) The deferred IRPJ and CSLL on adjustments are derived from accounting differences based on Law 11,638/2007 compared with the procedure previously adopted, related to the adjustment to present value and differences between the tax and accounting depreciation rates of the Anhanguera group companies acquired by the Company.

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Management prepared a technical feasibility study about the future realization of the deferred tax asset, considering the probable capacity of future generation of taxable profits by the companies, in the context of the main variables of their businesses, which can, therefore, be subject to changes.

According to the projections prepared by the Company's management, the non-current deferred income tax and social contribution assets will be realized as follows:

TABLE 18 - Deferred income tax and social contribution by realization range

	<u>12/31/2015</u>	<u>12/31/2014</u>
2015-2016	-	36,843
2017-2018	139,953	103,530
2019-2020	171,888	178,498
2020-2021	122,529	73,430
2022-2023	<u>79,352</u>	<u>42,548</u>
	<u>513,722</u>	<u>434,849</u>

The balances of, and the changes in, deferred income tax and social contribution assets and liabilities are as follows:

TABLE 19 - Deferred income tax and social contribution - effect on profit (loss)

<u>Parent company</u>		<u>Effect on profit (loss)</u>		
		<u>Amortization</u>		
		<u>of goodwill</u>		
		<u>allocated to</u>		
		<u>intangible</u>		
<u>In liabilities</u>	<u>12/31/2014</u>	<u>assets</u>	<u>Due to</u>	<u>12/31/2015</u>
			<u>acquisition</u>	
Goodwill allocated to intangible assets	<u>(815,219)</u>	<u>50,468</u>	<u>(30,736)</u>	<u>(795,487)</u>

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<u>Consolidated (BR GAAP and IFRS)</u>	<u>Effect on profit (loss)</u>				<u>12/31/2015</u>
	<u>12/31/2014</u>	Amortization of goodwill allocated to intangible assets	<u>Other</u>	Due to <u>acquisition</u>	
<u>In assets</u>					
Income tax/social contribution:					
Income tax and social contribution losses	191,377	-	7,010	-	198,387
Temporary differences of taxable income	231,609	-	57,103	26,623	315,335
Other adjustments (*)	<u>11,862</u>	<u>-</u>	<u>(11,862)</u>	<u>-</u>	<u>-</u>
Non-current assets	<u>434,848</u>	<u>-</u>	<u>52,251</u>	<u>26,623</u>	<u>513,722</u>
<u>In liabilities</u>					
Goodwill on business combination	(1,174,658)	61,109	(87,310)	(30,736)	(1,231,596)
Other adjustments (*)	<u>(37,294)</u>	<u>-</u>	<u>11,862</u>	<u>-</u>	<u>(25,432)</u>
Non-current liabilities, net	<u>(1,211,952)</u>	<u>61,109</u>	<u>(75,448)</u>	<u>(30,736)</u>	<u>(1,257,028)</u>

(*) The change in Deferred Income Tax and Social Contribution Asset related to Adjustment in subaccounts refers to differences between the tax and accounting effects of adjustment to present value and depreciation rates, included in the lines of other adjustments.

The deferred income tax and social contribution liabilities mainly arise from intangible assets resulting from acquisitions, whereas a significant part of the deferred income tax and social contribution assets refers to tax losses of prior years.

c) Tax incentives

As established by Law 11,096 of January 13, 2005, the University for All Program (ProUni) exempts higher education institutions that grant partial and full scholarships to low-income students enrolled in traditional and technological degrees from paying several federal taxes. The higher education entities controlled by the Company have joined this program.

In accordance with Normative Ruling 456 of October 5, 2004 of the Brazilian Federal Revenue, a private higher education institution that enrolls in the ProUni is fully or partially exempt from the following taxes, during the period in which the enrollment term is in effect.

- i. Income tax and social contribution in relation to the portion of profit proportional to revenues from traditional graduation and technological graduation courses.
- ii. COFINS and PIS related to revenues from traditional graduation and technological graduation courses.

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Due to the exemption from these taxes for those enrolling in the ProUni, the subsidiaries that have income tax and social contribution losses do not record deferred tax assets since their effective rate is very low. Tax credits not recognized because of ProUni for the year ended December 31, 2015 total R\$ 629,936.

In November 2014 through Art. 10 of Administrative Ruling 18 of the Ministry of Education, the renewal of the term of enrollment in the University for All Program (PROUNI) was authorized, and all higher education entities of the Company enrolled with the renewal over a ten-year period.

Moreover, the subsidiaries that are primarily engaged in sale of books are entitled to the benefit of not paying PIS and COFINS on revenues from sales of books in the domestic market, as established by Article 28 of Law 10,865/04. These subsidiaries are also entitled to exemption from ICMS on sales of educational books.

12. OTHER RECEIVABLES

TABLE 20 - Breakdown of other receivables

	Consolidated	
	<u>12/31/2015</u>	<u>12/31/2014</u>
Current:		
Credit card transactions (i)	17,106	15,639
Rights on assignment of assets (ii)	4,471	1,421
Prepaid expenses (iii)	2,733	5,135
Receivables from acquired companies (iv)	79,727	74,631
Sale of real estate (v)	11,492	32,195
Other	<u>1,784</u>	<u>3,952</u>
	<u>117,313</u>	<u>132,973</u>
Current	108,575	126,282
Non-current	8,738	6,691

- (i) Balance receivable from credit card companies related to payments by students using credit cards.
- (ii) Balances receivable from the transfer of real estate to the EAD units of IT and audiovisual equipment. The subsidiary EDE maintains contracts for purchase of assets through finance lease and transfers the assets to the partnering teaching units. Thus, the subsidiary maintains finance leases, as mentioned in Note 15.
- (iii) Refer to advance payments to suppliers and unallocated insurance premiums.
- (iv) The subsidiary Anhanguera Educacional S.A. recorded a reimbursement asset due to

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contractual rights of reimbursement of the former owners of Academia Paulista Anchieta Ltda. (APA) in the restated amount of R\$ 52,073 related to balance payable of ISS (service tax) payable in installments under the incentive installment payment program (PPI) of the São Paulo municipal government.

The subsidiary Unirondon has social security debts with the INSS (National Institute of Social Security) in the amount of R\$ 6,596, which will be paid in 60 installments. The installments are being paid by the Company and are the responsibility of the sellers. The Company will deduct the installments from the amount payable for the acquisition.

The subsidiary Unime LF has R\$ 3,722 receivable from the former owners related to the Refis installments.

The other subsidiaries have a balance of R\$ 17,335 mainly related to taxes and success fees paid, guaranteed by the former owners.

- (v) Comprises mainly: (i) R\$ 4,065 balance remaining for the sale of Colégio Anchieta, entered into in 2012 through the subsidiary Anhanguera Educacional Ltda., which will be received in installments, the last of which in December 2021; (ii) R\$ 2,999 receivable for the sale of Suesc, in April 2011, linked to the remaining balance of the ISS (service tax) tax liability, according to final decision to be issued in connection with the tax collection lawsuit filed by the Rio de Janeiro Municipal Government. If favorable, the Company will have the right to receive from the buyer the amount agreed between the parties and, thus, it can reverse the liability. If unfavorable, the Company will pay the difference between the price defined in the agreement and the amount of the cause; and (iii) R\$ 2,477 of remaining balance for the sale of the real estate in Morumbi.

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13. PROPERTY AND EQUIPMENT

TABLE 21 - Changes in property and equipment

Consolidated

	Average annual depreciation rate - %	12/31/2015			12/31/2014		
		Cost	Accumulated depreciation	Property and equipment, net	Cost	Accumulated depreciation	Property and equipment, net
IT equipment	30	189,678	(107,026)	82,652	175,023	(96,940)	78,083
Furniture, equipment and fittings	11	523,605	(237,866)	285,739	435,923	(169,412)	266,511
Library	10	237,864	(122,328)	115,536	202,823	(105,032)	97,791
Buildings and improvements	4	1,123,850	(173,010)	950,840	915,703	(138,897)	776,806
Property and equipment in progress	-	76,176	-	76,176	91,826	-	91,826
Land	-	<u>111,205</u>	<u>-</u>	<u>111,205</u>	<u>110,859</u>	<u>-</u>	<u>110,859</u>
		<u>2,262,378</u>	<u>(640,230)</u>	<u>1,622,148</u>	<u>1,932,157</u>	<u>(510,281)</u>	<u>1,421,876</u>

The depreciation allocated to "cost of services" and "administrative expenses" for the year ended December 31, 2015 is R\$ 132,648 (R\$ 99,084 at December 31, 2014).

The depreciation of property and equipment items is calculated on a straight-line basis and there is no indication that the carrying amounts exceed the recoverable amounts.

The changes in property and equipment are as follows:

TABLE 22 - Changes in property and equipment

	IT equipment	Furniture, equipment and fittings	Library	Buildings and improvements	Property and equipment, in progress	Land	Total
At December 31, 2013	<u>26,509</u>	<u>102,536</u>	<u>47,008</u>	<u>179,810</u>	<u>31,688</u>	<u>82,570</u>	<u>470,121</u>
Additions	32,404	65,605	21,208	5,059	182,952	8	307,236
Additions from acquirees (i)	33,381	124,856	42,370	434,712	81,172	27,931	744,422
Disposals	(91)	(446)	(282)	-	-	-	(819)
Depreciation	(13,981)	(26,179)	(12,513)	(46,411)	-	-	(99,084)
Transfers	<u>(139)</u>	<u>139</u>	<u>-</u>	<u>203,636</u>	<u>(203,986)</u>	<u>350</u>	<u>-</u>
At December 31, 2014	<u>78,083</u>	<u>266,511</u>	<u>97,791</u>	<u>776,806</u>	<u>91,826</u>	<u>110,859</u>	<u>1,421,876</u>

(i) Net addition related to the acquisition of Anhanguera Educacional Participações S.A. See Note 5.

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	IT equipment	Furniture, equipment and fittings	Library	Buildings and improvements	Property and equipment in progress	Land	Total
At December 31, 2014	<u>78,083</u>	<u>266,511</u>	<u>97,791</u>	<u>776,806</u>	<u>91,826</u>	<u>110,859</u>	<u>1,421,876</u>
Additions	36,459	66,038	35,855	2,383	209,508	346	350,589
Addition from acquiree (b)	17	-	-	-	-	-	17
Disposals	(225)	(192)	(141)	(15,747)	(1,381)	-	(17,686)
Depreciation	(29,535)	(50,713)	(17,969)	(34,431)	-	-	(132,648)
Transfers	<u>(2,147)</u>	<u>4,095</u>	<u>-</u>	<u>221,829</u>	<u>(223,777)</u>	<u>-</u>	<u>-</u>
At December 31, 2015	<u>82,652</u>	<u>285,739</u>	<u>115,536</u>	<u>950,840</u>	<u>76,176</u>	<u>111,205</u>	<u>1,622,148</u>

- (i) Net addition related to the acquisition of Studiare Engenharia e Tecnologia Ltda., see Note 1.a).

The Company leases IT equipment through non-cancelable contracts subject to average charges of 6.7% p.a., containing a purchase option clause, the maturity of which varies from 24 to 36 months. The equipment belongs to the Company. The guarantees are the financed equipment.

14. INTANGIBLE ASSETS

TABLE 23 - Breakdown of the intangible assets

Consolidated

	Average amortization rate	12/31/2015			12/31/2014		
		Cost	Accumulated amortization	Intangible assets, net	Cost	Accumulated amortization	Intangible assets, net
Software	20	222,354	(85,090)	137,264	166,810	(64,420)	102,390
Internal projects	10	272,648	(127,227)	145,421	227,999	(95,873)	132,126
Goodwill and intangible assets allocated	20	12,087,712	(540,754)	11,546,958	11,909,894	(357,163)	11,552,731
Other intangible assets	5	<u>172,282</u>	<u>(35,549)</u>	<u>136,733</u>	<u>172,282</u>	<u>(25,663)</u>	<u>146,619</u>
		<u>12,754,996</u>	<u>(788,620)</u>	<u>11,966,376</u>	<u>12,476,985</u>	<u>(543,119)</u>	<u>11,933,866</u>

Changes in intangible assets are as follows:

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TABLE 24 - Changes in intangible assets

	Computer software	Internal projects (a)	Goodwill and intangible assets allocated	Other intangible assets	Total
At December 31, 2013	31,410	53,058	2,521,885	-	2,606,353
Additions	56,335	22,074	-	11,530	86,503
Additions from acquirees (i)	28,784	75,761	9,146,346	138,914	9,389,805
Disposals	(1,539)	(8)	-	-	(1,547)
Amortization	(12,600)	(18,759)	(115,500)	(3,825)	(150,684)
At December 31, 2014	<u>102,390</u>	<u>132,126</u>	<u>11,552,731</u>	<u>146,619</u>	<u>11,933,866</u>

- (i) Net addition related to the acquisition of Anhanguera Educacional Participações S.A. and subsidiaries on July 3, 2014, see Note 5.

	Computer software	Internal projects	Goodwill and intangible assets allocated	Other intangible assets	Total
At December 31, 2014	102,390	132,126	11,552,731	146,619	11,933,866
Additions	62,778	44,661	167,811	-	275,250
Disposals	(5,203)	(2)	-	-	(5,205)
Amortization	(22,701)	(31,364)	(173,584)	(9,886)	(237,535)
At December 31, 2015	<u>137,264</u>	<u>145,421</u>	<u>11,546,958</u>	<u>136,733</u>	<u>11,966,376</u>

TABLE 25 - Breakdown of Internal Projects

	Consolidated	
	12/31/2015	12/31/2014
New units and new courses (i)	22,829	28,218
Sistema Universitário Pitágoras (ii)	1,886	2,843
New agreements - Rede (iii)	3,154	3,957
Distance learning (iv)	89,981	90,316
Assessment of higher education (v)	916	1,102
Content production (vi)	<u>26,655</u>	<u>5,690</u>
	<u>145,421</u>	<u>132,126</u>

- (i) Refer to project development costs with estimated useful life of ten years, as follows:

- Opening of units Ipatinga, Betim, São Luís, Poços de Caldas, Uberlândia, Guarapari, Votorantim, Feira de Santana, Contagem and Governador Valadares and expansion of the "campi" of Venda Nova and Cidade Jardim, in the city of Belo Horizonte.
- Investments in the launching of new products.
- Additional and technological infrastructures, which are required by the Ministry of Education - MEC, to support the higher education operation.
- Development of the Institutional Development Plan - PDI with details of all courses to be registered with MEC and expenses incurred on the registration of new "campi" and courses.

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- (ii) Refer to expenses incurred in the development of the academic (guide for students and professors and evaluation systems) and operational methodologies (operations manual), to guarantee the growth of the Pitágoras University System. The amortization occurs over a period of up to ten years.
 - (iii) Refer to the expenses incurred in the development of products to be sold by the Catholic Network and Pitágoras Network. The amortization occurs over a period of up to ten years.
 - (iv) Refers to expenses incurred in the design and development of the new distance education business in order to offer higher education partially in-class and through Internet in various places in Brazil. The amortization occurs over a period of up to ten years.
 - (v) Refers to expenses incurred in the development of a new product and methodology for higher education evaluation. The amortization occurs over a period of up to ten years.
 - (vi) Refers to expenses incurred in the development of educational content and educational database. As the projects are finalized, the amortization begins, for a period of up to two years.
- a) Goodwill generated in acquisition of subsidiaries and intangible assets allocated from business combinations.

The goodwill arising from the difference between the amount paid on acquisition of investments in subsidiaries and the fair value of the assets and liabilities (for acquisitions after January 1, 2009) is classified in intangible assets in the consolidated financial statements.

Part of the goodwill arising on the acquisition of subsidiaries was allocated to identifiable intangible assets with finite and indefinite useful lives, after analysis of the assets acquired.

TABLE 26 - Composition of Goodwill and Intangible Assets Allocated

	12/31/2015	12/31/2014
Goodwill (i)	8,861,806	8,656,341
Trademarks (ii)	1,732,160	1,794,029
Operation license and partner network (iii)	795,747	785,691
Portfolio of customers (iv)	154,888	315,783
Non-compete agreement (iv)	1,443	887
Development of teaching platform	914	-
	<u>11,546,958</u>	<u>11,552,731</u>

- (i) Refers to goodwill arising on acquisition of subsidiaries, classified as derived from expected future profitability. Does not have a finite useful life and is subject to annual impairment tests.

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- (ii) Intangible assets with useful life estimated between 25 and 30 years.
- (iii) Refer to licenses for operation of in-class and distance teaching and to the network of teaching units. Does not have a finite useful life and is subject to annual impairment tests.
- (iv) Intangible assets with useful life estimated between 3.5 and 5 years.
- (v) Intangible assets with estimated useful life of 5 years.

Impairment tests for goodwill

Goodwill is allocated to the CGUs, identified according to the operating segment.

TABLE 27 - Summary of the allocation of goodwill by operating segment

	Parent company		Consolidated	
	<u>12/31/2015</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Basic education	59,450	59,450	66,339	66,339
Higher education	-	-	8,795,467	8,590,002
	<u>59,450</u>	<u>59,450</u>	<u>8,861,806</u>	<u>8,656,341</u>

At December 31, 2015, goodwill was subject to impairment testing and no adjustments to the related amounts were considered necessary.

The methodology used was the discounted cash flow (future profitability) to assess the impairment of the goodwill to which each of the CGUs refer. The calculation considers 8 years of detailed flow projection, plus a perpetuity value with growth of 5.0% per year. The nominal discount rate used was 14.88% per year, following market benchmarks and audited internal calculation methodologies.

Impairment test of goodwill on acquisition of Anhanguera

The Company carried out a sensitivity analysis of the discount rate and growth rate variables. Considering an increase of 2.0 percentage points in the growth rate of the cash flow projections of the subsidiary, or a perpetuity 3.0% lower, this would result in a recoverable amount equal to the carrying amount.

TABLE 28 - Breakdown of Other Intangible Assets

	<u>12/31/2015</u>	<u>12/31/2014</u>
Non-compete agreement and other	129,017	137,959
Trademarks and patents	7,716	7,716
Assignment of rights	-	862
Portfolio of customers	-	82
	<u>136,733</u>	<u>146,619</u>

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15. BORROWINGS

- a) The balance of borrowings is broken down as follows:

TABLE 29 - Breakdown of borrowings

	<u>12/31/2015</u>	<u>12/31/2014</u>
Finance leases (i)	40,662	42,740
Third-party borrowings	-	4,815
Banco Safra BNDES PSI Finame	<u>146</u>	<u>579</u>
	<u>40,808</u>	<u>48,134</u>
Current	2,378	7,279
Non-current	38,430	40,855

- (i) R\$ 39,776 refer to rental agreements of operating units' real estate effective for 15 years (R\$41,453 at December 31, 2014). The balance comprises installments payable related to the Unibero real estate in the amount of R\$ 10,581 and the São Bernardo do Campo real estate in the amount of R\$ 29,195 (R\$ 10,960 and R\$ 30,493 respectively, at December 31, 2014).

TABLE 30 - Borrowings by maturity range

	<u>12/31/2015</u>	<u>12/31/2014</u>
2016	-	2,301
2017	2,426	2,426
2018	2,389	2,512
2019 onwards	<u>33,615</u>	<u>33,616</u>
	<u>38,430</u>	<u>40,855</u>

- b) The changes in borrowings are as follows:

TABLE 31 - Changes in borrowings

	<u>12/31/2015</u>
Opening balance	48,134
Execution of guarantees	(5,106)
Interest accrued	1,048
Payment of interest	(57)
Payment of principal	<u>(3,211)</u>
Closing balance	<u>40,808</u>

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c) Finance leases

Finance lease obligations are guaranteed since the leased asset is returned to the lessor in the event of default.

16. DEBENTURES

TABLE 32 - Composition of Debentures

	Consolidated	
	<u>12/31/2015</u>	<u>12/31/2014</u>
Current liabilities	193,587	193,976
Non-current liabilities	<u>524,009</u>	<u>700,008</u>
	<u>717,596</u>	<u>893,984</u>

TABLE 33 - Breakdown of the debentures balance per issue:

	<u>Remuneration</u>	<u>12/31/2015</u>
1st issue of debentures (i)	CDI + 2.00% p.a.	237,654
2nd issue of debentures - 1st series (ii)	CDI + 1.95% p.a.	308,538
2nd issue of debentures - 2nd series (ii)	CDI + 1.50% p.a.	85,698
2nd issue of debentures - 3rd series (ii)	CDI + 1.70% p.a.	<u>85,706</u>
Total		<u>717,596</u>

- (i) On January 12, 2012, through subsidiary EDE, the Company made its first issue of debentures, in a single series. On that date, 550 debentures with unit value of R\$ 1,000 were subscribed, totaling R\$ 550,000. The debentures were issued in the registered, book-entry form, without issuance of certificates and without the possibility of conversion into shares. The debentures have interest of 100% of the CDI plus 2.0% per year. The maturity period is seven years counted from the issuance date. After a grace period of 3 years, the payments will occur annually in 2014, 2015, 2016, 2017 and 2018. The debentures do not have renegotiation clauses. In June and December of each year, interest payments calculated through these dates are required.
- (ii) On February 9, 2015, the Company's Board of Directors approved the second issue of debentures, amounting to R\$ 570,000, the terms and purpose of which were to contribute funds to subsidiary Anhanguera Educacional Participações S.A. The contributed funds were fully used in the early redemption of the total number of simple, non-convertible-into-shares, unsecured debentures of the fourth and fifth issue made by Anhanguera Educacional Participações S.A. Through subsidiary EDE - Editora e Distribuidora Educacional S.A., the Company made its second issue of debentures in three series. The debentures are registered, book-entry and non-convertible into shares.

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TABLE 34 - Changes in debentures

	<u>12/31/2015</u>	<u>12/31/2014</u>
Opening balance	893,984	546,149
Interest accrued	123,350	91,984
Addition from acquirees	-	583,272
2nd issue of debentures	570,000	-
Addition to unappropriated costs	(215)	-
Appropriated costs	5,163	1,829
Payment of interest	(124,686)	(99,250)
Payment of principal	<u>(750,000)</u>	<u>(230,000)</u>
Closing balance	<u>717,596</u>	<u>893,984</u>

TABLE 35 - Breakdown of non-current debentures by maturity

	<u>12/31/2015</u>	<u>12/31/2014</u>
2016	-	202,754
2017	206,959	234,341
2018	235,307	220,481
2019	<u>81,743</u>	<u>42,432</u>
	<u>524,009</u>	<u>700,008</u>

The contracts require the compliance with financial ratios (covenants), calculated based on the financial statements of the Company, which is the guarantor of the issue. The contracts establish that the calculations must be made from 2012 to 2019, the final maturity date.

The financial ratios of the 1st issue, the calculations of which are made semiannually, are:

- (i) Result of the division of the net debt by the adjusted Earnings Before Interest, Taxes, Depreciation and Amortization - EBITDA. In 2015 the resulting amount should be equal to or lower than 3.5, and in 2016 it should be equal to or lower than 3.0.
- (ii) Result of the division of the adjusted EBITDA by the adjusted finance income. The amount should not be lower than 1.2.

The financial ratio of the 2nd issue, the calculation of which is made annually, is:

- (i) Result of the division of the net debt by the adjusted Earnings Before Interest, Taxes, Depreciation and Amortization - EBITDA. The resulting amount should not be higher than 3.

At December 31, 2015, the financial ratios of both issues were complied with.

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17. PAYROLL AND RELATED TAXES - CONSOLIDATED

TABLE 36 - Breakdown of payroll and related taxes

	<u>12/31/2015</u>
Salaries payable	56,261
National Institute of Social Security (INSS) payable	52,440
Government Severance Indemnity Fund for Employees (FGTS) payable	12,344
Withholding Income Tax (IRRF) payable	22,381
Provision for vacation pay	67,363
Charges on provisions	22,568
Other	<u>112,320</u>
	<u>345,677</u>

The expenses on salaries and charges are recognized in profit or loss for the year in "cost of services", "selling expenses" and "general and administrative expenses", according to the employee's allocation.

18. ADVANCES FROM CUSTOMERS

TABLE 37 - Breakdown of advances from customers

	<u>12/31/2015</u>	<u>12/31/2014</u>
Payments in advance of enrollments and tuition fees	<u>131,592</u>	<u>101,212</u>

Payments in advance refer to prepayments of enrollments and yearly tuition fees made by students, which are allocated to revenue as the services are provided, and credits corresponding to amounts received in excess of the student's debt.

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19. PAYABLES - ACQUISITIONS

TABLE 38 - Breakdown of payables for acquisitions

	<u>12/31/2015</u>	<u>12/31/2014</u>
Ítala	130,884	150,019
Uniabc	25,194	22,369
Sorocaba	29,595	29,356
LFG	6,444	9,800
Unipli	9,941	8,390
Ceama	-	5,796
Unirondon	6,530	8,884
Iesville Educar	3,077	2,193
Intesc	1,575	1,575
Other	7,828	7,140
Total	<u>221,068</u>	<u>245,522</u>
Current	95,481	74,802
Non-current	125,587	170,720

TABLE 29 - Changes in payables for acquisitions

	<u>12/31/2015</u>	<u>12/31/2014</u>
Opening balance	245,522	188,902
Addition from acquirees	-	50,503
Additions	4,135	29,356
Interest adjustment	24,519	18,122
Write-offs	(934)	(754)
Payments	<u>(52,174)</u>	<u>(40,607)</u>
Closing balance	<u>221,068</u>	<u>245,522</u>

The amounts are adjusted by the CDI and IPCA rate variations, according to the related contracts.

The balances are broken down as follows, by year of maturity:

TABLE 40 - Payables for acquisitions, by year of maturity

	<u>12/31/2015</u>
2016	95,481
2017	44,700
2018	<u>80,887</u>
	<u>221,068</u>

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20. TAXES AND CONTRIBUTIONS PAYABLE IN INSTALLMENTS

TABLE 41 - Breakdown of taxes and contributions payable in installments

	Consolidated	
	<u>12/31/2015</u>	<u>12/31/2014</u>
Municipal charges payable in installments (a)	47,077	52,090
Tax Recovery Program (REFIS) IV - federal - payable in installments (b)	7,859	8,184
INSS payable in installments (c)	2,299	5,895
Other	<u>378</u>	<u>781</u>
	<u>57,613</u>	<u>66,950</u>
Current	11,090	16,123
Non-current	46,523	50,827

(a) Municipal charges payable in installments

On July 27, 2012 the former owners of Academia Paulista Anchieta - APA enrolled in the tax installment payment plan (PPI), resulting in the ISS payable in installments balance of R\$ 39,392, remaining 79 installments of R\$ 499, adjusted by the monthly Selic rate.

Installment payments of IPTU (municipal real estate tax) in the total amount of R\$ 6,503 with different terms and installments, adjusted by the monthly Selic rate.

(b) Tax Recovery Program (REFIS) IV - federal - payable in installments

Anhanguera: On May 27, 2009, by means of Law 11,941 and Joint Administrative Rule PGFN/RFB 06/09, the Brazilian Federal Revenue - RFB introduced the Special Installment Payment Program, called "Refis IV". The option for the installment payments introduced by such Law entails irrevocable and irreversible acknowledgment of the debts in the name of the taxpayer to be included in such installment payments and entails out-of-court acknowledgment of such debts. This program permits the payment, in up to 180 installments, of tax debts existing through November 30, 2008, as well as debts originated from tax assessment notices issued by the Brazilian Federal Revenue and the waiver of any court proceedings on such debts. This installment payment establishes, among others: (i) the deduction of a certain percentage of the amounts due related to fine and interest, depending on the payment term to be determined by the Company's subsidiaries; and (ii) the use of the balance of income tax and social contribution tax losses to settle the remaining amounts of fine and interest. The total amount of R\$ 7,859 has different terms and installments among them that are adjusted by the monthly Selic rate.

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Uniasselvi: Federal tax installment payment refers to executable tax debt, IRPJ, CSLL, PIS and COFINS, of subsidiary Uniasselvi with the balance of R\$ 14, with different terms and installments, adjusted by the monthly Selic rate.

(c) INSS payable in installments

Unirondon: installment payment of INSS due from November 2008 to January 2009, divided into 60 installments in October 2012, remaining 21 installments of R\$ 100, adjusted by the monthly Selic rate.

Anhanguera: installment payment of INSS, R\$114, with different terms and installments among them, adjusted based on the monthly Selic rate.

Iuni: PAEX, Article 1: refers to the remaining balance of 2000 REFIS. It was divided into 130 installments and started being paid in September 2006, fully settled in June 2015.

The changes in taxes and contributions in installments are as follows:

TABLE 42 - Changes in taxes and contributions in installments

	<u>12/31/2015</u>	<u>12/31/2014</u>
Opening balance	66,950	47,025
Addition	(2,912)	9,970
Addition from acquisition	-	64,302
Interest adjustment	1,014	5,927
Payments	(11,927)	(60,274)
Interest refunded by the former owner	<u>4,488</u>	<u>-</u>
Closing balance	<u>57,613</u>	<u>66,950</u>

21. PROVISION FOR TAX, LABOR AND CIVIL LOSSES AND JUDICIAL DEPOSITS

The Company's management, based on the opinion of its legal advisors, classified the judicial/administrative proceedings in which it is a defendant in accordance with the degree of risk of loss, as follows:

TABLE 33 - Breakdown of contingencies

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>12/31/2015</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Tax	81,834	85,863	334,787	256,847
Civil	47,080	77,225	178,772	196,665
Labor	93,710	84,378	471,286	461,862
Total	<u>222,624</u>	<u>247,466</u>	<u>984,845</u>	<u>915,374</u>

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At December 31, 2015, the Company had a total of 16,994 judicial/administrative proceedings outstanding as a defendant, of which 340 are tax proceedings (considering lawsuits and administrative proceedings), 13,755 are civil proceedings and 2,899 are labor proceedings, some of which are the responsibility of the Company and others of the former owners.

Proceedings classified as involving probable losses:

For the proceedings for which losses were classified as probable, the Company's management recorded a provision for liabilities in accordance with the amount of loss informed by its legal counsel. The changes in the year ended December 31, 2015 are as follows:

TABLE 44 - Changes in contingencies - Consolidated

	12/31/2014	Additions	Reversals	Payments	12/31/2015
Tax (i)	256,847	166,928	(82,725)	(6,263)	334,787
Civil	196,665	66,284	(51,641)	(32,536)	178,772
Labor	461,862	160,874	(116,841)	(34,609)	471,286
Total	915,374	394,086	(251,207)	(73,408)	984,845

(i) Mainly refers to enforcements of municipal taxes received by subsidiary Anhanguera (formerly Uniban), amounting to R\$ 127 million. These joint-liability proceedings are divided as follows: R\$ 118 million are the responsibility of the former owners and R\$ 9 million are the Company's responsibility. Another change results from the provision for municipal assessment notices relating to Service Tax (ISSQN), incurred in subsidiary Unime Lauro de Freitas, totaling R\$ 16.3 million.

The Company was a defendant in a tax proceeding filed by the Municipal Government of São Paulo, the purpose of which was the collection of ISSQN. The Company had a successful outcome in this proceeding, which corresponds to an estimated gain of R\$ 48 million. Therefore, this amount was written off from the contractual guarantee.

One unit of subsidiary Anhanguera, located in the City of São Caetano do Sul, State of São Paulo, is a party to a tax enforcement proceeding, the purpose of which is to collect Property Tax (IPTU) relating to years 2006 and 2007, amounting to R\$ 3,805 (R\$ 3,805 at December 31, 2014). The proceeding is the responsibility of the former owner and is guaranteed by contract.

At December 31, 2015, the main judicial/administrative proceedings with probable loss risk classification filed against the Company are:

(a) Civil proceedings:

(i) The Anhanguera unit in São Caetano do Sul, State of São Paulo, is a party to a litigation seeking a review of the contract of the property lease in the city of São Caetano do Sul. The Company has provisioned R\$ 9,307 (R\$ 3,200 at December 31, 2014).

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- (ii) The Anhanguera unit in Curitiba, State of Paraná, is a party to two litigations that challenge the termination of contracts, in which the plaintiff requests indemnification. The Company has provisioned R\$ 10,555 (R\$ 7,972 at December 31, 2014).
- (b) Labor proceedings:
 - (i) Subsidiary Unirondon is a party to a collective litigation filed by the regional union, claiming indemnification due to the termination of the employment relationship of 91 employees. The Company has provisioned R\$ 3,000 (R\$ 1,000 at December 31, 2014).
 - (ii) The Anhanguera Unit in the city of Santo André, State of São Paulo, is a party to a litigation filed by the regional union, claiming Weekly Remunerated Rest (DSR); night-shift differentials and repercussions in five-year periods; hourly rates per activity and other salary amounts. This proceeding is provisioned in the amount of R\$ 18,517 (R\$ 18,517 at December 31, 2014).
 - (iii) Subsidiary Pitágoras (EDE Linhares) is a party to a litigation claiming termination pay and recognition of job position. The Company has provisioned R\$ 2,200 (R\$ 2,200 at December 31, 2014). The proceeding is guaranteed by the former owners in case of financial outlay by the Company.

Proceedings classified as involving possible losses:

The Company's management, based on the opinion of its legal counsel, classified the following judicial/administrative tax, civil and labor proceedings as involving possible risks of loss, for which there is no provision recognized:

TABLE 45 - Breakdown of proceedings - possible loss

	<u>12/31/2015</u>	<u>12/31/2014</u>
Tax	211,776	179,977
Civil	134,849	186,517
Labor	<u>26,957</u>	<u>98,976</u>
Total	<u>373,582</u>	<u>465,470</u>

At December 31, 2015, the main judicial/administrative proceedings with possible loss risk classification filed against the Company are:

Labor proceedings: Subsidiary EDE in Divinópolis is a party to a labor proceeding in which the plaintiff claims salary differences. The amount involved is R\$ 1,000.

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Civil proceedings: Subsidiary Unopar is party to a civil proceeding that has as its object the breach of contract by reason of the rescission of a contract for prospecting distance learning groups. The amount involved is R\$ 14,653.

Tax lawsuits: Subsidiary Unic has tax proceedings whose object would be to question its status as a charitable organization and the consequent tax repercussions. The amount involved is R\$ 149,391.

Judicial deposits

The Company has judicial deposits as follows.

TABLE 46 - Breakdown of judicial deposits

	Parent company		Consolidated	
	<u>12/31/2015</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Tax	-	(10)	9,215	12,860
Civil	(154)	=	2,130	986
Labor	<u>(20)</u>	<u>-</u>	<u>29,064</u>	<u>29,375</u>
Total	<u>(174)</u>	<u>(10)</u>	<u>40,409</u>	<u>43,221</u>

Guarantees of provision for tax, labor and civil losses

The Company has the guarantee, established through a contract for acquisition of some of its acquired Units, of the reimbursement by the former owners of the amount eventually paid in legal/administrative proceedings whose responsibility remained, contractually, with the former owners, at the time of the acquisition.

The breakdown of the judicial/administrative proceedings provisioned, whose responsibility is guaranteed contractually by the former owners, is as follows:

TABLE 47 - Breakdown of lawsuits that are the responsibility of former owners.

	Parent company		Consolidated	
	<u>12/31/2015</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Tax	52,326	55,234	149,538	90,779
Civil	13,118	18,062	24,632	28,674
Labor	<u>4,012</u>	<u>6,850</u>	<u>56,129</u>	<u>50,281</u>
Total	<u>69,456</u>	<u>80,146</u>	<u>230,299</u>	<u>169,734</u>

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22. EQUITY

a) Share capital

At December 31, 2015, the Company's subscribed and paid-up capital totaled R\$ 4,249,901 (R\$ 4,239,757 at December 31, 2014).

TABLE 48 - Breakdown of share capital

	Number of shares
At December 31, 2015	<u>1,626,069,778</u>
Total ex-treasury shares	1,614,706,419
Total treasury shares	11,363,359
At December 31, 2014	<u>1,623,795,559</u>
Total ex-treasury shares	1,621,375,407
Total treasury shares	2,420,152

TABLE 49 - Changes in shares

	Number of shares	In thousands - R\$
At December 31, 2014	1,623,795,559	4,239,757
Issue of shares (i)	<u>2,274,219</u>	<u>10,144</u>
At December 31, 2015	<u>1,626,069,778</u>	<u>4,249,901</u>

- (i) In the year ended December 31, 2015, the Board of Directors approved the Company's capital increase through the issue of 2,274,219 new common shares, totaling an increase of R\$ 10,144.

b) Authorized capital

On September 11, 2014, at a General Meeting, the limit of the Company's authorized capital was changed to 2,000,000,000 common shares. Within the limit of the authorized capital, the Board of Directors may decide on the issue of warrants and convertible debentures, approve, according to the plan approved by the General Meeting, the issue of shares as a result of the granting of stock options to the Company's officers and employees or of company under its control, or to individuals that provide services to them, without the shareholders having preferential rights on the grant or subscription of these shares, and approve capital increase through the capitalization of profits or reserves, with or without share bonus.

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c) Capital reserves

TABLE 50 - Breakdown of capital reserves

	<u>12/31/2015</u>	<u>12/31/2014</u>
Share issue cost (i)	(27,646)	(27,646)
Capital reserves (ii)	14,585	14,585
Equity instruments arising from business combination (iii)	6,152,187	6,152,187
Stock option plan and gain (loss) on disposal (iv)	<u>127,373</u>	<u>98,253</u>
Total	<u>6,266,499</u>	<u>6,237,379</u>

- (i) The costs incurred to increase capital through the issue of Company shares were (R\$ 22,555) in June 2011 and (R\$ 5,091) in March 2012.
- (ii) On June 24, 2009, the Board of Directors defined that the amount of R\$ 0.09805 of each new share issued would be appropriated to capital reserves. On September 2, 2009, the amount of the reserve at R\$ 21,247 was approved. The reserve is presented in the amount of R\$ 14,585, net of transaction costs on the issue of these new shares, in the amount of R\$ 6,662.
- (iii) Balance formed due to the acquisition of Unopar and Anhanguera, arising from the operations described below:
- Unopar: on December 15, 2011, 20% of the payment for the acquisition, in accordance with the purchase agreement, should be made using the Company shares. The amount of 20% of the purchase price was R\$ 260,000, comprising 13,877,460 common shares and 83,264,760 preferred shares. On September 28, 2012, 13,877,460 common shares and 83,264,760 preferred shares were issued in the amount of R\$ 16,127, corresponding to the net book value of the holding companies that own 20% of the capital of Unopar; and
- Anhanguera: On July 3, 2014, due to the acquisition of Anhanguera shares, 135,362,103 registered book-entry common shares with no par value were issued by the Company and were assigned to the stockholders of Anhanguera. On the same date, the Company made a capital increase based on the net book value of R\$ 2,327,299, related to Anhanguera's equity at December 31, 2013. The difference between the total purchase price and the amount assigned to the share capital of R\$ 5,981,227 was recorded as capital reserve "Equity instruments resulting from the business combination", net of the amount of R\$ 72,913 relating to the acquiree's stock option plan.
- (iv) In the year ended December 31, 2015, R\$ 48,119 of premium on fair value of options (R\$ 53,505 at December 31, 2014) and the amount of R\$ 18,999 as a result of the sale of treasury shares (R\$ 32,617 at December 31, 2014) were recognized. See Note 23.

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d) Treasury shares

TABLE 51 - Changes in shares

	Number of shares
At December 31, 2014	<u>2,420,152</u>
Share buyback (i)	10,872,500
Sale of shares (ii)	<u>(1,929,293)</u>
At December 31, 2015	<u>11,363,359</u>

- (i) At the Board of Directors' Meeting held on July 8, 2015 the Company's new share buyback program was approved. In the year ended December 31, 2015, 10,872,500 shares were acquired at a cost of R\$ 119,673.

The share buyback is in conformity with Article 157, § 4, of Law 6,404/76, CVM's Normative Instructions 10/80 and 390/03 and other applicable legislation.

- (ii) In the year ended December 31, 2015, 1,959,293 shares with a cost of R\$ 29,137 were sold.

The sales were made to support the exercise of options of the share-based compensation plan beneficiaries.

e) Revenue reserve

Legal reserve

This reserve comprises an allocation of 5% of the profit for the year, after the offset of accumulated losses, and the balance cannot exceed 20% of the share capital. The purpose of the legal reserve is to protect capital, and it can only be used to offset losses and increase capital.

Dividends

TABLE 52 - Calculation of dividends

Profit for the year ended December 31, 2015	1,396,134
Legal reserve - 5%	<u>(69,807)</u>
Adjusted profit for the year	<u>1,326,328</u>
Minimum dividends - 25%	(331,582)
Total interim dividends paid in 2015 (i)	<u>261,413</u>
Dividends payable	<u>70,169</u>

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- (i) The Board of Directors' meetings approved the following payments of interim dividends in 2015: R\$ 88,289 paid in June; R\$ 98,835 paid in August and R\$ 74,289 paid in November, totaling R\$ 261,413.

Investment reserve

The remaining balance of the profit for the year ended December 31, 2015, after the offset of accumulated losses, the recognition of the legal reserve and the proposal for payment of dividends in the amount of R\$ 994,745 (R\$ 885,315 at December 31, 2014), was transferred to "Investment reserve", in accordance with Article 42 of the Bylaws, and will be used for investment in the Company, in order to finance the expansion of its activities, either organic or through acquisitions in the market, complying with the business growth plan established by Management for 2016.

Capital budget reserve

On April 16, 2015, the Company's Statutory Audit Board and Board of Directors approved the allocation of R\$ 186,000 to the Capital Budget Reserve, amount that reflects the Company's capital investment requirements. The corresponding resources will be used in Information Technology Projects, Expansion Works and maturation of units, IT Equipment, Machinery and Equipment, Furniture and Fittings and Books.

23. STOCK OPTION PLAN

Plans maintained by Kroton Educacional S.A.

The purpose of the Company's stock option plans is to retain and stimulate its executives, seeking the alignment between their interests and those of the stockholders and the Company. Independent board members, statutory officers and senior executives are eligible for the program.

On September 1, 2015, as the other stock option plans achieved the maximum limit of options that could be granted, the Extraordinary General Meeting approved the new stock option plan in replacement of the prior plans.

Under this new plan, the share grant shall consider the maximum limit of 1.99% of the Company's capital, equivalent, at the approval date, to 32,347,295 common shares, before any stock split.

The Board of Directors has set out the terms and conditions for each option in a stock option agreement signed between the Company and each beneficiary.

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The Company has no legal or constructive obligation to repurchase or settle the options in cash.

The ratio of this exchange of stock options for common shares is defined in the new plan as one share for each option granted to the beneficiaries.

The exercise price will be paid by the beneficiaries to the Company, in cash, at the time of acquisition or subscription or as determined by the Board of Directors for each contract.

The prices defined in the grant contracts in force, including for the new plan described above, until December 31, 2015, range from R\$ 0.70 to R\$ 5.70.

Changes in the stock option plans

Changes in the number of stock options outstanding and their related weighted average exercise prices, on a retrospective basis, are as follows:

TABLE 53 - Changes in stock option plans

	12/31/2015		12/31/2014	
	Average exercise price in R\$ per share	Options	Average exercise price in R\$ per share	Options
Opening balance		52,237,365		35,832,000
Arising from business combinations				-
Granted	2.99	25,232,510	5,24	1,600,000
Exercised	5.32	(4,203,512)	6,05	(11,275,831)
Closing balance		<u>73,266,363</u>		<u>52,237,365</u>

The currently effective plans are compliant with the limits approved in the year ended December 31, 2015.

Fair value measurement and expense in profit or loss

The weighted average fair value of the options granted during the year ended December 31, 2015, determined based on the binominal calculation model, was R\$ 2.99 per option. The significant data included in the model were the weighted average price of R\$ 8.47 per option (defined at the grant date), the share price at the grant date ranging from R\$ 8.81 to R\$ 11.43 per share, the average volatility of 31%, the expected average life of the option corresponding to 1,795 days, the average annual interest rate without risk of 10.66% and the "dividend yield" of 3.31%.

The volatility was measured by the standard deviation of returns on shares continually compounded based on the statistical analysis of the daily prices of the shares.

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The fair value of the stock options granted is recognized as expense. The corresponding credit is recorded in "Capital reserves - options granted" in equity.

In the year ended December 31, 2015, 4,203,512 options were exercised, of which 2,274,219 through capital increase with the specific purpose of delivering new shares to the beneficiary and 1,929,293 against sale of treasury shares. R\$ 48,119 was recognized as premium on fair value of options (R\$ 53,505 at December 31, 2014).

The options contract with the longest maturity has as the last vesting date October 16, 2019 and can be exercised in up to 12 months after that date.

24. SEGMENT INFORMATION

The Company's products are categorized into three operating segments: in-class higher education, distance learning higher education (EAD) and basic education.

Consolidated

Intersegment sales were made on an arm's-length basis. The reported revenue from external parties was measured in accordance with that presented in the statement of income.

TABLE 54 - Segment reporting

	Year ended 12/31/2015				
	In-class higher education	Distance learning higher education	Basic education	Unallocated portion	Total
Net revenue	3,898,643	1,183,243	183,172	-	5,265,058
Cost of sales and services	<u>(1,799,850)</u>	<u>(356,118)</u>	<u>(84,906)</u>	-	<u>(2,240,874)</u>
Gross profit	2,098,793	827,125	98,266	-	3,024,184
Operating expenses:					
Selling expenses	(365,538)	(192,583)	(28,639)	-	(586,760)
General and administrative expenses	(461,556)	(63,393)	(13,521)	(403,338)	(941,808)
Other expenses, net	-	-	-	(246)	(246)
Operating profit before finance result	<u>1,271,699</u>	<u>571,149</u>	<u>56,106</u>	<u>(403,584)</u>	<u>1,495,370</u>
Assets	4,357,476	4,168,936	106,327	8,006,115	16,638,854
Current and non-current liabilities	<u>1,705,949</u>	<u>970,436</u>	<u>37,056</u>	<u>1,465,723</u>	<u>4,179,164</u>

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	Year ended 12/31/2014				
	In-class higher education	Distance learning higher education	Basic education	Unallocated portion	Total
Net revenue	2,589,803	994,063	190,609	-	3,774,475
Cost of sales and services	(1,283,732)	(270,498)	(88,900)	-	(1,643,130)
Gross profit	1,306,071	723,565	101,709	-	2,131,345
Operating expenses:					
Selling expenses	(193,714)	(149,856)	(35,835)	-	(379,405)
General and administrative expenses	(282,208)	(62,466)	(19,482)	(344,953)	(709,109)
Other expenses, net	-	-	-	(2,014)	(2,014)
Operating profit before finance result	<u>830,149</u>	<u>511,243</u>	<u>46,392</u>	<u>(346,967)</u>	<u>1,040,817</u>
Assets	3,756,048	3,498,849	104,303	8,126,980	15,486,180
Current and non-current liabilities	<u>2,922,824</u>	<u>718,839</u>	<u>79,242</u>	<u>318,867</u>	<u>4,039,772</u>

The unallocated portion refers mainly to goodwill on acquisition of Anhanguera Education and also to assets, liabilities and expenses related to the administrative and operational support areas, not directly related to the revenue-generating segments.

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25. NET SALES AND SERVICES REVENUE

TABLE 55 - Net sales and services revenue

	<u>12/31/2015</u>	<u>12/31/2014</u>
<u>In-class higher education</u>		
Gross revenue (i)	4,950,944	3,246,241
Deductions from gross revenue		
Taxes	(117,076)	(77,829)
ProUni	(635,232)	(363,003)
Discounts	<u>(299,993)</u>	<u>(215,606)</u>
Net revenue	<u>3,898,643</u>	<u>2,589,803</u>
 <u>Distance learning higher education (EAD)</u>		
Gross revenue	1,579,083	1,247,442
Deductions from gross revenue		
Taxes	(31,033)	(23,450)
ProUni	(249,369)	(167,742)
Discounts	<u>(115,438)</u>	<u>(62,187)</u>
Net revenue	<u>1,183,243</u>	<u>994,063</u>
 <u>Basic education</u>		
Gross revenue	193,696	206,495
Deductions from gross revenue		
Taxes	(4,323)	(5,297)
Returns	<u>(6,201)</u>	<u>(10,589)</u>
Net revenue	<u>183,172</u>	<u>190,609</u>
 <u>Total</u>		
Gross revenue	6,723,723	4,700,178
Deductions from gross revenue		
Taxes	(152,432)	(106,576)
ProUni	(884,601)	(530,745)
Discounts	(415,431)	(277,793)
Returns	<u>(6,201)</u>	<u>(10,589)</u>
Net revenue	<u>5,265,058</u>	<u>3,774,475</u>

(i) The gross revenue of the in-class higher education is net of the amount recorded as adjustment to present value in the amount of R\$ 104,250.

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31

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26. COSTS AND EXPENSES BY NATURE

TABLE 56 - Costs and expenses by nature

	Consolidated	
	<u>12/31/2015</u>	<u>12/31/2014</u>
Salaries and social charges	(1,956,783)	(1,420,701)
Depreciation and amortization	(379,871)	(249,768)
Rental and condominium fees	(379,122)	(223,726)
Provision for impairment of trade receivables	(268,158)	(147,542)
Utilities, cleaning and security	(221,315)	(151,884)
Advertising and publicity	(239,288)	(171,472)
Third-party services	(27,798)	(24,165)
Consulting and advisory services	(140,440)	(127,708)
Cost of goods sold	(37,221)	(39,198)
Travel	(32,462)	(34,253)
Copyright	(6,808)	(8,048)
Fees and contributions	(26,162)	(1,053)
Other costs and expenses	<u>(54,261)</u>	<u>(134,140)</u>
	<u>(3,769,689)</u>	<u>(2,733,658)</u>
Cost of sales and services	(2,240,874)	(1,643,130)
Selling expenses	(586,760)	(379,405)
General and administrative expenses	(941,808)	(709,109)
Other operating expenses, net	<u>(246)</u>	<u>(2,014)</u>
	<u>(3,769,688)</u>	<u>(2,733,658)</u>

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

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27. FINANCE RESULT

TABLE 57 - Finance result

<u>Consolidated</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Finance income		
Interest on monthly tuition fees	108,135	66,090
Proceeds from financial investments and marketable securities	48,951	53,306
Discounts obtained	3,737	-
Foreign exchange gains	-	1,808
Other	<u>3,840</u>	<u>2,953</u>
	<u>164,663</u>	<u>124,157</u>
Finance costs		
Debentures - interest and costs (i)	(110,128)	(94,334)
Adjustment of obligations due to the purchase of subsidiaries	(24,519)	(18,122)
Bank and collection fees	(11,060)	(10,679)
Interest and fines for late bill payment	(4,873)	(3,734)
Interest and fines for late tax payment	(1,894)	(4,113)
Interest on borrowings	(1,048)	(8,479)
Adjustment of contingencies	(32,616)	-
Foreign exchange losses	-	(4,046)
Other	<u>(9,434)</u>	<u>(5,626)</u>
	<u>(195,572)</u>	<u>(149,133)</u>
Finance result	<u>(30,907)</u>	<u>(24,976)</u>

(i) Refers to interest on debentures of R\$ 128,514 (see Note 14 - Debentures), less capitalized interest (R\$ 18,386) recorded in property and equipment and intangible assets in progress according to technical pronouncement CPC 20 - Borrowing costs.

28. EARNINGS PER SHARE

a) Basic

Basic earnings per share are calculated by dividing the profit attributable to the Company's stockholders by the weighted average number of shares outstanding during the year.

TABLE 58 - Basic earnings per share

	<u>12/31/2015</u>	<u>12/31/2014</u>
Profit attributable to stockholders of the Company	1,396,134	1,000,600
Weighted average number of outstanding common shares (thousands)	<u>1,619,121</u>	<u>1,343,523</u>
Basic earnings per common share - R\$	<u>0.86</u>	<u>0.74</u>

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b) Diluted

At December 31, 2015, there are shares with potential for dilution, since their average exercise price is lower than the average price of the Company's shares in the market.

TABLE 59 - Diluted earnings per share

	<u>12/31/2015</u>	<u>12/31/2014</u>
Profit attributable to stockholders of the Company	1,396,134	1,000,600
Weighted average number of outstanding common shares (thousands)	1,619,121	1,343,523
Potential increase in common shares (thousands)	<u>1,765</u>	<u>991</u>
Diluted earnings per common share - R\$	<u>0.86</u>	<u>0.74</u>

29. RELATED-PARTY TRANSACTIONS

The Subsidiary Pses uses properties leased from the subsidiary Spes.

- (i) The agreement is effective until August 2023, with a fixed monthly amount of R\$ 177 (R\$ 161 at December 31, 2014), adjusted based on the National Consumer Price Index (INPC).
- (ii) Subsidiaries Unic Educacional, Unime LF and Iuni use properties leased from Vertia Empreendimentos Imobiliários Ltda. (a company that is controlled by a stockholder and member of the Company's Board of Directors):

<u>Subsidiary</u>	<u>Effective until:</u>	<u>Monthly amount</u>	<u>Adjustment index</u>
Unic Educacional	March/2020	197	IPCA
Unime LF	March/2020	553	IPCA
Iuni	March/2020	972	IPCA

- (iii) Subsidiary EDE uses properties leased from Creare Administração de Bens Móveis e Imóveis Ltda. The agreements are effective until January 2032, with a fixed monthly amount of R\$ 1,053 (R\$ 992 at December 31, 2014), adjusted based on the National Consumer Price Index (INPC).
- (iv) Subsidiary Iuni entered into an assignment of use agreement with the University General Hospital ("HGU") (a company that is controlled by a stockholder and member of the Company's Board of Directors), in the City of Cuiabá, State of Mato Grosso, for university operation purposes, with a fixed monthly amount of R\$ 255 (R\$228 at December 31, 2014) and a variable amount of R\$ 3 per student, relating to the Residency Scholarship.

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

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- (v) Subsidiary Unirondon also entered into an assignment of use agreement with the University General Hospital ("HGU") (a company that is controlled by a stockholder and member of the Company's Board of Directors), in the City of Cuiabá, State of Mato Grosso, for university operation purposes, with a variable amount of R\$ 1 per student, relating to the Internship Scholarship.
- (vi) Ananguera Educacional Ltda. uses properties leased from HK Campinas Participações Ltda. (of which AFZ Participações Ltda., a company that is controlled by a family member of one of the members of the Company's Board of Directors, is a quotaholder). The agreement is effective until December 2024, with a fixed monthly amount of R\$ 284 (R\$ 267 at December 31, 2014), adjusted based on the IPCA.
- (vii) Subsidiary Ananguera Educacional Ltda. uses properties leased from its parent company Ananguera Educacional Participações S.A. The agreement is effective until December 2020, with a fixed monthly amount of R\$ 95 (R\$ 89 at December 31, 2014), adjusted based on the IPCA.

These amounts are recorded in the statement of income, as "Cost of services rendered".

- (viii) Fundação Manoel de Barros (an assignee of the FM educational radio called Rádio Uniderp, since February 16, 2005), whose Board of Directors includes members of the Company's Executive Board, entered into an agreement with Ananguera Educacional Ltda., a subsidiary of the Company, for the donation of financial resources. The contract will end on January 1, 2016. There is no adjustment index. Ananguera Educacional Participações S.A. disbursed the amount of R\$ 480 (R\$ 240 in the year ended December 31, 2014) in connection with this agreement in the year ended December 31, 2015.

Key management compensation

Key management personnel include the members of the Board of Directors and the Statutory Audit Board, the CEO, the vice-presidents and the statutory officers.

At the Stockholders' Annual and Extraordinary General Meeting, the annual global compensation of the Company's key management for the year ended December 31, 2015 was estimated at R\$ 108,302.

Key management compensation is as follows:

TABLE 60 - Key management compensation

	<u>12/31/2015</u>	<u>12/31/2014</u>
Salaries	5,832	7,340
Benefits	187	163
Social charges	1,743	1,466
Variable compensation	19,962	15,076
Stock option plan	<u>17,476</u>	<u>31,501</u>
	<u>45,200</u>	<u>55,546</u>

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30. INVESTMENTS

	<u>12/31/2015</u>	<u>12/31/2014</u>
Investments in subsidiaries:		
EDE	3,587,622	2,860,824
Anhanguera	<u>2,086,967</u>	<u>1,668,830</u>
Subtotal	5,674,589	4,529,654
Goodwill, including goodwill allocated from Anhanguera (i)	<u>7,844,164</u>	<u>7,821,927</u>
Total	<u>13,518,753</u>	<u>12,351,581</u>

The changes in the allocated goodwill arising from the business combination with Anhanguera are presented in Note 5 "Business combinations" and Note 14, "Intangible assets".

TABLE 62 - Information on direct subsidiaries

<u>Editora e Distribuidora Educacional S.A.</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Number of shares held	2,549,437,961	2,160,752,536
Ownership interest - (%)	100	100
Share capital	2,549,438	2,160,753
Equity	3,584,321	2,860,824
Profit for the year	1,039,489	1,021,162
Carrying amount of the investment	3,587,622	2,860,824
Equity in the results of investees	1,039,489	1,021,162
 <u>Anhanguera Educacional Participações S.A.</u>	 <u>12/31/2015</u>	 <u>12/31/2014</u>
Number of shares held	437,228,783	437,070,783
Ownership interest - (%)	73.6%	100
Share capital (i)	2,497,593	1,928,435
Equity	2,832,056	1,668,830
Profit for the year	594,067	116,417
Carrying amount of the investment	2,086,967	1,668,830
Equity in the results of investees	502,902	116,417

- (i) On February 9, 2015, EDE - Editora e Distribuidora Educacional S.A. increased the capital of Anhanguera Educacional Participações S.A., in cash, in the amount of R\$ 569,000 representing 569,000,000 common shares, all of them registered and without par value, at the issue price of R\$ 1.00 per share, paid up through advance for future capital increase. Therefore, there was a reduction in the Company's direct interest in Anhanguera Educacional Participações S.A., but when considering the indirect interest through its subsidiary EDE, the Company holds 100%.

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

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On September 30, 2015, the Company increased the capital of Anhanguera Educacional Participações S.A. by R\$ 158 representing 158,000 common shares, all of them registered and without par value, at the issue price of R\$ 1.00 per share, paid up through advance for future capital increase.

TABLE 63 - Changes in investments

	<u>12/31/2015</u>	<u>12/31/2014</u>
Opening balance	12,351,581	2,579,780
Capital increase	26,633	126,170
Changes arising from association	(84,975)	1,426,240
Equity in the results of investees	1,542,391	1,137,579
Dividends	(339,166)	(740,115)
Goodwill and allocated goodwill Anhanguera	<u>22,289</u>	<u>7,821,927</u>
Closing balance	<u>13,518,753</u>	<u>12,351,581</u>

31. INSURANCE

The Company has a risk management program designed to mitigate risks, seeking in the market an insurance coverage compatible with its size and operations. The coverage was contracted for the amounts indicated below, considered sufficient by management to cover any claims, considering the nature of the Company's activity, the risks involved in its operations and the advice of its insurance brokers.

The Company and the subsidiaries had the following main insurance policies with third-party insurers:

TABLE 64 - Insurance policies contracted from third-party insurers

	Insured amounts	
	<u>12/31/2015</u>	<u>12/31/2014</u>
Fire in property and equipment	169,605	257,764
Civil liability of officers	163,000	196,000
Vehicles	<u>1,831</u>	<u>22,533</u>
	<u>334,436</u>	<u>476,297</u>

32. EVENTS AFTER THE REPORTING PERIOD

a) Sale of Uniassselvi

The completion of the sale of Uniassselvi, whose Contract for the Purchase and Sale of Quotas and Other Covenants ("Contract") was signed on October 23, 2015, occurred on January 29, 2016 when all acts required for this transaction were considered fulfilled.

The agreement established the sale, upon the performance of certain previous acts, to Treviso Empreendimentos e Participações S.A. ("Buyer") of the total ownership interest held by the Company's subsidiaries in the following companies: Sociedade Educacional Leonardo da Vinci S/S Ltda.; ASSEVIM -Sociedade Educacional do Vale do Itajaí Mirim Ltda.; Instituto

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

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Educacional do Alto Vale do Itajaí Ltda.; Sociedade Educacional do Vale do Itapocu S.S. Ltda.; and Sociedade Educacional do Planalto Serrano Ltda. (together referred to as "Uniasselvi").

In consideration for the acquisition of Uniasselvi, the buyer will pay to the Company a total amount of up to R\$ 1,105,000, as follows:

- (a) R\$ 400 million, in cash, on the date of the contract.
- (b) R\$ 450 million, in five annual installments, from 2018 to 2022, adjusted by the Amplified Consumer Price Index (IPCA) variation through the date the installment is paid.
- (c) up to R\$ 255 million in the form of additional price, at a variable amount to be calculated based on previously-established financial and operating goals, payable in annual installments, from 2018 to 2022, adjusted by the IPCA variation through the date the installment is paid.

Under CPC31 - Non-current assets held for sale and discontinued operations - paragraph 7, in order to be classified as non-current asset held for sale, *"the asset or group of assets held for sale should be available for immediate sale in their current conditions"*. According to management's opinion, the conditions required for the balances of Uniasselvi to be classified as available for sale had not been met in the year ended December 31, 2015, since the contract establishes that, for the completion of the deal, requirements established by the Administrative Council of Economic Defense (CADE), as well as other requirements, should be complied with.

b) Receipt of the FIES remaining balance of 2015

According to the Legal Agreement entered into between ABRAES - Brazilian Association for Higher Education Development, the Federal Government, the SESU - Higher Education Secretary of the Ministry of Education and the FNDE - National Fund of Education Development, the Higher Education Institutions associated to ABRAES will receive the FIES (Student Financing Fund) credits not paid by the FNDE during 2015 in 2016, 2017 and 2018, of which 25% of the balance in 2016; 25% in 2017 and 50% in 2018. The amount shall be settled until June of each year and the installments will be adjusted based on the variation of the IPCA (Amplified Consumer Price Index) from the due date in 2015 through the actual payment date.

33. APPROVAL FOR ISSUE OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

The parent company and consolidated financial statements were approved for issue by the Board of Directors in a meeting held on March 15, 2016.

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31

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Comments on the behavior of business projections:

	2015 (Projection)	1Q15 (Realized)	2Q15 (Realized)	3Q15 (Realized)	4Q15 (Realized)	2015 (Realized)
Net revenue	R\$ 5,210 million	R\$ 1,288 million	R\$ 1,411 million	R\$ 1,235 million	R\$ 1,331 million	R\$ 5,265 million
EBITDA	R\$ 1,695 million	R\$ 486 million	R\$ 524 million	R\$ 429 million	R\$ 436 million	R\$ 1,875 million
EBITDA margin	32.5%	37.7%	37.2%	34.8%	32.7%	36.6%
Interest and late payments on tuitions	R\$ 106 million	R\$ 30 million	R\$ 23 million	R\$ 31 million	R\$ 25 million	R\$ 109 million
Nonrecurring costs and expenses	R\$ 129 million	R\$ 36 million	R\$ 54 million	R\$ 48 million	R\$ 58 million	R\$ 196 million
Adjusted EBITDA	R\$ 1,930 million	R\$ 552 million	R\$ 601 million	R\$ 508 million	R\$ 518 million	R\$ 2,179 million
Adjusted EBITDA margin	37.0%	42.8%	42.6%	41.2%	39.9%	41.4%
Profit	R\$ 1,125 million	R\$ 372 million	R\$ 416 million	R\$ 313 million	R\$ 295 million	R\$ 1,396 million
Amortization of intangible assets	R\$ 186 million	R\$ 48 million	R\$ 44 million	R\$ 46 million	R\$ 56 million	R\$ 194 million
Adjusted profit	R\$ 1,440 million	R\$ 455 million	R\$ 514 million	R\$ 407 million	R\$ 409 million	R\$ 1,785 million
Capex (total)	7.5% of net revenue	9.5% of net revenue	5.3% of net revenue	8.2% of net revenue	10.5% of net revenue	8.3% of net revenue

In the Reference Form, the Company provided the projection for the year 2015, as described above.

The first quarter represents the largest contribution to the result for the year as it concentrates much of the students' enrollment for the school year and, therefore, accounted for 25% of net revenue and 29% of the adjusted EBITDA expected in the Company's projection.

The second quarter, despite having a smaller student base, presented a contribution similar to the first quarter for the results for the year as it accounted for another 31% of the adjusted EBITDA projected for 2015.

The third quarter is very significant to the Company, but not as significant as the first quarter, since the second half of the year had less enrollments. Accordingly, the third quarter was responsible for 26% of the adjusted EBITDA projected for the year.

Finally, the fourth quarter continued to present satisfactory results with 26% of the projection of net revenue and 27% of the adjusted EBITDA projection.

Therefore, in the year, we managed to exceed by 1% our projection of Net Revenue and by 13% our projection of adjusted EBITDA, mainly reflecting greater efficiency in our operations, the increase in the student base, and the strict control over costs and expenses. In the same way, the adjusted profit was 24% higher than the Company's projection.

Regarding the recurring capex, we had higher disbursements than expected in 2015, compensated by the lower level of capex related to special projects. With this, the total capex was 0.8 p.p. above the projection due to the acceleration of the organic growth projects.

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

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STATUTORY AUDIT BOARD'S OPINION

The Statutory Audit Board of Kroton Educacional S.A. ("Company"), in compliance with legal and statutory requirements, has examined the Management Report, the Financial Statements for the year ended December 31, 2015, and Management's proposal for allocation of the profit for the year ended December 31, 2015. Based on the examinations made, inquiries of the Company's Management and the Company's Independent Auditors, issued as of this date without qualifications, states that the Management Report, Financial Statements, and proposal for allocation of the profit for the year ended 2015 are suitable to be approved by the Company's Stockholders at the Annual General Meeting.

Belo Horizonte, March 15, 2016.

Lucila de Oliveira Carvalho

Ricardo Scalzo

Antônio Lúcio Pereira Santos

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

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**REPORT BY THE AUDIT COMMITTEE OF
KROTON EDUCACIONAL S.A.**
CNPJ/MF no. 02.800.026/0001-40
NIRE 31.300.025.187

The members of the Audit Committee of KROTON EDUCACIONAL S.A., a corporation with its registered office at Rua Santa Madalena Sofia, n. 25, 4o. andar, Sala 01, CEP - 30.380-650, Bairro Vila Paris, City of Belo Horizonte, State of Minas Gerais, enrolled in the CNPJ/MF (Corporate Taxpayer Identification Number) under No. 02.800.026/0001-40 ("Company"), in the exercise of its attributions and legal responsibilities, as provided for in the Audit Committee's Internal Regulations, and based on the work performed in 2015, have examined and analyzed the financial statements, accompanied by the independent auditor's report and the annual management report for the year ended December 31, 2015 and, considering the information provided by the Company's management and independent auditors, as well as the proposal for allocation of profit for the year ended December 31, 2015, unanimously state that they reflect fairly, in all material respects, the financial position of the Company and its subsidiaries, and recommend the approval of the documents by the Company's Board of Directors and their submission to the Annual General Meeting of Stockholders, in accordance with Corporation Law.

São Paulo, March 15, 2016.

Francisco H. Passos Fernandes
Member of the Committee

Luiz Antônio de Moraes Carvalho
Member of the Committee

Nicolau Chacur
Member of the Committee

KROTON EDUCACIONAL S.A. AND SUBSIDIARIES

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REPRESENTATION

**FOR THE PURPOSES OF ARTICLE 25, V and VI OF INSTRUCTION 480/09 OF THE BRAZILIAN
SECURITIES COMMISSION**

We declare, as officers of **KROTON EDUCACIONAL S.A.**, a corporation with its registered office in the city of Belo Horizonte, State of Minas Gerais, at Rua Santa Madalena Sofia, 25, sala 01, Bairro Vila Paris, CEP: 30.380-650, enrolled in the Ministry of Finance's National Register of Legal Entities (.CNPJ/MF.) under No. 02.800.026/0001-40 (.Company), in accordance with items V and VI of paragraph 1 of Article 25 of the Instruction 480 of the Brazilian Securities Commission (.CVM.), of December 7, 2009, as amended, that: (i) we have reviewed, discussed and agree with the Company's financial statements for the year ended December 31, 2015; and (ii) we have reviewed, discussed and agree with the opinions expressed in the reports of the Company's independent auditors (PricewaterhouseCoopers Auditores Independentes) on the financial statements described in item (i) above.

Belo Horizonte, March 15, 2016.

Rodrigo Calvo Galindo
CEO

Carlos Alberto Bolina Lazar
Investor Relations Officer

Frederico Brito e Abreu
Vice Presidente de Finanças (CFO)

Leonardo Augusto Leão Lara
Chief Legal Officer